

LOCK THE GATE ALLIANCE

AUSTRALIANS WORKING TOGETHER TO PROTECT OUR LAND, WATER, AND FUTURE

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KEPCO Board
#55 Jeollyeok-ro
Naju-si, Jeollanam-do,
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Dear KEPCO Board Member,

RE: RISKS OF CONTINUING TO PURSUE A COAL MINE IN BYLONG, AUSTRALIA

We write to ask for your support for a community-led plan that seeks to purchase KEPCO's land holdings in the Bylong Valley. We understand that the current valuation of these assets in Bylong (land and buildings) is AUD \$46,234,076.

We are in active discussions with regenerative agriculture investors here in Australia who are assembling a proposal for KEPCO to consider that would see farming families return to the Valley to restore a vibrant community, farm the land sustainably, enhance biodiversity and where possible - draw down carbon from the atmosphere into vegetation and soils. We think there is a great opportunity to work together with KEPCO in this - the UN Decade on Ecosystem Restoration - to start a new story in the Bylong Valley. To this end, we are hoping that the KEPCO Board is willing to have a conversation with us about this.

The alternative is not very promising or attractive for KEPCO.

As you know, planning authorities and a NSW court have **refused consent** for the Bylong Coal Project. Whilst we understand that KEPCO may choose to appeal the decision, we encourage KEPCO to instead use this moment to explore an opportunity to relinquish the exploration lease and sell the land back to carbon farming interests. This would align your company with the ROK Green New Deal and prevent ongoing financial and reputational losses from a project that is a major climate risk. Continuing to pursue a coal mine development in Bylong is unlikely to succeed, would squander an opportunity to enable a flagship sustainable agricultural project and is fraught with risk (see below for a summary of these risks and Appendix 1 for more detail).

Legal risks

- The project has been refused twice by NSW authorities - first by the [Independent Planning Commission](#) and more recently by the [NSW Land and Environment Court](#).
- There is a long legal path ahead for KEPCO, which will be extremely costly and is unlikely to succeed, because of the severity of impacts of the project.
- Even were an appeal to be successful, the project will simply go back to the original decision maker for another decision, and that decision will then be subject to lengthy legal processes. The project would then still also require approval from the Federal Government.
- We believe it is feasible to contend that this project may not clear all legal hurdles for another three to four years, or even longer.

Climate Risks

- Total greenhouse gas emissions from the Bylong Coal Project [will be 200.8Mt](#). Scope 3 emissions will be 197.4Mt.
- South Korea's 9th basic electricity plan - finalised in December 2020 - will see coal-fired power generation [drop 23% by 2030](#) from the 2019 level.
- By 2034, coal power capacity will make up [only 15%](#) of South Korea's total. As a result, South Korea's [thermal power coal consumption will drop](#) by almost 19 million tonnes per annum by 2030.
- There is no place in South Korea's climate policy framework for a coal project that will produce 6.5Mt/pa ROM per annum until 2046 while coal use rapidly decreases to meet ambitious climate targets.

Market and reputational risks

- Following KEPCO's withdrawal from the Thabametsi coal power proposal - in October 2020, the company's investors [may be asking why](#) it is still attempting to proceed with Bylong.
- As ESG (environmental, social and governance) concerns of investors [continue to grow](#), major [ESG investors turned away](#) from KEPCO's green bond because of its controversial overseas coal investments.
- In November 2020, BlackRock [expressed disappointment](#) in KEPCO's decision to proceed with some overseas coal projects, stating that "*These projects represent a significant misalignment with KEPCO's stated climate strategy.*"
- Proceeding with this project at this time is a serious reputational risk to KEPCO which will become an even bigger issue with investors in the coming year.

Economic risks

- KEPCO has already booked a loss of \$AUD642 million from this project
- The Bylong project remains very marginal economically. Three separate analyses (Pegasus Economics, [The Australia Institute](#), and [IEEFA](#)) have identified that it is not financially viable.
- It is beset by relatively low product coal yield, high costs of production, long distance of transportation and the low quality coal produced.
- The calorific value of the coal is lower quality NAR 5,500 kcal/kg and a significant proportion of it is forecast to have a high ash content

- Using World Bank published thermal coal price forecasts and adjusting for the quality of coal, Pegasus Economics estimated the present value of the project's revenues at about \$2.4 billion which is less than the reported \$3.2 billion in production costs.

Opportunity

KEPCO is faced with a choice between sinking yet more large sums of money into a project that will besmirch its reputation and lose it money, or withdrawing and selling the land to a group seeking to achieve positive carbon sequestration and sustainable agricultural outcomes. Withdrawing the project, relinquishing the exploration lease and then selling the land, is a far preferred outcome to simply attempting to sell the project to another coal interest. Given the impediments and absence of approvals, there is unlikely to be interest in sale of the project itself, and simply selling it on does little to rehabilitate KEPCO's ESG credentials.

Selling the land instead to enable carbon farming would achieve an important financial return for KEPCO, align it with ROK climate aspirations and markedly improve it's standing with investors concerned about ESG. Local landholders, carbon farming and regenerative agriculture advocates and peak lobby group NSW Farmers Association all support the sale of KEPCO's land holdings.

The economic vulnerability of the project and the extensive impediments it faces in Australia, in combination with the growing push by investors on ESG concerns and South Korea's energy transformation, all point towards the sale of this land for carbon farming as the best outcome for KEPCO.

We provide a little more detail at Appendix 1 (below) on the risks for KEPCO of continuing to pursue a coal mine development in the Bylong Valley, together with a snapshot of the opportunity to sell KEPCO's land to sustainable agriculture investors in Australia (this short, 2-minute video outlines our vision: [A New Future for Beautiful Bylong](#)). We also stand ready to provide more information about our proposal and to respectfully discuss this alternative for Bylong with you. We are excited to read about KEPCO's work towards sustainability and a safe climate and trust that a conversation about a different future for Bylong can be part of this.

To discuss this more, please contact Carmel Flint, Lock the Gate Alliance via email carmelflint@tpg.com.au or phone +61 (0) 400 521 474.

Yours sincerely,



National Director
Lock The Gate Alliance

This letter is endorsed by:

<p>Phill Kennedy, President, Bylong Valley Protection Alliance</p> 	<p>Carmel Flint National Director Lock The Gate</p> 	<p>Stuart Andrews, Tarwyn Park Training</p> 	<p>Peter Dowson Director, Friendly Farms</p> 	<p>Julien Vincent, Executive Director, Market Forces</p> 
<p>Jan Davis, Hunter Environment Lobby</p> 	<p>Bev Smiles, Hunter Communities Network</p> 	<p>Bruce Hughes, Wollar Progress Association</p>	<p>Phyllis Setchell, Mudgee District Environment Group</p> 	<p>Greenpeace Australia Pacific</p> 

APPENDIX 1: RISKS OF CONTINUING TO PURSUE A COAL MINE IN BYLONG VS. AN OPPORTUNITY TO ENABLE A SHOWCASE SUSTAINABLE AGRICULTURE PROJECT

Legal Risks

The project has now been refused twice by NSW authorities - first by the [Independent Planning Commission](#) and more recently by the [NSW Land and Environment Court](#).

There is a long legal path ahead for KEPCO, which will be extremely costly and unlikely to succeed, because of the severity of impacts of the project.

For example, the [reasons given by decision makers](#) as to why the project was rejected include, that:

- It is not in the public interest
- It is contrary to principles of Ecologically Sustainable Development
- Greenhouse gas emissions have not been minimised
- It will cause unacceptable groundwater impacts
- It will destroy strategic agricultural land which cannot be rehabilitated after mining
- It will lead to loss of scenic and heritage values which cannot be recreated
- There was insufficient evidence provided of impacts on Aboriginal heritage
- Economic benefits are uncertain

Even were an appeal to be successful, the project will simply go back to the original decision maker for another decision, and that decision will then be subject to lengthy legal processes. The project would then still also require approval from the Federal Government.

There is fierce and widespread opposition to the project in Australia, and this combined with the legal issues represents a major impediment to its approval.

Climate Risks

Total greenhouse gas emissions from the Bylong Coal Project [will be 200.8Mt](#) and it will emit until at least 2046. Scope 3 emissions will be 197.4Mt. This is inconsistent with keeping global warming below 1.5 degrees.

South Korea's commitment to net-zero emissions by 2050 and its newly-released 9th basic electricity plan demonstrate why this project is not required.

The new electricity plan - finalised in December 2020 - will see coal-fired power generation [drop 23% by 2030](#) from the 2019 level. By 2034, coal power capacity will make up [only 15%](#) of South Korea's total.

As a result, South Korea's [thermal power coal consumption will drop](#) by almost 19 million tonnes per annum by 2030.

There is no place in South Korea's climate policy framework for a coal project that will produce 6.5Mtpa ROM per annum til 2046 while coal use rapidly decreases to meet ambitious climate targets.

Market and Reputational Risks

Following KEPCO's withdrawal from the Thabametsi coal power proposal - in October 2020, the company's investors [may be asking why](#) it is still attempting to proceed with Bylong.

KEPCO's June 2020 green bond issuance did not attract investment from any of the leading sustainable investors.

As ESG (environmental, social and governance) concerns of investors [continue to grow](#), major [ESG investors turned away](#) from KEPCO's green bond because of its controversial overseas coal investments.

Prior to this in May 2020, BlackRock - the world's largest asset manager with US\$8.7 trillion of assets under management - [questioned](#) KEPCO's continued participation in overseas coal projects.

In November 2020, BlackRock [expressed disappointment](#) in KEPCO's decision to proceed with some overseas coal projects, stating that *"These projects represent a significant misalignment with KEPCO's stated climate strategy."*

Proceeding with this project at this time is a serious reputational risk to KEPCO which will become an even bigger issue with investors in the coming year.

Economic Risks

In January 2020 [KEPCO's board marked down the value of its Bylong mining rights](#) from \$AUD642 million to zero in a report to the South Korean stock exchange.

The Bylong project is very marginal economically. Three separate analyses (Pegasus Economics, [The Australia Institute](#), and [IEEFA](#)) have identified that it is not financially viable.

It is beset by relatively low product coal yield, high costs of production, long distance of transportation and the low quality coal produced.

The calorific value of the coal that is being targeted for the Bylong project is lower quality NAR 5,500 kcal/kg and a significant proportion of it is forecast to have a high ash content, which puts it well short of the Newcastle benchmark for thermal coal.¹

Using World Bank published thermal coal price forecasts and adjusting for the quality of coal, Pegasus Economics estimates the present value of the project's revenues at about \$2.4 billion which is less than the reported \$3.2 billion in production costs.²

The previous massive write-downs on the project and the predicted negative net economic benefits of it, mean that it is likely to become a stranded asset very rapidly.

Opportunity

Selling the land instead to enable carbon farming would achieve an important financial return for KEPCO, align it with ROK climate aspirations and markedly improve its standing with investors concerned about ESG. Local landholders, carbon farming and regenerative agriculture advocates and peak lobby group NSW Farmers Association all support the sale of KEPCO's land holdings.

- Impact investors are working right now with Bylong land holders to create a showcase - landscape-scale - sustainable agricultural proposal (a large-scale flagship project for Regenerative Agriculture in Australia)
- The former owner of Tarwyn Park is interested in exploring ways that Tarwyn Park Training could offer their unique training courses in the Valley
- 13,000 hectares of prime agricultural land in proximity to Mudgee, Newcastle, Sydney
- A proposal structured for carbon sequestration and biodiversity accreditation (see this January 2021 story [Microsoft buys carbon credits from NSW cattle operation](#))
- Scenic and biodiverse landscape adjacent to UNESCO World Heritage area
- Continuing the iconic [Australian Story](#) seen by millions of Australians on ABC TV.

The United Nations' Sustainable Development Solutions Network has recognised a type of farming invented on one of KEPCO's Bylong properties - Tarwyn Park - as one of five, globally-significant models of sustainable agriculture ([UN recognises unique Australian farm built around Natural Sequence Farming as sustainable](#)). Our group is ready to discuss how KEPCO can enable the vision outlined above and how it might contribute to the goals of the UN's Decade on Ecosystem Restoration by selling land in Bylong Valley back to farmers.

¹ Hansen Bailey, 2015. *Bylong Coal Project Environmental Impact Statement Appendix E: Mine Plan Justification Report*. prepared for KEPCO Australia. Page 36. Available here:

http://www.hansenbailey.com.au/documents/bylong/Bylong_App_E_Mine_Plan_Justification_Report.pdf

² Pegasus Economics, 2018. "Review of the Economic Assessment of the Bylong Valley Coal Project" Available here:

<https://www.ipcn.nsw.gov.au/resources/pac/media/files/pac/project-submissions/2018/10/bylong-coal-project/20181114t102405/pegasus-economics-report-on-the-bylong-valley-coal-project.pdf>