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And to:

**Ms Vanessa Doger de Speville**

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13 September 2022

Dear Sir and Madam

**REQUEST FOR INFORMATION: KARPOWERSHIP SOUTH AFRICA**

1. We refer to the above and confirm that we write to you on behalf of Fair Finance Southern Africa (FFSA), which is a coalition of civil society organizations working towards ensuring that public financial institutions invest in a socially and environmentally responsible manner in Southern Africa.
2. FFSA is part of the broader international civil society network, Fair Finance International (the FFI network), that seeks to strengthen the commitment of banks and other financial institutions to social, environmental and human rights standards. Currently the FFI network is active in fifteen countries and on four continents.

**About Karpowership South Africa**

3. It is in this context that FFSA became interested in the financing of the proposed floating gas to power projects in South Africa. We understand that Karpowership South Africa (“Karpowership SA”) is a joint venture between Karpowership<sup>1</sup> and Powergroup, with Karpowership owning 51% of shares in Karpowership SA and Powergroup owning the remaining 49%.

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<sup>1</sup> <https://karpowership.com/en/>.

4. Karpowership SA is the South Africa-based holding company for three subsidiaries – Karpowership SA Coega, Karpowership SA Richards Bay and Karpowership SA Saldanha.
5. The total installed capacity of the Karpowership SA vessels will be 1,220 MW, split over 450 MW in Coega, 450 MW in Richards Bay and 320 MW in Saldanha.<sup>2</sup> The 20-year contract is part of the South African government’s Risk Mitigation Independent Power Producer Procurement Programme (RMIPPPP) emergency power procurement initiative.
6. The significant environmental and social impacts of the operations have resulted in substantial opposition to the Karpowership SA projects, and in 2021, the applications for environmental authorisations for all three Karpowerships were refused by the Department of Forestry, Fisheries and the Environment (DFFE). Recently, the DFFE dismissed Karpowership SA’s appeal against such refusal, requiring Karpowership SA to resubmit parts of its environmental impact assessment. Reasons for refusing the applications for environmental authorisations and dismissing the appeal brought by Karpowership SA, related to procedural irregularities such as, inadequate public participation as well as lack of information related to actual and potential environmental and socio-economic impacts.
7. Another concern which was raised in relation to the applications for environmental authorisations was the fact that the projects will prolong South Africa’s reliance on fossil fuels, compromising the country’s Just Energy Transition. In this regard, the Karpowerships will emit a potent greenhouse gas in the form of methane, which has a global warming potential of 84-86 times than that of carbon dioxide over 20 years. Recent research indicates that using the global warming potential of 72, the full cycle methane emissions emitted from the three Karpowerships over 20 years, would be approximately 80 to 142 million tonnes CO<sub>2</sub>e of greenhouse gas.<sup>3</sup> To place this in context, this amount of emission is equivalent to approximate emissions of 17.2 to 30.5 million petrol based passenger vehicles in one year.<sup>4</sup> This is in the context of wide acknowledgment that the reduction of human-caused methane emissions is the most cost effective strategy to rapidly reduce the rate of global warming.<sup>5</sup> Furthermore and according to international research, existing gas capacity is already more expensive to operate than new renewable energy projects, creating the risk of new gas projects becoming stranded assets.
8. In respect of the licenses granted by the National Energy Regulator of South Africa (NERSA), these licenses are currently the subject of a legal challenge brought by [a South African civil society organisation](#) on the basis that NERSA failed to act in the interests of South Africa, failed to provide adequate reasons; and failed to consider

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<sup>2</sup> See Karpowership SA (2021, August), *A Solution Partner to South Africa: Karpowership SA Presentation for NERSA Public Hearing* at page 3.

<sup>3</sup> <https://pubs.rsc.org/en/content/articlepdf/2022/va/d1va00049g>.

<sup>4</sup> <https://www.epa.gov/energy/greenhouse-gas-equivalencies-calculator>.

<sup>5</sup> <https://www.unep.org/resources/report/global-methane-assessment-benefits-and-costs-mitigating-methane-emissions>.

that the Karpowership SA 20-year “emergency” contracts will not resolve the country’s current power crisis, but will instead tie South Africa to an expensive long-term contract

### **The Profundo Report**

9. In order to better understand the Karpowership SA projects, FFSA commissioned Profundo, an independent Amsterdam-based research institute, to outline the main stakeholders and their role in Karpowership SA.
10. The Profundo research report reveal that a syndicate of four banks – Standard Chartered (United Kingdom), Investec Group (South Africa), Isbank (Turkey) and MCB Group (Mauritius) – provided a US\$ 140 million-dollar loan to Karpowership in March 2020. It was found further that the loan was provided for general corporate purposes and will mature in March 2025.
11. Given the constellation of financiers including both South African and Turkish financiers, our conclusion is that the ultimate purpose of the loan to Karpowership is to finance the operations of Karpowership SA.
12. FFSA aims to publish Profundo’s brief research findings in October 2022 and will include reference to the above. In light of our upcoming publication, please indicate whether you would like to include any additional comments related to the MCB’s role in finance the Karpowership’s project in South Africa. The draft Profundo report is attached.
13. We also request MCB’s responses to the following questions:
  - 13.1. Please explain MCB’s role in financing Karpowership and whether the loan was intended to ultimately finance Karpowership SA’s operations in South Africa;
  - 13.2. Do you have full information on the financial partners who have committed to financing Karpowership SA’s operations in South Africa? If so, please provide us with this information;
  - 13.3. As part of your due diligence in considering whether to finance Karpowership, you would have considered the role of other financial partners who have committed to financing Karpowership SA’s operations in South Africa, either through Karpowership or directly through the Karpowership SA joint venture. Please provide us with this information;
  - 13.4. If the purpose of the loan to Karpowership was to ultimately finance Karpowership SA, do you regard the ongoing public and legal opposition to the Karpowership SA projects, as amounting to a significant and material risk to MCB?

- 13.5. If the purpose of the loan was to ultimately finance Karpowership SA, what effect will the loan have on country level carbon budgets? Please indicate whether you regard this as a risk to MCB.
14. As stated above we intend to publish the Profundo research in the coming month and trust that you will provide us with a considered response by **30 September 2022**. We are also available to meet in relation to this matter.
15. We look forward to hearing from you.

Yours faithfully

**Leanne Govindsamy**

Centre for Environmental Rights

On behalf of Fair Finance Southern Africa

and

**Glen Tyler-Davies**

350Africa.org

On behalf of Fair Finance Southern Africa