

Dear Chief Executive, Mr. Peter Damgaard Jensen,

CC: Head of Communications, Karina Nelsing : Director for Investment, Michael Nellemann Pedersen : Director of Finance, Nicolai Pilehave

It has come to our attention that PKA A/S has a 50% equity stake in MGT Power's Teesside Biomass power station in the United Kingdom¹.

While we applaud your efforts to focus on responsible climate investments generally, we believe that divestment from fossil fuels, and a corresponding transition to investment in renewable energy, must exclude biomass energy projects—such as the MGT Teesside Biomass power station—if your capital is to have a positive impact on addressing carbon emissions in a timeframe that is relevant to combatting climate change.

As US environmental NGOs we are very concerned with the dramatic increase in demand from the UK power sector for wood pellets derived from Southern US forests. The rapid expansion of pellet mills in the region is driving additional logging that poses a serious risk to our forests, local communities, and global climate. There is growing scientific consensus that many forms of biomass—especially biomass from forests—produces more carbon emissions than fossil fuels within relevant timeframes; increasing carbon pollution precisely when nations are working hard to rapidly decarbonize their energy sectors. As such, investment in dirty biomass energy runs counter to the goals of your portfolio—undermining the climate outcomes you are hoping to achieve. In fact, this risk could ultimately compromise the image of your overall commitment to responsible climate investments.

In addition to increasing global carbon emissions, a recent report commissioned by the European Commission concluded that rising demand for biomass in Europe also presents serious risks to the unique habitat and biodiversity found in Southern US forests². Among multiple findings, the report found that European demand for biomass will increase logging³, the conversion of species-rich natural forests to comparatively less biodiverse plantations⁴, and the loss of highly valuable wetland forests. These conclusions contradict a common misunderstanding in Denmark and across the EU—that biomass sourced from the Southern US is sustainable and has no adverse impact on forests and biodiversity.⁵ Moreover, a majority of the wood harvested for export as wood pellets to Europe comes from a recently designated world hotspot for biodiversity, the North American Coastal Plain.⁶

Enviva, who will supply approximately 1 million tonnes of wood pellets a year to the MGT Teesside facility, has been well documented by organizations⁷ in the Southern US, as well as leading media outlets⁸, to be sourcing whole hardwood trees from high biodiversity wetland forests for their pellets. Enviva's own disclosures show that approximately 80% of their feedstocks come from hardwood forests for its three plants in southeast Virginia and northeast North Carolina⁹. Unfortunately, neither existing laws nor biomass sustainability certification requirements provide adequate protection for these critically important forests, partly due to the high percentage of privately owned forestland and landowner dynamics in the Southern US¹⁰. Recent biomass sustainability efforts from countries such as the UK are also vastly inadequate—relying on flawed calculation methodologies that ignore biogenic emissions from

1 <http://www.wfv.com/news-and-events/news/19372/>

2 <http://bookshop.europa.eu/en/environmental-implications-of-increased-reliance-of-the-eu-on-biomass-from-the-south-east-us-pbKH0116687/?CatalogCategoryID=DSoKABstDacAAAEIA5EY4e5L>

3 EU Commission Report, COWI, Pg. 131-32

4 EU Commission Report, COWI, Pg. 198, 202

5 EU Commission Report, COWI, Pg. 191-92

6 http://www.cepf.net/news/top_stories/Pages/Announcing-the-Worlds-36th-Biodiversity-Hotspot.aspx#.WBDajvkrIRc

7 <https://www.dogwoodalliance.org/wetland-investigation-3-16/>

8 <http://reports.climatecentral.org/pulp-fiction/1/>

9 https://www.southernenvironment.org/uploads/audio/2015_06_02_Cover_letter_to_UK_EU_Re_SIG_report.pdf

10 <https://www.nrdc.org/sites/default/files/wood-pellet-biomass-pollution-FS.pdf>

carbon stock and (indirect) land use change; and a risk-based approach that assesses only the *risk* of unsustainable forest management at a regional level, not at the more relevant forest stand level; and recognize weak and controversial forest certification systems (such as the Sustainable Forest Initiative) to claim sustainable sourcing of the wood¹¹.

The notion that biomass is a 'carbon neutral' energy source is scientifically unsound and based on a "serious carbon accounting error"¹². According to the UK government's own science, the hardwood biomass that Enviva is sourcing for UK power generation can be up to 4 times worse than coal for the climate¹³. Current sustainability schemes generally ignore carbon emissions associated with logging and biomass combustion, misrepresenting real impacts on the climate.

As you know, accounting errors of any sort are not a sound foundation for investment. MGT Power is utterly dependent for its financial viability on continued government subsidies. Moreover, a recent analysis carried out by Vivid Economics, a recognized London-based economic consulting firm, concluded that in the period from 2020-2025, wind and solar are likely to be the least costly way for the UK to achieve its decarbonization goals¹⁴. As it is well within the UK government's power to alter renewables subsidies¹⁵, once the errors are rectified, it will be untenable for the government to continue subsidizing biomass as a carbon-neutral, cost-effective technology.

Additionally, shifting the MGT Teesside facility's sourcing region away from the Southern US due to these concerns will only shift the impacts to another region. Based solely on the massive scale of this biomass project, forest degradation and impacts on our climate are unavoidable.

There is significant global momentum amongst the public¹⁶ and the sustainable investment community to halt and/or divest from this unsustainable and damaging industry. In March, 2016 investors with \$53 billion dollars in assets called on the US Securities and Exchange Commission to scrutinize bio-energy sector claims that burning wood reduces greenhouse gas emissions and benefits forests¹⁷.

We would urge you in the light of the above to withdraw from your risky and counterproductive investment in MGT Power. We would appreciate the opportunity to meet with you to provide more evidence supporting the above arguments and to discuss PKA's plans with regard to the MGT Power Biomass project.

Sincerely,

11 <http://www.biofuelwatch.org.uk/2016/uk-biomass-standards-briefing/>

12 <http://www.fern.org/sites/fern.org/files/comparison%20of%20national%20sustainability%20schemes.pdf>

13 <http://www.eea.europa.eu/about-us/governance/scientific-committee/sc-opinions/opinions-on-scientific-issues/sc-opinion-on-greenhouse-gas>

14 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/349024/BEAC_Report_290814.pdf

15 <https://www.nrdc.org/sites/default/files/uk-biomass-replace-coal-clean-energy-ib.pdf>

16 <https://www.gov.uk/government/news/changes-to-renewables-subsidies>

17 <https://www.youtube.com/watch?v=CRTi5H5Tjek>

18 <http://www.pfpi.net/new-report-seeks-securities-and-exchange-commission-investigation-of-misleading-climate-claims-by-biomass-industry-giant>

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