

Investor Briefing

Sumitomo Corporation (8053:JP)

Shareholder proposal to align strategy with the Paris Agreement climate goals

29 March 2021

This briefing details the case for the shareholder proposal filed on **26 March 2021**¹ with **Sumitomo Corporation (Sumitomo)** by shareholder Megu Fukuzawa, a campaigner at environmental finance NGO Market Forces. Market Forces proposes that Sumitomo **adopt and disclose a plan outlining its strategy to align its business with the Paris Agreement's goal of limiting global temperature increases to well below 2 degrees Celsius and pursue a limit of 1.5 degrees Celsius.**² This will assist investors to appropriately assess climate-related risk consistent with the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD), of which Sumitomo is a supporter.³ It will also allow shareholders the opportunity to assess the extent to which Sumitomo is managing the financial and non-financial risks climate change poses to the company.

This proposal is proposed as Sumitomo's current disclosures, investment, and the trajectory set by its policies and prospective involvement in fossil fuels and other emission intensive business segments do not demonstrate that Sumitomo is sufficiently assessing and managing its exposure to climate-related risk.

Market Forces encourages investors to:

- vote for this proposal prior to or at Sumitomo's June 2021 annual shareholder meeting,
- advise Sumitomo and the broader public of their intention to vote for this proposal, and
- engage with Sumitomo on its current group environmental policy⁴ and its policy for involvement in coal-fired power generation and coal mining businesses⁵, considering Sumitomo's current review of its mid-term management plan.

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¹ The Proposal was mailed in accordance with Japanese Company Law on March 26, 2021. Sumitomo will receive the proposal on 29 March, 2021.

² The Paris Agreement aims to hold global warming to well below 2°C above pre-industrial levels and pursue a 1.5°C limit. UNFCCC, online: https://unfccc.int/sites/default/files/english_paris_agreement.pdf, Article 2(1)(a).

³ Sumitomo indicated its support for TCFD in March 2019. See Sumitomo Corporation, "Response to Climate Change", online: <https://www.sumitomocorp.com/en/jp/sustainability/environmental-management/climate>.

⁴ Sumitomo Corporation, "Sumitomo Corporation Group Environmental Policy", online: <https://www.sumitomocorp.com/en/jp/sustainability/environment-policy>.

⁵ Sumitomo Corporation, "Response to Climate Change", online: <https://www.sumitomocorp.com/en/jp/sustainability/environmental-management/climate>.

Shareholder proposals in Japan

Shareholder proposals are a common method for shareholders to interact with a company's board, including in Japan. In 2020, 55 shareholder proposals were filed with various Japanese companies, up from 54 in 2019 and 42 in 2018.⁶

Under the Companies Act of Japan (the "Act"), shareholder proposals can only be made on matters that shareholders can exercise voting rights, are limited to matters to be resolved at a shareholders' meeting provided in the Act or the articles of incorporation of the company.⁷ The proposal to amend the company's articles of incorporation in part is the most commonly used approach to make shareholder proposals, and the approach taken in this proposal.

In 2020, Japan saw its first climate-related shareholder proposal lodged to a financial institution with Mizuho Financial Group. The proposal garnered 34.5% shareholder support.⁸

Asks of the shareholder proposal

It is widely acknowledged among global business and political leaders that climate action failure is the biggest threat to the global economy.⁹

Efforts to mitigate climate change are gathering pace. Even the economic impacts of the COVID-19 pandemic did not stop capital inflows to environment-related investing opportunities during 2020.¹⁰

Scientific, technical and economic analyses confirm that in order to keep global temperature increases to no more than 1.5 degrees Celsius above pre-industrial levels, we must:

⁶ Jun Usami, Arthur M. Mitchell, Nels Hansen, Yilin Zhu, Mizuki Hyuga, White & Case, 'Japan's 2020 Proxy Season Results Announced (Shareholder Activism Update)', (July 2020), online: <https://www.whitecase.com/publications/alert/japans-2020-proxy-season-results-announced?s=Japan%27s%202020%20proxy%20season>.

⁷ Companies Act, Act No. 86 of 2005, online: <http://www.japaneselawtranslation.go.jp/law/detail/?vm=04&re=01&id=3206>

⁸ ShareAction, "Voting Matters 2020", online: <https://shareaction.org/wp-content/uploads/2020/11/Voting-Matters-2020.pdf>.

⁹ World Economic Forum, "the Global Risk Report 2021", online: http://www3.weforum.org/docs/WEF_The_Global_Risks_Report_2021.pdf.

¹⁰ State Street Global Advisors, "Momentum Will Carry ESG Investing Far Beyond the Pandemic", online: https://www.ssga.com/au/en_gb/institutional/etfs/insights/esg-investing-momentum-will-carry-it-beyond-the-pandemic.

- Reach net zero emissions by 2040¹¹ and roughly halve global emissions by 2030;¹²
- Cut global coal power generation by 80% by 2030, and completely phase out by 2040 at the latest;¹³ and
- Stop pursuing new or expansionary fossil fuel supply projects.¹⁴

While the text submitted to Sumitomo is in Japanese, we provide an English translation:

The Proposal

Partial amendment to the Articles of Incorporation (adoption and disclosure of a plan outlining the company's business strategy to align its business with the goals of the Paris Agreement)

Details of the proposal

It is proposed that the following provision be added to the Articles of Incorporation:

Noting the Company's support for the Task Force on Climate-related Financial Disclosures (TCFD), the Company shall adopt and disclose in its annual reporting a plan outlining the company's business strategy, including metrics and short-, medium-, and long-term targets, to align its business exposure to coal, oil and gas assets with the goals of the Paris Agreement.

The aim of this proposal is to protect shareholders' capital invested in Sumitomo by minimising the company's exposure to climate change risk, in order to best promote the long-term success of the company. From a universal ownership perspective, we also expect investors will be supportive of any company minimising the risk of climate change. Similar to other shareholder proposals brought worldwide (see below), this proposal seeks disclosure of how Sumitomo plans to avoid and phase out projects and businesses that are not Paris-aligned. The proposal would also involve Sumitomo reporting on progress annually and welcome strategies for growth of the company's business in a manner consistent with a decarbonised economy.

The proposal has been structured in order to avoid being unduly prescriptive, avoiding the release of commercially confidential information or limiting the company's powers to set or vary its strategy. It provides Sumitomo broad scope as to how it achieves this agenda in light of business relationships and commercial interests so long as it is compliant with the Paris climate goals.

Climate-related shareholder proposals are becoming increasingly common worldwide. It is estimated that 250 climate-related shareholder proposals were filed between 2016 and 2020.¹⁵ In the first few

¹¹ Intergovernmental Panel on Climate Change, Special Report 2018 "Global Warming of 1.5 °C", online: <https://www.ipcc.ch/sr15/>. See also International Energy Agency, World Energy Outlook 2020, online: <https://www.iea.org/topics/world-energy-outlook> and Matthews, H.D., Tokarska, K.B., Nicholls, Z.R.J. et al. Opportunities and challenges in using remaining carbon budgets to guide climate policy. *Nature. Geoscience*. 13, 769–779 (2020). <https://doi.org/10.1038/s41561-020-00663-3>.

¹² Antonio Guterres, 12 November 2020, online: <https://www.un.org/press/en/2020/sgsm20411.doc.htm>.

¹³ Climate Analytics, "Coal Phase-out", 2018, online: <https://climateanalytics.org/briefings/coal-phase-out/>.

¹⁴ Market Forces, "Keeping Global Warming to 1.5 °C", online: <https://www.marketforces.org.au/info/key-issues/keeping-global-warming-to-1-5-c/>.

¹⁵ Tyler Matsuo and Sarah LaMonaca, "Shareholders Keep Up the Pressure on Corporate Climate Action", 24 June 2020, online: <https://rmi.org/shareholders-keep-up-the-pressure-on-corporate-climate-action/>.

months of 2021 alone, more than 30 climate-related proposals have been filed in the United States alone.¹⁶ This proposal to Sumitomo reflects the global trend among investors demanding companies improve climate policy and practice, and manage risks related to climate change.

Examples of climate resolutions in other jurisdictions			
Company	Country	Effect	Text
BP (2019) ¹⁷	UK	BP recommended that shareholders vote for the resolution; resolution passed	Include in its Strategic Report and/or other corporate reports, as appropriate, for the year ending 2019 onwards, a description of its strategy which the Board considers, in good faith, to be consistent with the goals of Articles 2.1(a) and 4.1 of the Paris Agreement (the 'Paris Goals') as well as capital expenditure...and metrics and targets....
General Electric (2020) ¹⁸	US	Agreement reached; resolution withdrawn	Issue a report...describing if, and how, it plans to modify its operations and investments to reduce its total carbon footprint at the rate and scope necessary to align with the Paris Agreement's goals.
Duke Energy (2020) ¹⁹	US	Agreement reached; resolution withdrawn	Publish a report assessing how it will mitigate the public health risks associated with Duke's coal operations in light of increasing vulnerability to climate change impacts such as flooding and severe storms. The report should provide a financial analysis of the cost to the Company of coal-related public health harms, including potential liability and reputational damage.
JP Morgan (2020) ²⁰	US	Voted; gained 49.6% support	Shareholders request that JPMorgan Chase issue a report...outlining if and how it intends to reduce the GHG emissions associated with its lending activities in alignment with the Paris Agreement's goal of maintaining global temperature rise below 1.5 degrees Celsius.
Woodside	Australia	Gained 50.2%	Shareholders request the Board disclose, in annual

¹⁶ See e.g. As You Sow, Resolution Tracker, online: <https://www.asyousow.org/resolutions-tracker>; ShareAction, Voting Matters, online: <https://shareaction.org/research-resources/voting-matters/>.

¹⁷ Adele Peters, Fast Company, "BP's investors are pushing it to act on climate change, but can they push hard enough?" 21 May 2019, online: <https://www.fastcompany.com/90352687/bps-investors-are-pushing-it-to-act-on-climate-change-but-can-they-push-hard-enough>.

¹⁸ As You Sow, "General Electric to Pursue Exit from New Coal", 21 September 2020, online: <https://www.asyousow.org/press-releases/2020/9/21/general-electric-exit-new-coal>.

¹⁹ As You Sow, "Atlantic Coast Pipeline Canceled Amid Legal Challenges, Ballooning Costs", 6 July 2020, online: <https://www.asyousow.org/press-releases/2020/7/6/atlantic-coast-pipeline-canceled>.

²⁰ As You Sow, "JPMorgan Chase & Company: Climate Change Risk Reporting" online: https://static1.squarespace.com/static/59a706d4f5e2319b70240ef9/t/5ddcf8158f4efe6a74378636/1574762518314/20.JPM.1+JPMorgan++Climate+Change+Resolution_WEB.pdf.

Petroleum (2020) ²¹		support ²²	reporting from 2021: 1. Short, medium and long-term targets for reductions in our company's Scope 1, 2 and 3 emissions (Targets) that are aligned with articles 2.1(a) and 4.1 of the Paris Agreement (Paris Goals); 2. Details of how our company's exploration and capital expenditure, including each material investment in the acquisition or development of oil and gas reserves, is aligned with the Paris Goals; and 3. Details of how the company's remuneration policy will incentivise progress against the Targets.
Rio Tinto Ltd (2021) ²³	Australia	Proposed, Company has recommended investors vote FOR the resolution	Recognising the company's commitment to the Task Force on Climate-related Financial Disclosures and the aims of the Climate Action 100+, shareholders request the company disclose, in subsequent annual reporting, short, medium and long-term targets for its scope 1, 2 and 3 greenhouse gas emissions and performance against those targets. All targets should be independently verified as aligned with the climate goals of the Paris Agreement.

Rationale for the shareholder proposal

1. Without clear metrics and targets that are useful for investors, it is not possible to determine how Sumitomo's commitments will be fulfilled
2. Sumitomo is lagging in policy-setting and in reducing coal exposure
3. Sumitomo's involvement in coal power projects exposes the company to financial and reputational risk and undermines global efforts to achieve Paris climate goals
4. Traditional engagement with Sumitomo has not been fruitful

1. Without clear metrics and targets that are useful for investors, it is not possible to determine how Sumitomo's commitments will be fulfilled

Although Sumitomo is committed to achieve carbon neutrality by 2050²⁴, its latest disclosure²⁵ shows that it

²¹ Woodside Petroleum, "Notice of Annual General Meeting 2020", online: https://files.woodside/docs/default-source/asx-announcements/2020-asx/notice-of-annual-general-meeting-2020.pdf?sfvrsn=c49d8c7a_1

²² Australian Centre for Corporate Responsibility, "Australian ESG Shareholder Resolutions", online: <https://www.accr.org.au/research/australian-esg-resolution-voting-history/>.

²³ Market Forces, "2021 Shareholder Resolutions" online: <https://www.marketforces.org.au/get-involved/2021-shareholder-resolutions/>.

²⁴ Supra, n5

²⁵ Sumitomo Corporation, ESG Communication Book (2020), online: <https://www.sumitomocorp.com/en/jp/sustainability/report>.

- has not set any interim targets to achieve net zero emissions by 2050;
- has not conducted scenario analysis for transition risks aligned with 1.5 degrees warming, or for physical risks associated with beyond 2 degrees warming;
- has no coal, oil and gas decarbonisation or phase out plans;
- has not set or disclosed any clear pathway for how net zero emissions will be achieved;
- fails to disclose the assumptions behind the net zero goal, including the extent to which Sumitomo would rely on negative emission technologies (NETs); and
- does not deal with the company's exposure to Scope 3 emissions.

This is in addition to the fact that the latest science regarding the world's remaining carbon budget points to a net-zero economy being necessary by 2040²⁶, a decade earlier than Sumitomo's commitment.

The Bank of England notes that "if companies are relying on [NETs such as] CCS to achieve net zero carbon emissions, investors will want to assess how they plan to get there - and who they expect to pay for it."²⁷

Investors are able to assess whether the companies they invest in are prepared (or not) for this transition through "consistent, comparable, reliable, and clear disclosure" regarding carbon intensive assets,²⁸ according to Mark Carney, the former governor of the Bank of England and former Chairman of the Financial Stability Board.

In June 2017, in order to allow investors to "appropriately assess and price climate-related risk and opportunities,"²⁹ the TCFD published its final recommendations, widely supported by the corporate sector, including Sumitomo. **Given the widespread and global recognition of climate change related risk as financial risk and Sumitomo's support for the TCFD, Sumitomo should disclose information demonstrating how its business model and future prospects are Paris-aligned.**

Setting appropriate metrics and targets is a key element of TCFD reporting, along with governance, strategy, and risk management. The TCFD recommends, "in describing their targets, organisations should consider including the following: whether the target is absolute or intensity based, time frames over which the target applies, base year from which progress is measured, and key performance indicators used to assess progress against targets."³⁰ These targets would need to demonstrate alignment with the Paris Agreement.

²⁶ Supra, n11

²⁷ Mark Carney, Speech: Breaking the Tragedy of the Horizon - climate change and financial stability (2015) p.11, online: <https://www.bankofengland.co.uk/-/media/boe/files/speech/2015/breaking-the-tragedy-of-the-horizon-climate-change-and-financial-stability.pdf?la=en&hash=7C67E785651862457D99511147C7424FF5EA0C1A>.

²⁸ Ibid

²⁹ Recommendations of the Task Force on Climate-related Financial Disclosures (2017), online: <https://www.fsb-tcf.org/wp-content/uploads/2017/06/FINAL-TCFD-Report-062817.pdf>.

³⁰ Ibid

As listed at the beginning of the section, Sumitomo's current disclosure does not include metrics and targets recommended by the TCFD. What the TCFD recommendations mean for Sumitomo is that it should set emissions related metrics and targets using the latest scientific findings³¹:

- Set short, medium and long term Scope 1, 2 and 3 emissions reduction targets and performance against those targets. All targets should be independently verified as aligned with the climate goals of the Paris Agreement.
- Set targets for completing an exit from its coal business and business segments that provide support to the coal industry by 2030 in OECD countries and 2040 elsewhere at the latest.
- Immediately rule out any involvement to build new coal, oil and gas power stations and extraction that would expand the scale of the fossil fuels industry.
- Set short, medium and long term targets to phase out of and/or transition away from any other business segment to achieve business strategy alignment to Paris Agreement's goals.

It is evident that Sumitomo's disclosure, and its lack of metrics addressing any of the above points, fails to demonstrate the company adequately considers climate risk. Adoption of this proposal would ensure Sumitomo discloses metrics and targets to demonstrate effective management of climate-related financial risks, in line with TCFD recommendations and stated investor expectations.

2. Sumitomo is lagging in policy-setting and reducing coal exposure

Sumitomo's coal power and coal mining policies contain loopholes

Sumitomo's current policy (August 2019) states it will not have new developments in the coal-fired power generation business, but includes a major loophole.³² The policy allows Sumitomo to make case by case decisions if it sees a project as "essential to the economic and industrial development and where the project complies with the policies of the Japanese and host country governments based on the international initiatives to mitigate climate change issues." **This loophole allows Sumitomo to continue building new coal power plants anywhere in the world.** In fact, Sumitomo's 2019 Integrated Report states that the under development Van Phong 1 coal power plant (Van Phong 1) in Vietnam falls through this loophole.³³ Van Phong 1 has been highly criticised for a myriad of reasons including its use of supercritical boiler technology³⁴, which is not allowed under the OECD sector

³¹ Supra, n14

³² Sumitomo Corporation, Response to Climate Change, "We will not have new development in the coal-fired power generation business. However, we make a decision individually about new development in cases where the project is essential to the economic and industrial development of the local community and where the project is complying with the policies of the Japanese and host country governments based on the international initiatives to mitigate climate change issues.", online:

<https://www.sumitomocorp.com/en/jp/sustainability/environmental-management/climate>

³³ Sumitomo Corporation, 2019 Integrated Report, online:

https://www.sumitomocorp.com/jp/-/media/Files/hq/ir/report/investors-guide/2019/integrated-2019_en.pdf?la=en

³⁴ Sumitomo Corporation, "Construction Commences on Van Phong 1 Coal-fired Power Project in Vietnam," 26 August 2019, online: <https://www.sumitomocorp.com/en/jp/news/release/2019/group/12310>

understanding on coal power stations³⁵, and analysis which shows it will produce air pollutants at rates significantly higher than the average new coal power plants elsewhere.³⁶ Investment in the plant has also been criticized as it poses a financial risk when it is already cheaper to invest in solar than new coal power in Vietnam.³⁷

Similarly, although current policy restricts expansion of coal mines, it allows acquiring existing mines up to current levels. **This allows Sumitomo to maintain current thermal and metallurgical coal production levels.**

Sumitomo's current target to reduce coal (and potentially increase gas) is unmeasurable and inconsistent with Paris

Sumitomo states that “by target year 2035, we aim to shift the composition of the portfolio in terms of net ownership generation capacity” for coal from 50% to 30% and gas from 30% to 40%.³⁸ Without disclosing the size of the portfolio, this target is not measurable, and Sumitomo could potentially increase its coal and gas power generation assets if the overall size of their portfolio increases.

Recent scientific analysis tells us that all countries must phase out of coal between 2030 and 2040 to meet the Paris goal of 1.5°C, with OECD countries needing to phase out the earliest by 2030.³⁹ Sumitomo's target to reduce the composition of coal in their portfolio to 30% by 2035 is clearly out of line with a coal phase out needed to align to Paris, and this is regardless of the size of their portfolio. Additionally, depending on the size of Sumitomo's portfolio, it may result in a massive increase in gas fired power, despite no new fossil fuel generating assets being permissible in a scenario where the Paris climate goals are met.

Sumitomo is expanding the coal power sector

Sumitomo's plans show it is currently constructing new power plants as co-sponsors of the 1.32GW Van Phong 1 Coal Power plant in Vietnam and the 2GW Tanjung Jati B Coal Power Plant in Indonesia. In addition, it is constructing new coal power plants as an engineering, procurement, and

³⁵ Organisation for Economic Co-operation and Development. “Sector Understanding on Export Credits for Coal-Fired Electricity Generation Projects,” 27 Nov 2015, online: [https://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=TAD/PG\(2015\)9/FINAL&docLanguage=En](https://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=TAD/PG(2015)9/FINAL&docLanguage=En)

³⁶ Lauri Myllyvirta, lead analyst, Greenpeace Global Air Pollution Unit. “Assessing the air quality, toxic and health impacts of the Van Phong 1 coal-fired power project in Vietnam,” April 2019, online: <https://www.marketforces.org.au/wp-content/uploads/2019/06/2019-04-VanPhong1-HealthImpacts-correction.pdf>

³⁷ Carbon Tracker, “Here comes the sun (and wind)” June 2019, online: https://carbontracker.org/reports/here_comes_the_sun/.

³⁸ Supra, n5

³⁹ Climate Analytics, “Global and regional coal phase-out requirements of the Paris Agreement: Insights from the IPCC Special Report on 1.5°C,” September 2019, online: https://climateanalytics.org/media/report_coal_phase_out_2019.pdf. See also Reuters, “U.N. chief urges wealthy nations to phase out coal use by 2030” 2 March 2021, online, <https://www.reuters.com/article/us-global-energy-coal-climate-trfn-idUSKCN2AU29W>.

construction (EPC) contractor, including the 1GW 3A Coal Power Plant in Malaysia, the 1.86GW Duyen Hai Coal Power Plant in Vietnam, and the 1.2GW Matarbari 1 Coal Power Plant in Bangladesh.

Sumitomo lags behind global and Japanese peers

While many global coal power developers have committed to phase out coal power generation or ruled out participating in new coal power projects, Sumitomo's coal policy lags behind its global peers, including companies focusing on emerging markets. General Electric⁴⁰ (GE) and Siemens⁴¹ announced they would stop bidding in tenders for new coal power plants, without creating loopholes as Sumitomo has done.

Other Japanese trading houses are showing progress by shedding their thermal coal assets.⁴² Japanese trading houses Mitsubishi Corporation (Mitsubishi), Marubeni Corporation (Marubeni), and Mitsui & Co. (Mitsui) no longer hold investments in thermal coal mines.⁴³ Since 2018, Marubeni has withdrawn from 3 overseas coal power projects,⁴⁴ and it was reported in February 2021 that Mitsubishi has withdrawn from one.⁴⁵ Mitsui announced it would sell all its coal power plant stakes by 2030⁴⁶ and Itochu Corporation that it would be selling its stakes in 3 coal mines by 2024.⁴⁷ In March 2021 Sojitz Corporation (Sojitz) also stated that it would reduce its thermal coal project stakes by more than half by 2025 and to zero by 2030.⁴⁸ Sojitz has already sold its stake in a thermal coal mine in Indonesia in 2019.⁴⁹

On the other hand, Sumitomo is acquiring new thermal coal assets. In FY2019 Sumitomo's equity share of thermal coal production increased. In 2018, a joint venture of Sumitomo and Glencore acquired Mitsubishi's stake in the Australian Clermont thermal coal mine.⁵⁰ Moreover, Sumitomo has not announced any coal power assets it has sold stakes in or plan to withdraw from or retire on a

⁴⁰ General Electric. "GE to pursue exit from new build coal power market," online:

<https://www.ge.com/news/press-releases/ge-pursue-exit-new-build-coal-power-market>

⁴¹ Reuters. Siemens Energy stops bidding for coal-fired power tenders, online: <https://www.reuters.com/article/siemens-energ-results-idINF9N28000R>

⁴² Simon Nicholas, IEEFA, "Overseas Coal Projects Raise Questions for Sumitomo" November 2020, online: https://ieefa.org/wp-content/uploads/2020/11/Overseas-Coal-Projects-Raise-Questions-for-Sumitomo_November-2020.pdf.

⁴³ Coking coal investments that the trading houses hold produce some thermal coal as a secondary product.

⁴⁴ Supra, n42

⁴⁵ Reuters. "Mitsubishi pulls out of Vinh Tan 3 coal project in Vietnam," 26 February 2021, online: <https://www.reuters.com/article/mitsubishi-vietnam-coal/mitsubishi-pulls-out-of-vinh-tan-3-coal-project-in-vietnam-sources-idUSL4N2KW0AP>.

⁴⁶ Reuters. "Mitsui Co to sell all stakes in coal fired power plants by 2030," 12 October 2020, online: <https://www.reuters.com/article/japan-trader-mitsui-co/exclusive-mitsui-co-to-sell-all-stakes-in-coal-fired-power-plants-by-2030-ceo-idUKL4N2GY2OT?edition-redirect=uk>.

⁴⁷ Reuters. "UPDATE 1-Itochu books \$843 mln loss from selling stake in Colombian coal mine," 4 February 2021, online: <https://www.reuters.com/article/itochu-results-idUSL1N2KA0C1>

⁴⁸ Argus Media. "Japan's Sojitz targets complete exit from coal, oil," 5 March 2021, online: <https://www.argusmedia.com/en/news/2193173-japans-sojitz-targets-complete-exit-from-coal-oil>

⁴⁹ Ibid

⁵⁰ Supra, n42

Paris-aligned time frame in the future.

3. Sumitomo's involvement in coal power projects exposes the company to financial and reputational risk and undermines global efforts to achieve Paris climate goals

Sumitomo undermines global efforts to achieve Paris climate goals

Sumitomo owns coal power plants in Indonesia and Vietnam through power purchase agreements (PPA) over 25 years.⁵¹ These projects contribute to carbon lock-in beyond 2040 - the required deadline for shutting down all coal power plants worldwide.⁵² Therefore, meeting the Paris climate goals raises questions as to the financial security of Sumitomo's coal power assets and in the event that these assets do not cause financial damage to the company, they will likely impact the governments underwriting the PPAs, creating a major reputational risk to the company.

Sumitomo is currently involved in the 1.2GW Matarbari coal power project (Phase 1) in Bangladesh as an EPC contractor, and at risk of assuming the same role for Matarbari Phase 2, a proposed additional 1.2GW coal-fired power project at the site.⁵³ Any involvement in Matarbari Phase 2 would be a disaster for the region as well as the climate. Even in a climate scenario roughly consistent with Paris Agreement temperature limits, the entire island of Matarbari would be under water at least once a year by 2050.⁵⁴ Since the company has no ownership in these projects, the greenhouse gas emissions are not accounted for as Sumitomo's carbon footprint. However, this type of off-the-book carbon footprint undermines global efforts to achieve Paris climate goals.

Sumitomo's coal-related business presents risks even in the short term

Sumitomo is likely to be the only major Japanese trading company that expects a loss in FY2020.⁵⁵ This is partly due to the impairment at an Australian coal power plant, jointly-owned by Sumitomo and Kansai Electric, that failed to refinance its loans. Subsequently, Sumitomo recorded an AU\$345 million

⁵¹ Including completed Tanjung Jati B Unit 1 to 4 (2.64GW) and under construction Unit 5 and 6 (2GW) in Indonesia; and under construction Van Phong 1 (1.32GW) in Vietnam. See Sumitomo Corporation, Tanjung Jati B Unit 1 to 4 <https://www.sumitomocorp.com/en/jp/news/release/2012/group/20120207>; Tanjung Jati B Unit 5 and 6 https://www.sumitomocorp.com/en/jp/news/release/2017/group/20170331_2; Van Phong 1 <https://www.sumitomocorp.com/en/jp/news/release/2019/group/12310>.

⁵² Kyodo News, "U.N. chief urges G-7 to lead global phase-out of coal power", 3 March 2021, online: <https://english.kyodonews.net/news/2021/03/c5b8d19a54db-un-chief-urges-g-7-to-lead-global-phase-out-of-coal-power.html>; Climate Analytics, "Coal Phase-out", online: <https://climateanalytics.org/briefings/coal-phase-out/>.

⁵³ Both projects are financed as part of Japanese Official Development Assistance (ODA) loans through Japan International Cooperation Agency (JICA).

⁵⁴ Climate Central, Coastal Risk Screening Tool, Land Projected to be Below Annual Flood Level in 2050, online: https://coastal.climatecentral.org/map/11/153.0869/-27.4785/?theme=sea_level_rise&map_type=coastal_dem_comparison&basemap=roadmap&contiguous=true&elevation_model=best_available&forecast_year=2050&pathway=rccp45&percentile=p50&refresh=true&return_level=return_level_1&slr_model=kopp_2014.

⁵⁵ Supra, n42

(US\$251m) impairment on its approximately AU\$600m (US\$469m) initial investment in the plant.⁵⁶ As one energy finance analyst states, the failure to refinance “is a further sign that it’s becoming ever harder to finance even existing coal-fired power projects as more and more banks distance themselves from further lending to coal power and mining.”⁵⁷

Sumitomo’s involvement in coal power projects as an EPC contractor also exposes it to immediate financial risk derived from the energy transition. Coal power plants are not the cheapest source of electricity, and have not been for a long time as renewable energy technologies have matured. The energy transition risk is faced not only by operators of thermal power plants, but also by all related contractors. As an example, GE experienced a memorable collapse in 2018, with its share price falling by more than 70% from March 2017 to December 2018, partly due to misreading the shift in market demand away from fossil fuel-based power generation.⁵⁸

Sumitomo is also exposing itself to significant reputational risks from continued involvement in coal-related businesses. Shareholders are increasingly demanding companies provide the estimated costs of coal-related health harms, potential liability and reputational risks. Sumitomo is not immune to reputational damage arising from its coal-related businesses.

4. Traditional engagement with Sumitomo has not been fruitful

Market Forces and or partner NGOs have engaged with Sumitomo Corporation directly since late 2019 to raise issues regarding climate risk management and the company’s involvement with the Matarbari phase 1 coal power plant in Bangladesh. These issues have been raised in three formal letters to, as well as in three meetings with Sumitomo. In addition, Sumitomo was engaged through a public letter in 2020, with its response also available online.⁵⁹

This engagement has failed to convince Sumitomo to align its business model and investments with the climate goals of the Paris Agreement.

As such, this proposal seeks that **Sumitomo adopt and disclose a plan outlining its business strategy to align its business with the climate goals of the Paris Agreement**, and asks investors

⁵⁶ Sumitomo Corporation, “Quarterly Results for FY2020: Six-month period ended September 30, 2020”, 6 November 2020, online: https://www.sumitomocorp.com/-/media/Files/hq/ir/report/summary/2020/en/2009-Presentation-ENG_7L7Fe.pdf?a=en.

⁵⁷ Supra, n42

⁵⁸ Reuters, “How General Electric gambled on fossil fuel power, and lost” 23 February 2018, online: <https://www.reuters.com/article/us-ge-power-idUSKCN1G60I3>.

⁵⁹ Business and Human Rights Resource Centre, “Bangladesh: CSOs urge Sumitomo Corporation & Japanese govt. to halt funding of Matarbari coal plant, citing adverse human rights impacts,” 4, August 2020, online: <https://www.business-humanrights.org/en/latest-news/bangladesh-csos-urge-sumitomo-corporation-japanese-govt-to-halt-funding-of-matarbari-coal-plant-citing-adverse-human-rights-impacts/>

to vote for its proposal at Sumitomo's June 2021 shareholder meeting and advise Sumitomo and the broader public of this intention.

As Sumitomo is currently updating its mid-term management plan, Market Forces urges investors to engage with Sumitomo to align its business exposure to coal, oil and gas assets with the goals of the Paris Agreement.

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