

## Investor Briefing

### Sumitomo Corporation (8053:JP)

#### ***Market Forces shareholder proposal to align strategy with the Paris Agreement climate goals***

25 May 2021

This briefing updates investors following recent developments concerning Sumitomo Corporation (Sumitomo) and a shareholder proposal filed by Market Forces for its upcoming Annual General Meeting. This information is to be taken as additional to the [investor briefing](#) provided on 29 March 2021.

#### **What we are proposing**

Market Forces, an environmental finance group, filed a shareholder proposal with Sumitomo Corporation on 26 March 2021. It called on Sumitomo to align its strategy with the goals of the Paris Agreement. Investor support for this proposal is required as Sumitomo's current disclosures, investments, policies and prospective involvement in fossil fuels and other emission intensive business segments do not demonstrate Sumitomo is sufficiently assessing and managing its exposure to climate-related risk. While Sumitomo has taken some steps to tighten its policies, [disclosing](#)<sup>1</sup> some new climate commitments on 7 May 2021, the revisions are still inadequate to be considered Paris-aligned.

The shareholder proposal was filed as a proposal to amend Sumitomo's articles of incorporation, the only permissible form for a shareholder to make Paris-aligned strategy climate proposals in Japan under the Companies Act and Sumitomo's articles of incorporation<sup>2</sup>. In 2020, 38 shareholder proposals were filed to amend articles of incorporation, accounting for 66% of all the shareholder proposals<sup>3</sup>. An English translation of the shareholder proposal reads as follows.

*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.*

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<sup>1</sup> Sumitomo Corporation, 7 May 2021, online:

<https://www.sumitomocorp.com/en/jp/news/release/2021/group/14700>.

<sup>2</sup> ClientEarth, Shareholder Climate Proposals in Japan, 25 March 2021, online:

<https://www.clientearth.org/media/za2htvt/shareholder-proposal-on-climate-in-japan.pdf>

<sup>3</sup> 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%20%20proxy%20season>.



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312 Smith Street  
Collingwood VIC 3066  
contact@marketforces.org.au  
[WWW.MARKETFORCES.ORG.AU](http://WWW.MARKETFORCES.ORG.AU)

Market Forces intends to continue with the shareholder proposal to be voted on at the AGM in June despite opposition from Sumitomo’s Board of Directors<sup>4</sup> for reasons listed below.

### Sumitomo’s policy changes and new commitments - some improvements, but not Paris-aligned

The table below compares Sumitomo’s climate commitments and targets<sup>5</sup> to key milestones and indicators in the ‘Net Zero by 2050’ Roadmap, published by the International Energy Agency (IEA)<sup>6</sup> on 18 May 2021. We note Sumitomo has committed to carbon neutrality by 2050, making the IEA’s recent publication a useful guide to compare and contrast the company’s policy commitments.

IEA’s Net Zero by 2050 Roadmap	Sumitomo’s revised policies & commitments	Aligned?
<b>Mining and exploration of fossil fuels<sup>7</sup></b>		
From 2021 onward, no new exploration or expansion of <b>thermal coal mines</b> beyond projects already approved for development.	No “further investment in the thermal coal mining interest and aim to achieve zero production from thermal coal mines by 2030.”	<b>YES</b>
From 2021 onward, no new exploration or expansion of <b>coking coal mines</b> beyond projects already approved for development.	No commitment or policies.	<b>NO</b>
From 2021 onward, no new exploration or expansion of <b>oil and gas fields</b> beyond projects already approved for development.	No commitment or policies.	<b>NO</b>
<b>Development of coal power plants<sup>8</sup></b>		
From 2021 onward, no new unabated coal power plants to be approved for development.	No “new coal-fired power generation business neither IPP (Independent Power Producer) nor EPC (Engineering, Procurement, Construction)”.  However, still open to Matarbari Units 3 & 4 (Phase 2), which is yet to complete its Environmental Impact Assessment process.	<b>NO</b>
<b>CO<sub>2</sub> emissions reduction from power generation by 2030<sup>9</sup></b>		
By 2030, CO <sub>2</sub> emissions from power generation must halve (from 2020).	By <b>2035</b> , “reduce CO <sub>2</sub> emissions of the power generation business by 40% or more”	<b>NO</b>

<sup>4</sup> Sumitomo Corporation, 14 May 2021, online: <https://www.sumitomocorp.com/-/media/Files/hq/news/release/2021/14770/0514.pdf?la=en>.

<sup>5</sup> Sumitomo Corporation, 7 May 2021, online: <https://www.sumitomocorp.com/en/jp/news/release/2021/group/14700>.

<sup>6</sup> International Energy Agency (IEA), “Net Zero by 2050 A Roadmap for the Global Energy Sector,” 18 May 2021, online: <https://iea.blob.core.windows.net/assets/0716bb9a-6138-4918-8023-cb24caa47794/NetZeroby2050-ARoadmapfortheGlobalEnergySector.pdf>.

<sup>7</sup> Supra n.6, Fig 4.1 (p.154)

<sup>8</sup> Supra n.6, Fig 4.1 (p.154)

<sup>9</sup> Supra n.6, Fig 3.1 (p.102); 4.1 (p.154)

	Note that this commitment is not aligned with the need to reduce 50% from power generation by 2030.	
	<p>“By <b>2035</b>, 60% or more emissions reduction from <b>coal</b> power (from 2019)”.</p> <p>Note this commitment is limited to coal power and is not aligned with the need to achieve net zero emissions from power generation by 2040.</p>	<b>NO</b>
<b>Coal power phase-out by 2030<sup>10</sup></b>		
By 2030, phase-out of unabated coal power plants in advanced economies.	“Phase-out of the coal power generation business by the <b>late</b> 2040’s”.	<b>NO</b>
By 2030, phase out of inefficient coal power globally.		<b>NO</b>
<b>CO<sub>2</sub> emissions reduction from power generation by 2040<sup>11</sup></b>		
By 2040, net zero emissions from all power generation globally.	No target. Plans to continue with both coal and gas-fired generation beyond 2040.	<b>NO</b>
<b>Oil and coal power phase-out by 2040<sup>12</sup></b>		
By 2040, phase-out of all unabated oil and coal power plants globally.	“Phase-out of the coal power generation business by the <b>late</b> 2040’s”.	<b>NO</b>
<b>Global<sup>13</sup>/Group-wide CO<sub>2</sub> emissions reduction</b>		
From 2020 to 2035, global emissions across the economy must decline by roughly 61.7%.	“Reduce the Group’s emissions 50% or more by 2035 (compared to 2019)”.	<b>NO</b>
<b>Renewable power potential<sup>14</sup></b>		
By 2030, renewable power capacity needs to increase by 7310 GW, which is more than three times current capacity. A further 1020 GW of <u>annual</u> solar additions is required from 2030 onwards.	<p>Sumitomo aims to double its renewables portfolio to 3.0 GW or more by 2030.</p> <p>Note Sumitomo’s lack of ambition regarding renewables leaves it poorly placed to capitalise on significant opportunities, especially in developing Asia<sup>15</sup>.</p>	<b>NO</b>

## The rationale to vote for the shareholder proposal

1. ***Sumitomo has set several interim emission reduction targets that it claims will achieve carbon neutrality. However, those targets fall short of what is scientifically required.***

<sup>10</sup> Supra n.6, Fig 4.1 (p.154)

<sup>11</sup> Supra n.6, Fig 3.1 (p.102); 4.1 (p.154)

<sup>12</sup> Supra n.6, Fig 4.1 (p.154)

<sup>13</sup> Supra n.6, Fig 4.1 (p.154)

<sup>14</sup> Supra n.6, Fig 3.2 (p.117); Fig 4.1 (p.154); Table A.3 (p.198)

<sup>15</sup> Between 2020 and 2030, the renewable capacity in the Asia-Pacific is expected to be 2,000 GW <https://www.bcg.com/publications/2021/asia-pacific-renewable-energy-opportunities>

- a. As demonstrated in the above table, Sumitomo's interim metrics and targets are not aligned with a pathway to keep global temperature rises to 1.5 degrees Celsius.
- b. Sumitomo has limited its plans to manage down scope 1, 2, and 3 emissions only to the group's operations, its "thermal power generation business", and "upstream fossil fuel business"<sup>16</sup>. Sumitomo has not set emission reduction targets for its downstream fossil fuel business or other carbon intensive business segments.

## **2. Sumitomo's coal phase-out plans are not Paris-aligned.**

- a. Sumitomo has left open a gaping loophole in its policy on new coal power stations, allowing it to be involved in the proposed Matarbari second phase (Unit 3 and 4) coal power project in Bangladesh. The IEA Roadmap confirmed that from now on, no construction of new (or expansion of existing) unabated coal power plants is permissible.
- b. Sumitomo only plans to phase out its coal power business in the late 2040s, completely out of line with the IEA's roadmap, which shows unabated coal power must be phased out by 2040 globally.

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

- a. Sumitomo owns coal power plants<sup>17</sup>. These projects contribute to carbon lock-in beyond 2040 - the required global coal phase-out deadline<sup>18</sup>, leaving Sumitomo with a huge stranded asset risk and reputation risk.
- b. In addition, Sumitomo is building coal power plants, including the controversial 1.2 GW Matarbari Units 1 and 2 (Phase 1) in Bangladesh<sup>19</sup> as a contractor<sup>20</sup>. Since the company has no ownership in these projects, the greenhouse gas emissions are not included in Sumitomo's emissions targets. This type of off-the-book carbon footprint undermines global efforts to achieve Paris climate goals.
- c. Sumitomo was the only Japanese major trading house that recorded a net loss, amounting US\$ 1.4 billion<sup>21</sup>, in the fiscal year ending in March 2021, US\$ 0.74 billion<sup>22</sup> of which was related to its power business (US\$ 0.24 billion<sup>23</sup> from a coal power plant 50% owned by Sumitomo; US\$ 0.5 billion<sup>24</sup> from construction of power plants as a contractor)<sup>25</sup>.

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<sup>16</sup> Sumitomo Corporation, Policies on Climate Change Issues, online:

[https://www.sumitomocorp.com/jp/-/media/Files/hq/news/release/2021/14700/20210507\\_fbyw.pdf?la=en](https://www.sumitomocorp.com/jp/-/media/Files/hq/news/release/2021/14700/20210507_fbyw.pdf?la=en).

<sup>17</sup>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](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>.

<sup>18</sup> Climate Analytics, <https://climateanalytics.org/briefings/coal-phase-out/>; see also supra no. 4 p.154

<sup>19</sup>Japan International Cooperation Agency (JICA) Ex-Ante Evaluation for Matarbari Ultra Super Critical Coal-Fired Power Project (V) 2019, online: [https://www2.jica.go.jp/ja/evaluation/pdf/2019\\_BD-P106\\_1\\_s.pdf](https://www2.jica.go.jp/ja/evaluation/pdf/2019_BD-P106_1_s.pdf)

<sup>20</sup> Other projects Sumitomo is involved as a contractor include the 1GW 3A Coal Power Plant in Malaysia and the 1.86GW Duyen Hai Coal Power Plant in Vietnam.

<sup>21</sup> JPY 153 billion.

<sup>22</sup> JPY 80 billion.

<sup>23</sup> JPY 26 billion.

<sup>24</sup> JPY 54 billion.

<sup>25</sup> Sumitomo Corporation, Annual Results for FY2020, online:

[https://www.sumitomocorp.com/-/media/Files/hq/ir/report/summary/2020/en/2103-Presentation-ENG\\_cAaC\\_la=en](https://www.sumitomocorp.com/-/media/Files/hq/ir/report/summary/2020/en/2103-Presentation-ENG_cAaC_la=en).

d. Several investors raised concerns following the announcement of 2020 financial results over the US\$ 0.5 billion loss related to power EPC<sup>26</sup> contracts, as the amount was “extremely large”<sup>27</sup>.

e. The Matarbari Phase 1 project in Bangladesh presents an example of the financial risks posed by Sumitomo’s fossil fuel activities. The three and a half year delay in its construction and cost overrun of approximately US\$2 billion<sup>28</sup> have caused significant losses for the company. Investors should consider the prospect of similar delays and cost overruns occurring in Matarbari Units 3 and 4 (Phase 2) in the event that they proceed, exacerbating financial risk from this project.

#### 4. ***Traditional engagement with Sumitomo has not been fruitful.***

a. Market Forces and 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 and five meetings with Sumitomo. After filing the shareholder proposal, we continued discussions with Sumitomo, including offering to withdraw the proposal if Sumitomo met certain conditions (see Appendix).

b. Despite this engagement, Sumitomo has failed to align its business model and investments with the climate goals of the Paris Agreement.

## **Conclusion**

- While Market Forces recognises Sumitomo has strengthened its climate change policies with interim targets and commitments, Sumitomo acknowledges that its revised policies have not fulfilled the conditions for withdrawing the resolution.
- The gap between Sumitomo’s revised policies and a net zero by 2050 pathway demonstrate those policies are insufficient to adequately manage the financial risks posed by climate change.
- Market Forces, therefore, continues with the shareholder proposal to be voted on at the June AGM.
- Investor support for this resolution is required to improve transitional climate risk management by bringing Sumitomo’s business strategy into line with Paris climate goals. Market Forces urges investors to:
  - engage with Sumitomo on the points raised in this briefing;
  - vote FOR the resolution; and
  - signal an intention to vote FOR the resolution in advance of the June annual general meeting.

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<sup>26</sup> Engineering, Procurement and Construction

<sup>27</sup>Sumitomo Corporation, Question and Answer at IR Meeting on Financial Results for 2020 Q4, online: <https://www.sumitomocorp.com/-/media/Files/hq/ir/report/summary/2020/en/2103-QA-ENG-0507.pdf?la=en>.

<sup>28</sup> Financial Express, 22 April 2021, online: <https://thefinancialexpress.com.bd/trade/matarbari-fast-track-power-project-in-need-of-more-fund-and-time-61317>.

## Contact

Market Forces [www.marketforces.org.au](http://www.marketforces.org.au)

Contact Persons

Megu Fukuzawa E-mail: [megu.fukuzawa\[@\]marketforces.org.au](mailto:megu.fukuzawa[@]marketforces.org.au)

Sachiko Suzuki E-mail: [sachiko.suzuki\[@\]marketforces.org.au](mailto:sachiko.suzuki[@]marketforces.org.au)

## Appendix - Conditions presented to Sumitomo for withdrawal of resolution

Through engagement, Market Forces made it clear to Sumitomo that the resolution would be withdrawn if the following conditions were met (underlines show our minimum threshold):

- a. Immediately set clear metrics and targets to achieve business strategy alignment align with Paris (1.5 degrees) including:
  - i. Short, medium and long term absolute targets to phase out of or transition away from fossil fuels (coal, oil, gas). For coal business and business segments that provide support to the coal industry, this phase out should be by 2030 in developed countries and 2040 in developing countries at the latest.
  - ii. Short, medium and long term Scope 1, 2 and 3 emission reduction targets.
    1. The company must also disclose its performance against those targets
    2. All targets should be independently verified as aligned with 1.5 degree C.
  - iii. Clear disclosure of the utilities portfolio size in gigawatts, including exposure to fossil fuels through EPC contracts.
- b. Immediately rule out any involvement in the development of new coal, oil and gas power stations and extraction projects that would expand the scale of the fossil fuel industry without exception.
  - i. Closing this loophole would mean ruling out involvement in Matarbari phase 2
- c. Test and disclose to investors the resilience of its assets and business segments linked to fossil fuels and other carbon intensive products against a 1.5 degrees Celsius scenario.

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