# Climate-related shareholder proposals essential to address gaps in Mitsubishi Corporation's midterm strategy | 25 May 2022

Further to the detailed investor briefing dated 13 April 2022, Market Forces, Friends of the Earth Japan and Kiko Network ('the co-filers') present this additional briefing regarding Mitsubishi Corporation (Mitsubishi)'s Midterm Corporate Strategy 2024 and the Board opinion on the climate-related shareholder proposals.

**Mitsubishi's recent updates are entirely insufficient for investors to conclude the company's plans and risk management processes are in line with its stated climate commitments, instead asking investors to trust blindly.** The Task Force on Climate-related Financial Disclosures (TCFD), on the other hand, urges investors to 'trust but verify,' and these climate-related shareholder proposals seek Mitsubishi disclose information to enable investors to do just that.

Mitsubishi is the largest Japanese trading house by assets and is highly exposed to the decarbonisation transition required in the energy sector, and LNG in particular. Despite the recent updates, **Mitsubishi still has:**

- **No meaningful Scope 3 emissions targets and no short term emissions targets at all,**
- **An incomplete midterm emissions target reliant on unproven technologies and asset sales, and**
- **No capital allocation framework aligned with the company's own net zero by 2050 commitment.**

Mitsubishi is therefore at significant risk of contradicting its own climate commitments by failing to align with a credible pathway to net zero emissions by 2050. This exposes the company to stranded asset risk, reputation risk and potential regulatory risk as markets and policies shift to meet global climate goals.

**Investors are therefore urged to vote FOR proposals numbered 5 and 6 at Mitsubishi's Annual General Meeting on 24 June 2022.**

## 1. Mitsubishi has not disclosed targets adequate to meet its net zero by 2050 goal

**No meaningful Scope 3 disclosure, let alone targets:** As a company heavily involved in the sale of carbon intensive products such as LNG, which Mitsubishi's midterm strategy indicates will continue and expand, Scope 3 emissions represent significant transition risk. Recent research from Columbia University shows Scope 3 can account for around 75% of LNG lifecycle emissions. However, Mitsubishi currently does not disclose the emissions from or have targets related to what it admits would be "the majority of Mitsubishi Corporation's Scope 3 emissions category": Category 11 emissions from use of sold products, such as coal or oil and gas.

**Contacts**
Megu Fukuzawa: megu.fukuzawa@marketforces.org.au
Sachiko Suzuki: sachiko.suzuki@marketforces.org.au
Ayumi Fukakusa: fukakusa@foejapan.org
Yasuko Suzuki: suzuki@kikonet.org

**No short term targets:** Mitsubishi's target to halve emissions by 2031 only includes Scope 1 and 2 emissions, and a limited subset of its Scope 3 emissions (Category 15: Investments). Mitsubishi has no target set for earlier than March 2031, although many investors are required to set 2025 interim emissions targets.

**Existing targets are inadequate:** At present, Mitsubishi's reduction targets rely in part on asset sales and fuel switching to blue hydrogen or ammonia, although it is impossible to conclude that this will aid in meeting the global goal of net zero emissions by 2050. Asset sales do not ensure emission reductions in the real world, simply passing on responsibility for emissions to another entity. Peer reviewed research has found "the greenhouse gas footprint of blue hydrogen is more than 20% greater than burning natural gas or coal for heat," even assuming effective carbon capture and storage (CCUS), which has not been proven at scale.

## 2. Mitsubishi says it is making decisions based on net zero aligned assumptions - why won't it disclose them?

Mitsubishi's midterm strategy does not disclose the assumptions which form the basis of its new governance and risk management framework to ensure its businesses are aligned with a net zero by 2050 scenario. These are precisely the assumptions that investors need to understand in order to evaluate the climate risk inherent in Mitsubishi's net zero by 2050 plan because:

- **Mitsubishi's risk assessment makes unexplained departures from established net zero by 2050 scenarios**, notably by assuming LNG demand in Asia to remain "firm for the time being." LNG faces increasing transition risk in a decarbonising world. 62% of global net renewable capacity additions in 2020 had lower costs than the cheapest fossil fuel source - a share likely to have risen in the intervening months with surging coal and gas prices. Investors therefore need to understand Mitsubishi's assumptions to gauge the company's resilience in a low-carbon world.

- Where Mitsubishi's proposed emissions reductions are **reliant on ammonia co-firing** in coal-fired power plants **and CCUS**, it is crucial for Mitsubishi to disclose its assumptions if the company wants investors to believe these technologies are viable to contribute to such reductions.

- The **emissions targets and assumptions requested in the proposal are based on investor expectations** as outlined by the TCFD, Climate Action 100+, the Net Zero Framework of the Paris Aligned Investment Initiative, and Investor Expectations for Paris-aligned Accounts (see details in April 2022 investor briefing, Table 3). Moreover, **companies operating in the same markets as Mitsubishi, are already providing disclosure being sought**, such as BP, Shell, and Santos.

## 3. What is known about Mitsubishi's current exposure indicates significant climate risk

**None of the disclosures in Mitsubishi's midterm strategy or board opinion change or restrict its plans to increase transaction risk exposure by pursuing new gas projects.**

The International Energy Agency (IEA) finds in its Net Zero Emissions by 2050 Scenario (NZE2050) there is no room for new oil and gas fields, significant stranded asset risk for LNG facilities, and that gas use for power must rapidly decline, even in light of the current energy crisis. Yet Mitsubishi is pursuing new projects to significantly expand its LNG operations, and has no policies to rule out or in any way restrict their development.

| NZE2050 conclusions | Mitsubishi policies | Mitsubishi practice |
|---|---|---|
| "Beyond projects already committed as of 2021, there are no new oil and gas fields approved for development in our pathway.". | No policy to rule out or in any way restrict development of new oil and gas fields. | Along with project partners, Mitsubishi plans to develop the new Udabari gas field and raise output at the Vorwata gas field to expand the Tangguh LNG project in Indonesia. |
| "Also not needed are many of the liquefied natural gas (LNG) liquefaction facilities currently under construction or at the planning stage." | No policy to rule out or in any way restrict development of new LNG projects. | ・Plans to increase LNG liquefaction capacity (on an equity share basis) by roughly 20% from 12mtpa currently to 14.6mtpa by the mid 2020s.<br><br>・Recently received a loan to develop LNG Canada, a major polluting LNG terminal, objected to by the First Nations people whose traditional lands this project would impact. |
| Absolute emissions from oil and gas fall by 23% from 2020-2030 (oil 27%, gas 17%). | No Scope 3 emissions target related to emissions from the end use of its oil and gas products. | Currently bidding on or sponsoring two LNG import terminals in Bangladesh and two proposed LNG to power projects in Vietnam. With an expected life of 25 years, these projects will be emitting carbon and processing carbon-intensive LNG to 2050 and beyond. |

## 4. Articles of incorporation amendments are the sole legal pathway for climate-related proposals

The opinion of Mitsubishi's Board of Directors questions whether amendments to the articles of incorporation are appropriate for these forms of shareholder proposals. However the opinion ignores the fact that such amendments are the sole legal pathway climate-related resolutions can take to avoid being rejected under the *Companies Act*, and the proposals in no way limit the directors' ability to exercise business judgment enshrined in Japanese corporate law. **The legal effect of these shareholder proposals is the same as "special resolutions" on climate change filed and passed at UK companies** including Barclays, BP (99% support in 2019), Royal Dutch Shell, Rio Tinto and Anglo American, which take binding effect as part of the companies' constitutions.

Moreover, if, as the opinion claims, Mitsubishi's current initiatives meet the requests for disclosure made by the proposal, the company should have no issue adopting the shareholder proposals.

**For the reasons above, we urge investors to vote for these proposals at Mitsubishi's Annual General Meeting on June 24 for the company to maintain and increase its long-term corporate value.**

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