## Investor Update: MUFG, Mizuho, and SMBC Group's policies are sabotaging their Net Zero by 2050 commitments

27 January 2023

Dear Investors:

The current fossil fuel financing policies and practices of Mitsubishi UFJ Financial Group (MUFG), Mizuho Financial Group (Mizuho), and Sumitomo Mitsui Financial Group (SMBC Group) (collectively, the megabanks) are undermining their commitments to net zero emissions and the Paris Agreement.

This must be of critical concern for investors seeking to mitigate climate risks, as these banks are all listed in the 20 largest financiers of fossil fuels globally since the Paris Agreement was adopted. Between 2016 and 2021, MUFG provided a total of US$181.49 billion in finance to fossil fuels (making #6 on the list), Mizuho US$155.74 billion (#8), and SMBC Group US$109.27 billion (#18).

Despite joining the Net Zero Banking Alliance (NZBA), the megabanks have all failed to set science-based targets to meet their commitment under NZBA to bring down emissions from their lending and investment portfolios in line with a net zero emissions by 2050 pathway, consistent with a 1.5°C maximum temperature rise with no or limited temperature overshoot.

In fact, since joining NZBA, MUFG has provided US$22.7 billion in finance to major fossil fuel developers (making #3 on the list), Mizuho US$19.3 billion(#4), and SMBC group US$11.5 billion(#7).

The megabanks' fossil fuel financing policies and practices are exacerbating climate risk, undermining their own – and the world's – climate commitments, and significantly lagging many global peers.

**We urge investors to raise these concerns with the banks and demand they implement proactive measures to ensure they do not finance new fossil fuel projects, which are incompatible with a net zero emissions by 2050 pathway.**

### Policies fail to align with net-zero commitments

In May 2021, the International Energy Agency (IEA) confirmed that achieving net-zero emissions in the global energy sector - with just a 50% chance of limiting global warming to the 1.5°C goal of the Paris Agreement - requires no further expansion and a rapid decline in fossil fuel supply. This position is consistent with a "large consensus" of Paris-aligned climate and energy scenarios, which have found "developing any new oil and gas fields is incompatible with limiting warming to 1.5°C".

Far from walking back this conclusion, the IEA's October 2022 World Energy Outlook (WEO) stated:

> *"No one should imagine that Russia's invasion can justify a wave of new oil and gas infrastructure in a world that wants to reach net zero emissions by 2050"*

In fact, the IEA's latest net zero by 2050 scenario projects even sharper declines in gas demand than the previous version, falling 20% globally by 2030.

In July 2021, 115 investors with US$4.2 trillion in assets under management and/or stewardship wrote to 63 global banks, calling on them to integrate the IEA's Net Zero by 2050 findings into their climate strategies. **MUFG, Mizuho, and SMBC Group's current policies and practices fall well short of this demand.**

| IEA Net Zero by 2050 conclusion | Megabank policy analysis |
| --- | --- |
| No new coal mines or mine lifetime extensions and no new coal-fired power plants are approved from 2021. | All three megabanks' policies still allow them to finance new and expanded coal mines and power plants through corporate lending and bond issuance for companies pursuing these new coal projects.<br><br>These loopholes render the megabanks' policies largely ineffective, as research shows only 5% of their total fossil fuels financing from 2016-2021 was project-related, with 91% provided through corporate loans and underwritings.<br><br>Only Mizuho has set an absolute emissions reduction target from thermal coal mining to zero balance by 2030 for OECD economies and by 2040 for non-OECD economies. |
| Phase-out of unabated coal in advanced economies by 2030 and all unabated coal power plants by 2040. | All three megabanks have a target to halve lending exposure to coal power generation by 2030 and reach zero by 2040, but this only applies to project finance and corporate finance tied to those projects. As a result, SMBC Group, MUFG, and Mizuho's target fail to cover the majority of their total credit exposure to coal power. The target covers approximately 42%, 38%*, and 15%, respectively.** |
| Emissions from power and heat generation fall by 51% from 2021-2030.<br><br>Emissions from oil and gas fall by 29% from 2021-2030 | All megabanks have only announced *intensity* targets for the power sector. The banks can meet these intensity targets while increasing their financing for fossil fuel power projects and absolute financed emissions, which is inconsistent with a net zero pathway.<br><br>All megabanks' financed emissions targets for the oil and gas sector are limited to *upstream businesses*, failing to restrict lending to other new and expanded oil and gas infrastructure that is incompatible with a net zero by 2050 pathway.<br><br>All of these targets only apply to lending, excluding the banks' significant investment and underwriting exposures to fossil fuel power generation and oil and gas. |

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| Beyond projects already committed as of 2021, there are no new oil and gas fields approved for development in our pathway.<br><br>Also not needed are many of the liquefied natural gas (LNG) liquefaction facilities currently under construction or at the planning stage (as of 2021). | None of the megabanks have any policies ruling out finance for new oil and gas fields or infrastructure, such as LNG, nor do they rule out financing companies pursuing such projects. |
| Fossil fuel production and power generation must be rapidly phased down. | None of the three megabanks have set expectations for the transition plan of their clients with clear standards, timelines, and targets to manage down fossil fuel production or generation. The banks have set no consequences for companies that fail to have a transition plan in line with a net zero by 2050 pathway. |

** USD 1 = JPY 121.7 as of 31 March 2022 (date MUFG target was announced)*
*** Source: SMBC Group TCFD Report (2022), MUFG Sustainability Report (2022), Mizuho TCFD Report (2022), Mizuho Strengthening initiatives for achieving net zero by 2050 (2022)*

### Expanding fossil fuels incompatible with net-zero

Despite the IEA's conclusions, Mizuho, MUFG and SMBC Group continue to fund new and expanded fossil fuel projects and the companies pursuing them.

Currently, SMBC Group is linked to some highly controversial proposed gas projects, including:

- The 1.4 GW Pertamina LNG Power Plant in Chattogram, Bangladesh as financial advisor.
- The East African Crude Oil Pipeline (EACOP) as financial advisor to TotalEnergies, the lead developer of the project.

Further examples of lending to companies expanding fossil fuel projects since the IEA released its net zero scenario include:

- In August 2022, all megabanks were involved in a US$1 billion loan to Santos, increasing and extending a 2020 deal related to the new Barossa gas field. One economist has described Barossa as "a $CO_2$ emissions factory with an LNG by-product". The project is one of the multiple projects Santos includes in plans to increase oil and gas production by at least 17% from 2020 to 2030, and has faced a successful legal challenge over Santos' failure to properly consult with Tiwi Islands Traditional Owners.
- Mizuho and SMBC Group contributed to a US$1.2 billion corporate loan to Australia's largest gas producer, Woodside, in July 2022. Woodside's increasing production plans include the Scarborough gas and Pluto LNG project. Independent analyses have concluded the project "represents a bet against the world implementing the

Paris Agreement" and "is not competitive even in the [IEA's 2.7°C warming scenario] STEPS– that is, a world that utterly fails to decarbonise".

- All megabanks were involved in a US$13.11 billion project finance loan to Venture Global in May 2022. The funds will be directed toward constructing the Plaquemines LNG Export Facility in the USA. Financial database IJGlobal states this as one of the world's largest LNG project financing transactions.

It is clear the megabanks' fossil fuel financing policies and practices are exacerbating climate risk, undermining their own – and the world's – climate commitments, and significantly lagging many global peers.

**We urge investors to raise these concerns with the banks and demand they implement proactive measures to ensure they do not finance new fossil fuel projects, which are incompatible with a net zero emissions by 2050 pathway.**

We would appreciate the opportunity to meet with you to discuss these concerns. Please reply to arrange a meeting or send through any questions you may have regarding our concerns.

Sincerely,

350.org Japan
FoE Japan
Kiko Network
Market Forces
Oil Change International
Rainforest Action Network