

Japan's megabanks at the starting line with new coal policies

In the past few years, a significant change has taken place in Japanese financial institutions.

Japan's private megabanks have been criticised globally as the world's top three biggest lenders to coal related companies¹ and for their financing of new coal power plants². Now, they are showing signs of change. With the new policies released this spring, all three financial institutions have decided to stop lending for new coal power projects in principle. Mitsubishi UFJ Financial Group (MUFG) led the way for this change with its policy in 2019, and in April 2020, Mizuho Financial Group (Mizuho) and Sumitomo Mitsui Financial Group (SMBC) decided on similar policies.

In addition to the private banks, Japan's public finance institutions play a key role in energy finance, particularly overseas. Among the public institutions, Japan Bank for International Cooperation's (JBIC) Governor has recently signalled intentions to refuse all loans for coal power plants, though its official policy remains to be changed³. Given Japan is among the world's biggest public financiers for coal power projects⁴, many have been calling on the Japanese government to make decisions to stop coal finance⁵.



All these changes have taken place after years of criticism from civil society globally as well as recent calls from the banks' investors to set stricter fossil fuel policies⁶. This year, Mizuho became the first financial institution in Japan faced with a shareholder resolution calling for stronger climate policy⁷. Given the banks have not ruled out all types of coal finance yet, we can expect such movement to continue.

Photo: Greenpeace protesting against Japanese banks' coal finance at Davos World Economic Forum in January 2020.

¹ https://www.banktrack.org/article/banks_and_investors_against_the_future

² <http://www.nocoaljapan.org/japan-must-not-support-vung-ang2-vietnam-international-petition/>

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<https://www.reuters.com/article/us-coal-japan-jbic-climatechange/jbic-muddies-comments-from-nding-coal-finance-idUSKBN22D4MG>

⁴ <https://endcoal.org/finance-tracker/>

⁵ <https://www.ft.com/content/2a3a41e2-8db3-11e9-a1c1-51bf8f989972>

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<https://uk.reuters.com/article/coal-japan-mizuho-climatechange/investors-line-up-against-mizuho-or-coal-idUKL4N2BR2ZY>

⁷ https://www.kiconet.org/eng/press-release-en/2020-03-16/mizuho_shareholder_proposal

Below, we evaluate the significance of the new policies, analyse their weak points by comparing them to policies set by other international banks, and suggest how to strengthen the policies further.

What is the significance of the new policies?

As some of the biggest banks in the world, the Japanese megabanks' policy decisions have a major impact on both domestic, regional and global energy trends. In the past decade, they have been involved in directly financing numerous coal power projects in countries such as Indonesia, Vietnam, and India⁸. For example, between 1999 and 2018 the banks were involved in financing 22 coal power plant units (14,280 MW) in Indonesia⁹.

The new policies by the Japanese banks in 2019 and 2020 commit them to stopping **coal project finance** (with some significant exceptions, explained below). This means the banks will stop giving loans to financially support specific coal power projects - a major change from their previous activities. Data from the World Bank^{10 11 12} shows that together the private and public banks normally provide 80% of the funding of such projects, while the remaining 20% comes from the construction company's own finances. This means the banks' decisions to stop such project finance will be a major factor for these kinds of projects.

Major weaknesses in all three policies - how the banks' coal financing can continue

Despite the decision to stop new coal project finance, the banks' new policies do not mean that all their financial support to the coal industry will end. The banks still have several ways to finance the coal industry. Generally called **corporate finance**, this type of financing includes the banks' lending to industrial corporations that are engaged in various parts of the coal mining and coal power value chain.

By providing corporate finance, the banks do not support any particular project by the corporation, but their whole range of activities, which can include coal power production, mining, transportation etc.. The types of corporate finance may include shareholding, loans, underwriting or bonds. **Currently, the banks' policies do not set any limitations to this type of funding.**

Reports have shown Japanese banks are among the world's biggest providers of corporate finance to coal related companies globally - see Graph 1 and Box 1. This data shows MUFG, Mizuho, and SMBC are still far from ending all of their coal finance.

| BANKS BY LENDING, 2017 - Q3 2019 | | |
|----------------------------------|---------------|-----------------|
| Banks | Country | Loans (US\$ bn) |
| Mizuho Financial | Japan | 16.804 |
| Mitsubishi UFJ Financial | Japan | 14.573 |
| SMBC Group | Japan | 7.975 |
| Citigroup | United States | 5.696 |
| BNP Paribas | France | 4.276 |

Graph 1: Japanese banks ranked as the world's 1st, 2nd and 3rd biggest lenders to coal related corporations globally. Source: BankTrack 2019, footnote 1.

⁸ <http://www.nocoaljapan.org/three-mega-banks-support-japan-deadly-double-standard/>

⁹ <https://www.greenpeace.org/japan/sustainable/press-release/2018/12/06/6042/>

¹⁰ <https://ppi.worldbank.org/en/snapshots/project/tanjung-jati-b-coal-fired-power-plant-units-5--6-9026>

¹¹ <https://ppi.worldbank.org/en/snapshots/project/central-java-coal-fired-ipp-8726>

¹² <https://ppi.worldbank.org/en/snapshots/project/cirebon-2-coal--fired-power-plant-9062>

How do the policies compare internationally?

International comparisons show how Mizuho, MUFG and SMBC's new coal finance restrictions could still be significantly strengthened. To date, more than 100 financial institutions have introduced restrictions to thermal coal funding¹³, and many of them are already restricting all financing to utility companies that are involved in coal business.¹⁴

In the following table, we compare the new policies of Japanese banks to each other and to some examples of stronger policies by financial institutions in other countries.

Banks in comparison: Mizuho has taken the lead, SMBC weakest - all three behind global peers

| | Mizuho (4/2020) ¹⁵ | MUFG (5/2020) ¹⁶ | SMBC (4/2020) ¹⁷ | Examples of stronger policies by peers |
|--|---|--|--|---|
| Coal power projects | No new coal project finance | No new coal project finance | In principle, no new coal project finance | ING (Netherlands)¹⁸: Since 2015, end of all coal power project financing, with no exceptions |
| Basis for considering exceptions to project finance | Projects with previous funding; announcement; Replacement projects that are considered necessary for stable supply; Development of innovative next-generation technologies | The energy policies of the host countries; International standards such as OECD recommendations; Other available technologies; High efficiency power generation and CCS | Projects that have been provided support before; Projects using ultra-super critical coal plant technology; Projects using CCS or carbon recycling | |
| Outstanding loans | Outstanding project loans to be halved by 2030, brought to 0 by 2050 | No timeline | No timeline | Societe Generale (France)¹⁹: Progressively reduce the exposure to the thermal coal sector to zero, at the latest in 2030 for companies with thermal coal assets located in EU or OECD countries and 2040 elsewhere |

¹³ <https://ieefa.org/finance-exiting-coal/>

¹⁴ https://www.banktrack.org/campaign/list_of_banks_policies_on_coal_utilities

¹⁵ https://www.mizuho-fg.com/release/20200415release_eng.html

¹⁶ https://www.mufig.jp/dam/pressrelease/2020/pdf/news-20200513-002_en.pdf

¹⁷ https://www.smbc.co.jp/news_e/e600579_01.html

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<https://www.ing.com/Newsroom/News/ING-ends-new-coal-financing-continues-to-reduce-coal-portfolio.htm>

¹⁹ https://www.banktrack.org/download/sector_policy_on_thermal_coal/thermalcoalsectorpolicy.pdf

| | | | | |
|---|--|---|---|---|
| Corporate finance for utilities using coal in energy production (shareholding, loans, bonds, underwriting) | No restrictions | No restrictions | No restrictions | Credit Mutuel (France)²⁰ : not allowed for utilities with over 20% of total revenues and share of electricity produced from coal, or with more than 5GW of installed coal-fired capacity, or developing new coal power plants |
| Engaging with coal reliant corporate clients | Strengthen engagement with clients regarding their efforts to address climate change; engage with clients in coal mining business on climate change related transition risk, confirm countermeasures | Not specified; general mention of assessing clients' approach to managing environmental issues | Not specified; general remark about engaging with clients' for contributing to globally better society | Credit Agricole (France)²¹ : requires all client companies involved in the coal industry to publish a transition plan by 2021, including a plan to phase out coal by 2030 in EU and OECD countries, and by 2040 in the rest of the world) |
| Divesting from coal reliant clients | No policy | No policy | No policy | Credit Mutuel (France)²² : Exclusion of corporations based on criteria (see above); Remaining corporate clients must adopt a plan to close all coal assets by 2030, otherwise financial support will be discontinued; Aim to exit all coal finance exposure by 2030 |
| Coal mining | No financing to coal mining projects using mountaintop removal (MTR); in other cases will consider the clients' impact on environment, climate | No financing to coal mining projects using mountaintop removal (MTR); in other cases will assess the client's consideration | No financing to coal mining projects using mountaintop removal (MTR); in other cases will perform environmental risk assessment | Royal Bank of Scotland (UK)²³ : No project financing to new thermal coal mines; Restrictions for corporations involved in coal mining |

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https://www.creditmutuel.fr/partage/fr/CC/telechargements/communiqués-de-presse/CM/2020/2020-02-20_Resultats-2019-Credit_Mutuel_Alliance_Federale-en.pdf

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<https://www.credit-agricole.com/assets/ca-com-front/temp/PDF/Politique%20Sectorielle%20Groupe%20-%20Centrales%20-%20Mars%202020%20-%20v2%20EN.pdf>

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https://www.creditmutuel.fr/partage/fr/CC/telechargements/communiqués-de-presse/CM/2020/2020-02-20_Resultats-2019-Credit_Mutuel_Alliance_Federale-en.pdf

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https://www.banktrack.org/download/ese_policy_mining_metals_sector/mining_metals_policy_dec_2016_1.pdf

| | | | | |
|---|--|--|---|--|
| | change related transition risk, and confirm countermeasures | for environmental impacts | | |
| Other fossil fuels Oil & gas | Examination of impacts on environment, engagement with clients to confirm their measures for addressing transition risk; no clear restrictions | Acknowledgement of their climate impact, but no clear restrictions | Conducting environmental risk assessment, but no clear restrictions | BNP Paribas (France)²⁴: Will not provide financial services to the greenfield or brownfield projects, including exploration and production, major pipelines or export terminals for unconventional oil and gas resources, nor to companies with significant involvement in such projects |

Greenpeace Japan recommendations for the Japanese banks

As the comparison above shows, Mizuho, MUFG, and SMBC have many things they can and must do to strengthen their energy finance policies. All three banks have made public commitments to the Paris Agreement objectives - now, they must align their policies to that commitment. By ending financing to fossil fuels and focusing on supporting decarbonisation measures such as renewable energy and energy efficiency and saving, they can make a positive contribution to the global efforts against climate change, as well as to the Green Recovery efforts needed in response to the COVID crisis.

1) Close loopholes for coal project finance

Although the banks' policies state that they will not provide financing to new coal-fired power generation projects, several exceptions related to on-going projects and technology choices significantly weaken this commitment. This loophole must be closed by adopting a complete ban on project finance for coal projects, including all types of coal-fired power plants, coal mines, and other coal infrastructure.

2) Engage with corporate clients & require decarbonisation strategies

In cases where the banks have existing financial ties with companies that are currently involved in the coal industry, they should engage with the clients and require them to provide a clear strategy showing how the company will decarbonize its business practices in a timeline that is aligned with the Paris Agreement objectives. In OECD countries including Japan, this means phasing out coal power plants by 2030.

3) Introduce responsible restrictions to corporate finance

In cases where a corporate client is not able or willing to provide a sufficient decarbonisation strategy, providing further financial services should be restricted and ultimately ended. This can be done by setting a threshold for the maximum percentage of coal based energy generation revenues or energy generation

volumes, and lowering this percentage to zero over time. Companies that are currently constructing new coal power plants should be excluded from further financial services immediately.

Japanese banks' extensive corporate finance to coal developers globally

Banking on Climate Change 2020²⁵

The Japanese banks' financing for the world's top 30 largest coal power corporations between 2016-2019, including corporate lending and underwriting transactions, and project finance where data were available. Finance flows were adjusted to reflect the share of coal in the companies' energy mix.

- MUFG - US\$5.048 billion
- Mizuho - US\$4.244 billion
- SMBC - US\$1.114 billion

Banks and Investors Against Future 2019²⁶

The Japanese banks financing for the world's top 258 coal-reliant corporations between 2017-2019. The numbers represent all the financing the banks provided without adjusting for share of coal in the companies' energy mix.

- Mizuho - US\$ 16.8 billion in loans, 14.2 billion in underwriting, 4.5 billion in bonds and shareholding
- MUFG - US\$ 14.6 billion in loans, 12.6 billion in underwriting, 6.3 billion in bonds and shareholding
- SMBC - US\$ 7.9 billion in loans, 10.4 billion in underwriting

Box 1.

²⁵ https://www.ran.org/wp-content/uploads/2020/03/Banking_on_Climate_Change_2020_vF.pdf

²⁶ https://coalexit.org/sites/default/files/download_public/COP25_PR_Logos.pdf