

Mizuho's Revised Policy Tightens Approach to Climate Risk But Still Far from Meeting Paris Agreement Goals

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On May 13th, Japanese megabank Mizuho Financial Group (hereinafter Mizuho) announced revisions to its lending and investment policies which include a commitment to shift its portfolio to be consistent with the goals of the Paris Agreement, a more robust response to the transition risk facing fossil fuel-related companies, and a virtual prohibition on financing and investment in new coal mining.¹ Mizuho's policy revision is more progressive than other Japanese megabanks in several respects, and we welcome the strengthening of its policy toward decarbonization. However, the policy falls short of their domestic rivals in other ways. Even with this revision, there is no assurance that Mizuho's policy is consistent with the Paris Agreement. In light of the urgency of the climate crisis, Mizuho must urgently formulate more specific goals, metrics, and roadmaps to align with the Paris Agreement goals.

Virtual prohibition on thermal coal mining

NGOs welcome the revision stating "it will not provide financing and investment for new coal mining (thermal coal)" as no other Japanese banks have yet stated such a policy. However, the policy has a problematic exception, stating "Mizuho may provide loans and investments upon careful consideration for existing coal mining (thermal coal) projects that contribute to the stable supply of energy in countries where they have policies aligned with the Paris Agreement."

Loopholes remain in the coal power sector policy

While Mizuho has committed to stop loans and investments in new coal plants, exceptions remain under their revised policy. These include "when it is essential to the relevant country's stable energy supply and when it is a replacement of an existing power plant" and when it involves the "development of innovative, clean, and efficient next generation technology." Technologies that are not currently in practice like Carbon capture, utilisation and storage (CCUS) and mixed combustion with ammonia/hydrogen barely contribute to the necessary emission reduction by 2030. Instead, they could lead to prolonging the lifespan of coal-fired power, thus not aligning with the mid-term target required to meet the Paris Agreement's 1.5 degrees Celsius goal. There needs to be a specific roadmap to phase out all the coal-fired power plants by 2030 in OECD countries and by 2040 globally.

New policy on transition risk facing fossil fuel related companies

Mizuho has established a new policy on dealing with the transition risk of fossil fuel related companies, making it the only Japanese megabank to do so. The policy states that "companies that undertake

¹ https://www.mizuho-fg.co.jp/release/pdf/20210513release_jp.pdf (in Japanese only). As of May 14th, English texts have not been announced yet. Thus all the quotations of its policy texts are NGOs' translations.

coal-fired power generation, oil-fired power generation, gas-fired power generation, coal mining or gas/oil as their main business and that are not undertaking an appropriate transition towards a decarbonized society are potentially exposed to transition risk.” For such companies, “Mizuho will engage with clients to promote the improvement of measures against transition risk associated with climate change. For clients who make no progress in undertaking such measures over a certain period of time, Mizuho will carefully evaluate transactions with the company.” This policy is the first indication of Mizuho’s willingness to set a policy on the financing of companies at the corporate level, even when not tied to specific projects. However, there is a lack of concreteness. To ensure the effectiveness of engagement with those companies, it is necessary to establish a roadmap that includes targets and metrics that align with the Paris Agreement.

Commitment to align portfolio with the goals of the Paris Agreement

As part of its revision of the “Environmental Policy,” Mizuho stated it “will create a flow of funds to achieve the goal of curbing the global average temperature rise under the Paris Agreement, and gradually shift to a finance portfolio that is consistent with that goal.” While we welcome this announcement, in order to align with the 1.5 degrees Celsius target², it is necessary to expand the application of the credit balance reduction target of coal-fired power projects to corporate finance and realize it earlier³, and expand the targets to also cover oil and gas as well as forest-related sectors. For the oil and gas sector policy, Mizuho specified oil and gas extraction projects in the Arctic region, tar sands, and shale oil and gas projects under the recent revision. However, instead of only committing to the implementation of environmental and social risk assessments of such projects, there should be specific prohibitions necessary to ensure consistency with the Paris Agreement.

It is also important that Mizuho will commit to measurements of GHG emissions (Scope3) of its investment and loan portfolio, which SMBC Group has announced under its recent policy revision.

Adoption of NDPE policy on large-scale plantations (soybean, etc.) and updated palm oil sector

We welcome the expansion of Mizuho’s policy on the land-use sector to now include large scale plantations such as soy. The policy requires clients in the large plantation sector to formulate environmental and human rights policies such as “No Deforestation, No Peat, and No Exploitation (NDPE)” as well as respect the right of “Free, Prior, and Informed Consent (FPIC)”, standards which were limited to clients in the palm oil and wood / pulp and paper sectors. On palm oil, the policy now stipulates clients to obtain “Roundtable on Sustainable Palm Oil (RSPO)” certification at all plantations; confusingly, the policy also allows companies to respond using similar standards if they have no intention to obtain RSPO certification, creating the risk of a loophole. The limited scope of the palm oil policy, which excludes palm oil traders and buyers, as well as client’s third party suppliers, make it difficult for Mizuho to avoid links to human rights abuses and environmental damage. The policy also fails to require implementation and assurance of compliance with NDPE and FPIC standards. Furthermore, the failure to explicitly prohibit the use of fire for plantation development is a major failure in terms of mitigating climate impacts.

Comments by NGOs

Eri Watanabe, Japan Finance Campaigner for 350.org said “Although Mizuho’s revised policy seems more progressive than other Japanese banks, it remains at a much lower level compared to its international peers. Commitment to “shifting its portfolio in line with the Paris Agreement” and “strengthening engagement with fossil fuel companies on transition risk” won’t be regarded as an

² For details please refer to “Principles for Paris-Aligned Financial Institutions” <https://www.ran.org/principles>

³ Mizuho’s current target is reducing its credit balance of coal fired power plants to zero by 2040.

effective policy unless there are specific medium-term goals and metrics set and published, and a phase-out policy from the fossil fuel sector. We urge Mizuho to further strengthen its policy immediately.”

Kimiko Hirata, International Director at Kiko Network stated “Although our shareholder proposal was rejected last year, the stance of strengthening its policy toward alignment with the Paris Agreement and stepping into corporate finance, as we have proposed, are important steps forward. However, further strengthening is necessary as the measures are still insufficient, such as the fact that the concrete target has not been set for Paris-aligned portfolio and corporate finance, and that the possibility of extending the life of coal-fired power still remains.”

Hana Heineken, Senior Responsible Finance Campaigner at RAN said, “We are encouraged by Mizuho’s strengthened commitment to support and push its clients towards Paris Alignment. However, in order to avoid climate chaos, Mizuho must immediately end all financing to fossil fuel expansion, deforestation and peat destruction. Given Mizuho’s status as a top 10⁴ global financier of fossil fuels and rainforest-destroying commodities, Mizuho must start making drastic changes to its portfolio now. ”

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⁴ <https://www.ran.org/bankingonclimatechaos2021/>