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[Joint Press Release]

Mizuho's Revised Climate Policy Prohibits Business with New Coal Clients but Still Not Consistent with Paris 1.5°C Target

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On May 17, Mizuho Financial Group (Mizuho FG) published "Strengthening of Sustainability Actions" (in Japanese).

While we environmental NGOs welcome some progress in its revised climate policy, it remains insufficient in light of the Paris Agreement 1.5°C target, and we call for further strengthening of the policy.

Eri Watanabe, Senior Campaigner for 350.org Japan, commented: *"Mizuho FG is the first Japanese bank to adopt a policy of prohibiting business with new clients whose primary business is coal-fired power generation or thermal coal mining. While we welcome this step, its coal policies are still inconsistent with the goals of the Paris Agreement. While articulating the Transition Risk Sector Policy is also an effort ahead of its domestic peers, it does not guarantee the bank's Paris alignment either. We also remain concerned about the narrow scope of application of the policy. Mizuho should strengthen its policy as soon as possible following the IEA's net-zero scenario, which states there is no need for new coal-fired power plants, coal mines, or gas and oil field development and many LNG facilities under construction in the net-zero pathway."*

Key Points and Problems with Mizuho FG's New Policy

i. Coal-fired power generation

The new policy deleted the exclusion of a potential to provide support for the replacement of existing plants, which was one of the loopholes in the previous policy. Also by adding to the former policy of "not to provide financing or investment for new coal-fired power plants and expansion of existing facilities", the clause "We (Mizuho) will not initiate credit transactions with companies whose primary business is coal-fired power generation and which currently have no credit transactions with Mizuho", the bank became the first Japanese bank to prohibit transactions with new clients of coal power companies.

On the other hand, even for existing clients, further strengthening of efforts is required compared to many leading overseas peers, which have policies not to have business with clients with new coal power business plans or those engaged in the coal business beyond a certain standard.

Furthermore, Mizuho FG has made no progress in the 2040 phase-out target for coal power generation. Although further enhancement is needed, its domestic peers, MUFG and SMBC Group included corporate finance tied to specific projects in their revised coal phase-out target. (Refs. 1, 2)

ii. Coal Mining

In addition to the existing provision of "not to provide financing or investment for new thermal coal mining projects", Mizuho has added a new provision that prohibits transactions with new clients whose primary business is thermal coal mining. Mizuho is again the first Japanese bank to have such a policy. On the other hand, in dealings with existing clients, the bank faces the same problem as the policy for coal power, and further strengthening of the policy is required.

Regarding the expansion of existing projects, the policy states that "when an existing thermal coal mining project contributes to the stable energy supply of a country which has announced targets aligned with net-zero emissions by 2050, we may provide financing or investment for the project, based on careful consideration," which is inferior to the new policy of SMBC group, which bans expansion of existing projects and support for related infrastructure projects all together.

iii. Oil and Gas

The new policy added "pipeline projects" which fall subject to the enhanced due diligence of environmental and social risk assessments, in addition to "oil or gas extraction in the Arctic," "oil sands," and "shale oil and gas," in its previous policy. However, the new policy does not prohibit support for such sectors, falling behind many foreign peers that refuse support for such unconventional oil and gas development (Note 1). It is also inconsistent with the IEA's net-zero emissions scenario, which states that there is no room for the development of new oil and gas fields, including conventional ones.

iv. Transition Risk Sectors

The transition risk sectors now include "steel and cement" in addition to the previous provisions for "companies whose primary businesses are in coal-fired power generation, oil-fired power generation, gas-fired power generation, coal mining, and/or other oil and gas operations." The policy for dealing with these sectors is also described.

NGOs have continuously asked Mizuho FG to clarify the criteria for the transition risk sectors. With this policy revision, Mizuho FG described the purpose and content of their engagement with clients regarding transition risks and measures Mizuho FG would take with their engagement result. On the other hand, we are concerned about the following description: "If after one year has passed since the first engagement based on the above, there is no intention to address transition risk, and no transition strategy has been developed*, a prudent decision will be made on whether to continue the transaction"; "(*) no transition strategy refers to cases where there are no policies or targets at all to address transition risk." Since it seems that support can be continued for clients whose transition strategies are not necessarily aligned with the goals of the Paris Agreement, or who have set policies and targets but have not made any progress, much stronger measures are required, such as making decisions on how to respond to transition risks based on alignment with the Paris Agreement and taking into account the status of implementation.

Moreover, there is a concern that the policy may not apply to all the subsidiaries and affiliates (in Japanese) of Mizuho FG but only to four companies Mizuho FG listed in the policy(Note 2). Additionally, the scope of application will remain a loophole unless it extends to affiliates that hold shares. For example, Mizuho Bank has a 15% stake in Vietcombank of Vietnam (Note 3).In the April 2020 revised policy Mizuho FG stated that "Mizuho will not provide financing or investment for new coal-fired power plants(except for projects to which Mizuho is already committed as of the start of this policy)" and then, in May 2021, excluded the exception from this clause. But then a month later in June 2021, Mizuho Bank provided a loan for the Quang Trach 1 coal-fired power project, which is a new project. (Note 4)

v. Mid-Term (2030) Target for the Power Sector

Mizuho FG has set a 2030 target for the power sector of 138 to 232 kgCO2/MWh as a mid-term target for financed GHG emissions. The lower limit is benchmarked to the IEA's NZE scenario and the upper limit to the IEA's SDS scenario (Note 5). The range is large, and the standard is low, compared with MUFG and SMBC Group setting a range of 156 to 192 gCO2e/kWh and 138 to 195gCO2e/kWh (Note 5), respectively. In addition, all three banks have set targets based on carbon intensity (emissions intensity: GHG emissions per unit of electricity generated), making it possible to achieve targets even if GHG emissions increase in total. (Refs. 1 and 2) Therefore, it is necessary to set targets for absolute GHG emissions.

Compared to MUFG, which has set 2030 targets for the oil and gas sector, and SMBC Group, which has committed to announcing the 2030 targets for the energy sector (oil and gas, coal) in August, Mizuho FG is lagging in setting targets for these sectors.

References

1. Press Release, “MUFG’s revised climate policy still inconsistent with 1.5°C”, April 1, 2022 https://world.350.org/ja/press-release/20220404/

2. Press Release, “SMBC Group’s updated climate policy still not aligned with 1.5℃ target: NGO shareholders continue climate shareholder proposals”, May 18, 2022 https://world.350.org/ja/press-release/20220518smbc-en/

Notes

1. For example, as of March this year, 66 financial institutions have policies restricting support for the unconventional oil and gas sector, including oil sands, the Arctics, shale oil and gas, and ultra-deepwater. No Japanese financial institution has such a policy. https://oilgaspolicytracker.org/top-practices-and-trends/
2. The four companies listed are Mizuho Bank, Mizuho Trust & Banking, Mizuho Securities, and Mizuho Americas.
3. https://www.verac-vn.com/company/company_information_bank.php?c=VCB
4. https://en.evn.com.vn/d6/news/EVN-and-Vietcombank-signed-a-credit-contract-to-finance-Quang-Trach-I-Thermal-Power-Plant-Project-66-163-2387.aspx
5. IEA Net Zero Emissions by 2050 Scenario (NZE) is a 1.5°C scenario and IEA Sustainable Development Scenario (SDS) is a 2°C scenario.

6. 1kgCO_2/MWh is virtually the same as 1gCO_2e/kWh. However, CO_2e used in the MUFG and SMBC Group targets is CO_2 *equivalent* and can be interpreted to include gases other than CO_2.

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