



INDEPENDENT REVIEW

# 2016 ESG Performance Report

of  
MIZUHO FINANCIAL GROUP

JUNE 2017



# Time to Divest? Mizuho's Financing of Carbon-Intensive Companies is a Material Risk

Mizuho's irresponsible banking practices are fueling dangerous **climate change, threatening tropical forests, endangering human health,** and facilitating **human rights violations**. Unfortunately, Mizuho has failed to fully disclose these risks to regulators and its shareholders or adopt the processes to properly manage these risks.

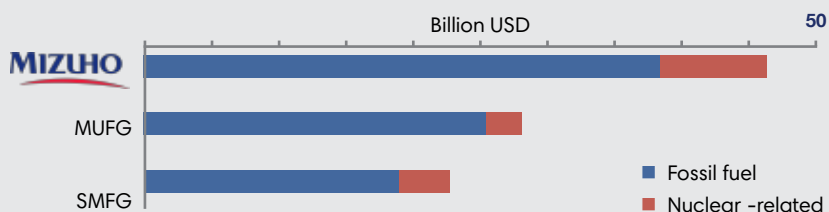
Climate change presents the greatest foreseeable threat to humankind in the 21st century, largely driven by the extraction and burning of fossil fuels and from tropical deforestation. In 2015, 195 countries adopted the Paris Agreement to limit global temperature rise to well below 2°C above pre-industrial levels and pursue efforts to limit this rise to 1.5°C. Building a sustainable future requires reversing tropical deforestation, ending expansion of the fossil fuel industry, and rapidly transitioning

towards a zero-carbon and nuclear-free society. Nuclear power is not a solution, as evidenced by the Fukushima Daiichi nuclear disaster in 2011.

Mizuho's significant financing of extreme fossil fuels such as coal and tar sands,<sup>1</sup> nuclear power and forest-risk commodities such as palm oil and pulp & paper is undermining efforts to stabilize the climate and is harming local communities (See Case Studies on next page). In 2016 alone, Mizuho contributed over **2.9 billion USD to some of the largest and most carbon-intensive fossil fuel companies in the world, half of which funded coal power,<sup>2</sup> and over 329 million USD to company operations that are threatening valuable tropical rainforests** in South-east Asia, depleting carbon sinks and accelerating biodiversity loss.<sup>3</sup>



## “Number One” lender & underwriter to fossil fuel and nuclear-related companies in Japan (2011-2016)<sup>4</sup>



Over **4 billion USD** financing to companies threatening rainforests in Southeast Asia (2011-2016)<sup>5</sup>

## Mizuho's Environmental, Social, & Governance (ESG) Policies compared to its Peers<sup>6</sup>

SELECT CRITERIA	MIZUHO JAPAN	ING NETHERLANDS	BNP PARIBAS FRANCE	HSBC UNITED KINGDOM	citi USA
HAS COMPREHENSIVE ESG POLICY FOR CORPORATE FINANCING	●	●	●	●	●
REDUCING FINANCIAL EXPOSURE TO COAL MINING SECTOR	●	●	●	●	●
PROHIBITS FINANCING OF NEW COAL POWER PROJECTS	●	●	●	●	●
STRICT ESG CRITERIA FOR CORPORATE FINANCING OF EXTREME OIL & GAS	●	●	●	●	●
REQUIRES PROTECTION OF HIGH CARBON STOCK FORESTS AND PEAT	●	●	●	●	●
PROHIBITS FINANCING OF ILLEGAL LOGGING OR RELATED TRADE	●	●	●	●	●
PROHIBITS FINANCING OF FORCED LABOR/CHILD LABOR	●	●	●	●	●
REQUIRES RESPECT FOR LAND TENURE AND INDIGENOUS RIGHTS	●	●	●	●	●

KEY: ● YES ● PARTIAL ● NO

# “Climate change has become a material risk that isn’t properly disclosed”

Mark Carney & Michael Bloomberg, Task Force on Climate-related Financial Disclosures

Mizuho’s financing of carbon-intensive and high risk companies presents a high material risk to investors. Regulations to meet climate change commitments under the Paris Agreement, for example, could lead to the stranding of many carbon-intensive assets. Mizuho’s irresponsible banking practices could result in nonperforming loans, increased default risk, and loss of revenue, as well as significant damage to its brand value from its association with corporate scandals. The following case studies illustrate major ESG issues facing Mizuho’s current clients.

## Case (1) - DAKOTA ACCESS OIL PIPELINE “DAPL” (ENERGY TRANSFER PARTNERS) - USA

**ESG RISKS:** *Indigenous Human Rights Violations, Drinking Water Contamination, Carbon Emissions from Fossil Fuel Burning*

**MIZUHO CONTRIBUTION:** 235 million USD project loan, 9.4% of total loan; Lead arranger & joint bookrunner



Mizuho funded Energy Transfer Partners (ETP) to construct a 1886 km crude oil pipeline from North Dakota to Illinois, located within a half mile of the Indigenous Sioux Tribe’s reservation. The project was strongly opposed by the Tribe, violates their Indigenous Rights, and threatens the water supply of both the Tribe and 17 million people living downstream in the event of an oil spill.

On August 2, 2016, six days after the Tribe led a lawsuit to stop the pipeline, 17 banks led by Mizuho, MUFG and 2 others signed a \$2.5 billion project loan to ETP-sub subsidiary Dakota Access LLC.

When thousands of protesters gathered to peacefully protest the pipeline, ETP hired private security forces to intimidate them by unleashing attack dogs and using pepper spray. ETP also bulldozed the Tribe’s sacred sites. These abuses were strongly condemned by UN Representatives.

Individuals and cities have closed over \$4.4 billion of accounts linked to banks financing the project, in protest. BNP Paribas, DNB, and ING sold their shares in the DAPL project loan, and ING has blacklisted ETP from future financing. ETP was recently sanctioned by regulators for spilling over 2 million gallons of drilling fluid into pristine Ohio wetlands, but Mizuho continues to finance ETP and this controversial project.

## Case (2) - SALIM GROUP SUBSIDIARY INDOFOOD SUKSES MAKMUR (PALM OIL) - INDONESIA

**ESG RISKS:** *Child Labor, Illegality, Land Conflict, Carbon Emissions & Biodiversity Loss from Tropical Deforestation*

**MIZUHO CONTRIBUTION:** 146 million USD loans and underwriting (2011-2016)



Mizuho is one of the leading financiers of Indonesia’s largest integrated food company PT Indofood Sukses Makmur (Indofood), which controls nearly 550,000 ha of land in Indonesia, 45% of which is planted with palm oil.

Indofood’s track record of clearing primary tropical forest and carbon-rich peatland for palm oil has destroyed critical wildlife habitat and caused fires. In 2015, 5,900 ha of peatland burned in two Indofood concessions, corresponding to an estimated 8 million tons of CO2 emissions.

Evidence of systemic violation of 20 Indonesian labour laws, including use of child labour, hazardous working conditions and payment below minimum wage, was independently documented on two of Indofood’s palm oil plantations. Indofood is currently the subject of a complaint under the Roundtable for Sustainable Palm Oil certification system.

42% of Indofood’s plantation landbank is classified as contested as a result of social and environmental conflicts and lack of transparency on land holdings, presenting a significant downside risk to equity prices.

## Case (3) - CIREBON COAL-FIRED POWER PLANT UNITS 1 & 2 - INDONESIA (Unit 1 = PT. Cirebon Electric Power (CEP), 32.5 % owned by Marubeni. Unit 2 (under construction) = PT Cirebon Energi Prasarana (CEPR), 35% owned by Marubeni and 10 % owned by JERA)<sup>9</sup>

**ESG RISKS:** *Significant Carbon Emissions, Water Pollution, Health Hazards from Air Pollution, Illegality, Social Conflict*

**MIZUHO CONTRIBUTION:** One of six banks that provided a total project loan of 595 million USD for Unit 1 (total project cost 850 million USD); One of four commercial banks considering a total project loan of 672 million USD for Unit 2 (total project cost 2.1 billion USD)



Mizuho is a major financier of the Cirebon Coal-fired Power Plant project, which is strongly opposed by the local community, has significant climate and livelihood impacts, and is currently mired in a lawsuit for failure to obtain proper permits.

The construction and operation of the Cirebon Coal-fired Power Plant (Unit 1) has caused loss of biodiversity in the coastal area, polluted the local marine ecosystem and negatively impacted traditional sources of livelihoods for the local community, without effective compensation or remedy from the company.

The plant also poses significant health hazards to local communities, including children, from exposure to fly ash, and fails to use the best available technology as used in Japan.

Despite this, Mizuho is reportedly considering co-financing the construction of a second plant at the site, which will add 1,000 MW capacity to the existing 660 MW plant. When operational in 2021, both Units will emit an estimated total of 7.0MtCO2 per year,<sup>10</sup> equivalent to the annual emissions of over a million new cars.

On April 19 2017, the district court required the project’s environmental permit to be revoked due to violation of a local environmental regulation. This violation, along with the project’s failure to restore the livelihood of local communities and use best available technology, conflict with Mizuho’s commitment to follow the Equator Principles, an international standard for project finance based on the policies and guidelines of the International Finance Corporation (IFC).

## Recommendations to Investors

- **Urge Mizuho to assess and disclose significant ESG risks across its entire financing portfolio**, including its exposure to carbon-related assets (in line with Recommendations by the Task Force on Climate-Related Financial Disclosures), deforestation risks, and human rights risks.
- **Urge Mizuho to develop a science based roadmap for reducing financed emissions across its entire portfolio**, honouring - rather than undermining - the Paris Agreement goal to limit global warming to “well below 2°C”.

- **Urge Mizuho to develop and publish clear ESG safeguard policies, due diligence systems and exclusions** to govern financing for any sector posing significant negative climate, biodiversity and/or human rights impacts and risks. Key sector policies should cover Agriculture, Forestry, Fossil Fuels (Coal Mining, Coal Power, Oil and Gas) and Nuclear Power and require the following:
  - Protection of High Carbon Stock forests and peatlands and strict biodiversity safeguards, including High Conservation Value Area exclusion criteria.
  - Respect for human rights, including tenure rights and ILO core labor rights, and right to free, prior and informed consent (FPIC).
  - No new lending or investment in coal-fired power, coal mining, and extreme oil and gas (tar sands, Arctic, and ultra-deepwater oil, and liquefied natural gas) companies or projects, and time-bound phase out of existing coal sector and extreme oil and gas investments.
  - No new lending or investments in nuclear power.
  - A transition plan for all energy-related financing to shift to renewable energy, energy efficiency and socially responsible investments by 2020.
- **Regularly engage with Mizuho** to ensure it is taking appropriate measures to address ESG risks.
- **Divest from Mizuho** if it fails to take prompt action to address ESG risks and support the transition to a zero-carbon economy.

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## References

1. Extreme Fossil Fuels include coal mining, coal power; tar sands, Arctic, and ultra-deepwater oil; and liquefied natural gas (LNG) export
2. This number represents the sum total of loans and underwriting to select companies that were adjusted to reflect proportion of financing to the extreme fossil fuel sector. See Rainforest Action Network, BankTrack, Sierra Club, Oil Change International, Banking on Climate Change: Fossil Fuel Finance Report Card 2017, <http://www.ran.org/bankingonclimatechange>
3. This number represents the sum total of loans and underwriting to select companies that were adjusted to reflect proportion of financing to the forest-risk commodity sector. See [ForestsandFinance.org](http://ForestsandFinance.org)
4. Financial databases were used to calculate all known corporate loans and underwritings from 197 Japanese financial institutions provided to 23 selected Japanese companies engaged in the fossil fuel and nuclear power generation sector over the period January 2011 to April 2016. See <http://world.350.org/ja/my-bank-my-future/>
5. Total loans and underwriting. See [ForestsandFinance.org](http://ForestsandFinance.org)
6. Fossil Fuel Finance Report Card 2017; [ForestsandFinance.org](http://ForestsandFinance.org); corporate websites;
7. Mizuho also provides over 350 million USD credit to ETP subsidiaries and related entities. Source: Bloomberg Professional Services. See Fossil Fuel Finance Report Card 2017; [https://www.washingtonpost.com/national/showdown-over-oil-pipeline-becomes-a-national-movement-for-native-americans/2016/09/06/ea0cb042-7167-11e6-8533-6b0b0ded0253\\_story.html](https://www.washingtonpost.com/national/showdown-over-oil-pipeline-becomes-a-national-movement-for-native-americans/2016/09/06/ea0cb042-7167-11e6-8533-6b0b0ded0253_story.html); <https://www.rt.com/usa/379390-un-dapl-protests-rights/>
8. Rainforest Action Network & Profundo, Every Investor Has a Responsibility, June 2017, <http://bit.ly/2rseYQV>
9. <http://www.foejapan.org/en/aid/170524.html>; <https://www.banktrack.org/project/cirebon3>
10. Climate Analytics (2016), Implications of the Paris Agreement for Coal Use in the Power Sector, [http://climateanalytics.org/files/climateanalytics-coalreport\\_nov2016\\_1.pdf](http://climateanalytics.org/files/climateanalytics-coalreport_nov2016_1.pdf)

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