

February 16 2021

Jun Ohta, Group CEO  
Board of Directors  
Sumitomo Mitsui Financial Group

### **Urgent Request to Align Financing with the Paris Climate Agreement**

Dear Mr. Ohta and Members of the Board:

We, the undersigned NGOs, write to express our strong disappointment with the actions taken by Sumitomo Mitsui Financial Group (SMBC Group) to counter the worsening climate crisis. We believe your group's financing of fossil fuels, forest-risk commodities and associated Indigenous and human rights abuses is resulting in serious and irreversible impacts as well as significant reputational and financial risks. With this letter, we urge SMBC Group to bolster its commitment to sustainability and to reform its financing practices such that all financed emissions are on a trajectory that aligns with the 1.5°C goal of the Paris Climate Agreement.

Climate is now firmly on the global political agenda. On October 26 2020, Japanese Prime Minister Yoshihide Suga announced a goal for Japan to achieve carbon neutrality by 2050 and an intention to fundamentally change the country's coal power policy and industrial structure. Meanwhile, a new administration under President Joe Biden aims to achieve a zero emission power sector by 2035 and net-zero emissions by 2050, and has led the U.S. to rejoin the Paris Climate Agreement and restrict oil and gas development, including stopping construction of the controversial Keystone XL oil sands pipeline, a project your bank has financially supported.<sup>1</sup> These policy measures are heightening the risk of stranded assets for your bank.

The worsening climate crisis poses a systemic risk to the financial sector. As of December 2020, global temperatures have risen 1.2°C above pre-industrial levels, and the past decade has been the hottest in human history.<sup>2</sup> UN Secretary-General António Guterres has given a stark warning that “we are headed for a thundering temperature rise of 3 to 5 degrees Celsius this century.”<sup>3</sup> Such a scenario would lead to destructive climate impacts<sup>4</sup> that may in turn significantly destabilize the financial sector. In the United States alone, the costs from natural disasters doubled in 2020 to \$95 billion, reflecting the escalating costs of climate change.<sup>5</sup>

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<sup>1</sup> Rainforest Action Network, *Who's Banking Line 3 and Keystone XL: Tar Sands Pipelines Being Rammed Through In A Pandemic* (Dec. 2020), [www.ran.org/wp-content/uploads/2020/12/RAN-Briefing\\_Line3\\_KXL.pdf](http://www.ran.org/wp-content/uploads/2020/12/RAN-Briefing_Line3_KXL.pdf)

<sup>2</sup> World Meteorological Organization, *The State of the Global Climate 2020* (Jan. 2021), <https://public.wmo.int/en/our-mandate/climate/wmo-statement-state-of-global-climate>

<sup>3</sup> <https://public.wmo.int/en/media/news/un-chief-moment-of-truth-people-and-planet>. See also UN Environment Programme, *Emissions Gap Report 2020*, <https://www.unenvironment.org/emissions-gap-report-2020>.

<sup>4</sup> IPCC, *Special Report on Global Warming of 1.5 °C* (2018), <https://www.ipcc.ch/sr15/>

<sup>5</sup> <https://www.nytimes.com/2021/01/07/climate/2020-disaster-costs.html>

Despite the urgency of the climate crisis, SMBC Group continues to be a major contributor to the increase in CO<sub>2</sub> emissions, particularly through the financing of fossil fuels and deforestation-linked commodities. From 2016-2019, your bank provided over US\$60 billion in loans and underwriting to all fossil fuels, ranking the 20<sup>th</sup> largest fossil banker globally in that time.<sup>6</sup> Yet, SMBC Group has made only a very limited commitment to phase out fossil fuel financing, which is required to meet the 1.5°C goal, and your recent decision to finance the Vung Ang 2 coal plant project in Vietnam raises serious questions about the efficacy of your pledge to stop funding new coal power.<sup>7</sup>

SMBC Group is further facilitating the climate crisis by funding forestry and agribusiness operations that are destroying vital ecosystems, especially carbon-rich tropical forests and peatlands. In particular, SMBC Group has strong links to tropical forest and peatland destruction and devastating fires that have made Indonesia one of the world's largest greenhouse gas emitters.<sup>8</sup> The destruction of tropical forests and other land use changes are also linked to the current COVID-19 pandemic.<sup>9</sup> Yet, SMBC Group lacks the policies and procedures to effectively prevent the conversion or degradation of forests and peatlands, avoid negative impacts on biodiversity, and ensure respect for the rights of Indigenous Peoples and forest dependent communities affected by the operations of its clients.

SMBC Group's lack of ambition on the climate is in clear contrast to its peers and other corporate actors. In the past few months, several major global banks including JPMorgan Chase have announced commitments to achieve Paris Agreement alignment or net zero financed emissions by 2050.<sup>10</sup> Last month, BlackRock, the world's largest asset manager, announced its commitment to a net zero economy and requested that its invested companies disclose a plan for how their business model will be compatible with a net zero economy.<sup>11</sup> In Japan, corporations are also demanding a more ambitious climate agenda: 92 corporations affiliated with the Japan Climate Initiative recently urged the Japanese Government to pledge to make 40-50% of energy use from renewable sources in 2030, but SMBC Group declined to join the statement.<sup>12</sup>

SMBC Group has endorsed the UN Principles for Responsible Banking and committed to align its business strategy with the Paris Climate Agreement and Sustainable Development Goals. Given the global consensus that further fossil fuel expansion or deforestation would

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<sup>6</sup> Rainforest Action Network, BankTrack, Indigenous Environmental Network, Oil Change International, Reclaim Finance, Sierra Club, *Banking on Climate Change 2020*, <https://www.ran.org/bankingonclimatechange2020/>

<sup>7</sup> See <https://www.nocoaljapan.org/128-organizations-from-39-countries-demand-the-japanese-government-and-companies-to-withdraw-from-vung-ang-2-coal-power-plant-project-in-vietnam/>

<sup>8</sup> See <https://forestsandfinance.org> and Rainforest Action Network, *Will Japan's Megabanks Stop Financing Rainforest Destruction?* (2020), <https://www.ran.org/publications/japan-megabanks-financing-deforestation/>

<sup>9</sup> *IPBES Workshop Report on Biodiversity and Pandemics* (2020), <https://www.ipbes.net/pandemics>

<sup>10</sup> <https://www.jpmorganchase.com/news-stories/jpmorgan-chase-adopts-paris-aligned-financing-commitment>.

See also <https://www.ran.org/press-releases/jpmc-commits-to-align-with-paris-climate-agreement-watchdog-group-warns-commitment-falls-far-short/>

<sup>11</sup> <https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter>. See also

<https://blackrocksbigproblem.com/larrys-letter-our-in-depth-analysis/>

<sup>12</sup> <https://japanclimate.org/english/news-topics/re2030increment/>

significantly jeopardize our collective ability to stabilize the climate, we call on you to align your group's financing with the *Principles for Paris-Aligned Financial Institutions*.<sup>13</sup> In particular, we urge SMBC Group to undertake the following actions by the 26th UN Climate Change Conference to be held in November 2021:

- Publish a statement by the CEO which commits to aligning SMBC Group's business strategy and all financing, including investments, with achieving the Paris Climate Agreement goal of 1.5°C;
- Prohibit all financing of projects that expand fossil fuels or extend the lifetime of existing extractive or consuming projects, as well as companies expanding fossil fuel extraction and infrastructure or exploring for new reserves; and commit to phase out all financing in fossil fuel extraction and infrastructure on an explicit timeline that is aligned with limiting global warming to 1.5°C;
- Revise policies to require all clients and investees to comply with a No Deforestation, No Peatland and No Exploitation (NDPE) policy that prohibits the degradation or loss of natural forests or other natural ecosystems across their corporate group operations;
- Establish robust due diligence and verification mechanisms to ensure clients and investees fully respect all human rights, particularly workers' rights and the rights of Indigenous peoples and the right to Free, Prior and Informed Consent (FPIC), as articulated in the UN Declaration on the Rights of Indigenous Peoples, and prohibit all financing in projects and companies that abuse human rights;
- Strengthen board oversight of climate and sustainability risks and processes to ensure compliance with a commitment to align financing with the Paris Climate Agreement goal of 1.5°C; and
- Disclose the banking group's financed emissions, the process and methodology used to measure its financed emissions, and annual progress in implementing the measures above that goes beyond SMBC Group's current disclosures.<sup>14</sup>

We request a response to this letter by March 2nd to Rainforest Action Network at [japan@ran.org](mailto:japan@ran.org), outlining how the concerns raised in this letter will be addressed. Thank you for your consideration of these urgent matters.

Yours sincerely,

Ginger Cassady, Executive Director, Rainforest Action Network

Johan Frijns, Director, BankTrack

Natalie Bugalski, Legal and Policy Director, Inclusive Development International

Elizabeth Bast, Executive Director, Oil Change International

Peter Bosshard, Program Director, Finance Program, The Sunrise Project

Yuki Tanabe, Program Director, Japan Center for a Sustainable Environment and Society (JACSES)

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<sup>13</sup> Rainforest Action Network, *Principles for Paris-Aligned Financial Institutions* (2020), [www.ran.org/principles](http://www.ran.org/principles)

<sup>14</sup> See 350.org Japan, *Evaluating the TCFD Recommendations Disclosures by the Three Japanese Megabanks* (October 2020), <https://www.nocoaljapan.org/evaluating-tcfd-recommendations/>

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