Divestment by Japanese Companies in the International Coal Market: Comparative Analysis of Four Key Industries

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Abstract

Continued investments in coal-fired power plants (CFPPs) and coal mining is incompatible with efforts to achieve temperature targets under the Paris Agreement. Interest is thus growing around increasing anti-fossil fuel norms and divestment from governments and private market actors. As a major investor both upstream in coal mining and downstream in CFPP construction, Japanese firms play a large role in sustaining the international coal market. While recently announced coal divestment policies from several Japanese firms have attracted media attention, academic studies remain absent. Similarly, existing divestment literature has focused overwhelmingly on financial institutions and overlooked roles played by other industry players such as utilities, mining companies and plant equipment manufactures.

Filling this gap, this paper draws on data from approximately 25 interviews and document analysis to examine the coal divestment and decarbonisation strategies of four key industries upholding Japan's coal market: (i) general trading companies, (ii) electricity utilities, (iii) equipment manufacturers and (iv) financial/insurance firms. Our study covers both upstream (i.e. coal mining) and downstream (i.e. CFPP construction) activities and provides a comparative analysis of sector-specific trends and driving or hampering factors in each.

Overall, we find that no sector is completely exiting the coal market. For general trading companies, although most have announced decisions to reduce shares of coal-fired electricity generation in overseas portfolios while ceasing investments in new thermal coal mining, all appear likely to continue new CFFPs constructions while focusing mining investments on coking coal. Meanwhile, utilities and equipment manufacturers also remain committed to pursuing new CFPP construction projects. Here, the inability to move beyond CFPP business models is influenced by a lack of international competitiveness in renewables manufacturing and project implementation. In the finance/insurance sector, while all have tightened lending criteria for CFPPs, mega banks appear unlikely to completely cease coal-related financing. Barriers include fears of losing large business clients in reaction to finance rejection as well as expectations—or even organisational obligations—to support rather than hinder Japanese industry activities. Moreover, banks problematised a lack of any domestic framework that would justify rejection of coal financing on climate grounds since current government policy heavily promotes the export of Japanese CFPP technologies. This said, international and domestic divestment trends are heavily influencing the finance/insurance sector and creating large concerns about reputation risk. Conversely, general trading companies, equipment manufacturers and utilities are less affected by reputation risk, with the improving economics of international renewable energy projects constituting the main driver of strategy shifts. While all sectors understand that thermal coal and coal-fired electricity markets will decrease sharply in coming years, most firms—particularly manufactures and utilities—remain locked-in to current business models that rely on creating new overseas CFPP constructions. Findings also revealed a genuine dilemma in all sectors whereby the withdrawal of Japanese firms from an overseas CFPP construction project would not result in its abandonment since Chinese and Korean utilities, manufacturers and finance institutions are also heavily engaged in the overseas market. Findings thus highlight the need for improved global governance to regulate the cross-border behaviour of firms from countries such as Japan in line with global climate mitigation objectives.

Keywords: coal phase-out, coal policy, divestment, carbon lock-in, Japan, fossil fuel, international financing