JAPANESE BANK FINANCING
of the East African Crude Oil Pipeline (EACOP)

BACKGROUNDER ON ESG RISKS

Japanese private finance is currently backing one of the most controversial fossil fuel expansion projects in Africa: the 5 billion USD, 1443-kilometer East African Crude Oil Pipeline (EACOP), which would transport 216,000 barrels per day of electrically heated crude oil extracted from the Tilenga and Kingfisher oilfields in Uganda to the port of Tanga in Tanzania for export.[1] Construction of the project is planned to commence in 2023, but the project is mired in litigation, human rights violations, and environmental transgressions. If completed, EACOP will pose significant risks to millions of people; jeopardize vital, internationally recognized ecosystems; and, at peak production, generate annual carbon emissions roughly equivalent to the carbon footprint of nine coal-fired power plants.[2]

Sumitomo Mitsui Banking Corporation (SMBC), the banking arm of Sumitomo Mitsui Financial Group, is acting as financial advisor to French oil major TotalEnergies (Total)– the lead developer of the project– and joint lead arranger for the $3 billion project loan that will provide the majority of the financing for the project.[3] Standard Bank, through its subsidiary Stanbic Uganda, and Industrial and Commercial Bank of China (ICBC) are also acting as financial advisors to the project, supporting the joint project developers Chinese state-owned oil firm CNOOC, the Ugandan National Oil Company, and the Tanzania Petroleum Development Corporation.[4]

Over 30 financial institutions have publicly ruled out involvement in EACOP already, owing to its numerous Environmental, Social and Governance (ESG) risks. **Mizuho Financial Group (Mizuho)** has also ruled out financing EACOP "unless the ongoing E&S issues [are] resolved,"[5] while **Mitsubishi UFJ Financial Group (MUFG)** has remained silent on its financing plans. By advising and arranging the EACOP project loan, SMBC bears a higher risk than other banks, and shoulders significant responsibility for resolving the project's ESG risks or withdrawing from the project.

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1. EACOP's Significant ESG Risks will Negatively Impact Africa and Beyond

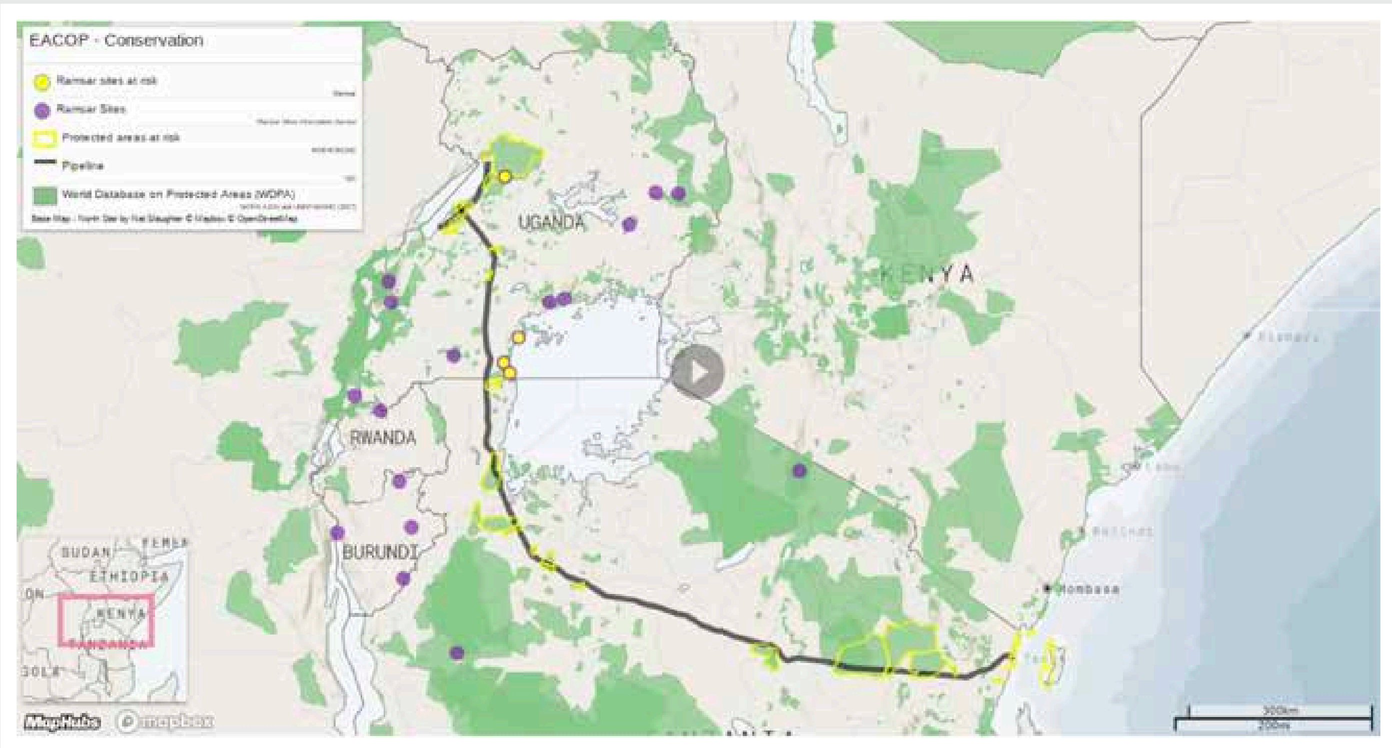
ENVIRONMENTAL

- **Water pollution:** Nearly one third of the proposed pipeline (approximately 460 km) will be built across the seismically active Rift Valley and the basin of Lake Victoria, Africa's largest freshwater body, endangering the water supply of more than 40 million people.[6] The planned route also crosses numerous watercourses, utilizing a low-cost method that does not meet industry best practice[7] and elevates the likelihood of an oil leak or spill.

- **Ecological damage:** The pipeline construction will impact approximately 2,000 km2 of protected wildlife habitats. Oil carried through EACOP will be transferred offshore at the Tanga Port in Tanzania, endangering two important Ecologically or Biologically Significant Marine Areas (EBSAs).[8]

- **Harm to Ramsar wetlands:** Oil will be extracted from the Murchison Falls-Albert Delta wetland system, which is designated as a wetland of international importance under the Ramsar Convention. This includes plans to drill roughly 130 oil wells in Murchison Falls National Park. The pipeline's route will threaten two other Ramsar-designated sites. (See map below.)[9]

MAP OF POTENTIAL ENVIRONMENTAL IMPACTS AND RISKS FROM THE EACOP



SOURCE: STOCKHOLM ENVIRONMENT INSTITUTE (2021)

"That EACOP will spur economic growth for Tanzania and Uganda is nothing but a facade. From the agreements signed between the governments of Uganda and Tanzania and the oil Barons (TotalEnergies and China National Offshore Oil Company) this pipeline and associated oil projects are a classical example of corporate colonialism where the 2 countries are robbed of the oil as most, if not all, of the profits go to the two companies while the two countries pay the environmental, health and climate price from the project."

- Omar Elmawi
COORDINATOR OF THE #STOPEACOP COALITION

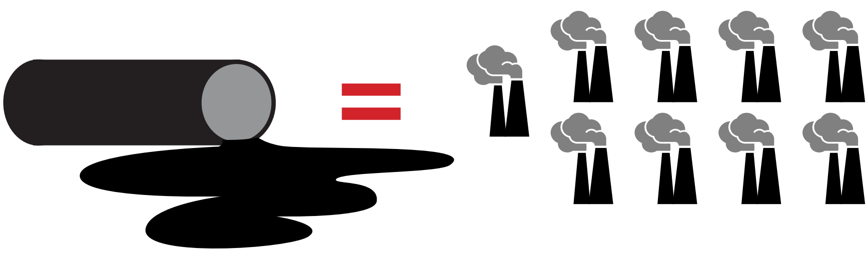
CLIMATE

- **Significant carbon dioxide (CO2) emissions:** If EACOP is constructed, the oil transported at peak production is expected to generate 34.3 million metric tons of CO2 emissions per year, equivalent to seven times Uganda's current annual emissions.[10] Emissions across the full value chain, encompassing the project's construction, operations, refining, and product use over the course of its 25-year lifetime, are estimated to be 378 million tons of CO2.[11]

- **Incompatibility with Net Zero and 1.5 degrees (°C):** The construction of EACOP is inconsistent with the goal, formalized in the Paris Agreement, of limiting global temperature increases to 1.5°C: It locks in future greenhouse gas emissions at a time when drastic reduction is necessary. The International Energy Agency (IEA)'s "Net Zero by 2050" scenario calls for ending fossil fuel expansion after 2021 in order to stay within the 1.5°C limit.[12] The Intergovernmental Panel on Climate Change (IPCC) also calls for substantial reduction in fossil fuel use, including reaching the peak of global greenhouse gas emissions before 2025 at the latest and a 43 percent reduction of emissions by 2030, in order to limit warming to 1.5°C.[13] Ambitious pathways to stay within 1.5°C stipulate a 100 percent decline in the use of coal and 90 percent declines in the use of oil and gas by 2050.[14]

- **Unsustainable development:** Exceeding the 1.5°C limit is expected to have especially devastating effects on the African continent.[15] Instead of fossil fuels, Sub-Saharan Africa has the potential to meet 67 percent of its power generation needs from renewable energy by 2030. A shift to renewable energy would also improve people's welfare and employment opportunities of up to 2 million additional green jobs in the region by 2050.[16]

The East African Crude Oil Pipeline (EACOP) would generate annual carbon emissions at its peak production roughly equivalent to the carbon footprint of nearly nine coal-fired power plants



SOCIAL

- **Displacement:** Project documents show that the Tilenga and Kingfisher oilfields and the EACOP will directly impact the land of approximately 120,000 individuals in Uganda and Tanzania.[17] Thousands of families have already been forced to relocate,[18] and tens of thousands more are expected to be physically or economically displaced. This is an apparent breach of the Equator Principles provision on displacement, which incorporates International Finance Corporation (IFC) Performance Standard 5.[19]

- **Lack of compensation:** Between 2018 and 2019, Total placed cut-off dates for compensation on the properties of over 5,000 Ugandan households whose land is being acquired to develop the pipeline: this has limited use of their land for livelihood activities[20] As of early 2022, very few people affected by the EACOP project have been compensated. EACOP-affected persons have also asserted the lack of proper consultation, such as on the setting of compensation rates, which is required by Uganda's 1998 Land.[21] Issues with land acquisition have also been reported, such as insufficient evaluation, pressure to sign valuation documents including through intimidation, and prohibition or limitation on land use before receiving compensation.[22]

- **Impact on Indigenous Peoples:** In Tanzania, the EACOP project team confirmed that potentially affected people within the project area include people who identify as Indigenous.[23] These communities include those of the Barbaig, Sandawe, Ndorobo, Maasai, Akie, and Taturu – Indigenous tribes that depend on nature for their livelihoods. Some members of the Bagungu in Uganda, who identify as Indigenous and reside where the pipeline will pass, fear their livelihoods will be affected.[24]

- **Threats and violence:** Over the past couple of years, there has been mounting evidence of threats, raids, arbitrary arrests, and the detention of environmental and human rights defenders working with communities impacted by the Tilenga and Kingfisher oilfields and EACOP.[25] UN Special Rapporteurs have sent multiple communications to the government of Uganda raising concerns "regarding the arrests, acts of intimidation and judicial harassment against human rights defenders and NGOs working in the oil and gas sector in Uganda."[26] They have also written to Total regarding the treatment of activists against the project.[27]

GOVERNANCE

- **Litigation:** The EACOP project operators are subject to litigation in multiple jurisdictions, and any of these legal battles could derail the project. Ongoing litigation includes 1) a case filed in French civil court against TotalEnergies alleging that the company failed to properly identify the human rights and environmental risks associated with the Tilenga and EACOP projects, and/or failed to take adequate and effective measures to prevent these risks;[28] 2) a case filed against the Governments of Uganda and Tanzania at the East African Court of Justice (EACJ) claiming violations of the Treaty for the Establishment of the East African Community (EAC Treaty);[29] and 3) a case brought against the Ugandan Government asserting that it violated environmental laws and the Ugandan constitution by approving the permit for the EACOP project.[30] There are also two ongoing cases against TotalEnergies alleging a failure to take into account climate impacts in its operations and for engaging in greenwashing.[31]

- **Weak Legal Protections:** The East African Crude Oil Pipeline (EACOP) (Special Provisions) Bill, 2021, approved by Uganda's parliament in December 2021 to facilitate financing of the project, was designed to override environmental and social protections in order to prioritize the interests of the EACOP project developers.[32]

2. Reputational and Financial Risks to the Japanese Banks

REPUTATIONAL

- **Global CSO campaign and public opposition:** EACOP project sponsors are increasingly the focus of a globally coordinated civil society campaign.[33] In March 2021, 263 civil society organizations (CSOs) from 49 countries signed a letter of concern to banks regarding their potential financing of EACOP.[34] Over 1 million signatures have been collected in opposition to the project.[35] Public concern and opposition to EACOP have also progressively increased.[36]

- **Shareholder pressure:** Current and potential financiers of EACOP, including SMBC, are facing scrutiny at their shareholder meetings[37] and in shareholder filings[38] for their active or potential involvement in the project.

- **Media coverage:** Negative media coverage of the project is rising, with op-eds and articles appearing in publications including the *Financial Times*, the *New York Times*, *Reuters*, and the *Guardian*,[39] shedding light on the project's adverse environmental and human rights impacts and damaging the reputation of the parties involved.

- **Financiers fleeing:** A growing number of banks, insurers, and Export Credit Agencies have publicly disassociated from the project as a result of the scrutiny.[40] So far, twenty major banks, eight insurers, four Export Credit Agencies and the African Development Bank have publicly ruled out involvement in EACOP owing to its numerous ESG risks.[41] In the past two weeks alone, seven financiers – including four Wall Street banks – confirmed their decision not to join the project loan.[42]

FINANCIAL

- **Stranded Asset Risk:** EACOP has a high risk of being stranded due to its climate impacts. The recent IPCC report noted with high confidence that "limiting global warming to 2°C or below will leave a substantial amount of fossil fuels unburned and could strand considerable fossil fuel infrastructure."[43] Three of the oil blocks associated with EACOP are listed among the top 15 projects not viable under the IEA's Sustainable Development Scenario.[44]

- **Compliance costs:** Extensive evidence of EACOP's possible noncompliance with the Equator Principles standards raises the prospect of increasing compliance costs. Potential violations include Shortcomings of Project-Related Assessments and Consultation Processes (IFC Performance Standard [PS]1, PS5); Risks Associated with Improper Handling of Hazardous Waste and Oil Spills (PS3, PS4); Retaliation Against Human Rights Defenders (PS4); Improper Land Valuation, Acquisition and Compensation Processes and Significant Land Use Restrictions (PS5), and Impacts and Risk of Irremediable Harm to Protected Areas and Natural Resources (PS6).[45]

- **Rising costs due to litigation:** ongoing litigation against Total and the host governments over their handling of EACOP poses financial risks due to possible project implementation delays and the potential for compliance or relief measures mandated by the courts.

3. Comparison of the Japanese Megabanks

As the financial advisor to TotalEnergies and co-lead arranger of the $3 billion project finance loan, SMBC is heavily invested in the EACOP project. However, it is plausible that Mizuho and MUFG might join the EACOP project loan as well, given their past financing of TotalEnergies in the amount of $2.19 billion and $1.69 billion, respectively, between 2016 and 2021. Mizuho also financed CNOOC with $145 million in the same period.[46]

Mizuho's public reluctance to fund the project may be due to its policies on oil and gas as well as human rights, which are more robust than those of SMBC. Mizuho's policies[47] on financing oil and gas projects require it to undertake "a thorough examination of the impacts on the environment and of the potential for conflicts with [Indigenous] peoples or local communities" for each potential project, as well as an assessment of the client's approach to transition risk. Mizuho also explicitly prohibits financing projects that have an adverse impact on Ramsar-designated wetlands and requires enhanced due diligence for projects that have an adverse impact on Indigenous communities or involve "land expropriation that causes forced relocation of residents." Similar to Mizuho, MUFG also prohibits transactions that "negatively impact" Ramsar-designated wetlands and commits to both exercise enhanced due diligence for transactions that involve "Impact on Indigenous Peoples Communities" and "Land expropriation leading to involuntary resettlement" and assess a client's activities in oil and gas pipeline projects to ensure "that developments are conducted in an environmentally and socially responsible manner."[48]

While all three Japanese banks apply the Equator Principles to project finance loans, SMBC's standards on human rights and transition risks with respect to oil and gas projects are noticeably weaker than those of its Japanese peers.

PHOTOS (CLOCKWISE FROM TOP LEFT): ALBAN GROSDIDIER / 350.ORG; EARTHLIFE AFRICA AT THE STANDARD BANK 2021 AGM; XR CAPE TOWN; BASILE MESRÉ-BARJON

4. SMBC Policies and Positions Potentially Violated by EACOP

POLICIES / INITIATIVES	SMBC POLICIES AND COMMITMENTS
Ramsar Convention	"SMBC Group does not provide support for new projects that are perceived to have a significant negative impact on wetlands specified in the Ramsar Convention and UNESCO-designated World Natural Heritage sites." SMBC Group prohibits the provision of "credits considered problematic in terms of public responsibility, such as credits in conflict with public order and morals and credits which may have negative impacts on the environment* **Including large-scale development or construction projects which [may have significant negative environmental impacts on] sites [that] are subject to Ramsar wetlands or UNESCO World Natural Heritage Sites [ ], and large-scale development or construction projects for which no appropriate environmental impact assessment have been conducted or no environmental management plan formulated even though such projects may significantly destroy the habitats of endangered species."*[49]
Oil Pipelines	"Pipelines are expected to have a wide range of environmental impacts due to oil spills and deforestation, as well as social impacts on [Indigenous] communities, not only at the time of construction but also when completed. SMBC Group carefully monitors whether appropriate mitigation measures have been implemented for these issues, and then we conduct environmental and social risk assessments when we consider lending."[50]
Equator Principles	"[SMBC] will conduct appropriate environmental and social risk assessments by performing due diligence in the Corporate Sustainability Department. Through this, we expect project companies to conduct activities for environmental and social consideration, including climate change and human rights, such as addressing the TCFD Recommendations and respecting the FPIC (free, prior and informed consent) of local residents."[51]

POLICIES / INITIATIVES	SMBC POLICIES AND COMMITMENTS
Paris Agreement	"SMBC Group is committed to achieving net zero emissions across its overall investment and loan portfolio by 2050, as well as in its groupwide operations by 2030. [...] we will support the activities of our clients contributing to the transition toward and realization of a decarbonized society."[52]
Net Zero Banking Alliance *Signed by SMBC on October 18, 2021	NZBA signatories commit to "transition all operational and attributable [greenhouse gas] emissions from our lending and investment portfolios to align with pathways to net-zero by mid-century, or sooner, including CO2 emissions reaching net-zero at the latest by 2050, consistent with a maximum temperature rise of 1.5°C above pre-industrial levels by 2100. This approach will take into account the best available scientific knowledge, including the findings of the IPCC."[53]
Principles for Responsible Banking *Signed by SMBC in September 2019	Principle 1: "We will align our business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks." Principle 3: "We will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations." Principle 4: "We will proactively and responsibly consult, engage and partner withrelevant stakeholders to achieve society's goals."[54]

5. Conclusion

Banks should challenge Total on the social and environmental impacts of EACOP and ultimately avoid financing the EACOP project. The EACOP project poses severe risks to local people through physical displacement, threats to incomes and livelihoods, and ongoing harassment; and creates unacceptable risks of irreversible damage to water, biodiversity, natural habitats, and the climate.

Banks must answer the call made by over 260 civil society organizations in March 2021, and:

- **Publicly commit** not to finance the EACOP project or associated oil projects, and in the case of SMBC, to withdraw from the project immediately;
- **Engage** with the governments of Uganda and Tanzania and other financiers to promote an energy future for East Africa that does not rely on oil or other fossil fuels, but rather on renewable energy alternatives; and
- **Demand** that Total acts immediately to provide full, fair and adequate compensation to people already affected by the pipeline for the impacts to their land, in accordance with international human rights standards.

PHOTO: LES AMIS DE LA TERRE - FRANCE

MURCHISON FALLS, UGANDA
PHOTO: ROD WADDINGTON / FLICKR

Endnotes *** Unless otherwise noted, all websites were accessed on May 24, 2022.**

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