Inpex

Inpex has published scenario analyses and its plan to promote carbon capture and storage (CCS), carbon recycling and renewable energy. EOS continues to encourage the company to stretch its ambitions on climate change.

Engagement objectives:

Environmental:

Preparation for a low carbon economy

Sustainable Development Goals:

Background and company overview

EOS at Federated Hermes has been engaging with Inpex since 2010 on a range of ESG issues. Inpex is a Japanese energy company, engaged in upstream oil and gas development, therefore the transition to a low carbon economy is particularly material. Nearly 20% of the company is held by the Ministry of Economy, Trade and Industry of Japan, which we believe, might make it more difficult for the company's strategy to deviate from the government's energy policy.

Our engagement

EOS started engaging with Inpex on climate change in early 2017, when we challenged the company to clearly articulate its long-term strategy, addressing climate change issues and stranded assets in a call with an executive director. We stressed that climate change should no longer be considered merely as an environmental issue but instead as part of business strategy, particularly due to the potential financial impact it may have on the company. We were left unconvinced that the demand for fossil fuel will still be plentiful in 2040.

We questioned whether the new target of growing renewable energy to 10% of its portfolio by 2040 was sufficiently stretching.

In a call with the company in 2018, we were somewhat disappointed that it was unable to articulate a clear strategy to address climate change. In light of global trends and the report that Japan's national energy strategy was going to confirm renewables as significant sources of energy, we encouraged the company to set specific targets for renewable energy production. We also pointed out that diversification of its portfolio would help mitigate negative impact on its profitability due to a drop in oil prices for example, which the company has suffered from in the past few years.

At the 2018 shareholder meeting, following a call with the executive director and written correspondence, we recommended supporting by exception the re-election of the president, despite concerns about sustained low profitability, as we acknowledged some progress in the company's strategy to address climate change with the publication of its 2040 vision. However, we questioned whether the new target of growing renewable energy to 10% of its portfolio by 2040 was sufficiently stretching.

Inpex first published an overview of four different climate scenarios and key measures to address climate change in its 2018 sustainability report. In a call in 2019, we again shared our view that the company's target to increase renewable energy to 10% of its portfolio by 2040 appeared unambitious.

In a call with the company in early 2020, we reiterated our view that it should set a more stretching target than the current target to reduce greenhouse gas emissions by 28% from the 2013 level by 2030 and challenged the company to set a net-zero goal by 2050 in line with global peers.

Changes at the company

The company has improved its disclosure on climate change in the last few years, including more detailed scenario analyses as well as different types of climate risks and how the company is addressing these risks.

In a meeting with the company in early 2021, we welcomed the announcement of a 2050 target to achieve net-zero emissions in scope 1 and 2, with additional targets on methane and flaring and its plans to promote CCS, its hydrogen business, carbon recycling and renewable energy. We said that we would like to see a similarly ambitious target for scope 3 emissions. We also encouraged it to set a 2030 target to reduce absolute emissions, as the current 2030 target is to reduce carbon intensity.

Next steps

We will continue to engage on its CAPEX plan as well as plans to increase renewable energy in its portfolio. We will also further press for extension of a net-zero goal to scope 3 emissions and a stretching absolute emissions reduction target for 2030.

Sachi Suzuki
Engagement
EOS

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Federated Hermes

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Our goals are to help people invest and retire better, to help clients achieve better risk-adjusted returns, and to contribute to positive outcomes that benefit the wider world.

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- **Liquidity:** solutions driven by four decades of experience
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Why EOS?

EOS enables institutional shareholders around the world to meet their fiduciary responsibilities and become active owners of public companies. EOS is based on the premise that companies with informed and involved shareholders are more likely to achieve superior long-term performance than those without.

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