Delivering net zero emissions in Japan

日本のカーボン・ニュートラル実現に向けて

25 May

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#PRIDigitalForum
Climate Policy Update
気候政策に関する最新情報

Edward Baker, Technical Head, Climate Change and Energy Transition, PRI
PRI 気候変動・エネルギー・トランジション テクニカル・ヘッド エドワード・ベーカー
Launched in April 2006 at the NYSE, the Principles for Responsible Investment has:

- **2** UN PARTNERS: UNEP Finance Initiative, UN Global Compact
- **4000** SIGNATORIES: Asset owners, investment managers, and service providers
- **101** US$ TRILLION: Assets under management
- **6** PRINCIPLES: Recognising the materiality of environmental, social and corporate governance issues
Time to get out of our comfort zone?  居心地の良い場所から外に飛び出す
COP26への期待

- 2021 set to join 2015, 1997, 1992 as a highwater mark for international coordination on climate change
- 2021 set to be a landmark year for climate-related reporting.
- 2030 matters more than 2050
- But will political will be sustained?
Forces behind the transition

**Extreme weather events**
- "Hurricane Dorian Was Worthy of a Category 6 Rating"

**Geopolitics**

**Cheaper renewable energy**
- "Europe ‘watershed’ as green energy set to overpower coal"
  - JUNE 3, 2019

**New climate research**
- Global warming report, an 'ear-splitting wake-up call' warns UN chief

**Civil society action**
- "Climate change could make insurance too expensive for most people"
- "Climate change risks outweigh opportunities for P&C (re)insurers"

**Uninsurable World**

**Influence Shifting**
- Activist shareholders make history in anti-lobby resolution at Origin AGM
- BHP UK investors urge halt to fossil fuel lobbying

The catastrophic effects of climate change are already visible around the world. We need collective leadership and action across countries, and we need to be ambitious.

"Climate change risks outweigh opportunities for P&C (re)insurers"
IEA pathways to net zero  2050年ネットゼロを実現するためのIEAの経路
Policy levers - 気候変動に関する主な政策

- **Carbon pricing**
  - Carbon taxes
  - Emissions trading systems
  - Border carbon adjustments

- **Coal phase-out**
  - Prohibiting regulations
  - Emissions performance standards
  - Electricity market reforms

- **100% clean power**
  - 100% clean power targets
  - Renewables capacity auctions and other support policies

- **Zero emission vehicles**
  - 100% zero emission vehicle (ZEV) sales legislation
  - Manufacturer ZEV obligations
  - ZEV consumer subsidies

- **Low-carbon buildings**
  - Prohibiting regulations for fossil heating systems
  - Purchase subsidies for low-carbon heating systems
  - Thermal efficiency regulations for new build and retrofit
  - Minimum energy performance standards for new appliances

- **Clean Industry**
  - Emissions performance standards for industrial plant
  - Subsidy for new or retrofit clean industrial process

- **Low-emissions agriculture**
  - Methane or nitrous oxide emissions tax or cap-and-trade system
  - Subsidy for low-emissions agricultural practices and technologies
  - Farmer education and technical assistance programmes

- **Forestry**
  - Strong policy action against deforestation, such as monitoring and penalties, supported by consumer pressure
  - Incentives for reforestation and afforestation via domestic action and carbon markets

‘Just Transition’ lens to ensure social and political feasibility
Japanese GHG emissions by sector 2016

Greenhouse gas emissions by sector, Japan, 2016

Greenhouse gas emissions are measured in tonnes of carbon dioxide-equivalents (CO2e).

- Electricity & Heat: 610.2 million t
- Transport: 207.5 million t
- Manufacturing & Construction: 190.3 million t
- Buildings: 120.2 million t
- Industry: 73.73 million t
- Aviation and shipping: 34.7 million t
- Other fuel combustion: 26.6 million t
- Agriculture: 21.51 million t
- Waste: 7.04 million t
- Land-Use Change and Forestry: 4.46 million t
- Fugitive emissions: 2.3 million t

Source: CAIT Climate Data Explorer via Climate Watch

OurWorldInData.org/co2-and-other-greenhouse-gas-emissions • CC BY
Japan net zero roadmap  PRIの日本のネットゼロへの提言

In partnership with Vivid Economics

- National legislation a “climate law”. Publication of a comprehensive roadmap for all sectors in the economy
- Carbon pricing. $60~100 per tonne by 2030
- 2030 targets for clean energy inline with the NDC. Cancellation of new coal plants under construction, phase out of existing plants
- Investment in high voltage transmission infrastructure. Review of wholesale markets, removal of barriers to clean energy investment
Implications for investors 投資家への影響とは？

- Investment opportunities exist across a range of sectors to deploy low-carbon technologies
- There is potential for stranded assets in some sectors, for example coal-fired generation
Meeting long term net-zero target will require near term policy change.

Robust policy frameworks are needed to deliver to 2030 targets, particularly in power, transport and industry.

TCFD, net-zero target setting and taxonomies can help investors to protect value and prepare for the net-zero transition
IEA net-zero roadmap

- 2020: No new unabated coal plants approved for development
- 2025: No new sales of fossil fuel boilers
- 2030: Universal energy access, all new buildings are zero-carbon ready, 60% of global car sales are electric, most new clean technologies in heavy industry demonstrated at scale, 100 GW annual solar and wind additions, phase-out of unabated coal in advanced economies
- 2040: 50% of existing buildings retrofitted to zero-carbon-ready levels, 50% of fuels used in aviation are low-emissions
- 2045: 50% of heating demand met by heat pumps, net-zero emissions electricity globally, phase-out of all unabated coal and oil power plants
- 2050: Almost 70% of electricity generation globally from solar PV and wind
IEA net-zero roadmap
Climate Transition Finance
クライメート・トランジション・ファイナンス

Motoko Ogawa, Deputy Director of Environmental Economy Office, Ministry of Economy, Trade and Industry (METI) of Japan
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Transition Finance
A way to steadily achieve carbon neutrality

May 25, 2021
Environmental Economy Office,
Industrial Science and Technology Policy
and Environment Bureau
Transition finance is an important tool to reach carbon neutrality by 2050

The Basic Guidelines on Climate Transition Finance
FSA, MOE, METI
(7th May, 2021)

• International consistency (Four elements)

• Guide to practice transition finance

• Possible diversity by regions and industries
Sustainable finance has been growing, but not enough investments in industries

- Increase of sustainable finance: 30.7 trillion USD in 2018
- Only 0.5% from industry sector in total green bond issuance
The Importance of Transition Finance

Not all companies can immediately fit into the decarbonized society, therefore finance towards “transition” becomes crucial.

Decarbonized Society

Transition
(Initiatives for low carbonization etc.)

Current Society

Pathways are set in accordance with the regional and sectoral characteristic, resulting in various pathways.

Today 2030 2050
Initiatives on transition finance

March 2020
Study Group on Environmental Innovation Finance

May 2020
Concept paper on Climate Transition Finance Principles
- Transition contributes to the mitigation of climate change
- Inclusive and flexible approach to various circumstances of countries/regions

September 2020
Climate Innovation Finance Strategy 2020

Simultaneous promotion of TGIF

Achievement of SDGs and the Paris Agreement
December 2020
Green Growth Strategy

- Industrial policies to create a “**positive cycle of economic growth and environmental protection**”
- Action plans for 14 growth sectors
- 5 cross sectoral policy tools including **finance**

October 2020
Japan’s pledge to reach carbon neutrality by 2050

January 2021
Taskforce on Preparation of Environment for Transition Finance established by FSA, METI and MOE

May 2021
Basic Guidelines on Climate Transition Finance was published
Basic Guidelines on Climate Transition Finance

What is the Basic Guidelines

• Consistency with the ICMA Climate Transition Finance Handbook

• A general guide for fundraisers and financial institutions in labeling transition bonds and loans for initiatives towards decarbonization and low carbonization.

• The Basic Guidelines does not specify transitional assets nor trajectories of each industry. The roadmaps for high emission industries will be developed by METI so that fundraisers and financiers can refer to in developing their own strategy and considering investment.

Content


• Both use of proceeds instruments and general corporate purpose instruments

• Comprehensive judgement based on strategies

• Transition strategy need to be science-based. In addition to scenarios widely recognized in the international community, such as IEA’s, NDC of courtiers aligned with the goals of the Paris Agreement and roadmaps by industry sector formulated by public organizations can be referred.
These Guidelines provide interpretation of the 4 Elements aligned with the ICMA Handbook, to serve as a reference for the fundraiser considering specific plans.

1. Business Model Environmental Materiality
   - Initiatives covered by the transition strategy
     - Core business activities that are environmentally material parts today and, in the future (including business activities of fundraisers who have indicated that climate change is an environmentally material part of business activities)

2. Fundraiser’s Climate Transition Strategy and Governance
   - Goals of transition finance
     - Implementing transition strategies that incorporate targets aligned with the goals of the Paris Agreement and the intention to transform the business towards decarbonization
     - Incorporation of environmental and social contributions other than climate change into the transition strategy (a “just transition”)
   - Transition strategy and governance disclosures
     - Disclosures can be aligned with frameworks such as the TCFD recommendations

3. Climate Transition Strategy to be Science-based Including Targets and Pathways
   - Science-based targets and pathways
     - Science-based targets are reduction targets required for achieving the goals of the Paris Agreement (covering Scopes 1 through 3)
     - Short- to mid-term targets should be set or on the pathway toward the long-term targets
     - Targets will be set in consideration of various factors, including regional and sectoral characteristics, it is possible that the pathway may not necessarily be linear
   - Science-based targets are reduction targets required for achieving the goals of the Paris Agreement (covering Scopes 1 through 3)
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     - Targets will be set in consideration of various factors, including regional and sectoral characteristics, it is possible that the pathway may not necessarily be linear
   - References and benchmarks
     - Scenarios recognized in the international community: SDS outlined by the IEA
     - Consideration by internationally recognized NGOs: SBTi and such like
     - Nationally Determined Contributions of countries aligned with the goals of the Paris Agreement, roadmaps by industry sector, and so on

4. Implementation Transparency
   - Targets of investment plan
     - The investment plan includes not only capital expenditure (Capex) but also capital and operational expenditure (Opex)
     - Costs related to research and development, M&A, and dismantling and removal of facilities are also subject to the investment plan
   - Results and impact of implementing the investment plan
     - Use quantitative indicators where possible
     - If quantification is difficult, the use of external certification systems can be considered as a substitute for qualitative assessment
     - Incorporate considerations of a “just transition”
Taskforce on Preparation of the Environment for Transition Finance, Basic Principles and Roadmaps

**Taskforce on Preparation of Environment for Transition Finance**
- METI, MOE, FSA

**Basic Principles**
- Formulates in line with international principles and discussion of the Taskforce

**Instruments**
- Transition Loan
- Transition Bond

**Users**
- Banks
- Enterprises
- Assessment firms
- Investors

**Industry Roadmaps**
- Focus on high CO2 emission industries, METI publish roadmaps for decarbonization by industry.

**Model case authorization and Subsidy for external review**
- Interest subsidy for loans with output oriented goals
Net Zero Policy and Investor Actions in Japan
日本のカーボン・ニュートラルと求められる投資家の行動

Panellists  パネリスト

Teruyuki Ohno, Executive Director, Renewable Energy Institute
自然エネルギー財団 常務理事 大野輝之

Kazuyuki Shigemoto, Executive Officer  Chief General Manager, Investment, Dai-ichi Life Insurance Company
第一生命保険株式会社執行役員投資本部長 重本和之

Masaaki Nagamura, General Manager International Initiatives, Tokio Marine & Nichido Fire Insurance
東京海上ホールディングス フェロー（国際機関対応）長村政明

Moderated by: Natsuho Torii, Senior Specialist, Policy, PRI
モデレーター： PRI ポリシー シニア・スペシャリスト 鳥居夏帆
The policy on responsible investment in FY2021

Initiatives to realize carbon neutral in our investment portfolio

Setting climate change as the top priority of the responsible investment to achieve Net-Zero greenhouse gas emissions in the investment portfolio

- Dai-ichi life has joined the Net-Zero Asset Owner Alliance, an international initiative in which institutional investors aim to transition to portfolios with net-zero green house gas emissions by 2050

Setting mid-term investment goals every five years for transition to portfolios with net-zero green gas emission by 2050

- Setting goals for listed equities, corporate bonds, and real estate by 2025 in accordance with the Net-Zero AOA protocol (guidelines for setting reduction goals)
- Achieving RE100* by the end of FY2023 for real estate (to be achieved within FY2021 for investment properties)

Strengthening engagement to support climate change initiatives and behavioral changes in investee companies

- Conducting engagement with high GHG emission companies on climate change response consistent with the Paris Agreement
- The result of engagement will be assessed and reflected to the investment process

Supporting transition to a low-carbon society and creation of environment innovations through investments

- Proactively making investment aimed at the transition to a low-carbon society, such as transition financing, investment on renewable energy power generation projects, green bond, and impact investment.

- Reducing GHG emission by 25% in listed equities, corporate bonds, and real estate by FY2025
  ※Base line: at the end of FY2019

- Cumulative ESG thematic investment amount will be at least doubled by FY2023
  ※Base line: at the end of FY2019

※A global initiative with the objective of achieving 100% renewable energy for electricity consumed by business activities
Next session:

Climate policy and net zero: the road to COP26

27 May 2021 | 4:00pm BST