

EBC Statement on Carbon-Neutrality

At the end of October 2020, PM Suga announced that Japan will be carbon neutral by 2050. This has the full support of the EBC.

The EBC recommends that Japan takes a holistic approach to make certain that all sectors are included. Furthermore, Japan cannot depend on technological innovation only, but must also focus on system design and behavioural change.

The EBC would also like to make the following sector specific recommendations:

- **EU and Japan jointly support the airline and aeronautics industries to decrease the carbon footprint for this sector**
- **Improve the ecosystem for electrical vehicles, both through subsidies and an infrastructure for charging of vehicles**
- **Introduce regulations and guidelines in the construction industry, especially on insulation, and make sustainable renovation more attractive**
- **Japan's 2030 target for renewables is still rather low. To combat this, collaboration with European companies is vital. For this, using international standards and a transparent and non-discriminatory auction scoring system is furthermore vital to achieve these objectives**
- **Japan should raise the awareness of the need to de-carbonise the logistics and shipping industries, both by using tax incentives as well as carbon taxation**
- **Japan should be more aggressive in using tax incentives to drive industry to reduce their carbon emissions, while at the same time introducing gradually higher carbon tax as part of an emission trading system**

At the end of October 2020, Prime Minister Suga announced that Japan will be carbon neutral by 2050. The new European Commission made similar announcement at the beginning of 2020.

The European Business Council in Japan (EBC) welcomes these announcements which, we believe, are crucial to avoid leaving the next generation with a planet in disarray. We, moreover, believe that Japan is sending a clear message about tackling the climate issue, and that other countries will take note.

The EBC stands ready to do its part and will assist Japan wherever it can, whether this is technical knowledge, sharing experience, both positive and negative, and, last but not least, providing support through its network of European companies.

Japan will have to approach this objective from all angles and involve all industries. While technological innovation is important, system design, financial systems and behavioural patterns also need to be looked at. This should include consumer education and raising the awareness level with the cooperation of the private sector through the power of their brands.

Japan already has market mechanisms, including labelling, although many of them have not

been introduced across the board. Together with industry, both domestic and foreign, they should be revisited to understand what works and what do not work. The EBC would like to emphasise that experience from other markets should be taken into consideration. One positive aspect that has already been addressed is micro-plastics. Both in relation to plastic bags and the clothing industry. The understanding of this issue among consumers and producers has improved.

The first EBC recommendation focuses on the holistic approach: all sectors should be involved, and not only a limited set of sectors or subsectors. Furthermore, Japan should learn from and share with others, both to see what has worked and what has not been successful, but also to learn from others' mistakes.

Secondly, value creation assessment and independent rating in regards to climate activities are important. The EU, the US and Singapore have already introduced such systems and third-party mechanisms to increase the transparency and accountability of what companies are doing. Again, Japan should look at lessons learnt in these countries.

Listed below are some sector-specific issues that Japan will have to tackle as well as recommendations on how to best achieve the ultimate goal of carbon-neutrality.

Airline/aeronautics

The airline industry constitutes a rather small, but before COVID-19 a growing portion, of the total carbon gases emission (about 2.5%). However, aware of its moral obligation to join the EU effort to achieve carbon neutral growth by 2050, the European industry is making serious efforts to reduce its carbon footprint through the development of sustainable alternative fuels, improved flight management, lighter aircrafts, carbon emission off-set programmes, better fuel efficiency, hybridisation, hydrogen propulsion, and more aerodynamically efficient aircrafts. The EU and its member states are looking into ways to support this effort, not only through new regulations, but also by investing in R&D. The EBC believes it is crucial that Japan and the EU join forces in these efforts. As two of the leading aerospace industries in the world, the Japanese and the European aerospace industries can help reduce the impact of aviation on the climate not only within their borders but globally for the whole world.

Automobiles/auto components

As part of the green growth strategy to achieve carbon neutrality, the goal of electric vehicles account for 100% of new passenger car sales by the middle 2030s was announced. European car manufacturers are currently expanding their lineup of BEVs, PHEVs and FCVs. Furthermore, the promotion of these types of vehicles has been accelerated. Alongside manufacturers' efforts, the Japanese Government plans to grant increased subsidies for purchasing a Battery Electric Vehicle (BEV) or Plug-in hybrid Vehicle (PHEV) under certain conditions. However, to achieve carbon neutrality in the long term, it will be essential for the Government to dramatically increase renewable energy supply and to expand the charging infrastructure. When considering the purchase of a BEV, customers are currently facing hurdles such as inadequate charging facilities, in particular in central urban areas. Hence, expanding public charging facilities and establishing chargers at condominium complexes are extremely important as a huge step to reach the overall target.

To conclude, it is important that the Government looks not only at new technology developed

by the automotive industry, but also at the whole ecosystem to support the move to a carbon neutral vehicle park.

Construction, sustainable construction materials, insulation

The construction sector makes up for about 40% of greenhouse gases emissions and consumes about one third of total energy worldwide. Obviously, any carbon neutrality policy must tackle this sector in view of its impact. Though recent years have seen improvement in net Zero Energy Houses (ZEH) or net Zero Energy Buildings (ZEB) constructions, overall market standards are still low compared to the EU in terms of insulation. The Japanese Government will need to accelerate changes in the construction sector that bring impact in terms of energy conservation. Worth to mention are:

- Improved insulation standard for individual houses
- Improved insulation standard for window and higher and/or extension of Low E glazing, double glazing, triple glazing.
- Windows frame switch from aluminium to hybrid and to plastics or wooden frames.
- Insulation level of windows in buildings.

The EBC understands that all these changes are already known to many Japanese actors and ongoing to a certain extent, but resistance to such change is still widespread in the sector. Therefore, the Japanese Government needs to not only introduce stricter guidelines and regulations, but also more communication and education are needed in order to accelerate the pace of change and meet the target of carbon neutrality.

Likewise, as an illustration of behaviour change needed, we may mention the renovation market. While it accounts for about half the EU construction market, it only represents a few percent of the Japanese construction market. It has been under scrutiny by all actors as a new Eldorado in a shrinking construction market, but no noticeable change has happened over the years.

Renovating old, low energy efficient buildings and houses, may be a quick and economical way to improve the situation and reach mid-term targets.

Energy: grid, renewables, nuclear, dismantling of coal use, carbon capture

On 21st December 2020, at the Strategic Policy Committee meeting, the Ministry of Economy, Trade and Industry (METI) put forward a set of electricity generation figures for 2050 as a starting point for discussions on how to achieve carbon neutrality in Japan. The figures are: 50-60% from renewable energy (RE), 30-40% from nuclear power + fossil power with carbon capture and storage (CCS), and 10% from hydrogen and ammonia. The 2030 renewable energy integration target for EU countries are in a range of 40% to 74%, whereas Japan states maximum 24%, which is a concern.

The EBC believes that it is vital that nuclear power and power generated from fossil fuel in the above figures are listed separately, as they are very different in terms of reaching the carbon-neutrality goal. We are fully aware that the discussions will continue and so will possibly the above-mentioned figures. Moreover, the EBC would like to err on the side of caution and place less dependence on the need for carbon capture.

In similar vein, while Japan has and will most likely continue to develop excellent technological solutions, the EBC believes that focusing on system design is necessary. The current electrical grid is not dimensioned to deal with a de-centralised energy generation. This is unfortunately not only true between eastern (50Hz) and western (60Hz) Japan, but also between the various regions. As some regions will be more suitable for different renewable sources, the distribution or the re-distribution network will be vital to reach the carbon-neutrality goal.

METI has also announced an ambitious target for offshore wind installation capacity: 10GW by 2030 and 30-45GW by 2040, which provided a high degree of market predictability. To stimulate investment and accelerate market development even further, it is advised that METI announces a separate target for floating offshore wind, considering that a large portion of offshore wind potential lies in the deeper sea area of Japan. Such announcement will significantly increase the opportunity for Japan to become a leading nation in floating offshore wind development, both commercially and technologically, paving a way to build a next-generation export industry.

To achieve this ambitious target, a collaboration between Japanese and European companies will be vital. The EBC believes that Japan will be able to save considerable amount of money and time by utilizing past experiences and lessons learnt in Europe. One of the possible ways to promote Japan-EU collaboration is to make auction scoring criteria more transparent, so that both Japanese and European developers and suppliers can understand where and how they can collaborate.

The EBC also believes that application of international technical standards in Japan (to the greatest possible extent) is needed to build the most cost-effective market and increase export potential. To reduce the administrative burden on both the public and private parties it is advisable for the government to clarify where and why Japan's specific rules need to be applied.

Furthermore, Japan should do more to take advantage of its geothermal resources.

Logistics/shipping

The transport industry contributes approximately 17% of the carbon emissions in Japan, which is mainly related to logistics. While there is a clear target to reduce passenger car carbon emissions by mid 2030s, the target for the logistics segment is still opaque. We believe more could be done on this front, especially related to truck transportation. Policies such as increasing carbon tax to encourage de-carbonisation, as well as providing more subsidies and grants for early movers, will expedite the transformation as we have seen in the EU and other countries.

On the shipping front, Japan is the second largest ship owning nation and plays a significant role for the world to achieve the International Maritime Organisation's target of reducing carbon emissions by 2050. This is a long journey but there are transitional technologies available today in the form of Liquefied Natural Gas and Sustainable Biofuel. We hope that the Japanese government could do more to encourage Japanese shipowners to embrace transitional technologies as well as increase the investment in research and development of new fuel solutions to decarbonise the shipping industry.

Lastly, shipping and logistics are first and foremost, a form of service industry, and we believe the decarbonisation of the industry will move more rapidly if business owners and final consumers demand greener shipping and logistics solutions. We would like to see the Japanese government do more to increase the general public's awareness of the need to de-carbonise the shipping and logistics industries.

Agricultural sector

Japan is battling with the same issues that the EU and the US are: a more sustainable food producing agricultural sector. Regenerative agriculture could significantly cut emissions.

Furthermore, promotion of ecological products would lessen the dependency on pesticides. Japan also needs to look at both small and large scale productions to get the best of both worlds. For this to happen though, transfer of land and allocation of land need to be improved.

Lastly, Japan should learn from other countries how to decrease food waste which continues to be a huge problem. Perhaps the “mottanai” concept could work in favour of Japan.

Tax: tax incentives

The 2021 Tax Reform Proposals include a new "carbon neutrality investment incentive", which provides the opportunity for either accelerated depreciation or a tax credit for companies that invest in assets or infrastructure leading to reduced carbon emissions. The EBC supports the use of tax incentives as a tool to promote behaviours that will reduce carbon emissions. However, as with many other tax incentives introduced by the Japanese Government in this and past tax reform proposals, the incentives do not go far enough to stimulate the desired results.

The EBC recommends that the Japanese Government be much more aggressive in using tax incentives to drive companies to reduce their carbon emissions. This may be done by one or more of the following: (i) increasing the scope of assets / infrastructure covered by the incentive, (ii) increasing the amount of the tax credit; (iii) simplifying the process for obtaining the tax incentives.

Moreover, the Japanese Government should also consider a gradually increased carbon tax as part of a emission trading system, which may be more effective at changing corporate behaviour than the proposed carbon neutrality investment incentive (a reward for successfully reducing carbon emissions).