

Minister of Economy, Trade and Industry

Mr Hiroshi KAJIYAMA

Ministry of Economy, Trade and Industry
1-3-1 Kasumigaseki, Chiyoda-ku, Tokyo 100-89013

cc:

METI Agency for Natural Resources and Energy - Commissioner Shin HOSAKA
METI basic policy subcommittee - Chairman Takashi SHIRAISHI

8 March 2021

RE: Strategic Energy Plan – Investor Views

Dear Minister Kajiyama

As the heads of three founding partners of The Investor Agenda – organizations that work with investors with millions of beneficiaries around the world and managing trillions of dollars of assets – we write to you regarding current deliberations on the next Strategic Energy Plan, as a central pillar to achieve Japan's carbon neutral goal.

We welcome the Japanese Government's commitment to achieve the realization of a carbon-neutral, decarbonized society by 2050 and the "Green Growth Strategy towards 2050 Carbon Neutrality", as formulated by your Ministry.

On 26 August 2020 we wrote to Minister Koizumi regarding the "Online Platform on a Sustainable and Resilient Recovery from COVID-19" calling for sustainable recovery efforts to accelerate the transition towards a net-zero emissions economy by 2050 and we are encouraged that Japan's Green Growth Strategy has this as a major goal.

However, we note that current policies in all major emitting sectors (power, industry, transport and buildings) fall well short of levels required to reach the goals of the Paris Agreement. A comprehensive range of new policies will need to be brought forward to deliver Japan's increased ambition to reach net zero by 2050. We therefore encourage the Government of Japan to align the next Strategic Energy Plan with achieving a net-zero emissions economy by 2050 or sooner and institute a revised 2030 energy mix target that is aligned with this goal.

In particular, we encourage the adoption of the following measures, adapted from the PRI's briefing and the JCI proposal on delivering net zero emissions in Japan, to increase investor confidence in mobilizing private capital towards the net-zero emissions energy transition in Japan.

- Set an overall goal and action plan to achieve decarbonized electricity production by 2050, with ambitious 2030 renewable energy targets aligned with IPCC 1.5C scenarios.
- Design and implement an ambitious carbon pricing regime consistent with the net zero by 2050 climate objective. Carbon pricing should at a minimum cover power and industry, and a strategy should also assess the possibility of extending carbon pricing to transport and buildings. A carbon price rising to \$50-100/tCO₂ by 2030 is recommended to ensure countries are on an emissions pathway consistent with the Paris Agreement.
- Power market reforms (eg connectable amounts/fair access rules/PPA measures) to ensure a fair and competitive system, associated regulatory reform and rationalization to enable expanded renewable energy development (eg land use and siting, local development approvals etc) and grid infrastructure investments (transmission and distribution) to incentivize renewable energy uptake, lower renewable energy prices and provide investment certainty.
- Cancel all new thermal coal plant projects that are in a pre-construction phase and set clear phase out dates for unabated thermal coal, in line with the 2050 net-zero goal.
- Build on Japan's Basic Hydrogen Strategy and develop and implement strategies on low-carbon steel, chemicals, and cement. Set a goal of decarbonizing energy intensive industry by 2050, and set out a roadmap to shift to production using electric, hydrogen, and CCS technologies to meet this goal.
- Implement plans to end the sale of ICE cars and vans by 2035 (including non-plug-in hybrid vehicles), and achieve 100% zero emission light duty vehicles by this date. Develop and implement a strategy, accompanied by a comprehensive R&D programme, to decarbonize heavy road transport by 2050 at the latest.
- Publish a detailed plan to cut energy usage in the existing buildings stock. This plan should include financial incentives for retrofitting, building on the existing subsidy scheme, the Subsidy for Promoting Investment in Energy Conservation and should set targets to retrofit all the existing buildings stock by 2050.

It is estimated by McKinsey (2020) that low-carbon power deployment, associated grid infrastructure reinforcement and battery storage requires at least \$106bn of additional cumulative investment by 2030 in Japan even under Japan's current pathway that reduces emissions by 26% in 2030 on 2013 levels.

Deployment of 5.3m BEVs in Japan by 2030 would alone require \$225bn of investment, with \$9bn of this need for electric charging infrastructure. With the aid of robust and ambitious policy measures, as set out in this letter, investors are looking to allocate capital towards achieving a swift transition to net-zero in Japan, and we look forward to leadership by your Ministry in ensuring an enabling environment for investors in this regard.

The Investor Agenda is a collaborative initiative to accelerate and scale up investor actions that are critical to tackling climate change and achieving the goals of the Paris Agreement with the aim of keeping average global temperature rise to no more than 1.5 degrees Celsius. The CEOs and staff of The Investor Agenda partners in Asia - AIGCC, CDP and PRI, would be pleased to discuss our work or any of our recommendations regarding Japan's Strategic Energy Plan further. Please do not hesitate to contact us if it would be of interest to set up a meeting.

With best regards,

Signed

A handwritten signature in black ink, appearing to read 'Rebecca Mikula-Wright'.


Rebecca Mikula-Wright

Executive Director, Asia Investor Group on Climate Change

A handwritten signature in black ink, appearing to read 'Paul Simpson'.

Paul Simpson CEO,

CDP

A handwritten signature in black ink, appearing to read 'Fiona Reynolds'.

Fiona Reynolds

CEO, Principles for Responsible Investment