

Statement: Overcoming the Climate Crisis through the “New Capitalism”

Japan Climate Leaders’ Partnership (JCLP) is a coalition of businesses that recognizes climate change as a fundamental threat facing humanity, and a transition to a zero-carbon society as opportunities for growth. JCLP commends the Prime Minister Kishida’s decision to climate change as an area of focus in realizing the New Capitalism¹, and puts forward the following statement in the hope that the Grand Design for the New Capitalism will be truly sustainable.

Background:

1. Climate crisis is already threatening our economy and livelihoods. It is the biggest issue that needs to be overcome by realizing the New Capitalism.

Climate change has already caused serious damages at home and abroad². Scientists across the world and international organizations have long warned us that, left unaddressed, it will trigger various catastrophes, such as food shortages, another pandemic, and financial meltdown³. Climate change is nothing less than a ‘crisis’ that undermines the economy and people’s livelihood. As the Prime Minister has mentioned on various occasions, it is the biggest challenge that needs to be addressed through realization of the New Capitalism.

2. ‘The 1.5°C target’ is an evidence-based guideline to avert a climate catastrophe. We must act swiftly now, considering the remaining carbon budget.

As the Intergovernmental Panel on Climate Change (IPCC) reiterated in its new reports⁴, limiting global warming to 1.5°C is essential to avoid dire and irreversible consequences. In order not to cross the threshold, carbon emissions need to be sharply reduced by 2030 in light of carbon budgets, or the maximum amount of cumulative carbon emissions to keep within a certain temperature threshold⁵. This caution by scientists was explicitly acknowledged in COP26, and nations including Japan adopted an outcome document reaffirming the need to ‘pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels’ and to reduce ‘global carbon dioxide emissions by 45 per cent by 2030 relative to the 2010 level and to net zero around mid-century’⁶. In order to live up to this commitment, major advanced countries have announced new measures, such as plans to decarbonizing the electricity system by 2035⁷ and stricter vehicle emissions rules⁸ along with massive investments in renewable energy (hereafter, RE) and EV-related infrastructure⁹, and carbon pricing mechanisms that underpins such investments¹⁰.

3. ‘Zero-carbon transition in line with the 1.5°C target’ has become a new business imperative, influencing corporate competitiveness.

Businesses are also expected to achieve zero-carbon transition in line with the 1.5°C target, and companies’ climate commitments and actions have become factors that influence business transactions and financial arrangements. About one third of the global top 30 companies by market capitalization have set emissions reduction targets in line with the 1.5°C target¹¹, and a number of global companies are calling on their suppliers to shift to RE and decarbonize business activities within certain timeframes. In addition, the fact that international groups of institutional investors (total assets: 67 trillion USD, approx. 8,350 trillion JPY) aims to halve carbon emissions from their investment portfolio by 2030¹² means that corporate climate actions will be closely scrutinized in

their financial procurement. Moreover, key zero-emission technologies such as EVs and storage batteries are forecast to start proliferating internationally in the mid-to-late 2020's¹³, and this trend is estimated to accelerate going forward.

Now that 1.5°C -compliant business models are gathering momentum globally, Japanese companies are under increasing pressure to step up and bolster their actions.

Statement:

JCLP believes that, in order to overcome the climate crisis, the Grand Design of New Capitalism must be drawn up in line with the 1.5°C target. With this in mind, JCLP requests that the Grand Design should include the following points.

1. RE expansion holds the key to balancing economic growth and a fairer distribution of wealth. JCLP calls for a new energy system based on the 'RE-first principle'¹⁴.

The International Energy Agency (IEA) suggests that advanced economies should achieve net-zero emissions in their electricity sectors by 2035 to meet the 1.5°C climate goal¹⁵. Thus, decarbonization of electricity, along with improvement of energy efficiency, is a pressing matter to Japan. Considering that **Japan has great potential to produce RE** (The potential with business profitability is approx. 2.6 times higher than the total electricity generation today for all RE combined.¹⁶ The sheer geographical potential (no taking account of business profitability) is approx. 9 times higher than the total electricity generation today for offshore wind alone.¹⁷) and many of the related technologies have already been put into practical use, the next step to take are clear: to expand Japan's RE generation by reforming market regulations and enhance RE price competitiveness through economies of scale¹⁸.

Tapping into Japan's RE potential will significantly benefit 'growth and distribution of wealth'¹⁹.

The global RE market is now rapidly expanding, and opportunities are not limited to the solar power generation market, in which China is taking the lead now. The expansion offers Japanese companies with a great number of business opportunities where they can leverage their strengths, such as floating offshore wind power generation, digitized supply-demand adjustment mechanisms interconnected with batteries and buildings, and power transmission technologies. To capitalize on these opportunities, domestic promotion of RE-related industries must be accelerated, in order to spur developments of new technologies and business models that withstand harsh Japanese weathers and achieve stable RE supply. Innovations of this kind will improve Japan's competitiveness in the global RE market, thereby driving the economic growth of Japan. Conversely, should Japan's RE expansion delay, Japanese companies could suffer major competitiveness deficits considering the growing number of requests from investors and business partners to switch to RE throughout their supply chains.

There are other important benefits. The shift to RE stimulates investments in rural communities as they have suitable sites for clean energy generation. It also increases Japan's energy self-sufficiency, and decreases the national wealth outflows caused by purchasing a large amount of fossil fuels²⁰. With appropriate policies, revenues from electricity sales can be turned into a source for investments in regional communities, accelerating a fairer distribution of wealth.

Thus, JCLP believes that **the maximum use of RE holds the key to realizing the New Capitalism that strikes a balance between economic growth and a fairer distribution of wealth, and to that end, Japan faces an urgent need to design a new energy system based on the 'RE-first principle'**. The following measures are particularly important: **1) upgrading the power grid system (acceleration of the government-led and 'push'-based grid development and an adequate budget to support the effort, and a set of rules that give RE a priority access to the grid in case of**

congestion), 2) expanding the off-shore wind power industry at a faster pace (allowing wind projects in Exclusive Economic Zone), 3) improving access to farmlands (abandoned farmlands, agrivoltanics).

Also, in relation to giving a priority to RE, it should also be emphasized here that the dependence on thermal power generation needs to be reduced immediately. Considering the carbon budget, it is indisputable that the development of new coal-fired power plants contradicts the 1.5°C target. As for the technologies to decarbonize thermal power plants (e.g. combustion of ammonia and hydrogen), a thorough assessment and full information disclosure are needed as to whether they can be viable options, in terms of effectiveness in emissions reductions, cost efficiency, and timeframes for roll-out²¹. JCLP agrees that promotion of various types of technological development is essential to help decarbonize the hard-to-abate sectors. However, for the electricity sector, we ought to avoid overreliance on under-developed technologies with high uncertainties and prioritize RE.

2. The New Capitalism should incorporate a carbon pricing mechanism that will enable the market to account for and reduce negative externalities.

As the Prime Minister points out, climate change is an issue of market failure and epitomizes the shortcomings of the current form of capitalism. To correct the market failure, social costs incurred by climate change, so-called negative externalities, need to be internalized into the market. To do this, a carbon pricing mechanism which imposes costs on emissions and give advantages to emissions reduction is an essential tool, that should be incorporated it to the New Capitalism. This will provide an economic rationale for companies and financial institutions to shift away from carbon-intensive projects and accelerate their investments in the zero-carbon transition²².

It should be emphasized here that voluntary credit schemes alone will not suffice as the number of participants in the schemes will inevitably be limited due to their voluntary nature. In fact, such schemes could even cause the net-zero transition to stagnate, if they create an uneven playing field where only committed companies wanting to reduce their emissions are asked to pay extra costs (to buy credits and certificates) and others are not. Therefore, **JCLP requests a swift preparation of carbon tax and/or emissions trading scheme, which cover major emitters and provide them with an appropriate incentive to reduce emissions.** We also suggest that the scheme be designed to prevent excessive burdens on SMEs and low-income households and the government make efforts to inform the public well about its purposes and effects.

Finally, we propose that the revenues gained through the scheme be allocated to development of infrastructure and installation of technologies, such as RE, EVs, and storage batteries, that will help substantial emissions reduction by 2030. The revenues should also be directed to human capital development programs, such as occupational training and compensations, to prepare the workforce for the change of the industrial structure and ensure a smooth and just transition.

Japan has pledged to the world its 2030 targets to ‘reduce emissions by 46% compared to 2013’ and to ‘continue strenuous effort in its challenge towards a 50% reduction’. JCLP sincerely hopes that, by developing the Grand Design of the New Capitalism in accordance with 1.5°C target, the government will demonstrate to people at home and abroad Japan’s determination to fulfil the pledge.

JCLP member companies will also continue to make utmost efforts to our own reduce emissions and to engage with our stakeholders to further strengthen Japan’s climate action.

References

1. Also translated as “new form of capitalism”. It is Prime Minister Kishida’s vision to achieve a capitalism that will help to redress the harmful effects of neoliberalism and create “a virtuous cycle of growth and distribution”. For more information, refer to [Kishida’s speech at the Diet](#).
2. One of the world’s largest brokers, Aon said in its [2021 annual report](#) that Insured losses from global natural disasters totaled 130 billion USD (approx. 15.97 trillion JPY) last year.
3. The IPCC found that the increased frequency of extreme weather events could risk jeopardizing global food security. The World Bank also reported that climate change-related water shortages, decreased crop yields, sea level rise could force 216 million people to move within their own countries.
 - IPCC, “[AR6 Climate Change 2021: The Physical Science Basis](#)” (August, 2021)
 - IPCC, “[AR 6 Climate Change 2022: Impacts, Adaptation and Vulnerability](#)” (February, 2022)
 - World Bank, “[Groundswell Part 2 : Acting on Internal Climate Migration](#)” (September, 2021)

Over 230 medical journals called on governments to take immediate action to address global warming, pointing to established links between the climate crisis and adverse health impacts. Also, the UN reported that climate change is one of the factors that heighten risks of infectious diseases that transmit from the animal world.

- The Lancet, “[Call for emergency action to limit global temperature increases, restore biodiversity, and protect health](#)” (September, 2021)
- UN Environment Programme, “[Preventing the next pandemic - Zoonotic diseases and how to break the chain of transmission](#)” (July, 2020)

The Bank for International Settlements, a group of the world’s central banks, warned about the risks to the financial systems arising from climate change, calling the situation ‘The Green Swan’.

- The Bank for International Settlements “[The green swan: Central banking and financial stability in the age of climate change](#)”(January, 2020)

4. IPCC, “[AR6 Climate Change 2021: The Physical Science Basis](#)” (August, 2021)
IPCC, “[AR 6 Climate Change 2022: Impacts, Adaptation and Vulnerability](#)” (February, 2022)
IPCC, “[AR 6 Climate Change 2022: Mitigation of Climate Change](#)” (March, 2022)
5. [IPCC defines](#) the term ‘carbon budget’ as ‘the maximum amount of cumulative net global anthropogenic CO2 emissions that would result in limiting global warming to a given level with a given probability, taking into account the effect of other anthropogenic climate forcers’.
6. UNFCCC, “[Glasgow Climate Pact](#)” (Signed on the 13th November, 2021)
7. The US and the British governments have set a goal for carbon free electricity by 2035, while the German government decided to phase out domestic coal-fired power plants by 2030 eight years earlier than previously planned.
8. EU countries, the UK, the state of California, and other central/regional governments have been gradually tightening regulations on ICE cars, aiming for the end of the sales. The US federal government has also been stepping up regulations for emissions from cars.
 - International Council on Clean Transportation, “[Update on government targets for phasing out new sales of internal combustion engine passenger cars](#)” (June, 2021)
 - The Japan External Trade Organization, ‘[US EPA announces the strictest regulations for emissions from vehicles](#)’. (December, 2021)
9. [An infrastructure investment act](#) passed in the US Congress in November, 2021 plans to allocate 73 billion USD (approx. 9 trillion JPY) for infrastructure investments to expand RE such as upgrading the

electrical grid, and 7.5 billion USD (approx. 922 billion JPY) for building EV charging stations. [The Build Back Better Act](#), which includes provisions related to climate change and social policy, is under discussion now, and aims to invest more than 555 billion USD (approx. 62 trillion JPY) in tackling climate change.

EU has announced it will collectively address climate change by tapping into about 30% of the total budget from the EU's 2021-2027 mid-term budget and 'the Next Generation EU', a socio-economic recovery plan from the pandemic (750 billion EUR, approx. 101 trillion JPY), and about 40% of 'the Recovery and Resilience Facility', an initiative to financially support the member states' recovery plans (672.5 billion EUR, approx. 91 trillion JPY).

10. World Bank [“State and Trends of Carbon Pricing 2021”](#) (May, 2021)
11. The figure refers to the ratio of the companies that have set 1.5°C goal-aligned emissions reduction targets through [the Science Based Targets initiative](#) to the global top 30 companies by market capitalization.
12. Net Zero Asset Owners Initiative [“Target Setting Protocol, Second Edition”](#) (January, 2022)
Net Zero Asset Managers Initiative [“The Net Zero Asset Managers Commitment”](#) (December, 2021)
13. SYSTEMIQ [“The Paris Effect - COP26 Edition”](#) (November, 2021)
14. [The Sixth Basic Energy Plan](#) states that maximum introduction of renewable energy should be the top priority and policies should be developed according to the “renewable first principle”.
15. IEA [“Net Zero by 2050 A Roadmap for the Global Energy Sector”](#) (May, 2021)
16. The Ministry of the Environment reported in [‘Japan’s renewable energy potential’](#) that Japan’s potential to generate RE with certain level of economic efficiency amounts to 2,618.6 TWh.
17. According to [‘Offshore Wind Outlook \(2019\)’](#) published by IEA, Japan has a physical potential (9,074 TWh/ year) for offshore wind energy.
18. Masato Yamada, MHI Vestas Offshore Wind, [‘The global trend of offshore wind energy and Japan’s choice’](#) (February, 2018)
Miho Kurosaki, Bloomberg NEF, [‘Utilizing renewable energy as a main source of power, stable supply and cost reduction’](#) (May, 2021)
19. Prime Minister of Japan and His Cabinet, [“Policy Speech by Prime Minister KISHIDA Fumio to the 208th Session of the Diet”](#) (January, 2022)
20. [Trade Statistics of Japan](#) shows that the trade value for mineral fuels in 2021 adds up to about 17 trillion JPY (approx. 137 billion USD).
21. Foreign research institutes and experts are leading the assessments.
 - TransitionZero, [‘The role of advanced coal technologies in decarbonising Japan’s electricity sector’](#) (February, 2022)
 - Stocks et al. [“Global emissions implications from co-combusting ammonia in coal fired power stations: An analysis of the Japan-Australia supply chain”](#) (February, 2022)
22. The World Bank also reported that carbon pricing and emissions trading could provide an incentive to encourage investments.
 - World Bank, [“Report of the High-Level Commission on Carbon Pricing and Competitiveness”](#) (September, 2019)



Japan Climate Leaders' Partnership (JCLP):

JCLP is a coalition of businesses in Japan (206 companies as of April 2022) that aim to create a carbon neutral society, built on the idea that decarbonization is essential to economic development. The group's total sales are 120 trillion JPY (970 billion USD) and electricity demand together amounts to approx. 60 TWh. It was set up in 2009 to encourage the business sector to develop a sound sense of urgency on climate action. Since April 2017, JCLP has been the Climate Group's Regional Delivery Partner on RE100, EP100 and EV100 initiatives in Japan.

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