

Using Business Data to Drive Informed Policymaking on Energy and Climate

Japan Executive Summary

April 2023

Key findings and recommendations from the Ambition Loop Project by the We Mean Business Coalition and CDP¹.

There is a need for a systematic approach to align business ambition, action, and accountability with ambitious policymaking: building a system to provide policymakers with reliable evidence from the real economy to translate Nationally Determined Contributions (NDCs) into effective policy and regulation.



1. The research entailed results of data analysis of CDP 2021 Climate Change questionnaire from 881 companies, representing 79% of Japanese market capitalisation; SBTi; RE100; and CDP's Full GHG Emissions Data Set of 1,130 companies. Consultations with leading businesses from the industrial, transport, and energy sectors were carried out to give depth to pinpoint key policies to incentivize companies to take even bolder steps in their transition. This research wouldn't be possible without the generous funding from the IKEA Foundation through We Mean Business Coalition for the Ambition Loop Project.

What climate ambition and actions are companies taking to transition towards a 1.5°C economy in Japan?



79%

of Japanese market capitalization represented in disclosure through CDP.



72

companies have committed to use 100% renewable electricity through RE100.



43%

of companies disclosing through CDP report having a climate transition plan.



Just

1%

of companies' plans cover all indicators of a credible transition plan.



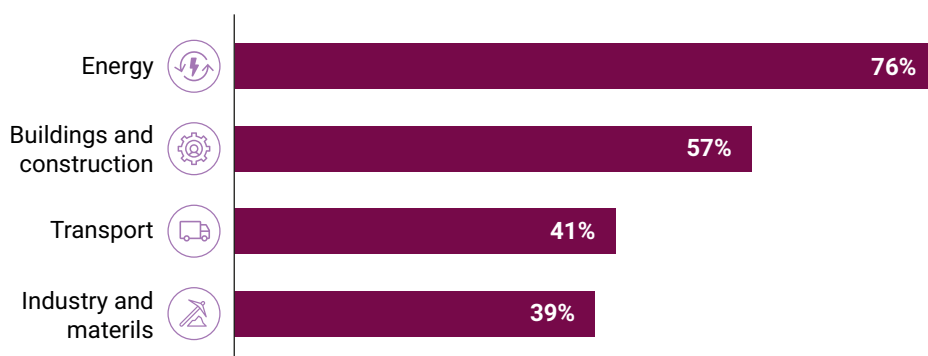
Corporate disclosure is increasing and becoming the norm. Science-based targets and ambition to reduce emissions are rising, but total ambition falls significantly short of 1.5°C.

Japan introduced partial mandatory disclosure in line with the TCFD recommendations for listed companies in 2022, and the Finance Services Agency (FSA) has shown support for future implementation of the International Sustainability Standards Board (ISSB). Alongside the 79% of Japanese market capitalization represented in disclosure through CDP, there has been exponential growth in science-based target (SBT) setting. 218 companies have approved SBTs, 54 have committed to setting near-term SBTs covering the next five to 10 years, and 41 have committed to setting targets aligned with the Science Based Targets initiative (SBTi) Net Zero Standard covering the period until 2050. Additionally, 72 companies have committed to use 100% renewable electricity through RE100.

However, overall ambition is not high enough. If all companies disclosing through CDP delivered against their mid-term targets, they would on average decarbonise at a rate consistent with a rise in global temperatures of 2.5°C for Scope 1 and 2 and 2.9°C (Scope 1, 2, and 3) by 2100.

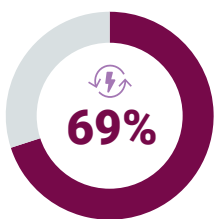
Although Japan leads the regional assessment on establishing credible climate transition plans, there is a long way to go in translating disclosure and plans into action.

43% of companies disclosing through CDP report having a climate transition plan. Energy-intensive sectors have higher shares of plans: energy (76%), buildings and construction (57%), transport (41%), and industry/materials (39%). However, just 1% of companies' plans cover all indicators of a credible transition plan. 38% of organizations reported on more than 80% of the full list of indicators².

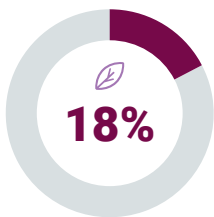


2. Based on the 24 indicators in the CDP questionnaire relating to a credible climate transition plan, which have subsequently been revised to 21 indicators this year. CDP Transition Plan indicators: Technical Briefing, https://cdn.cdp.net/cdp-production/cms/guidance_docs/pdfs/000/003/101/original/CDP_technical_note_-_Climate_transition_plans.pdf?1643994309.

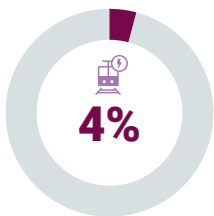
There is high reporting on energy among Japanese companies. However, there remain significant challenges to decarbonization, with few companies currently setting energy-related targets and a low share of renewable energy consumption compared to the G7.



69% of Japanese companies report details of their energy consumption through CDP.



However, only 18% report targets to CDP to increase low-carbon energy consumption or production.



Additionally, companies report a renewable energy share of just 4% of their total energy consumption. This is considerably lower than the G7 average of 15%.

Many major real estate companies have joined RE100, creating pressure on the demand side to introduce more renewable electricity specifically. Despite this, Japanese companies are largely experiencing high priced and scarce renewable electricity in Japan.



What policy changes would support further action, focusing on the most critical ones for companies?



A more joined-up approach to expanding Japan's renewable energy system to increase the speed of deployment.

As part of its NDC, Japan has committed to achieve net-zero by 2050. Specific policy includes a shift to a larger share of electricity generated from RE. However, this relies heavily on carbon capture and storage (CCS), with coal fired power plants to account for 19% of electricity generation in 2030. Until the introduction of CCS and/or the fuel switch to ammonia by 2050, there needs to be more holistic policy support for RE

sources, including wind power, to increase the speed and scale of transition. For instance, a shift from feed-in-tariff (FiT) to auction and fixed feed-in premiums (FiP) would lead to faster RE uptake and lower dependency on private sector efforts. This comes across the introduction of a FiT policy in 2012, which increased the adoption of photovoltaics: the conversion of light into electricity using semiconducting materials.



Sectoral policies to increase access to and availability of renewable electricity.

As RE100 has seen a large uptake in Japan, policy support for RE will be needed to lower prices and increase availability of renewable electricity. This

includes policies at the sectoral level, such as standards for the renovation of existing buildings and energy performance certification.



Carbon pricing regulation

Aside from energy policy, Japan has no meaningful nationwide carbon pricing scheme. Japan plans to introduce a material carbon tax in the 2030s, and the Government is still in the process of setting a voluntary commitment scheme, the details of which are still under discussion. However, several high-emitting

companies stated that they would like to see clear carbon pricing regulations, rather than a voluntary commitment framework, with tax revenues used to support decarbonization investments. A clear roadmap and policies on carbon pricing will enable companies to take bolder steps towards investment.



Alignment with global standards

The deviation of national policies from global standards confuses and delays bold action by companies. For example, the Japanese national voluntary commitment scheme currently under development takes a different

approach to that of the SBTi regarding carbon credits. Alignment between policies and initiatives would be an essential step for companies to determine what action is required.



About CDP

CDP is a global non-profit that runs the world's environmental disclosure system for companies, cities, states and regions. Founded in 2000 and working with more than 740 financial institutions with over \$130 trillion in assets, CDP pioneered using capital markets and corporate procurement to motivate companies to disclose their environmental impacts, and to reduce greenhouse gas emissions, safeguard water resources and protect forests. Nearly 20,000 organizations around the world disclosed data through CDP in 2022, including more than 18,700 companies worth half of global market capitalization, and over 1,100 cities, states and regions. Fully TCFD aligned, CDP holds the largest environmental database in the world, and CDP scores are widely used to drive investment and procurement decisions towards a zero carbon, sustainable and resilient economy. CDP is a founding member of the Science Based Targets initiative, We Mean Business Coalition, The Investor Agenda and the Net Zero Asset Managers initiative. Visit cdp.net or follow us @CDP to find out more.

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