

**Recommendations
of
the EU-Japan Business Round Table
to Leaders of Japan and the European Union**

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**Working Party 4
Environment and Sustainable Development**

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Introduction

The one-sided offensive that suddenly broke out in Europe in February of this year has had an unprecedented impact on not only the international energy market and procurement, which has included a sharp rise in the prices of fossil fuels and electricity as well as the diversification of energy supply sources in many countries, but also the food supply chain due to food and fertilizer shortages.

Achieving climate neutrality by the middle of this century is a universal challenge facing all of humankind and we, the BRT, hold strong expectations for both governments to continue prioritizing the fulfilment of their roles as world leaders in the face of these latest threats by promoting measures to further accelerate the transition to clean and sustainable energy as well as the diversification of energy sources.

The BRT will also support measures by and cooperate with both governments to create a resource-efficient and cyclical economy, consider and maintain biodiversity and other natural capital, and ensure food security.

The BRT supports initiatives led by the EU-Japan Green Alliance that promote cooperation on energy transitions, environmental protection, sustainable finance, and the facilitation of energy transitions in third countries, and we will strive to realize the above by cooperating with specific measures taken by the Alliance.

By taking the above actions, we are determined to cooperate with the promotion of efforts to “nurture a prosperous city where individuals and society are in harmony” through the realization of resilient and comfortable lifestyles in addition to “Green growth strategies for coexisting with the earth and protecting the future.” We recognize that this endeavour will be extremely challenging, and that innovation using discontinuous technology and large-scale lifestyle changes will also be imperative. We will approach these challenges with unwavering determination and are committed to playing a proactive role in resolving them. European and Japanese industries wish to make the following recommendations, including practical measures that should be taken to achieve our objectives while simultaneously promoting economic growth and job creation as well as plans for acquiring the necessary technologies and solutions.

Recommendations from both European and Japanese industries

Environment: “Green growth strategies for coexisting with the earth and protecting the future”

WP-4/#01/EJ to EJ Measures and policies of both authorities against climate change

The BRT calls on the EU and Japanese Authorities to:

- find technologically and economically viable options and take a flexible approach with a reasonable and realistic transition period towards achieving an ambitious target for a decarbonized society.
- facilitate and promote high-level dialogues with authorities of emerging countries, strongly recognizing the magnitude of impact that progress towards decarbonization in emerging countries has on global environment. To solve issues which emerging countries are having toward that, we also request both authorities to accelerate support such as sharing knowledge and effective solutions with emerging countries regarding technologies and solutions on decarbonization accumulated in EU and Japanese industries.
- take measures based on the three integrated perspectives of climate change countermeasures, biodiversity conservation, and the transition to a circular economy. Decarbonization-biased efforts should not result in the loss of biodiversity, and linear economic models must not impede its sustainability.
- demonstrate strong leadership towards the swift creation of a platform that can be used to share CO₂ emission data and introduce common rules to every company involved in the supply chain for the production of raw materials, parts manufacturing, product manufacturing, sales, and the transportation that connects them. We also request that both authorities provide assistance as necessary and devise rules that will enable SME to easily calculate, comprehend, and provide other companies with data for their own CO₂ emissions. To this end, global efforts and cooperation across companies, industries, and countries will be crucial, and we therefore call on both authorities to develop strong initiatives and further strengthen cooperation with industry.
- promote measures prioritizing resource recovery that emits fewer greenhouse gases.
- formulate cross-country policies with all sovereign states that are major contributors to climate change to ensure that domestic industries in the EU and Japan are not penalized more harshly than industries in third countries.

- promote carbon-neutral, sustainable energies while conducting research and development of biofuels and E-fuel production and usage as well as other new immature energies towards the commercialization of carbon neutral energy technologies and the like.
- introduce WTO compatible subsidies or incentive schemes including the imposition of fees on end-users that reflect the indirect benefits to society brought about by investment in decarbonization by industry.
- take effective measures to encourage both governments to introduce sustainable energy contributing to decarbonization to the public sector, including government procurement rules.
- facilitate further cooperation between the EU and Japan to promote quality infrastructure systems in partner third countries further utilizing frameworks such as “The Partnership on Sustainable Connectivity and Quality Infrastructure Between Japan and the European Union” concluded in 2019.
- facilitate further hand-in-hand cooperation between the EU and Japan in the area of sustainable finance as a catalyst towards a decarbonized society with the aim to coordinate and promote a consensus in international fora and to make taxonomy operational and usable for business while maintaining economic feasibility.
- ensure that the measures taken by both authorities will not lead to stagnation of corporate investments in R&D and capital, protectionist trade, and/or the stifling of innovation. In view of this, we believe that the potential impacts and implications of the application of a carbon border adjustment mechanism, which is currently being discussed by the EU, should be carefully assessed and fully understood.

The BRT believes that:

- the EU and Japan must remain forerunners in this area by representing the global conscience of all humanity and actively promoting this view to all other industrial countries worldwide to ensure they share the same measures and adopt the same rules and regulations to achieve a carbon-neutral economy and implement appropriate measures to accomplish this goal.
- to reduce CO₂ emissions across the entire supply chain, it is necessary to accurately comprehend not only the CO₂ emissions of each company but also the CO₂ emissions of the supply chain as a whole (e.g., procured goods, services, transportation, delivery). As such, there is an urgent need to develop common rules and mechanisms. Many large companies in Japan and the EU have been able to comprehend their own CO₂ emissions through long-term efforts, and we understand there is a pressing need to develop rules that even the small- and medium-sized enterprises comprising the supply chain will be able to use to calculate and comprehend their own CO₂ emissions as well. We also believe that in the future it will be necessary to consider calculating the reduction amount as the contributed amount in cases in which companies produce, sell, and provide products and services by utilizing the targeted supply chain. In addition, at the Green x Digital Consortium established by JEITA in October of last year, both companies that provide digital technologies and those that use them gathered together to promote activities aimed at deepening discussions on the creation and implementation of new digital solutions that will lead to corporate behavioural

changes as well as the transformation of industry and society. And the European Green Digital Coalition (EGDC), which was launched in March 2019 aiming to harness the enabling emission-reducing potential of digital solutions to all other sectors including activities in developing measure of net reducing contribution by ICT(scope 4), is actively working. We encourage both authorities to make further use of such industrial activities and knowledge.

- the only way to achieve ambitious climate targets for 2030 and to promote a circular economy is close joint collaboration aimed at reducing the complexity of market entry (especially for strategic sectors such as waste and energy), promoting international standardization as well as simplifying and accelerating the administrative processes to obtain permission for new investments and technologies.
- the EU and Japan need to cooperate in moving towards electrification of the grid and achieving decarbonization of carbon-intensive sectors such as building sectors (e.g., by rapid promotion of heat pumps) to achieve a carbon neutral society.
- in sustainable finance, enabling activities and transitional technologies will continue to play an important role in mobilizing all necessary means to achieve the objective of sustainable finance, including the zero-emission ambition.

WP-4/#02/EJ to J The Japanese Government's development of policies toward the realization of carbon neutrality

The BRT calls on the Japanese Authorities to:

- recognize that energy data management without equipment, as exemplified by virtual power plants (VPP) and resource aggregation services, also plays a major role in contributing to the realization of carbon neutrality, and to develop policies to accelerate the expansion of such forms of management accordingly. The specifics of this are as follows.
 - ✓ Target projects for the Green Innovation Fund are currently being considered, and VPP and resource aggregation services should be included as Green Energy. We also believe the Japanese government should include electric power supply and demand infrastructure utilizing distributed power supply under also the theme of “Transformation of the Industrial Structure.”
 - ✓ To promote the introduction of distributed energy sources by companies, it will be imperative to not only utilize but also realize the widespread use of storage batteries as they hold the key to controlling fluctuations in electric power generated by renewable energy. Moreover, the provision of an appropriate level of subsidies should be promoted and expanded to support and accelerate the introduction of storage batteries by companies.
 - ✓ The application system for reverse power flow and self-consignment, which currently differs among power companies, should be unified. In addition, the approval process for self-consignment across areas (between power companies) must be simplified.
 - ✓ To clarify the contribution and value of companies that use distributed power sources to achieve carbon neutrality, policies should be developed to

provide incentives to such companies in terms of carbon taxes, border carbon taxes, emissions trading, and more.

- ✓ implement policies to encourage companies that own distributed power and resource aggregation operators to enter the market and expand transactions involving distributed power sources since current transactions in the supply and demand adjustment market are overwhelmingly dominated by power from thermal power plants. Specifically, this will involve the introduction of quotas for the use of distributed power sources in the supply and demand adjustment market, incentives for the trading of distributed power sources, and the development of preferential bidding.

The BRT believes that:

- since the plan devised by the Japanese Government (i.e., Agency for Natural Resources and Energy's 6th Plan) calls for 38% of the power source composition in 2030 to be covered by renewable energy, an adjustment capability of 20 million kW is supposed to be required as maximum considering output fluctuations derived from renewable electricity. Meanwhile, as there are various uncertainties when it comes to achieving this ambitious plan, we recognize that it will be necessary to promote in parallel and on a large scale the provision of power supply from companies that own energy resources; that is, the utilization of distributed energy resources. We view this as an effective means to accelerating the introduction of renewable energy with the aim of achieving the plan.
- including "the actual situation of providing distributed energy resources owned by companies" in the requirements of the Task Force on Climate Related Financial Disclosure (TCFD) will enable companies to be evaluated fairly and derive value by reducing CO2 and making social contributions to decarbonization.
- evaluating the Japanese government's policies for developing a two-trillion-yen fund as part of NEDO (i.e., Green Innovation Fund) and using this fund to support companies with everything from R&D to proof of concept and social implementation will make it possible to accelerate structural transformation in the energy industry sector and innovation through bold investment.
- while the targets for allocation of this fund are now being considered, with a primary focus on hydrogen, renewable energy, EV, and other equipment and hardware, recognition should be given to the fact that taking full advantage of digital transformation that utilizes IT and software is also very effective.
- it is essential to expand virtual power plants (VPP) that manage multiple distributed energy resources together and enable them to function like a single power plant as well as resource aggregation services that improve efficiency and to realize optimization by matching surplus power generated from renewable energy to the market.

WP-4/#03/EJ to EJ Promotion of resource efficiency and the circular economy

The BRT calls on the EU and Japanese Authorities to:

- avoid the pursuit of resource efficiency through exceedingly regulatory approaches, which could inhibit innovation and economic growth, and instead use promotion through voluntary efforts by stakeholders with associated incentives.
- pursue resource efficiency from the viewpoint of an international circulation system based on the fact that movement of secondary raw materials across borders is now the norm. On the other hand, as global supply chain risks become apparent, we also call on both authorities to develop a policy promoting the optimization of both international and regional circulation since we believe it is essential to also promote regional circulation, as well as international circulation, from the perspective of maintaining and securing economic security.
- promote alignment and simplification of related standards and regulations of products made of renewable resources contributing to the circular economy, with incentives for R&D and commercialization.
- recognize that Japan and the EU should not only move forward with efforts aimed at improving resource efficiency but also work together to formulate consistent national and international rules and treaties to this effect.
- take measures to visualize the entire utilization cycle from the manufacturing of products to their shared use, reuse, recycling, and disposal as well as to realize and accelerate supply and demand control in resource circulation through means such as matching products and assets with users by utilizing the traceability of raw materials, parts and products, and AI.
- specifically target SMEs as they account for a large number of entities and jobs and thus contribute significantly to the issues at hand.
- continue to play a leading role in the Global Alliance on Circular Economy and Resource Efficiency (GACERE) launched in April of last year with the aim of providing a global impetus for initiatives related to the circular economy transition, resource efficiency, sustainable consumption and production patterns, and inclusive and sustainable industrialization.

The BRT believes that:

- resource constraints are likely to inhibit economic growth over the medium to long term. This is why it is imperative to improve the efficiency of resource use.
- the circular economy holds the potential to create business opportunities that will lead to additional economic growth and job creation in the future.
- discussions on resource efficiency and the circular economy must go beyond recycling and other aspects of pure reuse to cover a wider range of concepts of product longevity, frugality and efficient use, thus impacting manufacturers, service providers, and other companies, to consider the extension of product life, the sharing of services, and the provision of goods and services through operational billing.

- the key to fully harnessing the potential of renewables is not only the required energy efficiency but also the optimization of energy use by leveraging digitization, energy management & analytics, demand flexibility, batteries, hydrogen, and more. Regulatory frameworks should foster these pursuits by levelling the playing field (i.e., pricing externalities) to enable fair competition and the pursuit of the most sustainable and competitive solutions.
- collaborations by companies, administrations, and industries that transcend existing frameworks are integral to realizing the circular economy. Until now, there have been individual supply chains for each company or industry, and data on production, logistics, and sales have remained separate. To make the circular economy a reality, we believe it is important to link and control data such as supply and demand and the usage of a variety of raw materials and products beyond existing frameworks.
- product design and the procurement of raw materials based on the premise of reuse of products and resources are important. To this end, it is imperative to have a mechanism that can be used to trace data on the original components of products and the place of origin of raw materials.
- the pursuit of resource efficiency through excessively restrictive approaches could inhibit conventional economic growth. Therefore, it is desirable to choose an approach that will enable economic growth by combining incentives with reasonable regulation, such as the promotion of resource efficiency through voluntary efforts by stakeholders.

WP-4/#04/EJ to EJ Natural Capital and Biodiversity

The BRT calls on the EU and Japanese Authorities to:

- continue to lead international discussions towards COP 15 of the Convention on Biological Diversity and to actively promote the development of 30by30, especially for other effective area-based conservation measures (OECM), which will be the key to its achievement. In addition, we request both authorities to further promote the accumulation of data and the development of infrastructure related to biodiversity, and to actively develop environmental measures from the viewpoint of total optimization that can be implemented over the long term as well as nature-positive measures and models in third countries under circumstances in which the global economy is further blocked.
- continuously promote the study and development of the natural capital value of forests from the perspective of biodiversity. We also call on both authorities to guide and promote the creation of highly reliable common rules based on international organizations and government-led standards for the mechanism of private initiative (i.e., voluntary credit) since the carbon offset credit system for CO₂ forest absorption will need to be further developed and utilized from the viewpoint of climate change measures as mentioned in the previous section.
- develop policies that encourage companies and business to support R&D and capital investment aimed at providing solutions and services contributing to the sustainability of agriculture, reducing environmental load, implementing measures

against climate change, and responding to the aging of the working population and the resulting loss of know-how by using the latest AI and digital technologies that replicate the techniques of skilled farmers. More specifically, tax incentives, the provision of appropriate subsidies, and support for on-site implementation.

The BRT believes that:

- it is valuable that the Japanese and EU Authorities are leading the international debate towards COP15 of the Convention on Biological Diversity and this is much appreciated. We will also support and continue to actively cooperate with measures to develop the 30by30 Roadmap and achieve the goals prior to the agreement of the Post-2020 Biodiversity Framework.
- forests are naturally one of the core environmental assets that not only provide global environment and ecosystem services but also bring immeasurable benefits to humankind (e.g., food supply, water circulation, climate stability). We also understand that management of forests owned by individuals and companies is an important factor for OECM. In addition, it is imperative to continue working to improve and utilize the carbon offset credit system for CO₂ forest absorption.
- demand for agricultural products is expected to further increase worldwide due to population and economic growth in a harsh global environment marked by climate change, global warming, soil pollution, and soaring water and fertilizer prices, but we also understand it is necessary for agricultural production to tackle various issues such as developing measures against decreases in the number of producers, reducing environmental burden, and ensuring the safety of food. In particular, we should combine agronomics (i.e., agricultural science) with advanced digital technologies such as AI to promote accurate, efficient, environmentally friendly, and profitable farming as well as expand sustainable agriculture in every country.

Secure & safe cities and their management:

“Nurturing prosperous cities where individuals and society are in harmony”

WP-4/#05/EJ to EJ : Realization of a resilient and comfortable life

The BRT calls on the EU and Japanese Authorities to:

- address with utmost priority the development and implementation of secure, safe, resilient, and high-quality city infrastructures that consider life-cycle cost, which is essential for realizing sustainable and inclusive societies as well as the services associated with such infrastructures. This is necessary because city design and management have a serious and tremendous impact on creating attractive and ideal residential circumstances compatible with both societies and people.

- continuously promote the functional improvement of local cities/rural areas and the distribution of functions along with the development of urban cities. In particular, as stated above, increasing the use of renewable energy is essential for realizing decarbonization; however, appropriate energy distribution to local cities/rural areas including the introduction of microgrid technologies should also be promoted from the perspective of decreasing the cost of power transmission and the dispersion of risks in times of disaster. Likewise, there is also a need to implement policies to accelerate initiatives towards “local production for local consumption” from the point of view of promoting the circular economy and reducing CO2 emissions. Greening cities should be promoted to improve air quality, lower GHGs and ultrafine dust particles in cities, create better livelihoods, and facilitate temperature regulation.
- take the lead in promoting market introduction of energy conservation and energy efficiency technologies and their supporting infrastructures as well as encouraging the alignment and simplification of related standards and regulations. We also ask both authorities to promote the development of advanced technologies that boost energy efficiency through best practices as well as to implement stimulus measures such as investment in methodologies and to promote disruptive innovation in cities, which will have a particularly significant impact on the above. This includes the shifting of social systems and lifestyles by adopting the latest technologies from ICT breakthrough innovations and the promotion of networking through the utilization of digital technologies. One excellent example of this is smart lighting that renders streetlights intelligent by increasing the amount of light only when cars and pedestrians require it. This results in not only energy conservation but also measures for light hazards and the improvement of safety at night.

The BRT believes that:

- resilient and comfortable cities require a wide range of basic, high-quality infrastructure and associated services to be viable and sustainable, and infrastructure development is vital for economic growth because it can create jobs, alleviate poverty, and improve quality of life for urban residents. In addition, as climate-related natural disasters thought to be caused by global warming such as hurricanes, droughts, and wildfires become more intense and frequent, cities will find themselves damaged by large-scale disasters, thereby leading to massive amounts of CO2 being emitted as a result of reconstruction projects required to rebuild infrastructure. Therefore, from the perspective of preventing global warming, we believe that it is also extremely important to accelerate the introduction of disaster prevention and mitigation solutions that make infrastructure more resilient to disasters.
- issues such as congestion and the depopulation of cities can result in lowering the level of services and sustainability of cities. On the other hand, it is possible that the distribution of functions and people to local cities/rural areas from a state of extreme concentration in urban cities will accelerate along with advances in digital technologies under the new normal in the post COVID-19 era. We believe that this will lead to a certain level of progress in the mitigation of urban issues caused by overcrowding and in the reassessment of social values and changes in people’s behaviour leading to improvements in quality of life, including work-style reforms,

in addition to reducing the risk of infectious diseases. The Digital Garden City Nation Initiative currently being promoted by the Japanese Government aims to enable all citizens, regardless of place of residence, age, or gender, to live a fulfilling life that combines comfort and peace of mind according to their lifestyles and needs and to create a society in which citizens and businesses can enjoy the benefits of digitalization through the creation of new services that contribute to the improvement of work and life in rural areas, the improvement of sustainability, and the realization of well-being, thereby creating a society where everyone can live conveniently and comfortably anywhere. BRT supports this initiative.

WP-4/#06/EJ to EJ: Promoting optimization of city management

The BRT calls on EU and Japanese Authorities to:

- take the following steps and measures from the point of view of accelerating optimization of city management through trusted City-as-a-Service and data-driven solutions that provide the most suitable services to residents, healthy buildings, and healthy precincts.
 - ✓ Promote policies to introduce and utilize innovative digital technologies for realizing a sustainable society. Specifically, we request both authorities to review and introduce taxation systems and laws/regulations that encourage companies to make investments in R&D and capital. In addition, we ask both authorities to introduce a policy to encourage businesses to recognize and reduce the total cost of ownership as opposed to capital expenditures only.
 - ✓ Promote policies to develop infrastructure for data utilization. More specifically, a policy to accelerate the introduction and utilization of City Operating System (OS). A good example for the development of smart cities is the use of FIWARE – the evolving, open-data utilization platform developed through European initiatives that enables IT vendors to freely add new services to an open Application Programming Interface (API). We call on both authorities to secure a sufficient budget to urge each government in Europe and each local government in Japan to actively introduce, use, and share data utilization infrastructure. In addition, we request both authorities to implement the following measures to promote the free flow of data and AI utilization, which will be key to the full functioning of data utilization infrastructure.
 - Demonstrate leadership and strive to strengthen further cooperation with businesses to promote the free and reliable flow of data across borders.
 - Promote the utilization of AI by placing the highest priority on compliance with relevant laws and regulations in each country/area and on respect for human rights. We also request that both authorities cooperate with the private sector in establishing and implementing policies and guidelines aimed at preventing and addressing human rights issues. We ask both authorities to refrain from introducing regulations that strongly and negatively impact or suppress the development and utilization of AI technologies.
- promote optimization of city management at various levels of scale (e.g., building, neighbourhood, infrastructure).

The BRT believes that:

- city management will become primarily focused on high-level operations of habitation and mobility through City as a Service, which provides services suited to the diverse values of residents by combining various types of big data to visualize the city's circumstances and predicting possible changes in cities through AI analysis. We also believe that data-driven city management utilizing digital twins, which enable low-cost and speedy execution of large-scale analysis and simulation that are difficult to conduct in real cities, will be particularly effective in disaster prevention planning and the measurement of policy effectiveness.
- the free and reliable flow of data across borders and the utilization of data across domains to address social issues while enhancing data security and privacy are necessary from the perspective of accelerating the above.
- its duty is to support the Japan-EU Digital Partnership launched in May of this year and to cooperate with each specific measure aimed at promoting the optimization of urban city management.

WP-4/#07/E to EJ Increase the rollout of EVs and the necessary infrastructure

The percentage of EVs in new car sales in Japan in 2020 is about 0.6%, which is quite low compared to other countries. The situation in the EU regarding the EV transition is only slightly more advanced than in Japan, with ACEA claiming that around 24.5% of cars sold in the EU are alternatively fuelled. This figure does not differentiate between hybrids, EVs and hydrogen-fuelled cars.

The BRT calls on the EU and Japanese Authorities to:

- Impose stricter CO2 standards for cars and vans.
- Introduce Alternative Fuels Infrastructure Regulation, aiming to increase the coverage for EV charging and hydrogen refuelling along the main transport network lines (like the EU's Trans-European Network for Transport for Transport: TEN-T) to maintain long-distance viability of alternatively fuelled vehicles.
- Introduce charging infrastructure requirements for existing, renovated and newly built buildings with different targets per category.

The BRT believes that:

- In its Green Growth Strategy accompanying the 2050 carbon neutrality, the Ministry of Economy, Trade and Industry (METI) has decided on a framework such as "Comprehensive measures will be taken to achieve 100% of new passenger vehicle sales being for vehicles that are electrically driven (Electric Vehicles, Fuel Cell Vehicles, Plug-in Hybrid Vehicles, Hybrid Vehicles) by 2035. With regard to commercial vehicles, for light-duty vehicles of 8 tons or less, the government will take comprehensive measures, including the introduction of vehicles and promotion of infrastructure development, aiming for 20-30% of new vehicle sales to be electrified vehicles by 2030, and 100% of new vehicle sales to be electrified

vehicles and vehicles suitable for the use of decarbonized fuels such as synthetic fuels combined by 2040. As for large vehicles over 8 tons, we will aim to introduce 5,000 units of electrified vehicles in advance in the 2020s while promoting technological verification to develop and promote the use of electrified vehicles suitable for commercial use such as cargo and passenger businesses, and we will also set a target for the diffusion of electrified vehicles in 2040 by 2030, taking into account the progress in technological development and diffusion efforts to reduce the price of hydrogen and synthetic fuels.”

- The European Commission has proposed that the EU aim for a 40% share in renewables by 2030. In view of the recent invasion of Ukraine, a 45% renewables target is now being proposed by the European Parliament and is likely to receive support.
- Within the EU there are numerous policies aimed at increasing the rollout of EVs and the necessary infrastructure to make them a viable alternative to regular internal combustion engine (ICE) vehicles.
- The proposal from the European Commission aims to phase out the sale of ICE vehicles by 2035, with intermediate decarbonisation targets for 2025 and 2030. The European Parliament are aiming to increase these targets but will have to negotiate their position with the European Council, who will likely water down the proposals.