

How to promote the handling of environmental problems from financial aspects

An age where corporate environmental measures and information disclosure will be evaluated based on common global rules

Where does one's company stand in the coming carbon-free society?

Oyama: Professor emeritus of Hitotsubashi University, Yoko Ishikura, claims that inclusive growth shall be led by corporations, rather than government. What do international NGOs currently expect from corporations?

Yamagishi: The Paris Agreement adopted in 2015 was a momentous watershed, and saw the entire world shifted towards a carbon-free future. That is still the case, and various competition for decarbonizing society has begun. I want Japanese companies to join this movement.

Rather than passively responding to governmental regulations, companies need to think about their own place in the coming carbon-free society, and take self-motivated actions from that perspective.

Takase: We have three expectations for companies. The first is the active disclosure of information. In the global society, efforts made by companies are only recognized upon the voluntary disclosure of information. The second is to disclose information in accordance with global rules. The third is for CEOs to tangibly come to a realization that the whole world has shifted towards a carbon-free future.

Oyama: It is a commonly thought that Japanese companies are not sensitive to global changes.

Yamagishi: I participated in the Global Climate Action Summit (GCAS) held in California in September, but it is extremely rare to see the heads of Japanese companies at such international forums. When Japanese executives do occasionally make a speech, they almost invariably read a prepared script. Since companies in Japan do not move without their leaders first doing so, surely these companies will change significantly when their executives are as good committed enough to a carbon-free society as that they will speak on the international stage in their own words.

Takase: On July 20, approximately 100 Japanese companies and local governments, those who are supportive of the Paris Agreement, established the Japan Climate Initiative (JCI). As is common overseas, various non-governmental groups have joined together and are working to build an organization that works

towards realizing the goals of the Paris Agreement. WWF, CDP, and the Renewable Energy Institute work as the secretariat of the initiative, and also participated in GCAS as JCI. I believe that by joining JCI, companies can really get the feel of the global movement towards establishing a carbon-free society.

Nobukuni: Japanese companies have disclosed non-financial information before the introduction of integrated reports, but the creation of the reports itself is often seen as the goal and the information is not fully utilized in financing and the company's business.

Yamagishi: Even before integrated reports, companies have been creating environmental reports and CSR reports, but this was usually a case of "others are doing it so I better do it too." The problem is that information is not disclosed in a standardized form. Even within the same industry, reports are mass produced in a form that does not allow comparison, and companies tend to emphasize the information that they want to convey and avoid disclosing other information. In order to improve this situation, we have been creating a "Ranking of Japanese Corporations for Effective Efforts to Address Climate and Energy Issues" since 2014, which evaluate environmental reports and integrated reports for each industry.

Takase: At CDP, rather than relying on companies to disclose information, we focus on the GHG (greenhouse gas) protocol to create a common language, and adopt a scoring method to enable disclosed information to be compared. From 2018, we have also created a questionnaire in a format that complies with the TCFD (Task Force on Climate-related Financial Disclosures), and the number of responses from companies has increased.

Oyama: Although there are companies that are trying to disclose information based on common global protocols, unfortunately there are also some executives that hold a skeptical point of view and doubt the benefits of doing so.

Takase: The SBT (science-based target of 2 degrees for corporations) includes "Scope 3." Scope 3 is also applicable to company suppliers and in many cases, the SBT cannot be passed without setting targets for the entire value chain. In regard to RE100, companies such as Apple and Ikea do not only make declarations themselves, but have also pledged to request their suppliers to do so. In other words, companies that do not take such measures run the risk of not being selected as suppliers in the future.

Yamagishi: Of course, companies also take a risk by making such a declaration. This is because making a declaration without following through will subject the company to great criticism. Japan has a culture that respects "action before words," and I believe that there is a large number of companies that would not want to take the risk of making a declaration before acting.

Nobukuni: We have to also think of the risk of not making a declaration. By not stating the company's stance on climate change, suppliers and customers that do not agree with the company's philosophy would enter the value chain. This certainly entails a grave risk for the future of a company.

The stance of investors has greatly changed

ESG analysts for public pensions

Oyama: On the other hand, what can investors expect from companies?

Takase: They can expect companies to provide comparable information based on a common language, and to disclose the information in a manner that is easy to understand. The stance of investors has been greatly changing. On a global level, the most advanced investors are public pensions, and many of them have ESG analysts that are making unique decisions. CDP released a shared environmental fund rating called "Climetrics" in Europe, and the time has come for asset owners to utilize such tools to select asset managers based on environmental evaluation scores.

Yamagishi: Changes are gradually happening in Japan also. At this year's general meeting of shareholders, several proposals regarding energy policies for nuclear power and coal were brought up by institutional investors. As we see it, it is easier for B2C companies to promote changes. Since companies that target general consumers as their customers place importance on their image, it is relatively easier for such companies to tackle problems such as climate change and the problem of ocean plastic. We could feasibly then approach upstream B2B companies.

Nobukuni: Efforts for tackling climate change and protecting the environment are often implemented by IR departments and CSR departments, and rarely coordinated with the CFO who is

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Takase: TCFD and CDP both evaluate companies based on if they integrate climate change with various other risks, not handling it specially, how they position it within their overall business strategy, where sources of income are, and how they are implementing countermeasures.

We want companies to look at these risks and opportunities as two sides of the same coin and aim to tackle climate change as one of elements that comprise their business strategy.

Oyama: TCFD is very important as a concept for seeking a transformation in governance that includes the upper management of a company. Will its influence increase?

Takase: It must. As the problem of climate change actually becomes worse, I do not believe that society will tolerate the further aggravation of the problems facing the natural environment. I want the upper management of companies, including the CFO, to think about how much loss will be incurred unless company efforts are evaluated based on a common global protocol.

Yamagishi: It is important to not simply fulfill the requirements of TCFD, but understand the meaning beyond the requirements. Various simulations are predicting the occurrence of powerful typhoons and increased rainfall and heat waves, even in Japan. Taking this scientific information into account, TCFD asks "Aren't companies going to do anything? Are they properly thinking about the safety of their employees and the sustainability of their business?"

With the major shift towards a carbon-free society, companies are also faced with the question "How will the business of your company be able to survive 50 years in the future?"

If companies recognize these questions but do not take action, they will be considered as being devoid of action by society and investors alike. I hope companies will take concrete actions in regard to the important message behind TCFD.



From left to right: Koichi Oyama, Kae Takase of CDP Worldwide-Japan, Naoyuki Yamagishi of WWF Japan, and Yasushi Nobukuni