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# sustainable japan

## LDP seeks Japanese voice in formulating ESG rules

### ESG Talk

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The Treasury and Finance Division of Japan's ruling Liberal Democratic Party has made recommendations to promote investment and loans that support a sustainable society and economic growth, or what is known as sustainable finance. The move is aimed at leading domestic discussions in a systematic manner and helping make Japan and Asia's perspectives be reflected on the international stage, as efforts to design regulatory infrastructure and rules on businesses' disclosure of environmental, social and governance (ESG) information are being led by the European Union.

Keisuke Suzuki, a Lower House member of the LDP who led the initiative to create the party's recommendations, said this is "a very important year for the creation of international rules." He added, "And it's the last chance for Japan to get involved in the process to formulate these rules."

The initial motivating force for the LDP's recommendations was an acceleration in discussions on information disclosure, led by the Task Force on Climate-related Financial Disclosures, in response to investor shortsightedness known as "quarterly capitalism" that emerged after the global financial crisis in 2008, and also to a heightened sense of crisis about the risk of the devastating impact that climate change

might have on businesses. At that time, the "need to, in a sense, redefine capitalism" on the basis of long-term revenue began to be asserted, according to Suzuki.

### Quantifying future risks

In recent years, the international financial industry has shared a growing perception that nonfinancial information — including how businesses address ESG issues, including climate change — is very important in judging long-term revenue, value and business sustainability. While the concept of corporate social responsibility, which attracted attention in the early 2000s, is often discussed in the context of contributing to society, Suzuki said that sustainable finance and ESG investment, in which businesses' long-term profits or future earnings are quantified and evaluated, are "similar but different."

Taking account of these, the LDP recommendations reconfirmed that the disclosure of information — mainly nonfinancial, including businesses' sustainability over the long term and their sensitivity to various risks — is essential. The recommendations included a call for Japan to become actively involved in the process of formulating international disclosure rules, and proposed to include a call for businesses to disclose such information in Japan's corporate governance code and begin discussions on ways to eventually make such disclosure mandatory for businesses. In response to the recommendations, the revised corporate governance code, which took



HIROMICHI MATONO

effect this past June, introduced new provisions on climate change risks and corporate governance. In addition, the recommendations sorted out the roles that should be played by financial institutions, the financial watchdog and the central bank, pointing out that it is important in Japan, where indirect financing plays a relatively large role, for financial institutions to conduct stress tests in a steadfast manner and for the central bank to monitor them.

### Criteria that respect variation

Suzuki spoke of "taxonomy," an area where the EU leads, in explaining why Japan should be involved in formulating interna-

tional rules. Taxonomy is, for example, a system of organizing economic activities based on whether they are environmentally friendly. It can provide important criteria for evaluating investment decisions but risks creating inequality if it fails to take into account circumstances that differ from country to country.

As an island nation, Japan has largely self-contained power grids. It also has more old, established companies than startups. Because of these characteristics, there is an overall tendency for Japan to be cautious at first about energy-related changes but then quick to embrace them once they begin to be adopted. "The evaluation of the progress

of greening may completely change in five years or 10 years from the present," Suzuki said. "The government needs to, for example, call for the inclusion of timelines in the scope of evaluations."

Suzuki also referred to a recent increase in attention on a form of financing that supports the phased reduction of greenhouse gas emissions, known as transition finance. Although acknowledging that it will provide necessary support especially for emerging Asian nations that are still in a growth phase, Suzuki warned that it also "may be used as an excuse in an advanced economy like Japan" for slow progress toward decarbonization.

### Changing industrial structure

Suzuki said a key issue for the Japanese economy is to find ways to change its durables-driven industrial structure, in view of the current rapid diversification of consumer needs. "What the government should do is to paint a vision to be realized in 10 years or 15 years, for example, and work out rules for encouraging (industries) to transition to it," Suzuki said. "It should work to help the appropriate innovations to emerge by showing the direction to encourage changes, creating an appropriate market and creating appropriate investment flows."

"In preparing the recommendations, we aimed to cause changes in awareness about that," he added.

Suzuki believes a key to Japan's growth is to find ways to channel human resources and funds to areas that have growth potential. "This is the case for the world of investment, but we have entered an age in which people choose businesses, instead of businesses choosing people," Suzuki said, "and in that sense, too, companies must disclose information." He expressed hopes for changes at Japanese companies in terms of employment, work styles and salary systems, not just the way they disclose information.



**Keisuke Suzuki is a House of Representatives member and the director of the Liberal Democratic Party's Treasury and Finance Division.**  
HIROMICHI MATONO

### Accelerating efforts on rules

Lastly, Suzuki predicted that efforts led by Europe to work out international rules may suddenly accelerate, as the next summits of the Group of Seven leading industrial nations and the Group of 20 leading rich and developing nations will take place in Europe and the 2021 United Nations Climate Change Conference will begin in Britain at the end of October, in addition to the fact that the effort to create global standards for ESG information disclosure is led by the London-headquartered International Financial Reporting Standards Foundation, which establishes international accounting standards.

"This is going to be a crucial year" that will decide whether Japan can have its views reflected, he said. "In order for Japan to remain one of the leaders among Asian nations, it is essential for it to represent the voices of island countries in Asia and the Pacific Ocean at international conferences, and that's the role it is expected to play," Suzuki said. "I hope to keep that in mind in fulfilling our responsibilities in the work to create (ESG-related) rules."

*The ESG Talk series are interviews with business leaders who are active proponents of ESG investing and practices in Japan.*



**Suzuki served as vice consul at the Consulate General of Japan in New York and worked on loan at the Ministry of Health, Labor and Welfare. He retired as a government official in 2005.**  
HIROMICHI MATONO

## Locally active vineyards face impacts of global climate change

### Satoyama ~ Authentic Japan

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Japan may not be recognized as a major grape- or wine-producing country, but actually there are vineyards and wineries all along the archipelago.

The 19th Satoyama Cafe, an online talk session organized by the Japan Times Satoyama Consortium, invited panelists from wineries from three very different regions to discuss how they make grape and wine production a sustainable business and how they are coping with climate change.

Coco Farm and Winery in Tochigi Prefecture began as a vineyard that a teacher of a special class mainly for mentally challenged junior high school students started with his students in the 1950s in the hope that the outdoor labor would bring out their enthusiasm and give them satisfaction. About a decade later, Kokoromi Gakuen, a social welfare corporation that serves as a facility for the mentally challenged of all ages, was established. The facility, together with its users, manages the vineyard. After another decade or so, the winery was launched, using grapes purchased from Kokoromi Gakuen.

Chieko Ikegami, a daughter of the teacher and now the senior managing director of the winery, said: "We don't use herbicides because we don't want to deprive the workers of their jobs. As a result, many plants grow, bugs and birds



**Setouchi Jozozo's main building was designed by architect Daisuke Sugawara on the site of a former shipyard.** SETOUCHI JOZOJO

fly around, and a new job is created: chasing such creatures away." Their way of "not fighting with nature, but being aware that humans are part of nature" is also embodied in how they make their wines. "We use basically wild yeasts because different kinds of yeasts become active for each fermenting stages, making each wine unique," she said.

Sun Mamoru Winery was the first company in Aomori Prefecture to grow grapes and make wine. The city of Mutsu, which is home to the winery, is located at the northernmost tip of Honshu, where Pacific easterlies called *yamase* can bring cold weather that damages crops. However, the winery's vineyard, which was going to be used as a golf course, is located on the south side of the Osorezan mountain range, which blocks the wind.

Once it won a prize in a national wine competition and was publicized in a local newspaper, its wines started to sell and be recognized locally. Not only that, but farms struggling with issues such as a lack of successors or unsold fruit started to seek support from the winery. "We don't want to say we cannot help without trying," said Yoshihisa Kitamura, the representative director of the winery. "Now we are even engaged in livestock farming because a livestock farm in the neighborhood had unused facilities because there aren't enough people to run the whole place anymore," he said, stressing that someone has to pass on the accumulated know-how for the future of the livestock industry.

Setouchi Jozozo, a winery in Hiroshima Prefecture, also aims to solve regional issues with local residents through mak-



**The Petit Manseng vineyard, seen from Coco Farm Cafe** COCO FARM & WINERY

ing wine. In one example, it purchases local grapes that used to go to waste because grapes were grown only as offerings in the summer Bon festival, and the leftovers were not sold after that. "We used burned cedar boards for the walls of our winery building, opened in April this year. Burned cedar is a traditional building material used for houses in the neighboring coastal area, which we wanted to preserve," said Yuya Ohta, the representative director of the winery.

They also renovated a traditional house, built in the Edo Period, to use as their shop. They use grapes grown in several local vineyards to make wine and buy local apples to make cider, and in addition the winery's restaurant serves delicacies made with vegetables from local farms.

These three wineries, though lying in different regions, all face the impacts of climate change and extreme weather. This year Coco Farm and Winery suffered damage from a hailstorm, and Sun Mamoru experienced unprecedented torrential rain that caused severe damage to Mutsu. Both wineries have been researching and changing the kinds of grapes they grow to keep pace as the climate changes. Setouchi Jozozo is shifting to renewable energy, and its restaurant aims to achieve zero waste. Their efforts to make both regions and businesses sustainable will continue.

*This section highlights the environment and a sustainable society. For more information on Satoyama, ESG and SDG issues, please visit [www.sustainable.japan/times.com](http://www.sustainable.japan/times.com)*



**Sun Mamoru Winery's vineyards stretch across the Shimokita Peninsula.**  
SUN MAMORU WINERY

### Times Gallery



**The Albanian Olympic Team poses at the 2020 Tokyo Olympic Games.**  
EMBASSY OF ALBANIA



**Members of the embassy of Iraq pose with Iraqi athletes who participated in the Tokyo 2020 Paralympic Games.**  
EMBASSY OF IRAQ



**Bolivian Charge d'Affaires Natalia Salazar, staff members Sergio Estrada and Mitsu Miura and Second Secretary Gabriela Duran attend the raising of the Bolivian flag and singing of the national anthem to celebrate the 166th anniversary of Bolivian independence on Aug. 6.**  
EMBASSY OF BOLIVIA



**Serbian Ambassador Aleksandra Kovac meets with Kintaro Izumida, vice president of Nidec Corp., which has invested in Serbia, to discuss further economic cooperation on Sept. 7.**  
EMBASSY OF SERBIA



**Volunteers remove trash from Makuhari Beach on Tokyo Bay in Chiba Prefecture in a cleanup organized by the NPO Uminari on July 25.**  
UMINARI



**Jarman International organized a livestream by YouTubers John Daub (left) and Cody Mizuno from Tokyo Station's Japan Rail Cafe, introducing the world of ramen in the Tohoku region.**  
JARMAN INTERNATIONAL