

Recommendations for Advancing the AZEC Initiative

For the 2nd AZEC Ministerial Meeting

Executive Summary

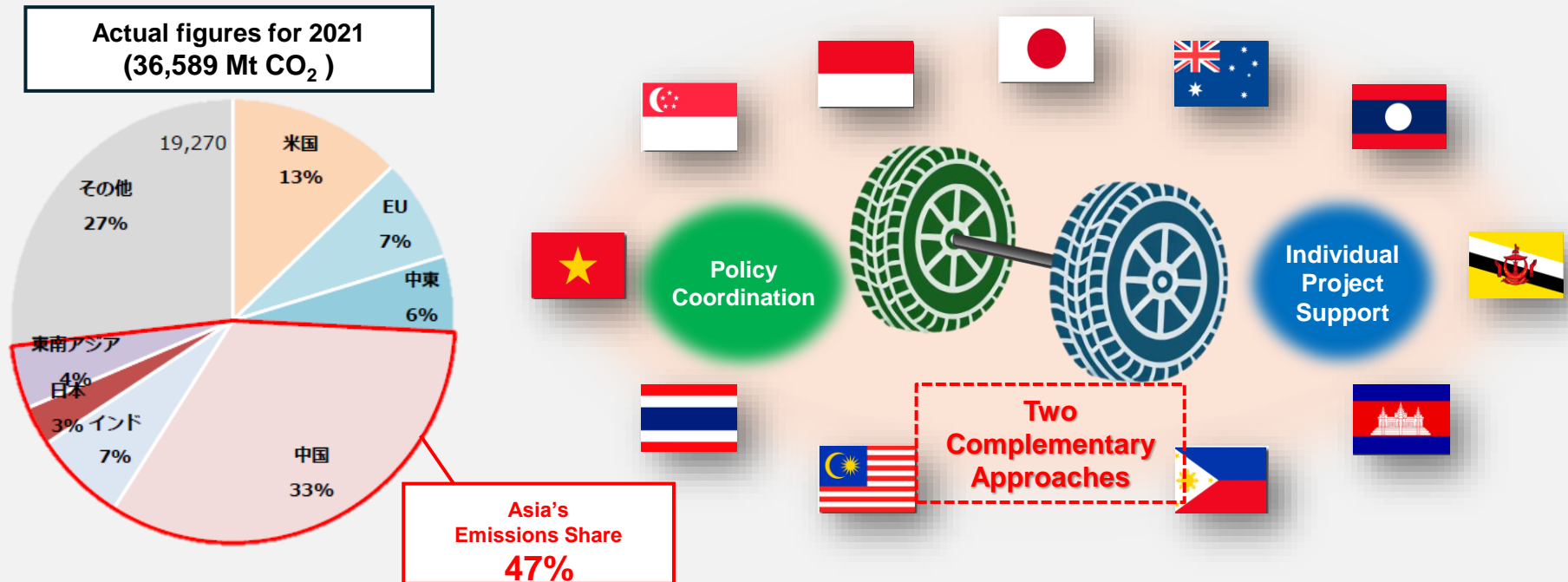
July 16, 2024

Keidanren

I. Expectations for AZEC

- **Decarbonization in Asia is crucial for achieving carbon neutrality on a global scale.** In particular, ASEAN, where energy demand is expected to increase, faces the challenge of promoting both economic growth and decarbonization.
- **The AZEC (Asia Zero Emission Community) initiative aims to achieve optimal energy transitions tailored to the particular situation of each partner country, based on the basic principles of simultaneous achievement of decarbonization, economic growth, and energy security and achieving net-zero emissions through diverse and realistic pathways.** The Japanese business community has high expectations for this initiative.
- **Moving forward, we should promote policy and institutional cooperation and individual project support as two complementary approaches.**
- Based on this understanding, Keidanren has compiled recommendations based on survey results from its members.

CO₂ Emissions Share of Major Countries



Source: Ministry of Economy, Trade and Industry

II. Promotion of AZEC-Wide Policy Coordination

- **Partner countries need to collaborate and cooperate in rule-making and finance structuring.** The outcomes **should be linked to the formation of multilateral frameworks and rules.**
- To this end, we **hope to promote understanding of AZEC initiatives** beyond partner countries and **work on expanding partner countries** to include India and others.

Areas for Policy Collaboration

1. Rule-Making

1) Zero-Emission Supply Chains

- Visualization of emissions through unified GHG calculation and reporting rules
- Linkage of emissions data on supply chains (platform development) and connection with European data spaces (Catena-X)

2) Establishing Green Product Markets

- Adoption of REP and AEP as indicators of environmental benefit

3) Promotion of Joint Crediting Mechanism and Expansion of Partner Countries

- Expansion of participating countries, standardization of JCM rules among partner countries
- Incorporation of decarbonization technologies into sectoral scope (hydrogen, ammonia, CCUS/DAC, environmentally friendly equipment)

4) Other Standards

- Development of common CO₂ emission calculation standards for low-carbon hydrogen and other fuels (hydrogen, ammonia, e-methane, synthetic fuels)
- Harmonization of regulations related to import/export of hazardous materials and high-pressure safety

5) Promotion of Trade and Investment

- Acceleration of tariff reduction schedules for environmental goods in EPA/FTA
- Elimination of investment barriers, including restrictions on foreign investment



2. Finance

Expansion of Private-Sector Transition Finance

- Promotion of blended finance by the World Bank, ADB, etc.
- Revision of ASEAN Taxonomy and Blue Dot Network to reflect realities of transition period (e.g., application to hydrogen/ammonia co-firing)



1. Rule-Making

1) Zero-Emission Supply Chains

- To reduce greenhouse gas emissions from the entire supply chain spanning Asia, **visualizing emissions, auditing, and continuous monitoring are essential.**
⇒ **Calculation and reporting rules for emissions that companies report to their governments are standardized within AZEC.**
- **Establish a data collaboration platform to** link emissions data across the supply chain. Japan should provide insights from the Ouranos Ecosystem* and develop a certification system to ensure interoperability and compatibility with European data spaces such as Catena-X.

* A Japanese initiative in which industry, academia, and government collaborate to design architectures, conduct R&D and testing, and implement and disseminate social systems for sharing and leveraging data across companies, industries, and national borders.

Building a data collaboration platform

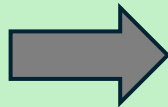


Source: Ministry of Economy, Trade and Industry

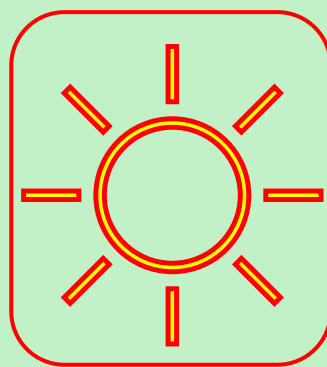


Ouranos Ecosystem

Provision of insights

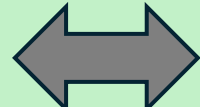


New Framework

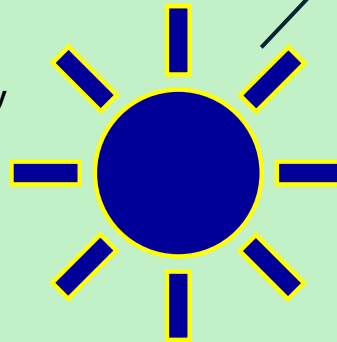


Asian Data Collaboration Platform

Interoperability



Compatibility



European Data Space

Example: Catena-X

A platform for standardizing the data exchange mechanism and sharing data across the entire automotive industry supply chain. 172 companies and organizations are participating (as of February 2024). It handles comprehensive data including traceability information for materials and parts, environmental impact information, production volumes, and demand. In the future, it is expected to enable tracking of CO₂ emissions across the entire supply chain.

1. Rule-Making

2) Establishing Green Product Markets

- **Developing markets (B2B and B2C) where green products are chosen** is also necessary as part of the efforts towards carbon neutrality. Therefore, it is **important to adopt indicators of environmental benefit**.
- **Reduced Emissions of Product (REP) and Avoided Emissions of Product (AEP)** are appropriate indicators for the demand side when choosing green products. By adopting these indicators in partner countries, Japan is expected to lead discussions on building green product markets in Asia.

Main Indicators of Emission Reduction

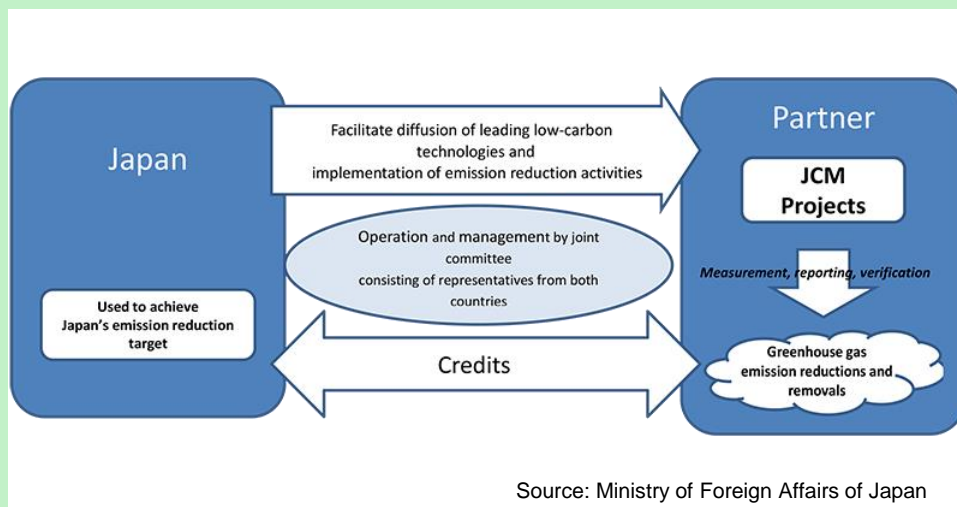
| | Carbon Footprint | Avoided Emissions of Product (AEP) | Reduced Emissions of Product (REP) | Carbon Credits |
|------------------------------|---|--|---|---|
| Benefits/Roles | By quantifying product emissions, it can be used to understand and compare environmental impacts. | By quantifying the contribution to society as a whole through emission reductions at the product use stage, it visualizes the contribution to customers and consumers. | By quantifying the actual emission reductions at the manufacturing stage, it visualizes the results of efforts along the reduction pathway. | By transferring emissions reduced by the company to others, the reduction value can be converted into economic value. |
| Drawbacks/Challenges | As it is an absolute value, it alone cannot be used to claim emission reductions. | As it is an estimate based on specific scenarios, clear disclosure is required for claims. | The concept and specific definitions are not yet established. | If the reduction amount is transferred, it must be accounted for in the company's own emissions. |
| Calculation Target | Product (Products/Services) | Solution (Collective term for products, services, technologies, projects, etc.) | Product (Products/Services) | Project |
| Represented Amount | Amount of emissions | Amount of reduction | Amount of reduction | Amount of reduction |
| Sources of Reduction | - | Emissions outside own value chain | Emissions under own control | Emissions under own control |
| Global Rules | ISO 14067, GHG Protocol | WBCSD Guidance, etc. | None | ISO 14064s, ICVCM CCP |
| Domestic Rules/Systems, etc. | CFP Guidelines | Guidelines for Calculating AEP | None | J-credit, JCM credit, etc. |

1. Rule-Making

3) Promotion of JCM and Expansion of Partner Countries

- The JCM is expected to be a mutually beneficial system for Japan and partner countries. **It is essential to expand JCM partner countries (Malaysia, Australia, Singapore, Brunei) and to work toward standardization of rules among AZEC partner countries** to promote credit trading under AZEC.
- The sectoral scope of JCM should also incorporate technologies contributing to decarbonization, such as hydrogen, ammonia, synthetic fuels like e-fuel and e-methane, CCUS/DAC, and upgrades to environmentally friendly equipment.

Framework for Joint Crediting Mechanism (JCM)



Joint Crediting Mechanism (JCM)

This is a system to disseminate innovative decarbonization technologies, products, services, systems, and infrastructure to partner countries, implement measures in those countries to reduce and absorb GHG emissions, quantitatively evaluate the results, and utilize them to achieve Japan's nationally determined contribution (NDC). Japan has signed agreements with 29 countries (as of April 2024).

III. Recommendations to Governments for Promoting Individual Projects

- **Strong promotion of individual decarbonization projects is also essential.**
- Partner countries **need to implement support measures such as reforming regulations and systems that are barriers to business advancement and allocating budgets.**

Japanese Government



- **Provide clear economic incentives** such as preferential support or procedural exceptions for AZEC projects
- **The Japanese government should encourage** governments of project implementation countries to take tax and fiscal support measures

Example: Expansion of **Global South budget** specifically for AZEC projects

Source: Ministry of Foreign Affairs

ASEAN Region



- **International Power Grid Development:** Technical cooperation and rule-making support for prompt implementation of the ASEAN Power Grid Initiative
- **Energy Efficiency Standard:** Raising target values for Minimum Energy Performance Standard (MEPS) in ASEAN region

Indonesia



- **Renewable Energy:** Clarification of regulatory and approval processes, development of power procurement systems
- **Hydrogen and Ammonia:** Expansion of public support for pilot projects, support for equipment installation costs and fuel price gaps, establishment of low-cost renewable energy supply schemes, etc.

Australia



- **Hydrogen and Ammonia:** Government support such as price gap support, and expediting the approval processes
- **LNG:** Clarification of government policy for LNG as an energy transition fuel for Asia, development support and assistance
- **CCUS/DAC:** Coordinated support between CO₂-emitting countries and the Australian government, etc.

III. Recommendations to Governments for Promoting Individual Projects

Singapore



■ Hydrogen and Ammonia:

First mover support, price gap and equipment installation support, government support for Singaporean company projects implemented in other countries, etc.

Thailand



■ Renewable Energy:

Easing of requirements and simplification of approval processes, liberalizing power market, developing wheeling systems and power systems

■ Hydrogen and Ammonia:

Positioning ammonia in decarbonization policy akin to hydrogen, expansion of government support, etc.

Vietnam



■ Renewable Energy:

Acceleration of legal framework development for renewables in line with PDP8, strengthening of transmission lines

■ Hydrogen and Ammonia:

Creation of medium- to long-term roadmap, consideration of legal framework development

■ LNG:

Fostering understanding of purchase agreements and importance as baseload power during transition

Malaysia



■ Hydrogen and ammonia:

Support for equipment installation costs and fuel price gaps, expansion of grid connection capacity, simplification of approval processes, etc.

■ CCUS/DAC:

Establishing a JCM, addition of CCUS/DAC to JCM sectoral scope, etc.

Philippines



■ Renewable Energy:

Simplification of approval processes, clarification of ownership based on land management, clear categorization of renewable energy certificates

■ LNG:

Guarantee of minimum electricity purchase under the power supply bidding system, early establishment of a roadmap, etc.

Cambodia, Brunei, Laos



■ JCM:

Establishing a JCM (Brunei), clarifying and expediting the process of determining the host country's credit distribution ratio, etc.

IV. Establishing a Framework for Steady Implementation of Policy Coordination and Individual Projects

- **Policy areas to be addressed cooperatively AZEC-wide should be agreed upon at the 2nd Ministerial Meeting**, and further discussed at the **SOM (Senior Officials' Meeting)**.
- This **should be followed up by the Asia Zero Emission Center** through **implementation of a PDCA cycle** to monitor progress, and **progress reports should be published**.
- **Partner countries** should ensure the promotion of the above considerations through **collaborative efforts across relevant ministries and agencies**. **Utilization of joint task forces** established in Vietnam, Indonesia, and the Philippines **is one possible approach**.

AZEC-Wide

Policy coordination areas (rule-making, finance) and **projects** to be agreed upon at the **2nd Ministerial Meeting**.

Further **in-depth discussions at SOM (Senior Officials' Meeting)**.

Implement PDCA cycle and publish as progress reports.



Partner Countries

Cross-ministerial action is needed to ensure advancement of policy areas and projects discussed at SOM.

