Media Release

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Meeting Paris Agreement goals requires accelerated decarbonisation of Japanese energy market: central bank climate scenarios

Climate change scenarios prepared by a network of global central banks shows that Japan's energy market will need decarbonise more rapidly than under current policies to meet the Paris Agreement goals, analysis by the Asia Investor Group on Climate Change (AIGCC) and the Australian/New Zealand Investor Group on Climate Change (IGCC) finds.

The climate change scenarios developed by the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) also suggests that achieving the Paris Agreement goals will require an additional US$330 billion in annual investment up to 2050 across the entire Asian energy sector.

The NGFS-developed scenarios were released in June and present potential socioeconomic outcomes for a hothouse world and orderly and disorderly transitions to net-zero emissions in line with the Paris Agreement. Central Banks and supervisors from Asia's major economies, including China, Japan and South Korea, are involved in the network.

The data underpinning the scenarios show a Japanese energy mix consistent with an orderly transition to limit global warming at 1.5 degrees would include approximately 50 per cent renewable energy and 20 per cent nuclear power by 2030, with only limited use of coal and gas and both coming out completely of the system between 2035-2040.

Japan's current basic energy policy – which will be reviewed next year - outlines an "ideal supply" of 27 per cent gas and 26 per cent coal meaning current and future coal and gas capacity faces significant transitional risks.

Across Asia, renewable energy is found to grow under all scenarios. Coal power phases out between 2040 and 2050 in all Paris-aligned scenarios, and gas power peaks in 2025 and declines from there. If global warming is left unrestrained, the NGFS scenarios suggest annual global economic damage of five to eight per cent of gross domestic to 2050, although this is recognised as a likely underestimate.

AIGCC Senior Project and Policy Manager, Shin Furuno said the scenarios demonstrated that there was significant transitional risk in the Japanese and wider Asian energy market because of its carbon intensity.

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“Next year Japan will review its basic energy policy. The scenarios produced by central banks and supervisors, including Japan’s, should be used to inform this review to ensure an energy transition that meets the country’s international obligations under the Paris Agreement and unlocks significant new investment in clean energy,” Mr Furuno said.

“No Paris-aligned scenario suggests future growth for coal, while gas power would decline from 2025. This means investing in renewable energy is becoming significantly more attractive as there is no future climate risk associated.

“Central bank scenarios are also clear that failure to halt global warming will do significant damage to the Japanese and other global economies.

“At the same time an accelerated decarbonisation of the energy market presents a significant investment opportunity. If countries like Japan can put in place stable policy setting consistent with the Paris Agreement, it will entice private capital into its markets that will in turn create fresh jobs and prosperity.”

Read the full AIGCC/IGCC policy brief - *Central bank climate scenarios: Unpacking the NGFS* – is available in English here and Japanese here.

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