



SUSTAINABILITY

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Special Interview

Taking initiatives for
achieving decarbonization
in earnest

Representative Director and Group CEO

Hiroshi Kiriya

The Japan Research Institute, Limited
Senior Counselor

Eiichiro Adachi

Adachi: I understand the dilemma. I think that, above all, energy companies are on the front lines of the issue. Mr. Mark Carney, the former governor of the Bank of England, uses the phrase, "Tragedy of the Horizon." I translate this phrase as jikanjiku-no higeki (tragedy of the time axis). It means that the gap or contradiction between the current good and the future good tends to keep growing larger if it is left unaddressed. We humans have been engaged in economic activities with a belief that the current good will lead to the future good. Recently, however, we have noticed that the current good is not linked to the future good. And so tragedy of the time axis has begun to be actualized. Mr. Carney not only presented the problem but also referred to a solution. As a result, the Task Force on Climate-related Financial Disclosures (TCFD) was established. I think that your slogan, "Oil & New," exactly depicts what you are like now and what you will be like in the future. If I may be presumptuous enough to say this as somebody outside the company, I think balancing the Oil and New or the process of the transition will be a challenge.

— You have created and disclosed a roadmap for net zero carbon emissions by 2050. Could you tell us your views on the initiatives to achieve decarbonization, Mr. Kiriya?

Kiriya: Oil is a wonderful fuel with high energy density. Without oil, the prosperity that we enjoy today could not have been achieved. However, we cannot resist the flow, in which the world is shifting away from oil to other energy sources. In response, we have set six themes of priority initiatives for achieving carbon net zero and set goals of reducing (Scope 1 and 2) net greenhouse gas emissions by 30% (compared to the 2013 level) by 2030 and achieving carbon net zero by 2050. We will drive our conversion to zero-carbon energy while fulfilling our responsibility to maintain a stable energy supply. We are also determined to drive the expansion of the Renewable Energy Business focused on wind power, initiatives in next-generation energy, and the expansion of mobility services, among other things.

— Please tell us your opinion about our roadmap, Mr. Adachi.

Adachi: I saw the roadmap disclosed by the Petroleum Association of Japan a little before you disclosed yours. I felt that they have taken extra steps in two points. First, they referred to the point that emissions cannot be reduced completely to zero even in 2050. Second, they referred to the point that changing business is not easy in Japan. I felt that it was a sincere, honest message. Further, with regard to your roadmap, I paid attention to the fact that you have clarified your target value to achieve by 2030. I believe that you will later consider and disclose an action plan for 2030. I have a suggestion about it. In Europe, there is an idea of establishing a taxonomy to clarify economic activities that are believed to contribute to building a sustainable society. A taxonomy is a

We invited Mr. Eiichiro Adachi, the Senior Counselor of The Japan Research Institute, Limited, to talk with our president to exchange opinions about global sustainability issues surrounding Cosmo Energy Holdings.

— Mr. Adachi has been active as an ESG analyst, working mainly on industrial surveys and corporate evaluation from the viewpoint of social responsibility. First, Mr. Kiriya, would you tell us what you expect from this talk?

Kiriya: I was appointed as the first Manager of the Environmental Office and began to be involved with the issue of global warming around December 1997, when the 3rd Conference of Parties to the UN Framework Convention on Climate Change (COP3/Kyoto Protocol) was held in Kyoto. I later began to work under "Promotion of environmental measures" as one of the important tasks under our CSR activity policy, thus building the foundation of the Group. Recently, terms such as SDGs, ESG, and TCFD have been generalized, with companies announcing their carbon neutrality declaration. These and other moves make me feel that the world is changing rapidly. I hope that I can receive advice today for the Group to focus its efforts on sustainable management.

Adachi: I am greatly honored to be invited for this talk today. When I was a student, I studied ecological economics under Takeshi Murota, the economist. After joining the company, I have worked for a long time with a focus on environmental issues. What led me to think about the relationship of environmental issues with finance in this process was the fact that the National Westminster Bank in the United Kingdom announced its environmental policy in the early 1990s. I did some research and found that the bank sees environmental risk as a problem just as it considers the bad debt risk involved in financing a problem. I was surprised and very interested. I have since been engaged in industrial surveys and corporate evaluation for more than 20 years. In the meantime, I also gained valuable experience, such as participating as a Japanese expert in the creation of international standards related to social responsibility of organizations by the International Organization for Standardization (ISO).

— Why should companies work on sustainability?

Adachi: SDGs are booming in popularity in recent years. The 17 goals are divided into three layers. The bottom layer consists of goals related to the biosphere and the environment. The "Goal 6: Clean Water and Sanitation," "Goal 13: Climate Action," "Goal 14: Life below Water," and "Goal 15: Life on Land"

are positioned in this layer. The second layer is for goals in the social sphere, or human society. This layer includes issues on "Goal 1: No Poverty," "Goal 2: Zero Hunger," and "Goal 4: Quality Education," among others. The top layer is for the economic sphere, which includes "Goal 8: Decent Work and Economic Growth" and "Goal 9: Industry, Innovation and Infrastructure." In this way, SDGs have a three-story structure. What is important here is the point that the economic goals cannot be achieved unless the social sphere as its base is sound, and the soundness of the social sphere is not realized unless the biosphere as the foundation remains sound. We have been working hard to achieve economic affluence, or goals on the third floor. However, this has caused great damage to the second and first floors. While being vaguely aware of this fact, we have been pretending not to see it. However, we can no longer ignore it. I think this is the fundamental reason why we discuss sustainability.

Kiriya: I totally agree with you. A long time ago, I read The Limits to Growth by the Club of Rome, learned the Gaia theory advocated by James Lovelock, and seriously thought how people and the Earth should exist given limited capacity. I think that the problem lies not only in global warming but has deeper roots. Unless the Earth is sustainable, humans cannot survive and neither can companies. On the other hand, we must achieve growth in sales and profits as corporate managers. This is the dilemma we face.

system that clarifies whether something is black or white, or green or not green. Therefore, it seems that some Europeans who saw the roadmap of a Japanese company feel that the company has put off committing itself to solving the problem. In response, as you mentioned in your “responsibility to maintain a stable energy supply” earlier today, you should specifically show that fossil fuels are essential in part. This I believe will make your roadmap persuasive to a certain extent. For example, power supply is stopped in the event a disaster, such as a major earthquake. If all fire engines and ambulances are electric vehicles, their operations may be affected in such circumstances. There should be cases where gasoline vehicles are indispensable. The Cosmo Energy Group should be bold enough to say that “Oil will remain necessary until the last minute in this and that domains” after exhaustive consideration. That will lead you to gain support from society. This is my hypothesis.

Kiriyama: That is very informative. Oil is used as a power source of automobiles and other equipment, as a heat source of thermal power plants and other facilities, and as a raw material of chemical products. It will be very difficult to use something other than oil for all of these purposes. For example, roughly 85 million automobiles are produced in the world every year. If all of them are replaced with EVs, other problems will occur, such as shortages of lithium, cobalt, and other rare metals. Recently, we frequently see news reports on SAF. However, worldwide production of SAF is still below 1% compared to the demand for aircraft fuel. Having checked the reality in this way, we found that there are still many areas where it is impossible to replace oil with something else.

Adachi: In Europe, there is a phrase, “flight shame.” Facing the headwinds associated with this phrase, KLM Royal Dutch Airlines issued a message, “Everyone, please think carefully before getting on a plane,” despite being an airline company. You don’t need to take an airplane to travel a short distance or to go to a place to which you can take a train. On the other hand, an airplane is convenient for a long-distance travel, and in cases when time is pressing. There are goods that only airplanes can transport. Airplanes are also useful in the event of a disaster. In this way, the roles that airplanes should continue to play are clarified, and SAF is used for fulfilling those roles. I think that such contents will make your message more persuasive to your stakeholders.

Kiriyama: I see. Indeed, CO₂ emissions decreased last year due to the COVID-19 pandemic. That happened because of the travel curbs. If it costs you 2 million yen to travel to New York, the number of people who take airplanes will be limited. If the price of gasoline exceeds 1,000 yen, opportunities to take a ride in a car will be reduced. However, I am not sure if this approach to control is right. We previously believed that using energy means being wealthy. We may need to replace this set of values with the virtue of honest poverty.

Adachi: I think that the path to decarbonization involves three main triggers, that is, (1) tougher regulations, (2) lifestyle changes, and (3) technological innovation. We can say that Japan has a strong tendency to try to find solutions through technological innovation, without mentioning tougher regulations and lifestyle changes as much. The European Union (EU) announced the European Green Deal (EGD) in December 2019. On the first page, it says that it aims to “transform the EU into.. society.. where economic growth is decoupled from resource use.” I think that Japan should refer to tougher regulations and lifestyle changes a little more.

— Please tell us, Mr. Adachi, your views on our TCFD scenario analysis.

Adachi: You made a very careful, detailed analysis. I want to convey my respect for that. As of April 25, 2022, around 800 Japanese companies and organizations have expressed their support for the TCFD recommendations. Tokyo Stock Exchange requires Prime Market-listed companies to disclose business risks related to climate change in accordance with an international framework. Therefore, Japan will be the top runner in terms of disclosure following the TCFD recommendations. I feel, however, that Japanese companies have a strong mindset of seeking approval from the Tokyo Stock Exchange just by fulfilling the template. Very few Japanese companies start thinking in terms of the risks of climate change. You will not be persuasive if you only say that business opportunities are expected because you will change your business portfolio with a focus on renewable energy toward 2050. I think that the TCFD recommendations will also keep evolving. The International Financial Reporting Standards (IFRS) Foundation has established the International Sustainability Standards Board (ISSB). Recently, ISSB announced [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and [Draft] IFRS S2 Climate-related Disclosures. These drafts require companies to

disclose information about Scope 1, 2, and 3 emissions on an absolute basis, which are calculated by applying the GHG Protocol. This is the global trend, although many Japanese companies find it troublesome. I hope that, moving forward, you will analyze and evaluate risks in such a way that your unique strategy and spirit of innovation are clearly reflected in your disclosure based on the TCFD recommendations.

Kiriyama: To disclose Scope 3 emissions, we must calculate emissions from not only our company but from the supply chain, including the upstream and downstream portions. For example, we supply jet fuel to airline companies. If we bear responsibility for all CO₂ emissions, it will be a carbon-free fuel for airline companies. However, they also calculate CO₂ emissions, trying to reduce them. This means that it will be a double count. We sell renewable electricity, which is generated by using wind power, to RE100 member companies, and those companies also count their CO₂ emissions. This creates some confusion about how to count the emissions.

Adachi: I understand what you mean very well. On the other hand, speaking from the standpoint of standard creators, we are sure that we can accelerate this move toward net zero by setting this indicator, all the more because it will be double count.

— Could you explain about sustainability other than climate change, Mr. Kiriyama?

Kiriyama: Someone pointed out to me that Japanese companies try to drive initiatives based only on the “E” of ESG. We are actually proactive in taking initiatives on S and G as well. Perhaps we have to communicate more information about them. Above all, we will go even further in diversity and governance.

Adachi: I may sound as if I am turning everything upside down, but I have a feeling that the era when we talk about E, S, and G as three separate elements will soon be over. According to a recent report from the United Nations Development Programme, in 2020 there were several times as many refugees who lost

their lands due to climate change than there were people who were displaced due to war. Human rights problems are not limited to discrimination and forced labor. If the climate continues to change, even more people will be deprived of their homes and lives. In addition, infectious diseases will be more likely to occur. Conversely, thinking with S as the starting point, if the economic gap widens, developing countries will be able to use only cheap fuels, which will have a more serious impact on the environment. As suggested by the expression, “chain of wicked problems,” problems in E, S, and G are linked. Rather than picking up and addressing items classified as E, S, or G one by one, I want companies to take actions with the idea of to what extent they are paying careful attention with material issues as the starting point.

Kiriyama: I agree. Material issues are related to each other, and some of them have the same roots. To eradicate poverty, people must be affluent. When they become affluent, they begin to use a lot of energy. This results in the occurrence of the global warming problem. Maybe we need to change the definition of affluence itself. I feel that capitalism has changed a lot recently. I think that corporate management will change in an era when more emphasis is placed on building a sustainable society than on producing profits.

Adachi: Actually, Japan has begun to see companies delisting themselves. I hear this is because being a listed company makes it difficult to make long-term business decisions. The number of listed companies has also been trending downwards internationally.

Kiriyama: I see. Thank you very much for having given us very valuable opinions today. You gave us many clues about how we should strike a balance between corporate management and sustainability.

During this talk held on May 13, 2022, sufficient measures were taken to prevent COVID-19 infections.

