



29 March 2021

## **Summary of Remarks by JGA Chair Michiaki Hirose**

### **1. Regarding "Strategic policy sub-committee" of "the Advisory committee for natural resources and energy" on on March 24**

"Strategic policy sub-committee" of "the Advisory committee for natural resources and energy" was held on March 24 to discuss new "Strategic energy plan" of the Japanese government. The Japan Gas Association also gave a presentation there titled "Efforts of the gas industry toward realization of 2050 carbon neutral -Aiming for the second innovation".

【Significance and perspective of Prime Minister Suga's declaration of "2050 Carbon Neutral"】

After the declaration of Prime Minister Suga, I think that our world has entered another phase. I think this declaration had two meanings. One is to clarify the time axis. After 30 years of "low-carbon society", we clarified the time of the goal to realize a "decarbonized society" in 2050. As a result, the movement of the world has been accelerated.

The other is to clarify the goal of "aiming for carbon neutrality". With carbon neutrality, there are various options and possibilities, and the movement to work toward them has spread throughout society.

Energy cannot be disrupted even for a moment, and what is important is that energy should always be provided to customers at a reasonable price.

Whether or not stable supply and reasonable prices can be maintained until 2050 will determine the success or failure of carbon neutrality. From the customer's point of view, it is also extremely important to be able to "choose energy" as well as stable supply. In order to secure both "stable supply" and "options" in the realization of carbon neutrality, we think that an energy system rich in multiplicity and diversity is essential.

### 【Efforts of the gas industry】

Based on the significance and perspective contained in this declaration, the Japan Gas Association announced in November 2020 that we would aim for 100% or almost all carbon neutral gas by 2050.

Japan's city gas industry will celebrate the 150th anniversary in 2022.

Looking back on history, the introduction of LNG had a major impact. At that time, LNG was not known well from technical viewpoint and the cost was very high, but the top leaders at that time decided it as a request of the times and worked on it as a whole industry. I think the situation at that time is similar to the situation now. Like the phrase "learn from history and run through the ages," we'd like to connect this carbon-neutral gas initiative to the second innovation and leap following LNG. The theme is the time axis, and how to connect the next 30 years. At the moment, it is difficult to build up things, but I would like to think flexibly while referring to the history of LNG introduction. For the time being, 2030 will be a major milestone, so what to do and how to implement it is so important.

Next, what exactly is "carbon neutral gas"? Fortunately, there are various options for that, so at this point I would like to take on a wide range of challenges without excluding all possibilities.

In addition, it is necessary to collaborate with those who work for many other industries in order to work on it. In particular, I would like to work together with those who work for LPG industry and Community Gas industry as the same gas energy. On the other hand, when it comes to "connecting for the future", energy saving and CO2 saving are also our other important issues. Amid low-carbon society that will continue until 2050, the greatest mission is to reduce CO2 as much as possible. We have made great efforts to realize a clean and energy-saving society through the spread of LNG, but as a quick-acting initiative, we will continue to further popularize high-efficiency systems such as energy-saving equipment and cogeneration, and switch to natural gas. We'd like to put more effort for that.

#### 【Challenges of the gas industry and requests for the government】

There are two main issues: "technological development" and "infrastructure development". This time, it is said that technological development and breakthrough will determine the success or failure, one of which is "**Methanation**". Methanation would be so challenging, including related technologies, but I believe that's why Japan has a chance to take leadership. In addition, since it is difficult to complete methanation in Japan alone, it is necessary to establish an international framework with other countries in the Pacific region.

Regarding infrastructure development, first of all, the idea of utilizing existing gas pipelines is important, and then the development and expansion of a new gas pipeline network to expand the spread of carbon-neutral gas is required.

Especially from the perspective of resilience, I would say it is necessary

for the public and private sectors to work together to promote the pipeline that connects the Sea of Japan side and the Pacific side. Regarding the development and expansion of the pipeline network, the depreciation period is an issue, so we requested urgent regulatory reform.

Next, regarding issues at the local level, carbon neutralization is expected to be driven by major businesses first, but it is necessary to consider how to expand that for rural areas. Currently, regional revitalization is a major theme, and I think that the spread and expansion of carbon neutral gas can contribute to this, but most of the rural businesses that are responsible for this are small and medium-sized businesses. Therefore, there are also financial and human resource restrictions. For this reason, we requested the establishment of a subsidy system. On the other hand, from the perspective of connecting, it is said that LNG plays a central role in a low-carbon society.

Upstream investment for stable supply of LNG, financial and political support for expanding the LNG value chain including Southeast Asia, and establishment of an international framework and rule-making for the CO2 reduction effect of this LNG. I referred to it in the subcommittee.

#### 【Points to keep in mind for "2050 carbon neutral"】

There are four main points to keep in mind.

- (1) Energy policy is not straightforward, so warmth and suppleness, that is, strategicity and flexibility, are important.
- (2) How to align real energy and virtual finance while the role and influence of finance are increasing in recent energy policy.
- (3) In the case of Japan, an international framework is required to realize carbon neutrality, so it is necessary to be actively involved in the mechanism and rules.

(4) Be cautious about carbon pricing such as carbon tax.

**【Questions from the committee members (summary) and and JGA's answers】**

In response to the presentation by the Japan Gas Association, the committee members asked four major questions and we answered as follows.

(Q1) "How do gas industry proceed with carbon neutrality initiatives based on the time axis?"

(A1)"We will pursue the two goals: "introduction of carbon neutral gas (CNG)" and "expansion of LNG". While referring to the history of LNG introduction, it is important to take appropriate steps in 2040 and 2030 toward the realization of carbon neutrality in 2050. The difference from the introduction of LNG is that gas demand was growing significantly at that time, so the cost increase could be absorbed by volume increase, but the current gas demand is a slight increase. Therefore, in order to introduce CNG while maintaining a reasonable price, it is necessary to further spread and expand LNG, and the balance between these two missions is the key.

(Q2) "How will gas utilities in rural areas proceed with carbon neutrality ?"

(A2) From the history of LNG introduction, considering the technical issues and costs, it is expected that the major direction will be gradually expanded from major operators to rural utilities. The difference is that the introduction of LNG was a challenge only for the gas industry, but carbon neutrality is an issue for Japan as a whole.

Therefore, if local governments that are aggressive for carbon neutrality, the utilities in such areas may be pushed back by their needs and may move in advance.

(Q3) What support measures are needed to achieve the 2030 CO2 reduction target?

(A3) Support for the two purposes of introducing CNG and expanding LNG is important.

On top of that, support will be provided by the government and local governments, but we would like to continue to request support for the introduction of CNG such as technological development and infrastructure development, and support for expanding LNG for customer facilities such as cogeneration.

(Q4) What does it mean that energy policy and monetary policy need to be aligned from the perspective of time axis and diversity?

(A4) The reason why carbon neutral came to this point was that financial power was considerable, as represented by ESG investment. However, while energy has a long time axis of 10 to 20 years, finance starts to move at once, so the sense of speed is fast. In addition, energy emphasizes diversity from the perspective of security, while finance also has a concentrated aspect. In order to proceed with carbon neutrality, it is necessary to fill these gaps.

## **2. "Study Committee on the Ideal Gas Business for 2050"**

In the interim report, the role of gas was organized from a wide range of perspectives such as "decarbonization," "resilience," "as a comprehensive energy business," and "solving regional issues." In addition, for the promotion of methanation, the Committee proposed the establishment of a promotion system for the public and private sectors. We would like to be actively involved in the gas industry as well.

### **3. At the end**

Since I became the Chair of the Japan Gas Association in June 2018, I have held a press conference almost every month. I would like to express our sincere gratitude to all the media for pushing us back and continuing. It was also a great opportunity for me to study.

From the next press conference, Mr. HONJO Tekehiro, the new chair of the Japan Gas Association will take me over. I would like to ask you to keep a good relationship with the Japan Gas Association.