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ADIPEC

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ENERGY IN CONTEXT SERIES

FINANCING A JUST, ORDERLY AND EQUITABLE TRANSITION



CASE STUDY

Paving the way for
a swifter energy
transition in Asia

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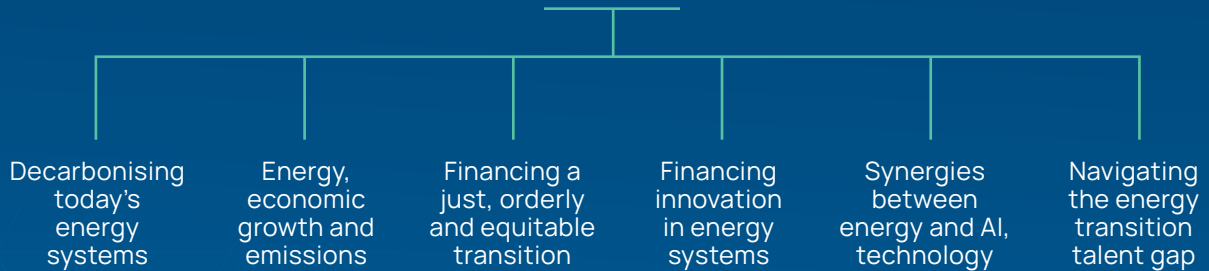
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The transformation of the world's energy system offers a unique opportunity for economic growth, with the energy sector driving global advancement.

ADIPEC's **Energy in Context** series presents high-value briefs and case studies that showcase progress, foster dialogue and fast-track innovation to accelerate the energy transition.

The series explores key pillars driving the industry's transformative journey towards a secure, equitable, and sustainable energy future.

KEY PILLARS OF ADIPEC



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Paving the way for a swifter energy transition in Asia

CONTEXT

Asia's shift toward sustainability carries profound global significance. As the source of about two-thirds of global growth in 2023, the region's heavy dependence on coal has made it a major contributor to harmful greenhouse gas emissions. Addressing this issue is crucial for achieving global climate goals.

Paramount to making progress on the continent's net-zero targets is addressing Asia's climate finance shortfall – estimated at around US\$800 billion. Within the Asian climate investment context, Japan stands out as a rare beacon of progress and potential. Investing in Japan's renewable energy sector not only supports the country's energy transition but also presents a prime opportunity for global long-term capital and access to regional economies.

In this context, the US\$474 million investment by CDPQ, a global investment group, in collaboration with Japan's Shizen Energy, represents a pivotal development. This investment aims to accelerate the energy transition in Japan and key international markets and marks CDPQ's inaugural direct infrastructure investment in Japan.

ACCELERATING ENERGY TRANSITION IN ASIA VIA JAPAN

In October 2022, CDPQ struck a US\$474 million deal with Shizen Energy. Of this, US\$135 million was a direct investment in Shizen Energy to boost its expansion within Japan and other international markets.

The rest of the investment was earmarked for collaborative investments in clean energy assets across Japan and other regional countries. This

US\$7.53bn

Amount of investment in clean energy in Japan in 2022⁷

US\$1tn

Amount committed to be raised by Japanese government through public and private investments over 10 years⁴

70%

Percentage of energy sourced from fossil fuels in Asia²

US\$997bn

Investments needed to support Japan's green transformation strategy³

Organisations involved

- CDPQ
- Shizen Energy

Investment

US\$474_{mn}

Location

Japan

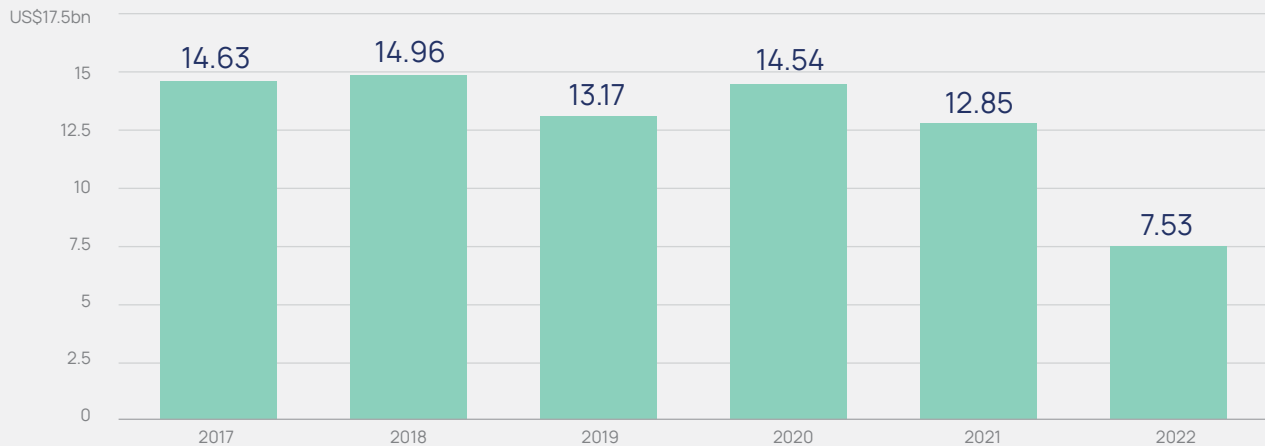
Industry

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Investment in clean energy in Japan

The country is pursuing policies and industry-specific roadmaps to promote investments in energy transitions. However, declining rates of the government's feed-in tariff programme have slowed investments



Source: Prequin Global Report: Infrastructure 2024

deal not only marked CDPQ's strategic entry into the Japanese market but also provided access to the broader Asia-Pacific region.

Since the agreement, CDPQ and Shizen Energy have successfully acquired an 80% stake in the Inuyama solar power plant in Japan. With a generation capacity of 31 MW, this solar facility can power approximately 7,850 homes.

The two companies plan to pursue similar joint investments in the coming years, both within Japan and across the region.

Fumio Kishida, Prime Minister of Japan, said: "Japan aims to reduce its greenhouse gas emissions by 46% by 2030...It will implement thorough energy conservation and intends to achieve maximum deployment of clean energy through making renewable energy as the main source of power."

As the world's third-largest economy, Japan presents a compelling opportunity for private investors due to its substantial energy needs. The market's relatively untapped nature offers significant prospects for investments in domestic projects, cleantech innovations, grid technology, and energy storage solutions. Furthermore, the Japanese government's feed-in tariff (FIT) programme, which initially drove substantial investment in renewable energy, especially

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solar power, has been gradually reduced. The declining FIT rates have led to a slowdown in investment since 2022. This gap can be filled by private sector investments.

Besides, investing in Japan opens avenues to valuable networks established by Japanese corporations, financial institutions, and government bodies throughout the Asia-Pacific region.

The global demand for climate finance is staggering. The Energy Transitions Commission estimates that an average annual investment of US\$3.5 trillion is required between now and 2050 to achieve a net-zero global economy⁵. Emerging and developing economies in Asia alone need at least US\$1.1 trillion annually to meet their mitigation and adaptation needs, yet current funding amounts to only US\$330 billion¹. This funding primarily comes from sustainable debt instruments, such as green bonds, with public sources contributing more than half of this total.

Private capital is crucial in bridging this financing gap. Japan aims to attract approximately US\$997 billion in investments from both public and private sectors to support its green transformation strategy as it targets carbon neutrality by 2050⁶. The country is at the forefront of transition bond issuance and has set a global standard by introducing one of the world's first transition taxonomies.

In its quest to decarbonise its power sector, Japan's national strategy incorporates not only renewables but also advanced technologies such as hydrogen, ammonia, nuclear power, and carbon capture, utilisation, and storage (CCUS). However, to realise the potential of these technologies, funding is necessary. Institutional investors, particularly pension funds, have an increasingly important role to play. Historically, these investors have underfunded infrastructure, but reallocating capital towards sustainable assets in Japan and the region could drive significant growth.

Japan, already the second-largest market in Asia, will need to increase its annual investment in renewables by more than fivefold from 2023 onwards to meet government targets and double its renewable generation from 2020 levels by 2050⁶. Also, Japan hosts the second-largest number of corporations committed to sourcing 100% of their energy from renewables, highlighting the vast opportunities available.

The partnership between CDPQ and Shizen Energy exemplifies how strategic investments can drive renewable energy development and contribute to global sustainability efforts. This collaboration not only showcases financial acumen but also underscores the importance of strong public-private cooperation in achieving energy transition goals worldwide.



“Japan aims to reduce its greenhouse gas emissions by 46% by 2030... It will implement thorough energy conservation, and intends to achieve maximum deployment of clean energy through making renewable energy as the main source of power.”

Fumio Kishida
Prime Minister of Japan

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