ESG Principles—Setting the U.S.-Japan ESG Agenda

October 2021

I. Overview

- Environmental, Social, and Governance (ESG) issues are becoming increasingly important to global industries, particularly those operating in the U.S. and Japan. There is accelerating urgency to confront and mitigate climate change, and consequently, there are increasing demands on companies—from governments, investors, and society at large—to address social inequities and governance issues.

- The U.S. government (USG) is rapidly ramping up its engagement on ESG matters, adopting a whole-of-government approach to move quickly to address climate change. This includes landmark executive orders on addressing the climate challenge, including through international engagement, and on alleviating climate-related financial risk.

- Likewise, the Government of Japan (GOJ) is playing a leading role in the development of financial standards in the context of the global regulatory framework and economic architecture in the Indo-Pacific region, both of which are being increasingly expected to incorporate ESG issues. Through its revised Corporate Governance Code, Growth Strategy, FY2021 “Honebuto no Houshin,” and other recent actions, the GOJ has further demonstrated its commitment to ESG and climate leadership.

- Bilaterally, at the U.S.-Japan summit in April 2021, President Biden and former Prime Minister Suga committed to a wide range of cooperative initiatives, including a U.S.-Japan Climate Partnership, to partner in implementing the Paris Agreement along with a broad array of joint initiatives, cooperation in the digital economy, pandemic preparedness, and other key ESG-related initiatives.

- The resolve to address climate change and other sustainability challenges has been evident in multilateral fora as well, with the Group of Seven (G7) leaders coming together and pledging as democratic societies to support global institutions to address climate change.

- Development of global regulatory standards is also accelerating. The G20 has agreed that closer international coordination on climate action may help achieve common goals. In one critical step, on July 10, 2021, the G20 welcomed a road map prepared by the Financial Stability Board to address climate-related financial risks.
• The U.S. Chamber of Commerce’s U.S.-Japan Business Council (USJBC) applauds these developments and urges the U.S. and Japan, as leading voices in major global institutions, to further accelerate cooperation in this area of common interest and values.

II. The USJBC believes the U.S. and Japanese business communities share common interests and have a vital role to play in the appropriate development of ESG standards.

• Around the world, global companies are playing an important role in confronting climate, social, and other global agenda issues. Companies are becoming more responsive to stakeholders beyond their shareholders, whose priorities are incorporated in ESG initiatives. International financial and capital markets are also experiencing a thoughtful transformation.

• To achieve their stated objectives over the long-term, ESG standards should be transparent and coordinated globally, including with the business community, fostering innovation and market-based solutions.

• Against that backdrop, the private sector has a vital role to play in working with governments, standard-setting bodies, proxy advisory firms, ratings agencies, data providers, and other key stakeholders to ensure that public policy concerns are addressed in a coherent and sustainable manner.

III. Principles

• The USJBC calls on the governments of the United States and Japan to both develop and promote common approaches as the process of formulating and operationalizing ESG standards gains momentum, including taking into account the principles set forth below.

• These principles offer a robust foundation for deepening bilateral cooperation on ESG matters and playing a leading role in shaping international standards that can help deliver strong, sustainable, balanced, and inclusive growth.

• The following shared principles can form the foundation of this cooperative approach based on openness to international partnerships:

Environmental

1. In setting carbon reduction targets and goals, policies should be informed by science, economic impacts, transparency, and measurability; 
2. Support and invest in technologies and innovation that promote and increase the use of lower carbon energy solutions as the new norm, and drive waste reduction; 
3. Work with industry to implement well-designed market-based regulations or mechanisms for establishing carbon pricing;
4. Promote work in sustainable finance and financial innovationvi;
5. Support development of global regulatory standardsv;

Social
6. Promote human capital development, gender equality, and inclusionvi;
7. Address risks and leverage opportunities created by aging societiesvii;

Governance
8. Promote an approach to corporate governance that permits companies to pursue value creation while giving due consideration to the needs and desires of a broad range of stakeholders, including shareholdersviii;
9. Encourage the private sector to create shared value through governance processesix; and,
10. Encourage transparency, inclusiveness, diversity in perspective, trust in rule-making, and seek private sector participation when developing standardsx.

IV. Next Steps – Areas for potential U.S.-Japan cooperation
Building on these principles and shared values, the USJBC calls on the governments of the U.S. and Japan to seize the opportunity to collaborate in building domestic ESG frameworks and to coordinate in international standard-setting. Proactive engagement will be critical to developing thoughtful policies necessary to achieve ESG objectives, while ensuring the transition time and long-term regulatory certainty necessary to minimize potential harm to consumers, workers, businesses and society more broadly. The steps outlined below offer a forward-looking agenda for jointly addressing climate change and delivering on the promise of incorporating more stakeholders into capitalism.

1. Set science-based, data-driven climate policy goals that align with the Paris Agreement: Science-based, data-driven climate policy goals are essential to rallying the private sector and to mobilizing the necessary capital, investment, and innovation to realize the goals of the Paris Agreement and support a global transition to low-carbon economiesxi. We urge the U.S. and Japanese governments to coordinate in the setting of their respective national goals and to strengthen cooperation on the science that underpins them. This will pave the way to establishing appropriate and aligned market-based mechanisms that will accelerate efforts to combat climate change and develop related best practices. Cooperation also ensures a level playing field and adequate transition times for the investment and development of additional technologies needed to ensure continuous supply of affordable, reliable energy to consumers. Aligned standards on data
would allow the two governments to set higher goals while allowing flexibility within their own regulatory approaches.

2. **Ensure a seat at the table for the private sector and actively seek to leverage private-sector expertise throughout the development of ESG-related standards:** In addition to offering appropriate opportunities for engagement via consultations, the U.S. and Japanese governments should seek to leverage the deep reservoir of expertise within the U.S. and Japanese business communities throughout the standard development and regulatory reform process to ensure policy measures are implementable, fit-for-purpose, and reflect realistic timelines for transition, as well as to reduce the risk of unintended consequences.\(^\text{xii}\)

3. **Coordinate in developing and promoting robust, consensus-driven and transparent ESG disclosures that provide a foundation for scaling up sustainable finance:** Disclosures should focus on the company’s approach to risk management and its connection to the company’s strategy and governance. This will enable financial market participants and other stakeholders (e.g., civil society) to have cost-effective access to quality information that is fit-for-purpose and supports informed decision-making.\(^\text{xiii}\) These disclosures should be developed with an eye toward enhancing the overall quality and accuracy of ESG-related data available to market participants and the ability to assess the materiality of ESG-related issues in order to support development of deep, liquid capital markets and appropriate pricing of ESG-related risks and opportunities. ESG disclosure requirements should be principles-based and grounded in traditional concepts of materiality. Any specific metrics required to be disclosed should be widely used and currently available, acknowledging that any metrics must be flexible to adjust, as needed, over time. In introducing any ESG disclosure requirements, given that development of standards is ongoing and there remains substantial uncertainty regarding future climate trajectories, we urge provision of a liability safe harbor for any newly mandated metrics and data points and for related forward-looking information.

4. **Enhance technology cooperation to help deliver a green transformation and clean energy transition, and to support mitigation and adaptation:** The U.S. and Japan are leaders across the range of clean-energy-related technologies, from generation to storage, transmission, and management.\(^\text{xiv}\) We urge the U.S. and Japanese governments to deepen
cooperation aimed at incubating and scaling these technologies through: 1) expanding funding for development and deployment of key technologies; 2) removing obstacles to development of and access to improved transition finance mechanisms; and 3) enhancing cooperation to align standards and permitting processes for both established and emerging innovative technologies that can help speed their safe introduction and deployment. At the same time, the U.S. and Japan should also cooperate in the development and deployment of resiliency and adaption measures alongside efforts to limit the extent of climate change.\textsuperscript{xv}

5. **Recognize unique circumstances of geographies and industries, and adopt complementary policies where appropriate:** While a market-based climate strategy should apply broadly across the globe, no one policy or approach can fully address climate change across the diverse global economy and diverse sources of greenhouse gas (GHG) emissions. In unique circumstances, tailored policies may be more effective or administratively feasible — and enable economies to reach goals faster than through a unified approach. For example, some emissions sources may face unique technological challenges or be subject to separate international agreements to limit emissions.

6. **Enhance cooperation on understanding the state of the ESG knowledge base and, where appropriate and at the appropriate stage of maturity, seek to align international climate-related standards:** The U.S. and Japan should work together closely to: 1) identify key terms where clearer definitions are needed; and 2) cooperate to bring together, and lend their support to, key stakeholders in defining these terms and assessing gaps in the current state of the knowledge base. Building on this, the U.S. and Japan should cooperate to ensure that emerging international actions related to climate change, such as the development of climate-related taxonomies and disclosure standards, are (to the extent appropriate) coordinated, fit-for-purpose, and support the efficient allocation of capital according to market-based principles to support a just and orderly energy transition to a lower carbon future.\textsuperscript{xvi} \textsuperscript{xvii}

7. **Work together in international bodies to set standards and/or equivalencies for avoiding carbon “leakage” and to align domestic policies to do so:** As the fight against climate change ramps up, the U.S. and Japanese governments must be alert to the risk of carbon-intensive economic activities shifting to less-regulated jurisdictions.\textsuperscript{xviii} The U.S. and
Japan should cooperate in evaluating the potential for different kinds of mechanisms such as rebates, allowances, and border adjustments to be implemented in line with their respective international obligations and seek to socialize best practices in international fora as appropriate. Where regulations and/or policies diverge in implementation, both governments should aim to ensure that they are geared toward adhering to international commitments on climate and trade.

8. **Encourage diversity disclosures to help investors allocate capital efficiently:** There is a growing body of research highlighting that diversity is important to long-term value creation.\textsuperscript{xix} We urge the U.S. and Japanese governments to encourage more research in this area and take a data-driven, facts-based approach to help the private sector take meaningful steps toward advancing diversity and inclusion in leadership.\textsuperscript{xx} At this stage, data should be based on voluntary self-identification and disclosure, and cover corporate boards of directors and executive officers without requiring standards or targets,\textsuperscript{xxi} allowing companies flexibility in achieving diversity goals over the long-term.\textsuperscript{xxii}

9. **Work with companies to continue advancing diversity and inclusion within companies and on corporate boards**\textsuperscript{xxiii}: C-Suite executives and board directors, including the CEO and Board Chair, help drive diversity and inclusion by clearly articulating goals, evaluating results, and leading by example. We encourage the U.S. and Japanese governments to work with the private sector to identify, synthesize, and disseminate best practices, recognizing that fully integrating diversity and inclusion considerations into culture and organizational practice does not lend itself to a one-size-fits-all approach. A range of approaches may be needed to achieve the desired results.

10. **Encourage openness, transparency, and trust in rule-making and seek private sector participation when developing standards:** Regulatory transparency is a core government best practice, and will be no less important when it comes to ESG policymaking as it will affect a broad range of stakeholders. We encourage the U.S. and Japanese governments to play a leadership role and set a model for best practices in ESG policymaking, including with regard to private sector participation, and to ensure transparency and stakeholder engagement at international standard-setting bodies. Such transparency and engagement will be critical to
ensuring that any resulting rules and standards are fit-for-purpose and avoid costly, unintended consequences.

V. Conclusion

- The U.S.-Japan alliance is a foundation of peace, security, and prosperity in the Indo-Pacific and around the world.\(^{xxiv}\)
- Enhanced cooperation on ESG issues between the world’s two leading advanced market economies has the potential to exert a powerful influence in shaping global standards and unleashing the potential of stakeholder capitalism.
- We urge the U.S. and Japanese governments to seize this opportunity and stand ready to provide the support, energy, and expertise of the private sector to realize the full potential of U.S.-Japan cooperation as a partnership for the common good.

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\(^{i}\) U.S.:
- U.S. Chamber, “Our Approach to Climate Change,” updated Jan. 2021 (Principle 3 – “Climate policy should be informed by the best science and observations available.”)
- ACLI, “ESG: Building a Sustainable Life Insurance Industry” (Draft as of Dec. 9, 2020) (Principle 2 – “We will work together with governments, regulators and other key stakeholders, including NGOs and standard setters, to promote policies on environmental, social and governance issues that are tested and refined, as necessary).

\(^{ii}\) U.S.
- BRT, ibid. – (Principle 7 – “Support both public and private investment in low-carbon and GHG emissions reduction technologies along the full innovation pipeline”)
- U.S. Chamber (Principle 4 “Embrace technology and innovation”)

\(^{iii}\) U.S.
- BRT, ibid. – (Principle 3 – “Leverage market-based solutions wherever possible.”)
- IIF, ibid. – (Principle 4 – “Price Carbon and Leverage the Power of Markets”)
- U.S. Chamber, ibid. – (Principle 1 – “Support a Market-Based Approach to Accelerate GHG Emissions Reductions Across the U.S. Economy”)

Japan:
- Keidanren, ibid. – “Toward Realizing Carbon Neutrality by 2050 (“Society 5.0 with Carbon Neutral”)” Dec. 15, 2020 (Principle 4 “Generating Innovation” – “As for innovations toward 2050 and the energy mix that considers such innovations, the government should clarify multiple future scenarios together with supporting technology and policy options available, and verify the challenges and costs.”)
- Keidanren, “Urgent Policy Proposal for the Realization of Green Growth” (tentative translation), (p. 1)

\(^{iv}\) Japan
- Keidanren, ibid. – “Generating Innovation” – “[P]romote strong support through the taxation system to back initiatives for innovation aiming toward carbon neutrality, large-scale government investments in social deployment
of technologies concerned and associated infrastructure development, market creation, securing a level playing field to procure zero-emission energy, as well as regulatory and institutional reform.”

- Keizai Doyukai, “Getting the Power Supply to 40% Renewable Energy by 2030: The Road to 40% and Overcoming Challenges,” July 2020 (p. 16)

v

U.S.
- BRT, ibid. – (Principle 7 – “Support both public and private investment in low-carbon and GHG emissions reduction technologies along the full innovation pipeline.”)
- IIF, ibid. – (Principle 4 “Price Carbon and Leverage the Power of Markets” – “To drive capital investment, we support the use of market-based mechanisms, including—importantly—a price on carbon that supports long-term decision-making. Carbon pricing can also spur development of climate-related financial products, promote more transparent pricing of climate-related financial risks, and can inform and help scale key initiatives like voluntary carbon markets.”)
- U.S. Chamber, ibid. – (Principle 2 “Leverage the power of business” – “It will be largely up to the business community to develop, finance, build, and operate the solutions needed to power economic growth worldwide, mitigate greenhouse gas emissions, and build resilient, lower-carbon infrastructure.”)

Japan
- Keidanren, ibid. – (Principle 6 “Promoting Sustainable Finance” – “Under these circumstances, it will be important to create a system, as an infrastructure of sustainable finance, composed of the development of a disclosure basis and the establishment of an evaluation method.”) (p. 48)

vi

U.S.
- BRT, ibid. – (Principle 9 “Ensure that U.S. policies account for international emissions reduction programs.”)
- IIF, ibid. – (Principle 6 “Foster International Convergence on Taxonomy, Data Standards and Metrics”)
- U.S. Chamber, ibid. – (Principle 8 “Encourage international cooperation”)

Japan
- Keidanren, ibid. – (Principle 7 “Expanding Innovation Internationally”)

vii

U.S.
- BRT, “Statement of the Purpose of a Corporation” August 19, 2019 – “We commit to investing in our employees. This starts with compensating them fairly and providing important benefits. It also includes supporting them through training and education that help develop new skills for a rapidly changing world. We foster diversity and inclusion, dignity and respect.”

Japan
- Keidanren “Cultivating Talent to Forge a Society 5.0 Era,” Mar. 2020 – (p. 1)
- Keizai Doyukai, “A Year to Embark on Redesigning Japan’s Economy and Society through Innovation 2021 New Year Message” January 2021, “Diversity is the wellspring of innovation. We need to focus our efforts on investing in diverse human resources. Our aim should be to create a society where an individual’s motivation and active involvement are not hindered by personal attributes such as gender, age, nationality, or cultural background, and where a diverse range of individual personalities collide, generating energy.”

viii

U.S.

Japan
- Keizai Doyukai, “Prescriptions for Achieving an Inclusive Society,” March 2019 (p. 16)

U.S.
- BRT, “Statement of the Purpose of a Corporation” – “Each of our stakeholders is essential. We commit to deliver value to all of them, for the future success of our companies, our communities and our country.”
• U.S. Chamber, “The Role of ESG in the Business Community” Jul. 2020 – “While the U.S. Chamber is supportive of the development of ESG investing, investors must put economic return at the heart of their decision-making process when investing on behalf of others. There is a distinct difference between investing solely to make a social impact without regard to the return and investing on behalf of others that wish to maximize economic return.”
• ACLI, ibid. – “We will develop strong processes to support our governance, risk management and decision-making on environmental, social and governance issues relevant to our insurance businesses.”

Japan
• Keidanren, Charter of Corporate Behavior, November 2017, “Member corporations should fully recognize that their development is founded on the realization of a sustainable society, and they should exercise their social responsibilities by creating new added value and generating employment that will be beneficial to society at large and by conducting their business in a manner that takes the environment, society, and governance (ESG) into consideration.
• Keidanren, “Toward the Evolution of ESG investment, Society 5.0, and achieving SDGs”, March 2020 (p. 1)
• Keizai Doyukai, “Responsibility for Sustainable Economy and Society —More Dialogue with Diverse Stakeholders”, September 2020, “Management strategies, corporate governance principles, and corporate culture are to incorporate “stakeholder capitalism” and “SDGs.”

x U.S.
• BRT, “Statement of the Purpose of a Corporation” – “Each of our stakeholders is essential. We commit to deliver value to all of them, for the future success of our companies, our communities and our country.”

Japan
• Keidanren, “The NEW Growth Strategy,” Nov. 17, 2020 – “The only way to accomplish sustainable growth is for corporations to embrace the demands of their multiple stakeholders, not just their shareholders, and to co-create value with them through communications.”
• Keizai Doyukai, “A Prescription for Realizing an Inclusive Society: Japan and Japanese Companies,” March 2019 (p. 16)
• Keizai Doyukai, “A Prescription for Realizing an Inclusive Society: Japan and Japanese Companies,” March 2019 (p. 18)

x See, e.g., OECD, “Best Practice Principles for Regulatory Policy – The Governance of Regulators,” July 29, 2014 (p. 89)

xi U.S.

Japan:

xii U.S.
• IIF, “Prudential Pathways: Industry Perspectives on Supervisory and Regulatory Approaches to Climate-related and Environmental Risks,” January 2021

xiii U.S.
• IIF, “IIF Board of Directors: 2021 Statement On Climate Finance” February 11, 2021
• Business Roundtable, “Addressing Climate Change”
• The U.S. Climate Finance Working Group also calls for fostering “international harmonization of taxonomies, data standards, and metrics,” which may deserve its own standalone point

xiv U.S.
• U.S. State Department, “The United States and Japan Expand Indo-Pacific Cooperation,” March 16, 2021, “Both countries also commit to discussing ways to expand the adoption and deployment of clean energy technologies to regional partners in an affordable and effective manner through close coordination among U.S. and Japanese agencies and the private sector.”

xv U.S.
• U.S. State Department, “The United States and Japan Expand Indo-Pacific Cooperation,” March 16, 2021, “

xvi Japan
• Keidanren, “Basic Approach to Sustainable Finance on Climate Change and Concrete Actions,” October 9, 2020, “Japan should also consider the need for further enhancement of existing institutional foundations, including clarifying the role of TCFD Recommendations in the field of climate change, while ensuring the independence and flexibility of corporate disclosure.”

xvii

U.S.
• IIF, “IIF Board of Directors: 2021 Statement On Climate Finance” February 11, 2021

xviii

U.S.
• Business Roundtable, “Addressing Climate Change,” “Policymakers must … design policy frameworks that mitigate the unique risks of leakage faced by energy-intensive, trade-exposed industries.”

xix

Testimony of Anne Simpson, Managing Investment Director, Sustainable Investments, CalPERS before U.S. House Committee on Financial Services Subcommittee on Diversity and Inclusion, Virtual Hearing: “By the Numbers: How Diversity Data Can Measure Commitment to Diversity, Equity and Inclusion”

xx

U.S.
• Business Roundtable, “Advancing Diversity and Inclusion”

xxi

U.S.
• ACLI Economic Empowerment & Racial Equity Initiative
• Improving Corporate Governance Through Diversity Act
• The Act on Promotion of Women’s Participation and Advancement in the Workplace

xxii

U.S. House Committee on Financial Services Subcommittee on Diversity and Inclusion, Virtual Hearing: “By the Numbers: How Diversity Data Can Measure Commitment to Diversity, Equity and Inclusion”

xxiii

U.S.
• American Council of Life Insurers, “ACLI Steps Forward with Industry Leadership Initiative for Economic Empowerment and Racial Equity,” October 12, 2020, which focuses on racial equity in the U.S., but I thought adding “women” would find common ground with Japan given recent developments

xxiv

U.S. State Department, “Reaffirming the Unbreakable U.S.-Japan Alliance,” March 14, 2021