

ESG Special

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Re-evaluating the social aspects of ESG investment

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STAFF WRITER

The coronavirus outbreak has taken a huge economic toll around the world, and some market experts have expressed fear that it may harm ESG (environment, social and governance) investment, which has focused on long-term sustainable corporate strategies rather than short-term profits.

But this has not been true so far. While COVID-19 has forced many people to rethink the way people work, travel, shop and live, it has also prompted many investors to reconsider what really matters for businesses to enable sustainable growth and shed new light on the "S" in ESG.

In recent years, ESG investment has focused mainly on environment and governance, rather than social aspects due to global warming. However, the pandemic seems to have pushed asset owners and managers to pay more attention to how companies value their employees, suppliers and communities.

"Employees are an important asset of companies. Future growth of firms will be hugely influenced by what kind of employees they have," Michiyo Morisawa, Japan head of Principles for Responsible Investment (PRI) and director of CDP (formerly the Carbon Disclosure Project) Japan, said in an interview. "At shareholders meetings this year, those with a long-term view have already started to request corporate leaders to spend their financial resources on keeping employees rather than short-term investment."

Founded in 2006, London-based PRI helps investors engage in the concept of responsible investment, which urges them to consider factors related to ESG in their investment decisions. CDP, meanwhile, is a nonprofit organization that runs a global disclosure system for investors, companies and various municipal

governments to measure and manage their risks and opportunities on climate change, water security and deforestation.

Morisawa said talented workers who can create value will change the future course of the company, and in the fluid global job market, whether companies can offer sufficient training programs and an attractive work environment will be key in keeping a talented workforce.

In the wake of the COVID-19 crisis, the world's leading market players are also renewing their commitment on long-term views in assessing corporate values.

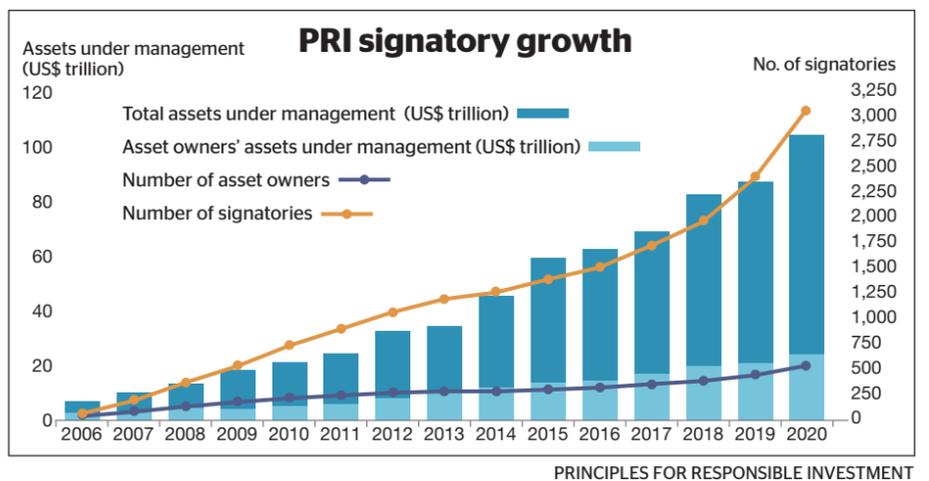
"I believe long-term thinking has never been more critical than it is today," said Larry Fink, chief executive of the world's biggest asset manager BlackRock Inc., in a letter to shareholders on March 29. "Companies and investors with a strong sense of purpose and a long-term approach will be better able to navigate this crisis and its aftermath."

ESG investment has started to pick up its pace after Japan's Government Pension Investment Fund, the world's largest pension fund, became a signatory to the United Nations Principles for Responsible Investment in 2015. The number of financial institutions and companies that signed the PRI has grown to over 3,000.

Morisawa, who also serves as chairman of the Japan Times ESG Consortium, said ESG information is considered nonfinancial information, but it is increasingly becoming a crucial component in making investment decisions. Financial information shows business results of a company, but ESG information indicates a corporation's business outlook and its potential for growth, she said.



Michiyo Morisawa



"If corporate governance is weak in a company, there is high probability that it may face trouble in the future. If companies are conducting business by coping with various restrictions and regulations on climate change, not only they can hedge future risks, but they may also be able to seize business opportunities," Morisawa said.

According to a 2018 sustainable investment review released by the Global Sustainable Investment Alliance, sustainable investing assets in Europe, the U.S., Japan, Canada, Australia and New Zealand were \$30.7 trillion at the beginning of 2018, a 34 percent jump since 2016.

The report also found that responsible investing represents 18 percent of professionally managed assets in Japan. While the percentage is not as large as other countries, such as Australia, it has grown at the fastest pace among all markets, with its sustainable investing assets having quadrupled from 3 percent in 2016 to 18 percent in 2018.

But Morisawa believes Japan's asset owners should take stronger initiatives in leading ESG investment.

"Asset owners in Europe have bold investment policies based on long-term views and urge asset managers to shift their funds to ESG investment. If Japan's asset owners strongly support investment with a long-term view, it will almost certainly accelerate Japan's ESG investment," she said.

Making a commitment to ESG also matters to firms that are part of the global supply chain. For instance, Apple Inc. joined the global renewable energy initiative RE100 in 2016 and has been requiring its parts suppliers to commit to 100 percent renewable energy in manufacturing their products.

"If Japanese companies fail to show their strong commitment to ESG, they might lose business opportunities in the global market," she said.

She stressed now is the time for corporate leaders to determine their companies' core value and make new strategies accordingly.

"It's often said that 'selection and concentration' is important when the economy isn't good. It is time for companies to determine which part of their business will grow in the coming years and what their core business is," she said.

ESG CONSORTIUM

Work toward sustainability recognized with awards

The Japan Times launched the ESG Consortium in 2018 to help disseminate English information of engaged parties by covering their activities and organizing symposiums among other supportive measures.

ESG stands for “environmental, social and governance.” These factors are increasingly considered essential for corporate management and activities as investors place more importance on these nonfinancial factors.

The consortium, jointly with the company’s Satoyama Consortium, established The Japan Times Satoyama & ESG Awards last year with the aim of showcasing successful undertakings of organizations and creating opportunities for exchange among relevant parties.

In September 2019, the two consortiums hosted an inaugural awards ceremony in Tokyo to recognize seven parties for their activities and contributions.

In the ESG field, the Government Pension Investment Fund (GPIF) was chosen as the Grand Prize winner, while Marui Group Co. and FP Corp. (FPCO) received the Excellence Award. (Note: Winners’ comments are below this story.)

The judges were Michiyo Morisawa, Japan head of the Principles for Responsible Investment (PRI) and CDP (formerly the Carbon Disclosure Project); Takatoshi Kato, adviser of the Japan Center for International Finance; Ken Shibusawa, chairman of Commons Asset Management Inc.; and



Winners and officials at The Japan Times Satoyama & ESG Awards 2019 ceremony in Tokyo on Sept. 6
YOSHIKI MIURA

Naonori Kimura, partner and managing director at Industrial Growth Platform Inc.

As the world’s largest pension fund, GPIF has played a key role in promoting ESG investment in Japan after it signed the PRI in 2015 – a global initiative to advance responsible investment.

The judges said the organization has

prompted information disclosure among companies and encouraged active communication between investors and firms. They also noted that GPIF’s initiatives have “contributed to the improvement of sustainability and in value for the capital market,” and “led the rapid expansion of ESG investment in Japan.”

Marui Group was recognized by the judges as “a model company” for implementing ESG elements in its management.

The major retail chain incorporates “inclusion” into the core of its daily business operation and future business strategy. It promotes the forward-looking Co-Creation Sustainability Management, which incorporates the environment, resolution of social issues and efforts on governance.

Leading food tray container manufacturer FPCO has been incorporating ESG efforts into its core business and daily operation for more than 25 years.

In 1990, the company started a system of collecting used food trays and using the recycled materials to create environmentally friendly products.

“The firm has succeeded in establishing its own collection networks across the country and helped spread environmentally friendly recycling efforts,” the judges said.

The Japan Times is planning to announce this year’s recipients and hold a second awards ceremony later this year.

This is an edited story originally printed for “Satoyama & ESG Awards” on Sept. 7. To read the full article online, visit <https://www.japantimes.co.jp/news/2019/09/06/national/recipients-recognized-sustainable-contributions/#.Xth9WZ77S50>. For more information on the consortium, visit <https://www.japantimes.co.jp/esg-consortium/>.

ESG: Grand Prize winner

Government Pension Investment Fund

We are greatly honored to receive the inaugural Japan Times Satoyama & ESG Awards in the ESG (environmental, social and governance) category.

The Government Pension Investment Fund is committed to ESG activities, which we hope will contribute to the sustainability of the capital market, and further to the stability of the public pension system.

Without the support and understanding from various stakeholders, including the pension beneficiaries, portfolio companies and the asset management industry, it would not have been possible to continue our activities. It will be a long journey, but better capitalizing on this opportunity, we will continue to strive for a sustainable society.

URL: <https://www.gpif.go.jp/en/>



ESG: Excellence Award winner

Marui Group Co.

Marui Group Co. promotes what we call Co-Creation Sustainability Management. With this policy, we aim to bring about an inclusive and flourishing society where all people can experience happiness. One example of this initiative can be observed at Hakata Marui, opened in 2016, which houses eating establishments on its first and second floors, with inclusiveness in mind. This floor layout enables many more customers to visit this location. It was realized through the co-creation efforts with more than 15,000 of our customers.

Another collaboration with our customers led us to create what are dubbed Rakuchin Kirei Shoes, featuring a total of 16 sizes, from 19.5 to 27 centimeters, covering women’s shoe sizes. This brand has sold more than 4 million pairs.

We are determined to increase our corporate value through expanding happiness for all, including future generations, with business based on co-creation.
URL: <https://www.0101maruigroup.co.jp/en/>



ESG: Excellence Award winner

FP Corp.

We started our system of collecting used trays in 1990 at storefronts of six supermarkets. Thanks to the increasing understanding and cooperation of consumers, the number of collection locations for this initiative has grown to more than 9,200. We can say this has gained a foothold as a social infrastructure that is part of recycling efforts in each region.

We’d like to let more consumers know that plastic food trays and bottles that can be recycled and reused are valuable resources. We are also accelerating efforts on our “Tray to Tray” and “Bottle to Tray” circular recycling programs and employment of workers with disabilities.

FP Corp. aims to realize recycle-oriented communities and a sustainable society.
URL: <https://www.fpc.jp/en.html>



Suntory: Growing horizons in recycling

In Japan, most polyethylene terephthalate (PET) bottles are collected and recycled after use. According to The Council for PET Bottle Recycling, Japan’s collection rate was 92.2 percent and the country recycled 84.8 percent in fiscal 2017.

Suntory Holdings Ltd., a global beverage producer based in Japan, has announced a higher and more specific target; that is, to replace all of the PET bottles they use for their beverages with ones made of 100 percent recycled and bio-derived PET by 2030.

According to Suntory, about 99 percent of the plastic that the company uses on a global scale is for beverages. Approximately 80 percent of the plastic is made of PET.

Suntory continues to engage in international environmental conservation and education to preserve nature and resources for future generations. Tackling the challenge of PET recycling was a natural choice for the company at a time where plastic waste is a major issue.

Plastic did not start out being perceived as inherently evil. Although the material has contributed to the modernization of food hygiene, portability and packaging, its environmental drawbacks are much clearer today.

Suntory believes clever application of plastic is better than eliminating it altogether. But, in that case, how can society be smarter about plastic usage and recycling?

The company said, “It is not just recycling, but recycling with less carbon emissions.”

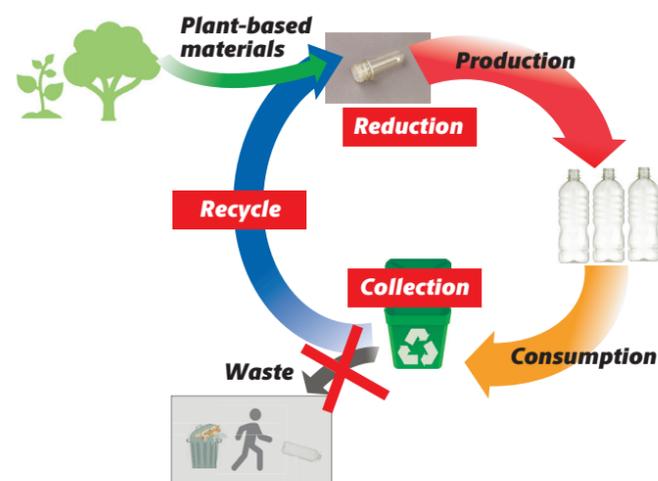
The recycling rate is already high in Japan, but the fact that most people may be unaware of is that most of the collected used PET bottles are recycled and become products that are not PET bottles.

According to The Council for PET Bottle Recycling, the amount of PET resin used for manufacturing PET bottles was about 700,000 tons in 2017. However, only 61,300 tons, about 10 percent, are used for making recycled PET bottles, the council said.

The process of used PET bottles to make recycled PET bottles has been technically difficult. However, petroleum, the main ingredient of the conventional PET, will continue to be exploited if new technologies for bottle-to-bottle recycling are not developed. This is what Suntory is dedicated to doing.

Suntory’s 2R+B strategy is built around reducing plastics and recycling them while utilizing bio-based, rather than petroleum, materials. This means making bottles thinner and caps shallower to cut down on the amount of PET used, developing petroleum-free PET and processing used bottles with mechanical recycling techniques when making new ones.

The company has further developed the mechanical recycling system to include what it calls FtoP Direct Recycle Technology. This is a newly developed method of turning pieces of used PET-bottle flakes directly into preforms, which are intermediate products that look similar to test tubes, that will later be



Sustainable PET bottle production concept
SUNTORY HOLDINGS LTD.

blow molded into PET bottles.

The conventional way of making preform from flakes involved a process of heating and melting the flakes, crystallizing them and then melting the crystallized pellets again before injecting them into the molds of the preform.

The reason behind the seemingly meaningless process of heating the material twice was because there were two separate machines – one that heats and melts flakes into crystallized pellets and the other that melts the pellets again to make preforms.

This new technology is said to reduce carbon dioxide emissions by 25 percent compared to mechanical recycling. This contributes to a more than 60 percent reduction in carbon dioxide emissions compared to petro-

leum-derived PET.

Four companies, Suntory, Kyoei Industry Co. from Japan, Sipa SpA of Italy and EREMA Group GmbH of Austria, collaborated in creating a machine that combines the two processes enabling a shortcut from flake to preform.

With this new technology, recycling PET bottles has become more efficient and environmentally friendlier.

This is an edited story originally printed for “ESG consortium in focus” on June 27, 2019. To read the full article online, visit <https://www.japantimes.co.jp/2019/06/27/special-supplements/suntory-new-horizons-recycling/#.Xs9OI577S50>.

ESG CONSORTIUM

Oji committed to global forestation endeavors

Oji Group, established almost 150 years ago, is one of the world's major pulp and paper producers. While its headquarters is in Tokyo's Chuo Ward, its business and forestation activity extend to the global stage.

In addition to the 190,000 hectares of corporate-owned forests Oji Group is responsible for in Japan, the firm oversees about 250,000 hectares of global forest plantations in Brazil, New Zealand, Indonesia, Vietnam and other countries.

Celulose Nipo-Brasileira SA (CENIBRA), based in Brazil, is one of Oji's overseas entities that not only engages in forestation, but also pulp production and sales. It works to contribute to the local economy by offering jobs to communities in and around its forest plantations, while also collaborating with locals working in other industries such as agriculture and beekeeping.

CENIBRA allows more than 320 local farmers to use flat plots on its land that are suitable for crop production. "We do this to help the farmers stabilize their income and gain their understanding of our forestation activity. Of course it would be easier for us to use flatlands as well as sloped land to plant our trees, but one of our top priorities is gaining local people's understanding and trust," said Kenji Kusuhatu, general manager of Oji's Forest Business Department.

CENIBRA also encourages farmers to plant eucalyptus trees on their unused land, providing them with seedlings and sharing forestation know-how. Mature trees are purchased by CENIBRA.

About 200 honey farmers keep bees in forests owned by CENIBRA. Kusuhatu revealed that one of the main purposes of this collaboration is to increase security. "Our forest plantation is so vast that it is impossible to monitor the entire area. By letting beekeepers use our land, we have more eyes to watch out for fires or intruders. In return for the land use, we also receive 5 percent of the total honey produced. Oji uses this as souvenirs and gifts for visitors," he said.

New Zealand-based Oji subsidiary Pan Pac Forest Products Ltd. (Pan Pac) also supports local communities. The areas where its forest plantations are located are remote and no high-level medical services are available. Pan Pac therefore cooperates with several other companies in the area to provide support for a medical helicopter for the local community.

"In cases of severe illness or injury, patients need to be taken to one of the general hospitals, which are hours away by car. In emergency situations, the helicopter not only has the potential to save the lives of our workers, but also that of the local people," Kusuhatu said.



Around 200 beekeepers keep honeybees in forests owned by Celulose Nipo-Brasileira SA in Brazil. OJI HOLDINGS CORP.

Pan Pac also makes donations to environmental organizations to help protect endangered species such as the kiwi that live near its forest plantation.

Oji's local entity in Indonesia, PT Korintiga Hutani, provided relief supplies to local communities in Kalimantan when the area suffered severe flooding in December 2018.

Quy Nhon Plantation Forest Company of Vietnam Ltd., an Oji subsidiary in central Vietnam, sends doctors to remote areas and has also installed toilets and gates at

local schools.

This is an edited story originally printed for "ESG consortium in focus" on Nov. 18. Job titles introduced here were accurate at the time of the original article's publication. To read the full article online, visit <https://www.japantimes.co.jp/esg-consortium/2019/11/17/esg-consortium/beekeepers-farmers-aid-forestation-efforts/#.Xs9O5Z77S50>.

Seino strives to be environmentally friendly

Seino Holdings Co. is making sure it stands at the forefront of efforts to reduce carbon dioxide emissions in the economically critical transport industry.

The company, widely known for its trademark red logo of a hopping kangaroo, is based in the city of Ogaki in Gifu Prefecture. The Seino group consists of about 90 companies in Japan and Southeast Asia and specializes in getting goods safely and efficiently from one point to another via truck.

With global attention increasingly focused on climate change and the need to rein in steadily rising global temperatures, the impact of fossil fuel-generated pollution has drawn increasingly detailed scrutiny.

Far from standing still, Seino Holdings' consolidated subsidiary Seino Transportation Co., on its own and in cooperation with competing transport companies, is actively working to lower carbon emissions in its industry, which is grappling with additional challenges on its climate impact.

For example, Japan is currently undergoing a dramatic demographic change in which the number of elderly citizens is increasing rapidly while the birthrate falls. That means the country's aging population is set to record a steep decline in coming decades, with huge implications for the supply and demand of labor.

Such effects are already being felt in the

transport sector, where, according to the Japan Trucking Association, approximately 40 percent of truck drivers are 50 years of age or older.

To help ease the strain, Seino is taking advantage of a government regulatory change requested by transport companies that allows for a single truck to haul increased loads. That eases demand for drivers but, crucially, has the added effect of cutting carbon dioxide emissions at the same time.

In January 2019, the Ministry of Land, Infrastructure, Transport and Tourism increased the allowed length of cargo containers hauled by truck to 25 meters by hooking together two trailers pulled by a single vehicle. Known as SF25, for "super full trailer," test runs for the double-linked truck concept began in 2016. Seino Transportation began participating in 2018 with test runs centered on the Shin-Tomei Expressway linking Kanagawa and Aichi prefectures and other roads.

With the official regulatory easing, Seino Transportation along with Nippon Express Co., Japan Post Co. and Yamato Transport Co. in March last year began working together on routes connecting the major Kanto and Kansai regions. The cooperation entails linking their trailers together to enable a doubling of cargo hauled by a single truck. As envisioned, it has reduced demand for driv-



Seino Transportation Co. has been utilizing Hino Motors Ltd.'s Hino Profia Hybrid large truck from September last year to help reduce carbon dioxide emissions. SEINO HOLDINGS CO.

ers and also slashed carbon emissions.

For example, from April of last year to the end of November, the four companies reported a total cut in driving distance from about 1.25 million kilometers to 623,508 kilometers, for a reduction of 50 percent. Carbon dioxide emissions, meanwhile, declined 36.4 percent to 1,526 tons of carbon dioxide from 2,401 tons of carbon dioxide.

Seino has also worked to take advantage of the latest technology to help reduce emissions by utilizing Hino Motors Ltd.'s Hino Profia Hybrid large truck from September of last year.

The vehicle is the first hybrid truck in the world to use an array of artificial intelligence technology. That utilization allows it to anticipate and grasp various factors along a route such as the effect of the load, as well as inclines as much as 100 kilometers ahead.

This is an edited story originally printed for "ESG consortium in focus" on Feb. 3. To read the full article online, visit <https://www.japantimes.co.jp/esg-consortium/2020/02/02/esg-consortium/seino-works-toward-environmental-change/#.Xth-i577S50>.

the japan times

The Japan Times supports the ESG management of Japanese companies and shares their activities with the world.

This consortium aspires to provide more ESG information on Japanese companies and significantly improve the dialogue between the corporate and investment sides of business, by utilizing the capabilities of The Japan Times in information dissemination.

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CORPORATE EFFORTS

Community, workers prioritized amid pandemic

Maiko Muraoka
CONTRIBUTING WRITER

Suntory Holdings Ltd., a global leader in both the alcoholic and nonalcoholic beverages industry, has been making a shift from shareholder capitalism to stakeholder capitalism in the belief that efforts to vitalize communities will benefit the company and its shareholders in the long run.

This is more so under the current COVID-19 situation. Takeshi Niinami, president and chief executive officer of Suntory Holdings noted vibrant communities provide a basis for corporate longevity, the only way to ensure stable return for shareholders.

To revitalize communities during this challenging time, Niinami said out-of-the-box thinking is necessary.

"Realize that there are people who are struggling more than yourself. Let's try and do something about it. This has long been one of our corporate values: *Yatte Minahare* (Go for it)," he said in a recent interview with The Japan Times. "I am deeply impressed that the whole world has begun to act this way to survive this crisis together."

One of the new things that Suntory has tried recently is to support the project Sakimeshi run by internet service provider Gigi Inc. Sakimeshi offers two ways to support restaurants that are suffering from a serious dent in sales due to the spread of coronavirus. One way is to purchase a ticket of the restaurant that one wants to support, which can be used at a later date when one actually visits the restaurant after the crisis subsides. The other way is to donate to the overall restaurant industry.

"We want to do something for those who are eager to support their favorite restaurants. We hope that our high visibility can give customers and restaurants a sense of security in participating in the project," he said.

About 6,000 restaurants from all over Japan have registered for the service as of May 19. Many among those restaurants are obviously Suntory's clients, but that is not the only reason why the company is committed to support the restaurant industry.

"We understand their hardship because we also run restaurants as part of our business. Even if restaurants manage to reopen after the voluntary suspension of operation under the COVID-19 situation, they have no idea as to when the number of customers and sales will fully recover," Niinami said.

The president pointed out the food indus-



Takeshi Niinami, CEO of Suntory Holdings Ltd., speaks about his company's business and ESG efforts during an interview in Tokyo in May. SAYURI DAIMON

try is an important form of Japan's soft power and core of hospitality. "Take the Olympic Games for example, people travel to the host nation not just to see the events, but also to enjoy other experiences especially dining out during their stay," he said, stressing the importance of saving the restaurant industry.

Meanwhile, Hanasō (Let's talk) is a project Suntory launched to encourage the public, especially during the stay-at-home period. It is a series of videos aired on TV and online featuring 37 celebrities and professional athletes enjoying video chatting in small groups.

Right after the Great East Japan Earthquake, Suntory created and aired a TV commercial that consisted of many celebrities singing "Ue wo Muite Aruko" ("Sukiyaki") and "Miagete Goran Yoru no Hoshi wo" ("Look up at the night stars") to show support and togetherness to those in affected areas.

With each line sung by different celebrities, the songs touched the hearts of millions in Japan, Niinami said.

At the time of the earthquake, people got together to encourage each other and people traveled from unaffected prefectures to the devastated areas to provide support. But this time, people must refrain from getting together physically.

"That is why we chose Hanasō as the

theme, to assure people that there are still ways to communicate using the power of technology to keep ourselves mentally healthy until the time comes when we can meet and talk face to face again," Niinami said, stressing that connecting with others is what makes people's lives humanly.

Suntory, as well as many global companies, is contributing to the fight against COVID-19. Beam Suntory, a Suntory group member and a global manufacturer of premium spirits headquartered in Chicago, as well as Suntory's Osaka plant, are producing sanitizer to support medical facilities.

"These kinds of activities are only made possible with the motivation and pride of our workers. I am so honored to be working with such people. This is what I think is one of the values and intangible assets of the company," Niinami said.

During this time when economic activities have slowed down due to the COVID-19 pandemic, Niinami invited many of his employees, including new recruits across the world, to speak directly with him online. Six to nine workers were invited to each session that lasted about one hour. "It helped me hear the voices of each workplace. I was encouraged by these dialogues, too," said Niinami.

In these meetings, he reaffirmed that



This is an illustration for the Sakimeshi project operated by Gigi Inc. and supported by Suntory Holdings Ltd. to help restaurants that are suffering from a sales decline due to the spread of COVID-19.

Suntory will continue its efforts in activities concerning environmental, social and governance (ESG) factors.

In addition to recycling polyethylene terephthalate (PET) bottles and replacing petroleum-based PET with bio-derived PET, Suntory has also accelerated efforts in making its offices paperless, aiming to slash 3 million pieces of paper every year in order to reduce 54 tons of CO2 by 2022.

"The company's promise to our stakeholders is Mizu To Ikiru (Live with water). We aim to practice and support what is good for the environment not just for our shareholders, but for all of society," Niinami said. "Through this battle against COVID-19, it became obvious that excess concentration of people and industry in one area is vulnerable to pandemics," he said, stressing that it is important to maintain economic activities in smaller areas using natural resources effectively.

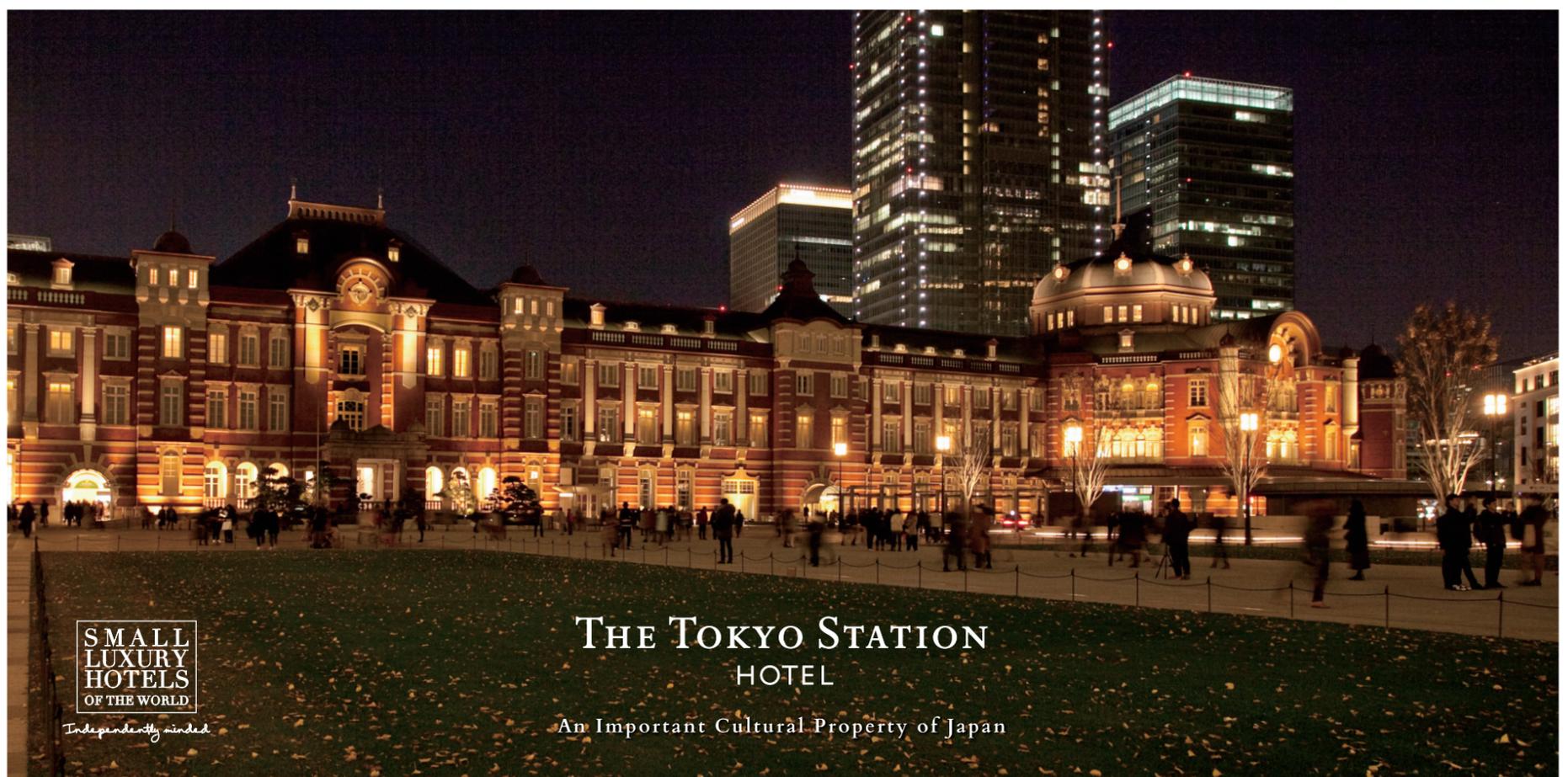
Niinami noted that it is also important to re-examine the company's global supply chain in a way that does not rely too much on one country, taking various scenarios — such as the pandemic — into consideration.

"Not just us, but everyone including European companies must have realized that we all depend so much on China," he said.

"China will continue to be an important partner, but we need to look at the fact that there are also companies in ASEAN (Association of Southeast Asian Nations) and small and mid-size enterprises in Japan. We must re-examine how we can make a global supply chain sustainable in Asia as a whole."

Such re-examination might increase costs, but Niinami said there are other expenses that can be trimmed by promoting digitalization.

"Our focus should be on increasing values and transparency rather than boosting gross margin," Niinami said.



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