

# ENERGY AND ESG PARTNERSHIPS TO DRIVE JAPAN-AUSTRALIA M&A

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Deals and cases

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Herbert Smith Freehills' fifth annual Japan-Australia M&A and Investment Report reveals that there was a proliferation of new energy partnerships between Japan and Australia in 2021, particularly in hydrogen and ammonia. It predicts that 2022 will bring further decarbonisation initiatives that connect Japan and Australia and bolster M&A activity between the two countries.

Herbert Smith Freehills senior advisor and Australia Japan Business Co-operation Committee Vice-President [Ian Williams](#) explains, "Japan significantly increased its targets for cutting carbon emissions in 2021 and Japanese companies are investing heavily as the world accelerates energy transition from fossil fuels towards new energy and renewables. Japan's new energy transition will be propelled by its commitment to net-zero emissions by 2050, and the announcement for Japan's emissions reductions target to be further reduced from a 26% cut to 46% between 2013 and 2030. This combined with Australia's abundance of renewable energy sources, and its historic relationship with Japan as a reliable supplier of high quality energy, including thermal coal and LNG, is a strong foundation for further growth.

"Australia fits squarely within Japan's decarbonisation strategy, which is already manifesting itself as a driving force behind some of the major trends in Japan-Australia M&A. Driven by Japan's need to ensure secure sources of imported energy in a decarbonising world, the partnerships will have an essential role if Australia is to continue as the main energy supplier to Japan leading up to 2050 and beyond.

"There is also significant support available in the form of grants, concessional funding and credit support from the Japanese, Australian Federal and State Governments and numerous government agencies in both countries. These new energy partnerships are a distinct third paradigm of Japanese investment in Australia".

The report details that another key sector to watch in Japan-Australia M&A in 2022 is infrastructure.

[Damien Roberts](#), Herbert Smith Freehills partner and lead of the Japan team in Australia, explained, “After a long hiatus from the Australian commercial property market, Japanese real estate companies, railway companies, investment funds, pension funds and the property divisions of trading houses and industrial companies are poised to return”.

“These investors are attracted to Australia’s stable high-yielding commercial properties, supported by a growing population and economic strength, as part of a global diversification strategy. Urban regeneration projects such as Barangaroo in Sydney, the Melbourne Quarter and Brisbane’s West Village have attracted interest from Japanese investors looking to acquire an equity interest in these projects.”

“Australia’s residential property market is also of interest to Japanese investors as a relatively unconsolidated market, and Japanese building products suppliers and logistics companies are also looking at opportunities in Australia”.

The report explains that despite the record M&A boom in Australia, Japan-Australia M&A activity was lower than anticipated in 2021. There were 33 M&A deals (27 acquisitions and six divestments), 12 of which Herbert Smith Freehills was the legal adviser. The report puts this decline down to the impacts of the Covid-19 global pandemic.

Mr Roberts said, “The pandemic resulted in border closures, quarantine requirements, restricted number of entrants, and internal Australian State border restrictions. Australia’s international border remained closed to international visitors until late 2021, posing significant impediments to the physical site visits that are a key component of due diligence by prospective Japanese buyers”.

Despite the dip seen in 2020 and 2021, the report details that 2022 has started positively for M&A deals and investments in new partnerships have been announced, and the market is set to bounce back to pre-pandemic levels this year.

[Mr Williams](#) added, “The fundamentals of the Japan-Australia economic relationship are strong. Japanese investors reinvested profits and continued to fund existing projects. Relationships were not diminished by the challenges of COVID-19, and established companies will continue to invest as new opportunities arise. New entrants are likely to return once the impediments to movement are removed to build on the 2017 to 2019 trend when approximately half the acquisitions were by new entrants to Australia.

“With international business travel between Japan and Australia resuming, we expect there will be a significant number of new entrants coming into the Australian market with growing numbers of deals and, particularly, partnerships. Overall activity will revert to pre-COVID-19 levels. The consequences arising from the recent events in the Ukraine will further strengthen the strategic importance for a stable supply of both traditional and new energy from Australia to Japan.”

Other key findings from the report:

- Japanese and Australian governments and companies are working collaboratively and strategically more than ever before in response to the uncertain global geopolitical situation, particularly in relation to energy security and critical minerals.
- 25 new partnerships between Japanese and Australian companies (19 in new energy) and now more than 40 new energy partnerships.
- Largest deal of the year was TAL Dai-ichi Life's A\$900 million acquisition of Westpac's life insurance business (once completed will increase its market-leading share in life insurance to 33%).
- Strong growth in Japanese banks financing Australian economic and social infrastructure and renewables projects continued, in both initial loans and secondary debt markets. Projects have also been increasingly supported by non-bank lenders such as Japanese insurance companies and pension funds.
- An area to watch in 2022 is further Japanese investment in DX, innovation and venture capital, which is increasing dramatically with growing recognition that technology development can be accelerated through collaborations and M&A activity with tech-based start-ups.

Read the full report:

<https://www.herbertsmithfreehills.com/insight/japan-australia-investment-report-2021-the-year-of-partnerships>

## KEY CONTACTS

If you have any questions, or would like to know how this might affect your business, phone, or email these key contacts.



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