EU-Japan Centre for Industrial Cooperation
一般財団法人 日欧産業協力センター

EU-Japan Centre for Industrial Cooperation Webinar

Japan's green transformation (GX) strategy
~From the perspective of the EU-Japan Green Alliance~

Thursday, 18 April 2024 17:00 to 18:15 Tokyo (10:00 to 11:15 Brussels)

Yasuo Tanabe (MD – Japan-side, EU-Japan Centre) moderated the webinar and Manuel Hubert (MD – EU-side, EU-Japan Centre) gave the opening remarks. Izuru Kobayashi (Deputy Director-General for Environmental Affairs, Ministry of Economy, Trade and Industry) gave the detailed presentation and Bruno Gaussorgues (Representative Director, Group Country Head, Japan, Societe Generale Groupe Japan) shared his comments. Both responded to questions from audiences. 430 people took part in the webinar.

In the opening remark, Hubert not only emphasized the European commitments, such as Europe Climate Laws aiming for Net Zero by 2050 and the Commission's effort to maintain industrial competitiveness, but also highlighted the EU-Japan green alliance, and their cooperation to tackle common challenges, enhance industrial competitiveness and shape future technologies and standards.

Mr. Izuru Kobayashi *from the Ministry of Economy, Trade and Industry delivered the presentation:*

Global Trend of Green Transformation and Japan's Response

The Japanese government, along with key economies including the EU and the U.S. are trying to pursue decarbonization, economic growth and energy security simultaneously. Japan's energy and climate policy has shifted from a bottom-up to a top-down approach, with Prime Minister Suga announcing a 46% reduction target by 2030 (in comparison with 2013) and carbon neutrality by 2050. This shift is supported by the Energy-Climate Policy Packages (based on the Green Growth Strategy enacted in Dec 2020 and Strategic Energy Plan in Oct 2021), to realize a clean energy-oriented economic industrial structure.

Furthermore, to address the high expense of green products and their production process, Japan has adopted the "GX Promotion Strategy" in July 2023, outlying policies to secure 150 trillion-yen fund from public and private investments over the next decade. As of the sources, the government plans to issue a 20-trillion-yen economic transition bonds, introduce a pro-growth carbon pricing mechanism (emission trading system in FY2026, carbon surcharges for fossil fuel in FY2028 and emission quotas auction in FY2033) and enhance financial support programmes.

Specific sectors targeted for intervention include the acceleration of offshore wind power deployment, aiming to achieve a total of 10GW by 2030 by setting up offshore wind promotion zones and encouraging technical innovation for floating offshore wind turbines. The government also plans to implement a "hydrogen price gap support regime (a 15-year long support to developers of low-carbon hydrogen supply chains)" for hard-to-abate sectors such as iron and chemicals shifting towards green hydrogen and ammonia, as well as commercializing Carbon Capture and Storage (CCS) by 2030 (CCS Business Act currently under Diet debate).

Transition Finance

Europe and the U.S. prioritize decarbonizing energy, particularly electricity in their transition effort. However, Japan faces unique challenges due to limited suitable land for renewables, deep oceans limiting offshore wind sites, safety concerns with nuclear plants, limited electricity exchange with neighbouring countries, and divided frequencies between the east and west. Therefore, Japan needs to implement not only initiatives similar to those in Western countries, but also strategies involving clean hydrogen, ammonia and CCS. This would enable Japan to address challenges ahead of the world, contributing to decarbonization in Asia and developing countries.

Companies operating in hard-to-abate sectors must implement transition plans to reduce emissions from current operation and adopt long-term decarbonization strategies. However, with decarbonization technologies not well

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established, transition finance becomes indispensable. For instance, the government's hydrogen innovation strategy and the construction of hydrogen supply chain are prerequisites for sustainable hydrogen reduction steelmaking,

To promote the flow of transition finance, the Japanese government introduces a 4-step-policy, including basic guidelines, sector specific transition roadmaps, model projects and follow-up public guidance to prevent greenwashing. Currently, transition finance is steadily expanding in Japan, with Japanese companies procuring approximately 1.6 trillion yen in transition-labelled bonds and loans. Japan aims to further increase procurement through GX transition bonds, contributing to 150-trillion-yen over 10 years.

Climate Transition Bond

The GX Economy Transition bond (market name: climate transition bond) is the first government bond issued in Japan, certified by International Capital Market Association (ICMA) standards. Major areas supported by the bond include energy efficiency, renewable energy, and zero-emission transportation, with a focus on supply chain development, clean hydrogen, and ammonia production for decarbonization. Given the challenges of domestic hydrogen generation, the government aims to establish international supply chains to lower prices and stabilized demand. The first issuance of the bond is 1.6 trillion yen (certified by Climate Bond Initiative), with the initial auction conducted on February 14th, 2024. This resulted in an 8-billion-yen bond for both 5-year and 10-year terms, demonstrating widespread investor interest. The Japanese government plans to further implement GX policy and collaborate with European governments, businesses, and financial institutions.

Mr. Bruno Gaussaorgues *from Société Générale Groupe Japan commented on Mr. Kobayashi's presentation:*

Mr. Gaussaorgues focused on the private side of financial investment for renewable projects, specifically the main characteristics of energy transition private investment and the challenges it faces.

Société Générale, leveraging over two decades of experience in energy transition financing, is extending its expertise to Japan (e.g. offshore wind project, solar project). Energy transition projects are exposed to various risks including technological, supply chain, and price risks. With renewable energy being more expensive than fuel-based power, its viability relies on selling electricity at an economically sustainable price. While currently subsidized through Feed-in Tariff (FIT) regimes, due to its expensive nature, there is a gradual transition towards Feed-in Premium (FIP) regimes. Under the FIP scheme, the premium paid to generators is calculated as a margin which is added to the wholesale market price, shifting risk to private sponsors and investors. This makes the main challenge lies in securing a long-term off-taker. In 2023, Société Générale financed a solar project with Shizen Energy's solar farm, which has signed a 20-year PPA with Microsoft, demonstrating how private financing can mitigate risks and accelerate Japan's energy transition, opening new possibilities for renewable project developers.

Q&A session covered the following questions:

- When crafting the GX strategy, what aspects of Western countermeasures such as the EU Green Deal and Fit-for-55, or the U.S. IRA did the Japanese government incorporate or modify? On the other hand, what aspects did the government choose not to adopt?
- What are your thoughts and observations on the EU-Japan Green Alliance?
- How will EU green policy change or remain unchanged after Ukraine crisis and energy cost crisis? Additionally, following the European election and change in Commission this year, will there be any adjustments to EU green policy?
- With GX-ETS becoming a mandatory regulation since FY2026, how will emission caps be allocated to different sectors? To mitigate the impact of CBAM, Japan needs to achieve carbon prices that are comparable to those in the EU-ETS. What will be the carbon price level in Japan?
- Regarding the hydrogen price gap support regime, will the government prioritize subsidizing larger cost gaps or start with smaller ones?
- What cooperation models are expected between Japan and the EU?