

Climate Innovation Finance Strategy 2020

Interim Report of the Study Group on Environmental Innovation Finance
(September 2020)

Provisional translation

(1) Background of the Study

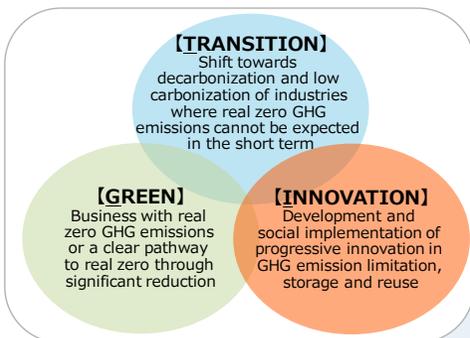
- The Paris Agreement came into effect in 2020. Globally, a huge amount of investment is needed for low carbonization, particularly in emerging countries in Asia. Finance has an increasingly important role in promoting green investment as well as companies that are steadily transitioning to address climate change and innovating to drastically reduce greenhouse gases (GHG).
- With regard to sustainable finance, Japan has transition technologies which are already at the implementation stage, but is also in a position to supply long-term innovation technology to combat global warming.
- METI formulated a basic concept and future direction for the supply of public and private capital to these sectors titled "Climate Innovation Finance Plan 2020", and published it for investors and operational companies in Japan and abroad. Japan will contribute internationally through business innovation by Japanese companies to Asia and other regions where GHG emissions are increasing.

(2) Basic Approach – Simultaneous Promotion of TGIFs for Climate Innovation

- To achieve SDGs and the Paris Agreement, it is important to simultaneously promote transition (T), green (G) and innovation (I), and to finance (F) these projects, rather than taking a binary approach to "green" or "nongreen".
- To this end, we will establish the three foundations: government commitment to address climate change, the proactive disclosure of information by companies, and engagement by suppliers of funds.

[Achieving goals by simultaneous promotion of TGIF (Illustration)]

Three Key Areas of Climate Innovation



Three Foundations



(3) Current Status and Future Direction of Key Areas and Foundations

Key Area (1) Transition

Current Status

- Companies' steady efforts for low-carbonization may not be evaluated by dualistic criteria including taxonomies.
- On the other hand, there are concerns about greenwashing.

Future Direction

- Clarification of transition concepts by creating good cases
- Developing the domestic environment through the formulation of industry-specific roadmaps

Key Area (2) Green

Current Status

- It is necessary to further cut the cost of renewable energy and overcome system constraints in order to make renewable energy the main power source.
- Issuance of green bonds have been increasing. Nevertheless they account for only 3% of bonds issued worldwide.

Future Direction

- Nurturing competitive renewable energy industry and developing industrial and social infrastructure, etc.
- Supporting further growth of green bonds

Key Area (3) Innovation

Current Status

- It is difficult to continue investing in innovative technologies because of very long investment period and difficulties in perspective for profitability. Communication between companies and financial institutions is lacking in this area

Future Direction

- Visualization of companies for investors (Zero Emission Challenge) and creation of dialogue opportunities
- Examination of evaluation methods and encouragement of product development such as indices

Foundation (1) Government commitment to address climate change

Current Status

- Government commitment is important, as companies formulate their strategies etc. based on the mid-term and long-term government plans.

Future Direction

- Deepening discussions on environmental and energy policies toward COP26 in 2021 (Review of global warming countermeasure plans, etc.)

Foundation (2) Companies' Proactive Disclosure of Information (TCFD Disclosures)

Current Status

- Usefulness as a common foundation to encourage financing transition and innovation.
- Movement for mandatory disclosure and standardization.

Future Direction

- Further promotion of disclosure in industries with high GHG emissions
- Clarification of disclosure of companies for which climate change is material

Foundation (3) Engagement by suppliers of funds

Current Status

- Suppliers of funds for long-term investments are lacked

Future Direction

- Appealing to asset owners such as corporate pensions and life insurances in addition to public pensions
- Considering ESG consumer financial products (NISA, etc.)

* We convey this strategy internationally so that it can contribute to the achievement of the objectives of the Paris Agreement globally, together with Asia, emerging economies and others, toward the realization of a "virtuous cycle of the environment and growth".