

Outline of the Basic Policy for the Realization of GX (Green Transformation)

Background

- ✓ More countries and regions are declaring net-zero emissions with timeline (more than 90% on a GDP basis), and there is intensifying long-term, large-scale investment competition for GX, which delivers both emissions reduction and economic growth. The era has arrived where the success or failure of GX initiatives is directly linked to the competitiveness of companies and nations. Russia's aggression against Ukraine has again highlighted Japan's energy security issues.
- ✓ In the midst of this, Japan will take full advantage of its strengths by accelerating GX and create new demand and markets in the fields of stable energy supply and decarbonization, leading to the enhanced competitiveness of its industries and economic growth.
- ✓ The Government of Japan submits the relevant bills necessary to achieve GX to the 211th Session of the Diet (underlined parts are to be included in the bills).

(1) GX initiatives based on the premise of ensuring a stable energy supply

1) Promotion of thorough energy efficiency improvement

- Strengthening support measures for small and medium-sized enterprises to improve energy efficiency by subsidies which are eligible for multi-year investment plans.
- The relevant ministries and agencies will work together to strengthen support for house to replace windows for high energy efficiency.
- The government encourages the shift to non-fossil fuel energy with newly proposed governmental guidelines for five major industries (steel, chemical, cement, paper, and automobile).

2) Making renewable energy a mainstay power source

- Aiming to achieve a renewable energy ratio of 36% to 38% by FY2030, based on the national master plan, in the next ten years or so, we will accelerate the establishment of the power grid system on a scale more than eight times that of the previous ten years. We will establish undersea direct current power transmission cables from Hokkaido Prefecture with the aim of completing them by FY2030. We will prepare a financial environment necessary for these system investments.
- To increase the deployment of offshore wind power, we will establish the Japanese version of centralized system and begin a public offering with new public offering rules.
- We will strengthen business rules to introduce renewable energy in coexistence with local communities. We will socially implement next-generation solar cells (Perovskite solar cells) and floating offshore wind power.

3) Utilization of nuclear power

- On the premise of ensuring safety, we will materialize plans for building next-generation advanced reactors within the sites of existing nuclear power plants that have determined to be decommissioned. We will consider other development and construction projects, based on the future situation, including the status of reactors operating in each region and how local understanding has progressed.
- On the premise of the rigorous safety reviews, the operation period, limited to 40 years with a possibility of extensions for 20 years, will be approved to be additionally extended for a certain length of outage periods. In addition, we will promote the nuclear fuel cycle, develop a mechanism sharing knowledge and securing funds for steady and efficient decommissioning, encourage country-led understanding by citizens to realize final disposal and drastically strengthen proactive work for local municipalities.

4) Other important matters

- In order to develop hydrogen and ammonia production and supply chains, we aim to implement a support scheme that focuses on their price differences with existing fuels. We will design comprehensive policy measures and update the national strategy with a view to leading the world in the hydrogen field.
- In order to secure supply capacity in the electricity market, we will steadily operate the capacity market and promote systematic investment into decarbonized energy sources by implementing Reserve Power Plants system and Long-Term Decarbonized Power Resource Auction.
- Interests in Sakhalin 1 and 2, and other international projects will be preserved for the time being, as they are important for energy security.
- In light of the growing uncertainty in the LNG market, we will build a mechanism to strategically secure buffer LNG and support the development of technologies such as those related to methane hydrate.
- In addition, we will promote research and development, capital investment, demand creation, and other GX efforts in the areas of carbon recycled fuels (e.g., Methanation, SAF, fuels), batteries, resource circulation, next-generation automobiles, next-generation aircraft, zero-emission ships, investment into digital technology for decarbonization, housing and buildings, ports and other infrastructure, food and agriculture, forestry, and fishery industries, and regions and livelihoods.

(2) Realization and implementation of the “Pro-Growth Carbon Pricing Concept” and other initiatives

- Last May, Prime Minister Kishida announced that more than 150 trillion yen of public and private GX investments would be made over the next decade. In order to achieve this, the government has compiled a comprehensive strategy, and will swiftly achieve and implement the following pillars.

1) Upfront investment support utilizing GX Economy Transition Bonds

- We will establish GX Economy Transition Bonds (with the aim of issuing them in a new form that conforms to international standards) and implement initial investment support of 20 trillion yen for 10 years in order to form long-term support measures and increase predictability for private companies. For the cases that are very difficult for the private sector to make investment decisions alone, we will implement the support together with regulatory and systemic measures in areas that will contribute to the strengthening of industries' competitiveness, economic growth, and emission reductions .

2) GX investment incentives through “Pro-Growth Carbon Pricing Concept”

- We will position carbon emission prices through growth-oriented carbon pricing and increase the value added of GX-related products and businesses.
- We will indicate ahead of time a policy of implementing GX efforts as we reduce the total energy-related burden in the medium- to long-term after setting a certain amount of time to make GX efforts instead of implementing them immediately.
⇒ In addition to the support measures, we will establish a mechanism to give incentives to businesses on the forefront of GX efforts.

<Specific examples>

- GX League to be developed in stages → Full-scale operation of carbon emissions trading system by companies, including those in high emission industries [FY2026 onward]
- We will implement auctioning* similar to those in Europe for power generation businesses in gradual stages [FY2033 onward]
*: Fixed contributions based on CO₂ emissions
- We will implement a "GX-Surcharge" (Surcharge on fossil fuel supply) for companies such as fossil fuel importers [FY2028 onward]

* In addition, GX Promotion Organization will be established to carry out the above in a unified manner

3) Utilization of new financial instruments

- The GX Promotion Organization will consider and implement supplementary measures to address risks during the gradual social implementation of GX technologies in order to accelerate investment into GX.
- We will create an environment with measures to promote sustainable finance, including disclosures of information related to climate change, in addition to strengthening efforts to foster international understanding on transition finance.

4) International strategy, Just Transitions, and GX of small and medium enterprises and other businesses

- We will make efforts to materialize the "Asia Zero Emission Community (AZEC) initiative" and further promote GX in Asia.
- We will promote skill acquisition and smooth labor mobility in growth areas such as green ones through reskilling support and other measures.
- In addition to the creation of Decarbonization Leading Areas and the nationwide deployment, local governments will utilize financial support and take the initiative in decarbonizing of the administrative operations. We will launch a new national movement and stimulate demand for decarbonized products.
- We will promote efforts for entire supply chains including those of SMEs through support that uses subsidies including the Project to promote business restructuring of SMEs, training of human resources for SME support organizations that provide push-type support, further expansion of the "Declaration of Partnership Building", and other measures.

(3) Progress evaluation and necessary reviews

- The GX Implementation Council and others will regularly conduct progress evaluations and do necessary reviews effectively taking into account progress in GX investments, global trends, impacts on the economy, and other factors.
- We will clarify the items that require legislative measures in a bill that will be submitted to the 211th Session of the Diet and be sure to implement them.