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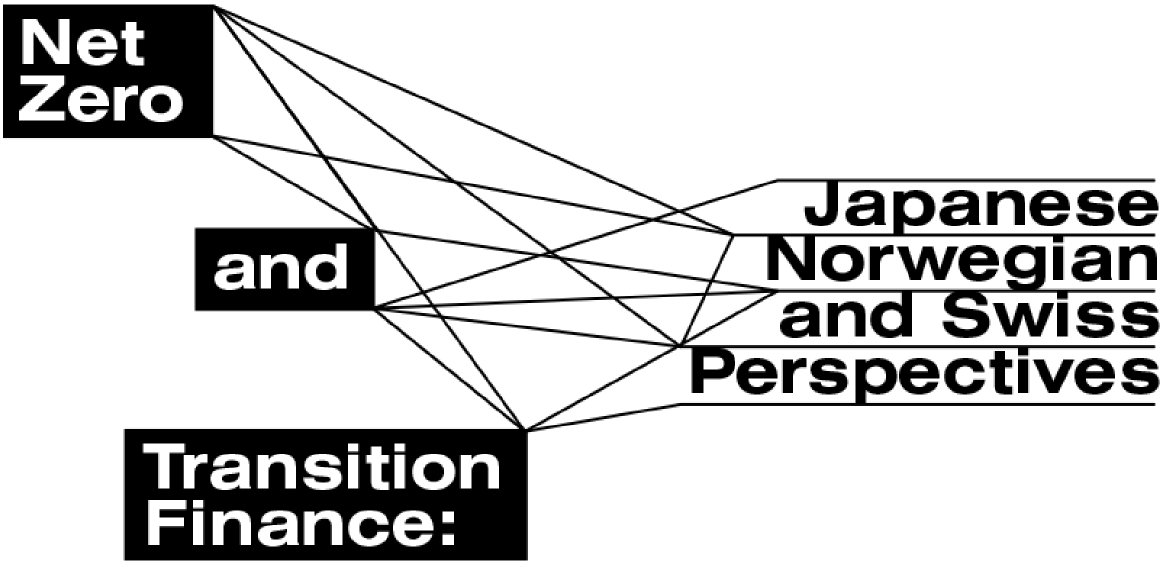
NET ZERO AND TRANSITION FINANCE:

JAPANESE, NORWEGIAN, AND SWISS PERSPECTIVES



On 11 May 2022, the Embassies of Norway and Switzerland in Japan, in partnership with the Japanese business federation Keidanren, organized a hybrid event on transition finance. Finance plays a critical role in enabling industries to embrace the transition towards a net-zero economy. It can provide companies, which have credible transition strategies, with the necessary means to develop the tools to reduce emissions. The seminar brought together companies engaged in decarbonization, financial service providers and government representatives to advance discussions on transition finance.

The event took place at the Toranomon Hills Forum in Tokyo and online. It drew a diverse audience of decision makers and experts, including representatives of Japanese and European corporations, heavy industry trade associations, financial service providers, authorities, as well as academia and media.

Ambassador of Switzerland, Mr. Andreas Baum.
Photo by Ayako Suzuki

Targeting net-zero

Opening the event, the **Ambassador of Switzerland, Mr. Andreas Baum**, recalled that Japan, Norway and Switzerland have committed to net-zero carbon emissions by 2050. While governments can shape effective framework conditions to achieve this transformational objective, companies are the main drivers of the transition. Finance plays a critical role in enabling industries to decarbonize.

Mr. Shinichi Kihara, Deputy Director General for Technology and Environment at the Ministry of Economy, Trade and Industry (METI). Photo by Ayako Suzuki

In a keynote speech, Mr. **Shinichi Kihara, Deputy Director General for Technology and Environment at the Ministry of Economy, Trade and Industry (METI)** explained that transition finance allows different industries to reach the common goal of carbon neutrality in 2050 through different pathways. It plays a crucial role in providing finance to companies in hard-to-abate sectors. It allows these companies, which face divestment, to obtain financing to develop the necessary tools to reduce their emissions.

On the domestic level, Japan pursues a three step policy to promote transition finance.

1) **Guidelines:** METI, together with the Financial Services Agency and the Ministry of Environment adopted Basic Guidelines on Climate Transition Finance in May 2021. Among other things, these guidelines stipulate that companies should have a transition strategy with science-based targets and an appropriate governance structure to put it in action.
2) **Roadmaps:** Starting in autumn 2021, METI formulated specific roadmaps on seven hard-to-abate sectors, which cover 70% of Japan's emissions. These roadmaps can be used by companies as a reference point for their transition strategy, and by financial service providers as an aid in evaluating such strategies. In some sectors, innovative technologies may not be viable yet in the 2020s and 2030s. The focus therefore lies on enhancing efficiency and saving energy. In the 2040s, today's R&D will materialize and accelerate emissions reduction. Unlike the EU taxonomy, these roadmaps take into account such future technologies and the investments needed today to develop them.
3) **Model Cases:** Since summer 2021, the government has identified twelve model projects to inspire companies. One of them is the first transition finance bond in the steel and iron industry to be issued by JFE Steel Corporation.

In terms of international efforts, Mr. Kihara focused on the region, referencing the **Asia Transition Finance Study Group**, which was launched as part of Japan's comprehensive support package called Asia Energy Transition Initiative AETI. Led by nineteen financial service providers, including UBS, the group produces practical guidelines to be released in September 2022.

Subsequently, Ms. **Tove Kinooka, Director and Co-Founder at Global Perspectives**, moderated two panel discussions.

Ms. Tove Kinooka, Director and Co-Founder at Global Perspectives. Photo by Ayako Suzuki

On a first panel, representatives of companies in the steel, energy and agrotech industries discussed their plans to decarbonize, the role of regulators and international standards.

Tezuka Hiroyuki, Fellow on Climate Change at JFE Steel Corporation. Photo by Ayako Suzuki

Mr. **Tezuka Hiroyuki, Fellow on Climate Change at JFE Steel Corporation**, informed that his company will invest JPY 340 billion by 2030 in order to achieve its mid-term emissions reduction targets. In the long term, JFE Steel must develop an entirely new carbon neutral steel making process. This will take decades and require massive financing. The company developed its own transition finance roadmap, aligned with the sectoral roadmap of METI. It will issue a first JPY 30 billion transition bond in June 2022.

Ms. **Katherine Peachey, Vice President and Head of Structured Finance at Equinor**, laid out the international energy company's emission reduction targets. It wants to enhance renewables such as off-shore wind, and advance low-carbon solutions, such as carbon capture and storage or hydrogen production and generation. Even though Equinor has committed more than 50% of its growth capital expenditures towards these ends by 2030, it will still need significant additional financing to achieve its targets.

Katherine Peachey, Vice President and Head of Structured Finance at Equinor. Photo by Ayako Suzuki

According to Mr. **Chris Argent, Head of Business Sustainability for the Asia Pacific Region at Syngenta**, the agriculture sector creates 18% of global emissions, but also has significant potential to realize emissions reduction. Beyond reducing its own emissions, the global agritech company aims to accelerate innovation with its products and services in order to mitigate the general impact of farming on the climateIn the project Risocare for instance, changes in the rice sowing process in Japan lead to reduced emissions.

Chris Argent, Head of Business Sustainability for the Asia Pacific Region at Syngenta. Photo by Ayako Suzuki

Asked about the role of regulators, panelists discussed the need for coordination, consistency and transparency.

Mr. Tezuka stressed the role of government in coordinating different sectors. If JFE Steel is developing a new production method using hydrogen, it will depend on parallel progress in creating a hydrogen supply infrastructure. Ms. Peachey and Mr. Argent agreed on the crucial importance of consistency and transparency of regulatory action, in terms of disclosure standards, but also in terms of how support is provided and maintained. Mr. Argent added that it may be beneficial to expand measurement beyond the direct carbon footprint of a company, and rather account for the total impact of the company's products and services, in order to focus on outcomes.

The panelists also agreed on the importance of collaboration and partnerships. Mr. Tetsuka underlined the importance of promoting the implementation of global standards and sharing best practices in reporting. Ms. Peachey pleaded for all the big players in the energy sector to develop clear pathways to decarbonize. For new technologies, support by regulators and financing is crucial. It is therefore important to work with peers, governments and financial service providers to strengthen the industry.

On a second panel, representatives of financial service providers discussed their approaches to providing transition finance. They underlined the importance of engaging and supporting, but also challenging companies.

Mr. **Judson Berkey, Managing Director and Group Head Engagement and Regulatory Strategy at the Chief of Sustainability Office of UBS**, stated that the global financial institution has committed to reach USD 235 billion in net-zero aligned assets under management by 2030. In his view, financial service providers must engage with companies to help them understand that a meaningful transition is expected of them, and work with them to achieve it. A good example of this is the "Climate Action 100+" initiative. In late 2021, UBS found that 60% of companies in which the bank is involved, had made sufficient progress. An evaluation of the other 40% led

Second panel with Judson Berkey, Keisuke Takegahara, and Carine Smith Ihenacho and moderated by Tove Kinooka.
Photo by Ayako Suzuki

UBS to disengage from some of them, but this is the exception.

Mr. **Keisuke Takegahara, Executive Fellow at the Research Institute of Capital Formation at the Development Bank of Japan (DBJ)** recalled that some companies may not be able to fully engage in decarbonization as necessary technologies are not available yet. They may be limited for now to measures enhancing efficiency and saving energy, with moderate emissions reductions. Investors may see this as insufficient and divest, thereby nipping crucial innovation in the bud. Transition finance can play an important role in avoiding this.

Keisuke Takegahara, Executive Fellow at the Research Institute of Capital Formation at the Development Bank of Japan (DBJ).
Photo by Ayako Suzuki

Ms. **Carine Smith Ihenacho, Chief Governance and Compliance Officer at the Norges Bank Investment Management (NBIM)** stated that climate risk is financial risk. NBIM holds an average of 1.9% of all listed companies globally and has invested JPY 8.3 trillion in Japan. As a large institutional investor, the Norwegian sovereign wealth fund has both an interest and a role in an orderly climate transition. 15% of the companies in its portfolio need to make a substantial transition. As a shareholder, the fund uses its influence to set clear expectations and hold boards to account. It increasingly votes against boards that do not sufficiently manage climate risks. Ultimately, if a company shows no willingness to make a meaningful transition, the fund may choose to divest, but this is the exception.

All panelists agree on the importance of having good information to evaluate the integrity of transition efforts by companies.

Mr. Takegahara and Ms. Smith referred to the work of the International Sustainability Standards Board (ISSB), but cautioned that it will take time for their global standard to be developed. Meanwhile, NBIM urges companies to improve their sustainability reporting, in particular in Asia, including Japan, which lags somewhat behind. Ultimately, the fund expects such reporting to become mandatory. In terms of instruments to support companies in their transition, Mr. Burkey elaborated on sustainability-linked loans and bonds.

Chargé d'affaires a.i. of Norway, Ms. Line Aune.
Photo by Ayako Suzuki

Closing the event, the **Chargé d'affaires a.i. of Norway, Ms. Line Aune**, thanked the speakers for sharing their perspectives. The solid turnout showed that key players in government and the private sector make serious efforts to enable decarbonization and are conscious of their critical role in this regard.

Photo by Ayako Suzuki