

## Client Alert

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## Enactment of the Act on Promotion of a Smooth Transition to a Decarbonized Growth-Oriented Economic Structure

On May 12, 2023, the "Act on Promotion of a Smooth Transition to a Decarbonized Growth-Oriented Economic Structure" (hereinafter referred to as the "**GX Promotion Act**") was passed and enacted by an ordinary session of the Diet. The Act will take effect within three months from the date of its promulgation (Article 1 of the Supplementary Provisions). The full text of the GX Promotion Act bill can be found [here](#) (Japanese only).

### Movement towards GX in Japan

The so-called "Green Transformation" (GX) is expected to shift the existing industrial and social structure from one based on fossil fuels to one based on clean energy. In recent years, global competition for investment in GX has intensified.

In October 2020, Japan declared the objective of achieving carbon neutrality by 2050. The GX Executive Committee chaired by Prime Minister Kishida was established in July last year and completed its "Basic Policy for Realizing GX" (hereinafter referred to as the "**Basic Policy**") by December. The Basic Policy was then approved by the Cabinet in February this year. The Basic Policy outlines ways of achieving decarbonization, a stable energy supply and economic growth through GX for the next 10 years.

In addition to energy conservation, the Basic Policy promotes shifting to decarbonized power sources that contribute to energy self-sufficiency — such as renewable energy and nuclear power — to ensure a stable energy supply. The Policy also calls for a "Growth-oriented Carbon Pricing Concept" that includes bold upfront investment support through "GX Economic Transition Bonds" and other means, carbon pricing-related GX investment incentives and the use of new financing methods.

### Overview of the GX Promotion Act

The GX Promotion Act's most significant initiatives are explained below.

#### 1. Formulation and Implementation of a GX Promotion Strategy

The Government is obligated to formulate a strategy to promote GX in a comprehensive and systematic manner (Strategy for Promoting the Transition to a Decarbonized Growth-Oriented Economic Structure, hereinafter referred to as the "**GX Promotion Strategy**"). The GX Promotion Strategy will be



reviewed as appropriate after examining the status of the transition to a GX economy (Article 6).

## **2. Issuance of GX Economy Transition Bonds**

The Basic Policy commits Japan to making over 150 trillion yen in GX investments over the next 10 years through public-private partnerships. Approximately 20 trillion yen in GX Economic Transition Bonds (bonds for the transition to a decarbonized growth-oriented economic structure) will be issued over 10 years starting in FY2023 to support these upfront investments (Article 7).

The Basic Policy states that this support is to be provided for projects which the private sector would struggle to tackle alone and in areas that both enhance industrial competitiveness and economic growth and reduce emissions.

GX Economic Transition Bonds will be redeemable through FY2050 — the target year for achieving carbon neutrality — through the Fossil Fuel Charges and Contributions from Specified Business Operators described in Section 3 below (Article 8).

## **3. Introduction of Growth-Oriented Carbon Pricing**

The Policy requires the introduction of a carbon pricing mechanism that enhances the value of GX-related products and businesses by putting a price on carbon emissions. The Policy states that this mechanism should be introduced gradually after a period of intensive work on GX to incentivize business operators to take the lead.

### **3.1 Introduction of Fossil Fuel Charges**

Starting in FY2028, Fossil Fuel Charges will be levied on fossil fuel importers, etc. in proportion to the amount of CO<sub>2</sub> their imports, etc. contain (Article 11).

### **3.2 Emissions Trading Scheme**

Emissions trading (GX-ETS) will be launched to achieve voluntary reduction targets disclosed by companies under the framework of the "GX League" scheme, which will be fully operational from FY2026.

The GX Promotion Act stipulates that from FY2033, electricity generation utilities under the Electricity Business Act designated as large CO<sub>2</sub> emitters by cabinet order shall be allotted partial CO<sub>2</sub> emissions allowances for a fee. Contributions will be collected from Specified Business Operators in proportion to the amounts of said allowances (Articles 15 and 16). A bidding system will be introduced for the actual allocation of allowances and unit prices (Article 17).

## **4. Establishment of the GX Promotion Organization**

The GX Promotion Organization (Organization for Promotion of the Transition to a Decarbonized Growth-oriented Economic Structure) will be established with the authorization of the Minister of the Economy, Trade and Industry to operate the emissions trading scheme and support GX investment by private



companies using mechanisms such as debt guarantees, Fossil Fuel Charges and Contributions from Specified Business Operators (Article 54).

## **5. Review of Progress and Necessary Revisions**

The policies will be reviewed in light of the implementation status of GX investment, etc. and domestic and international economic trends related to CO2 emissions, and necessary revisions will be made based on the results of said review.

In addition, the design of the Fossil Fuel Charges and the emissions trading scheme (including specific measures for its full-scale operation), will be reviewed, and necessary legislative measures will be taken, within two years after the GX Promotion Act takes effect (Article 11 of the Supplementary Provisions).

## **6. Impact of the Enactment of the GX Promotion Act**

Government support through the GX Economic Transition Bonds will make it possible for the private sector to invest in projects that would be difficult for it to tackle alone and facilitate an environment in which private companies engaged in advanced GX projects can easily obtain a first mover advantage. In addition, private financial institutions will be able to finance projects through new financing methods combining public and private funds (blended finance), thereby mitigating risk and creating new business opportunities. On the other hand, the carbon pricing system introduced by the GX Promotion Act is growth-oriented and will incentivize business operators to engage in GX. Importers and power generators that do not engage in GX will be burdened with Fossil Fuel Charges and Contributions from Specified Business Operators. Therefore, it is expected that the enactment of the GX Promotion Act will further accelerate the measures taken by the government to realize GX.

In order to support business operators, financial institutions and others involved in GX projects, we plan to publish several articles in coming days detailing various GX Promotion Act-related systems, etc.