Financial institutions' role in promoting GX

- Interview with Hideki Takada by Junko Ishikawa -

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Executive Summary

A variety of public-private-sector initiatives have been undertaken to achieve a green transformation (GX) in Japan, but there are many uncertainties that could influence future outcomes. How should we assess the impact of the Trump administration's policy shift? What role do financial institutions have to play? We spoke with Hideki Takada, Director of the GX Acceleration Agency, which was formed last July as a central body for promoting GX initiatives through public-private partnerships.

Hideki Takada

Director
GX Acceleration Agency

Joined the Ministry of Finance in 1995 and was seconded to the UK Treasury in 2003. Served as Senior Policy Analyst (Green Finance and Investment) at the OECD Environment Directorate from 2015 onward and was appointed Counselor of the Cabinet Secretariat's Climate Change Office in 2021. Subsequently served as Budget Examiner at the Ministry of Finance's Budget Bureau (responsible for MIC, local finance, and MOF) and as head of the Strategy Development Division in the Financial Services Agency's Strategy Development and Management Bureau. Appointed Director of the GX (Green Transformation) Acceleration Agency in 2024.

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Joined Bank of Japan in 2007. Earned MPA degree from Columbia University's School of International and Public Affairs and joined NRI in 2016. Fields of interest include central banks in the developed nations, financial supervisory authority policy and regulation, CBDCs and other digital currencies and payment systems, and carbon pricing. Engaged in research and analysis from a unique perspective.

Assessing impact of Trump administration's policy shift on decarbonization

Ishikawa: The Trump administration has created a great deal of uncertainty for decarbonization efforts. The administration is undertaking a major review of the Biden administration's decarbonization and climate change policies, has halted contributions to international green funds, and is strengthening its support for the fossil fuels industry. What sort of impact do you think these US developments will have on global decarbonization efforts?

Takada: As you note, a variety of things are happening at the moment. Among the most symbolic are the US decision to withdraw from the Paris Agreement and the exit of major financial institutions from the Net-Zero Banking Alliance.

However, discussions among stakeholders are still taking place, and the broad global trend towards decarbonization continues, even in the US.

Investment in decarbonization is conducted primarily by private enterprises because it is good for business and not for moral or political reasons. The need for businesses in the US and elsewhere to pursue decarbonization has not changed.

Decarbonization is something that must be pursued with a focus on the world as it will be ten or twenty years from now. Being swayed by short-term political developments is risky. I think many in Europe share this perspective.

Ishikawa: Are you of the view that so-called carbon leakage, whereby companies shift their production bases from Europe to the US, is unlikely to be significant even if the US relaxes its environmental regulation?

Takada: Decisions about where to locate a business's operations are made based on a variety of factors. At the moment, for example, the US is seeking to revive its domestic manufacturing sector by raising tariffs on imported goods, but the adverse impact of changes in trade policy may outweigh the benefits of relaxed environmental regulation. Basing decisions about company location—which entail long-term investment—solely on the federal government policies that can change from day to day poses significant risks to business stability.

Ishikawa: But won't the policy shift affect support for decarbonization efforts in emerging nations?

The Trump administration has declared that it intends to withdraw from international funds and partnerships that help developing countries reduce their greenhouse gas emissions, address the impacts of climate change, and ensure a just transition, and has said it will halt contributions to these organizations.

Takada: Money provided by the US federal government may decline temporarily. In that case, Japan and the countries of Europe will need to step up and fill the funding gap. I think Japan should view this as a good opportunity to enhance its presence.

Key points in GX 2040 Vision

Ishikawa: This February the Japanese cabinet approved the government's GX 2040 Vision, which presents long-term policy guidelines aimed at achieving a stable supply of energy, economic growth, and decarbonization.

Given that the GX 2040 Vision was approved with multipartisan support, can we assume that it will remain in place regardless of who is in power?

Takada: Although the Vision was formulated under the current administration, there are few disagreements among the major political parties in Japan—including the opposition parties—regarding the need for decarbonization or GX, and a broad consensus exists on the general direction of policy.

Japan stands out among the G7 in terms of having stable and predictable decarbonization policies. It would be no exaggeration to say that this is the greatest strength of Japan's GX policies.

By effectively highlighting this advantage, I believe Japan will be able to attract investment from abroad.

Ishikawa: What aspects of the GX 2040 Vision do you think are especially important?

Takada: A key element of the Vision involves building a “GX industrial structure.” An especially important part of that is creating markets that will contribute to a green transformation.

For instance, GX products such as green steel and electric vehicles require significant investment. This means manufacturing costs may be higher than with ordinary products, resulting in higher prices. To foster a market where such products are viable, it is crucial to consider not only the supply side but also the demand side—namely, how to transform the behavior of potential buyers.

Ishikawa: So we need to make people aware of the value of GX in products and services and foster a mindset that leaves consumers willing to pay a premium for them.

Takada: That’s right. I think it is critical that we create such markets, ensure that companies can pass on necessary costs to consumers, and establish a virtuous cycle of positive consumption.

Ishikawa: Perhaps it would be helpful to attach a kind of mark or label to environmentally friendly products.

Takada: Such initiatives exist, but making the overall decarbonization value of each product more visible will also be important going forward.

The decarbonization value of a product entails factors other than just how much CO_2 was emitted during its production. For example, many products help to reduce the emissions of other companies or of society as a whole. A variety of research is currently being conducted on this concept of “avoided emissions,” but we have yet to settle on a credible methodology for quantifying it. Once we have a common measurement method that facilitates comparisons, I think it will help consumers to choose products.

Ishikawa: Carbon pricing is also an important concept in terms of visualizing the decarbonization impact.

Takada: That's right. The Vision clearly specifies that growth-oriented carbon pricing will be gradually introduced from FY2026 onward to promote GX investment, and work is underway to develop the necessary legal framework. Although the prices of products and services are determined by the market, with carbon pricing we aim to create a mechanism that allows prices to reflect the value of decarbonization.

Ishikawa: In markets with externalities, doesn't relying solely on market mechanisms sometimes result in situations where prices are not determined properly or the intended effects are not achieved?

Takada: There are many things we do not know about the specific economic impacts of emissions trading and emissions surcharges scheduled for future implementation, including the scale of those effects. This is one area where further research is needed.

Ishikawa: Are there any other topics you think are important?

Takada: One key issue is the GX industrial location.

Decarbonized electrical power and other clean-energy generating facilities tend to be geographically concentrated. It seems reasonable to locate industries that consume large amounts of electricity near these power sources.

The semiconductor industry, for example, is already building factories in regions like Kyushu and Hokkaido that have high potential for the development of renewable energy. A similar approach will probably be necessary for data centers. Discussions are underway on how to cluster such industries in regions where renewable energy is readily available and how to foster local economic development.

Financial support functions of GX Acceleration Agency

Ishikawa: he GX Acceleration Agency where you serve as director was established in July 2024 to promote GX investment through public-private partnerships. One of its core functions is to provide financial support, such as debt guarantees and investments, to companies undertaking GX investment.

What kinds of investment projects has the Agency participated in so far?

Takada: We have yet to provide a deal of financial support, but we hope to do so for the first time in the not-too-distant future.

We have been consulted on dozens of projects by both financial institutions and business companies.

The projects encompass a wide range of fields considered crucial for the green transformation, including both large-scale projects and smaller initiatives led by startups. The most prominent field as of late has been hydrogen and ammonia. With "price gap support" and other subsidies for hydrogen suppliers now getting under way, there are numerous projects combining the production and use of hydrogen.

Ishikawa: Does the Agency have any targets for the amount of financial support it hopes to provide or the number of projects it seeks to participate in?

Takada: Not at present. The amount of support we can provide is limited by our budget, but I think we have ample capacity.

We have not set specific upper or lower limits on the amount of support that can be provided to each project. However, it is not realistic for our small team to take on a large number of small-scale ventures. We will probably focus on larger, higher-risk projects, taking into account their importance.

Ishikawa: Have you learned anything in the process of reviewing these projects?

Takada: Originally, the Agency's primary objective was to support new technologies. However, there are also important projects that employ established technologies but face challenges in moving forward due to rising costs, immature markets, or other reasons. We are gradually recognizing the importance of carefully reviewing projects—even those utilizing existing technologies—that are significant from a GX promotion perspective and involve risks that the private sector finds it difficult to assume.

Ishikawa: I would think that financial support for regional GX promotion is also important to achieving the proper siting of GX industries that you mentioned earlier.

Takada: That’s right. At the beginning of last September we opened a Region Liaison Office, and in Hokkaido, which has especially high potential for renewable energy development, we set up a Hokkaido Office. We are actively trying to work together with local stakeholders, both in Hokkaido and in other regions.

I myself have recently visited many regional financial institutions. While each region faces its own challenges with respect to decarbonization and GX, these institutions have the deepest understanding of local industries.

They are also well-positioned to see the entire supply chain. The cooperation of regional financial institutions will be essential as requirements for disclosure of indirect (“Scope 3”) emissions from the supply chain take effect, requiring decarbonization of the entire supply chain. The Agency hopes to help these institutions develop such strategies.

Role of financial institutions in promoting GX

Ishikawa: What specific role do regional financial institutions have to play in promoting GX?

Takada: Beyond merely providing funding, I expect they will take on a consulting role. Some of these institutions have recently begun providing tools for making decarbonization more visible. It is hoped that they can serve as regional hubs in undertaking such comprehensive initiatives.

Ishikawa: The fact that many of the local businesses in supply chains are small and medium-sized enterprises complicates decarbonization efforts.

Takada: That's right. SMEs often lack an understanding of the need for decarbonization or, although they might understand its importance, do not know where to start or simply do not have the time, money, or staff to pursue such initiatives.

That is why regional financial institutions and large enterprises need to develop longer-term plans for decarbonizing the entire supply chain and work together with SMEs to implement these plans.

Ishikawa: To evaluate the efforts of client companies over the long run, it may be necessary for financial institutions to assess not only whether emissions have declined over the last year but also whether initiatives are progressing from a longer-term perspective.

Takada: That's a crucial point.

Japan was one of the first countries to advocate the concept of "transition finance," which provides financial support for the transformation of industries with high CO2 emissions to carbon-neutral operations. But when financial institutions provide loans or investment to such companies, even if the funds are necessary for future decarbonization, "financed emissions"—which refer to the CO2 emissions of the recipients—may temporarily increase.

Under the GFANZ framework, many financial institutions have set targets for the reduction of financed emissions. But if financial institutions focus myopically on cutting financed emissions, they may hesitate to provide transition finance to high-emission companies, thereby defeating the purpose of these efforts.

What matters is how society's total emissions change over the long term. Financial institutions should continue to provide the funds necessary for future decarbonization even if financed emissions increase in the short term. In Japan, we are advocating this approach through public-private partnerships and feel it is resonating with many countries.

Ishikawa: Finally, do you have any message for financial institutions in terms of what you would like to see them do?

Takada: Finance is an extremely powerful tool, but it is not an end in itself. It is through the power of finance that businesses are created and products are made. In recent years, the shift from “savings to investment” has channeled more of the people’s money into investments. Here as well, what matters is how the invested money is being used, since that money becomes the driving force behind the economy.

Financial institution employees serve as intermediaries in mobilizing finance. I hope they will work to ensure that individual citizens, who are the ultimate providers of funds, can clearly envision how their money is being invested.

Ishikawa: In other words, financial institutions need to fully embrace their role in channeling the public’s money into economic development and GX implementation.

Thank you very much for joining me today.

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