

# METI green innovation fund

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## Introduction

In order to help achieve the goal of carbon neutrality by 2050, the Ministry of Economy, Trade and Industry (METI) has decided to develop a green innovation fund of Y2 trillion under the financial year 2020 tertiary supplementary budget as part of the New Energy and Industrial Technology Development Organisation (NEDO). METI established the fund in March 2021 and it will be used to support entities for 10 years from research and development through to implementation.

In February 2021 METI established a committee on the green innovation project, which aims to efficiently and effectively make use of the fund and has formulated basic policies for said fund based on its discussions. The basic policies can generally be divided into two categories:

- target beneficiaries of the fund; and
- frameworks for maximising the results of the fund.

## Target beneficiaries

METI has noted that the fund should focus on providing support to companies engaging in fields which have significant policy effects and require long-term, continuous funding support measures for research and development projects in order to reach implementation. METI has set out the following examples of eligibility requirements:

- entities with research and development projects with an average size of Y20 billion or more;
- projects which require long-term government support (projects where short-term support would be sufficient will not be eligible);
- companies and for-profit businesses that are capable of achieving implementation (small and medium-sized enterprises and venture companies are encouraged to participate, and participation by universities and research institutes is also envisioned); and
- projects which include innovative and foundational research and development elements that are worthy of national commissioning.

METI has also noted that it expects businesses to:

- submit a long-term business strategy vision at the time of applying for the funds;
- ensure that their management team attends and presents to the relevant working group; and
- submit a management document showing the status of their initiatives.

The committee has created the following three working groups which will consider field-specific projects:

- Promotion of Green Electricity Working Group, which will focus on:
  - lowering the cost of offshore wind power; and
  - developing next-generation solar cells;
- Energy Structural Transformation Working Group, which will focus on:
  - constructing a large-scale hydrogen supply chain;
  - hydrogen production by water electrolysis using electricity derived from renewable energy and other sources;
  - using hydrogen in steelmaking processes;
  - constructing a fuel ammonia supply chain;

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- developing technology to produce plastic materials using CO<sub>2</sub> and other similar substances;
- developing technology to produce fuel using CO<sub>2</sub> and other similar substances;
- developing technology to manufacture concrete and other materials using CO<sub>2</sub>;
- developing technologies for CO<sub>2</sub> separation and recovery; and
- developing CO<sub>2</sub> reduction technology for waste management; and
- Industrial Structural Transformation Working Group, which will focus on:
  - developing next-generation storage batteries and motors;
  - developing and demonstrating supply chain reform technology for the electrification of automobiles;
  - developing a smart mobility society;
  - developing next-generation digital infrastructure;
  - developing next-generation aircraft;
  - developing next-generation ships; and
  - developing CO<sub>2</sub> reduction and absorption technologies for food, agriculture, forestry and fisheries.

After consideration by the relevant working group, NEDO will screen and grant the subsidy to approved projects, the details (including budgets) of which will be determined by the relevant divisions of METI. Once approved, the relevant working group will monitor the project's status.

METI has announced that approximately 30% of the current budget of Y2 trillion will be set aside as a reserve fund to accommodate creating unexpected projects and accelerating projects under implementation. The amount of this reserve fund may be revised in Autumn 2021 upon further review by METI of the projects' statuses.

### **Incentive frameworks**

Two frameworks have been discussed to ensure that entities are committed to the goal of achieving carbon neutrality by 2050. One framework involves cancelling funding and requiring a partial refund of any funds provided if the beneficiary is not sufficiently committed to this goal. The other framework introduces incentive measures, such as contingent fees in which the ratio of the national expenditure to the total expenditure by the beneficiary alters depending on goal achievement levels and other criteria.

### **Timeframe**

METI has provided the following timeframes for implementation of the green innovation fund:

- From April 2021 onwards, project composition will occur, consisting of:
  - the public tender process;
  - evaluation;
  - inspection; and
  - funding.
- From May 2021 onwards, project implementation will occur.
- There will be annual project evaluations through periodic monitoring reported by NEDO to the working groups, which will then report to the committee.
- A project may be completed or discontinued at any time and evaluations may take place after such completions or discontinuations.

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