Trends and Developments

Contributed by:
Reiko Yoshida
City-Yuwa Partners

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Author

Reiko Yoshida is admitted in Japan and is the first Japanese lawyer admitted in the Republic of the Marshall Islands. She advises on shipping and finance, leading complex multi-jurisdictional vessel financings as both lead and local counsel. Her experience includes first-of-their-kind cross-border structures, such as ship investment fund platforms and other asset-backed and fund-based arrangements. Reiko co-ordinates corporate, LLC and limited partnership law issues across jurisdictions and oversees vessel and entity registrations to achieve bankable closings. Her practice spans structuring, documentation and regulatory analysis, delivering clear, commercially focused and actionable advice to global clients.

City-Yuwa Partners

Marunouchi Mitsui Bldg
2-2-2 Marunouchi
Chiyoda-ku
100-0005
Tokyo
Japan

Tel: +81 3 6212 5560
Fax: +81 3 6212 5700
Email: reiko.yoshida@city-yuwa.com
Web: www.city-yuwa.com

Transition-Linked Loans in the Japanese Maritime Industry

International frameworks for greenhouse gas (GHG) reduction in international shipping

Greenhouse gas (GHG) emissions from international shipping consist predominantly of carbon dioxide (CO_2). Against the backdrop of continued global economic growth, demand for maritime transport is expected to increase over the medium to long term, and, correspondingly, CO_2 emissions from international shipping are also projected to rise.

Global efforts to address climate change have been discussed under the framework of the United Nations Framework Convention on Climate Change (UNFCCC). Within this framework, the Paris Agreement was adopted in 2015, establishing a common long-term global temperature goal and a system under which each party sets its nationally determined contribution to greenhouse gas reduction.

By contrast, GHG emissions from international shipping cannot readily be allocated on a country-by-country basis, as shipping activities are conducted across borders and cannot easily be attributed to a single flag state. As a result, international shipping does not fit neatly within the country-based mitigation framework of the UNFCCC. Accordingly, responsibility for addressing GHG emissions from international shipping has been entrusted to the International Maritime Organization (IMO), a specialised agency of the United Nations.

In April 2018, the IMO adopted its initial strategy on the reduction of GHG emissions from ships, setting out the following targets:

- a reduction of at least 40% in carbon intensity per transport work by 2030;
- a reduction of at least 50% in total GHG emissions from international shipping by 2050; and
- the phase-out of GHG emissions from international shipping as soon as possible within this century.

Furthermore, in 2023, the IMO revised its initial GHG reduction strategy and set new targets, measured against 2008 levels, including:

- a reduction of total GHG emissions by 20% to 30% by 2030;
- a reduction of 70% to 80% by 2040; and
- the achievement of net-zero GHG emissions from international shipping by around 2050.

The revised strategy also sets targets to:

- introduce zero-emission fuels and similar energy sources into international shipping at a level of 5% to 10% by 2030; and
- reduce CO_2 emissions per transport work by 40%.

It further clarifies that emissions assessment should take into account not only direct emissions from ships, but also emissions arising from the production, transportation and storage of fuels used by ships, thereby adopting a life cycle-based approach. Discussions are currently ongoing with a view to introducing concrete measures to give effect to these targets, with entry into force envisaged around 2027.

Against this international framework and these targets, the government of Japan and Japanese companies have undertaken various initiatives aimed at contributing to the reduction of GHG emissions from international shipping.

Background to the growing emphasis on GHG reduction targets: regulatory compliance and the enhancement of corporate value

The increasing emphasis on achieving GHG reduction targets in international shipping reflects not only the need to respond to strengthening international regulatory requirements, but also a growing focus on the maintenance and enhancement of corporate value.

At present, corporate value assessment has come to encompass, alongside financial information, a broader evaluation of a company's medium- to long-term sustainability based on non-financial information, including environmental, social and governance (ESG) initiatives. This approach recognises that a company's environmental and social practices, as well as its governance framework, are closely linked to future earning capacity and risk management, while continuing to acknowledge the importance of financial performance. Against this background, investment

practices that systematically incorporate non-financial information into investment decision-making, commonly referred to as ESG investment, have become widely established.

In 2006, the Principles for Responsible Investment (PRI) were launched at the initiative of the United Nations Secretary-General, to encourage investors to integrate environmental, social and governance considerations into their investment processes and adopt a long-term perspective. Since then, the PRI have gained broad international support, particularly among institutional investors, and have become an established reference framework guiding investment behaviour through the incorporation of ESG factors.

In Japan, the signing of the PRI in 2015 by the Government Pension Investment Fund (GPIF), Japan's pension fund and one of the world's largest institutional investors, marked an important step in recognising the significance of non-financial information in investment decisions. In this context, companies have increasingly been expected to provide appropriate disclosure and explanation of ESG-related non-financial information to stakeholders.

Accordingly, efforts to reduce GHG emissions are not limited to compliance with international regulatory requirements, but are also closely linked to the evaluation of corporate value through non-financial information. In the field of international shipping, such efforts have come to be regarded as an important consideration in medium- to long-term management strategies and the enhancement of corporate value.

Against this background, the discussion below introduces transition-linked loans in the maritime sector, proceeding on the premise of the transition finance framework developed in Japan and progressively refined through practical application.

Transition finance in Japan

In Japan, guidelines have been issued setting out the general approach to transition finance in the form of the Basic Guidelines on Climate Transition Finance (the "Guidelines"). The Guidelines were published in May 2021 by the Financial Services Agency, the Ministry of Economy, Trade and Industry, and the Ministry of the Environment of Japan, and were revised in March 2025.

According to the Guidelines, transition finance refers to financial instruments intended to support companies addressing climate change through initiatives to reduce GHG emissions in line with long-term strategies aimed at achieving a decarbonised society.

The purpose of transition finance is to provide financial support for transition-related initiatives in sectors where achieving decarbonisation "in one stroke" (that is, in a single step) is difficult from both technological and cost perspectives. Such initiatives include steady efforts such as energy efficiency improvements and fuel switching, as well as long-term research and development facilitating the transition to a low-carbon economy.

The Guidelines are formulated with due regard to consistency with the Climate Transition Finance Handbook published by the International Capital Market Association (ICMA). In this respect, the Guidelines emphasise the importance for issuers and borrowers to address the following key elements, for which enhanced disclosure is encouraged:

- the issuer's climate transition strategy and governance;
- the materiality of climate transition to the issuer's business model;
- a science-based climate transition strategy, including clearly defined targets and pathways; and
- transparency in implementation, including ongoing monitoring and disclosure.

By contrast, at the level of the international financial market as a whole, as noted in the Guide to Transition Loans published in October 2025 by the Loan Market Association (LMA), the Asia Pacific Loan Market Association (APLMA) and the Loan Syndications and Trading Association (LSTA), there remain inconsistent definitions and applications of transition finance.

In light of this international context, this chapter of the guide proceeds on the basis of the transition finance framework developed in Japan and introduces transition-linked loans in the maritime sector.

Relationship between transition-linked loans and sustainability-linked loans

With respect to sustainability-linked loans, the basic concepts and framework are set out in the Green Loan and Sustainability-Linked Loan Guidelines published by the Ministry of the Environment of Japan (the "MOE Guidelines"). Under the MOE Guidelines, a sustainability-linked loan is a financing instrument in which the borrower's sustainability objectives, as reflected in its overall strategy on sustainability and social responsibility, are linked to sustainability performance targets (SPTs). Improvements in sustainability performance are assessed by reference to predetermined key performance indicators (KPIs), with transparency ensured through post-loan reporting.

KPIs refer to indicators used to measure the achievement of specific objectives, while SPTs denote the target levels to be achieved against those indicators. Sustainability-linked loans are designed to encourage borrowers to pursue ambitious and predefined SPTs.

Transition-linked loans and sustainability-linked loans share certain structural features. In both cases, financial terms such as interest rates are adjusted based on performance against specified indicators, and, unlike green loans, the use of proceeds is not restricted. At the same time, transition-linked loans exhibit distinct characteristics in terms of scope, design philosophy and evaluation focus.

Sustainability-linked loans are characterised by their flexibility, allowing borrowers to set a wide range of sustainability-related indicators, including environmental, social and governance matters. By linking economic incentives to performance against borrower-selected KPIs, such loans promote improvements in overall corporate sustainability.

By contrast, transition-linked loans are primarily designed for sectors in which decarbonisation is technically or economically challenging, commonly referred to as "hard-to-abate" sectors. Transition-linked finance does not focus solely on the use of proceeds or short-term quantitative targets, but places emphasis on the credibility and effectiveness of a borrower's long-term transition strategy at the corporate level. Evaluation typically centres on indicators directly related to transition efforts, including GHG emission reductions, investments in energy efficiency and fuel switching, and the adoption of decarbonisation-related technologies. Importantly, these targets are expected to be consistent with binding regulatory requirements and internationally agreed decarbonisation pathways, including those developed by the IMO.

In this sense, while sustainability-linked loans support broad-based improvements in corporate sustainability, transition-linked loans focus more narrowly on progress towards decarbonisation and reflect that progress in financial terms.

Government support measures

Following the formulation of the Guidelines in 2021, the Japanese government has taken the lead in promoting transition finance through initiatives aimed at progressively establishing an enabling market environment.

Since the formulation of the Guidelines, sector-specific technology roadmaps have been developed, in co-operation with the private sector, for ten high-emission sectors, including maritime transport. These sectors are reported to account for more than 80% of Japan's total GHG emissions.

In the maritime sector, under the leadership of the Ministry of Land, Infrastructure, Transport and Tourism of Japan, a Roadmap towards Zero Emission from International Shipping was formulated in 2020. The roadmap was developed through collaboration among the maritime transport, shipbuilding and marine equipment industries, together with research institutions and public bodies, and organises technological options available over the short, medium and longer term while setting out concrete directions for transition towards decarbonisation.

In considering, at each stage, what types of initiatives may be regarded as eligible for transition, reference to such roadmaps is of practical significance. For borrowers, they serve as guidance in formulating transition strategies aligned with GHG reduction targets adopted by relevant international bodies. For lenders, they provide a useful basis for assessing the credibility

and effectiveness of individual borrowers' transition strategies.

In addition to these policy initiatives, a performance-linked interest subsidy scheme has been introduced pursuant to the Act on Strengthening Industrial Competitiveness of Japan to facilitate the provision of funding for transition finance. The scheme applies to loans extended to businesses that have formulated business adaptation plans with a duration of ten years or more, aimed at reducing CO_2 emissions towards the achievement of carbon neutrality by 2050, and that have obtained approval from the competent minister.

To qualify for application of the scheme, the approved plan must include, in addition to end-of-period targets, at least three interim targets serving as milestones for monitoring progress. Following certification of the plan, an interest rate reduction of up to 0.1% is applied up to the first interim target. Thereafter, where the borrower achieves the interim targets specified in advance during the plan period, additional interest rate reductions of up to a maximum of 0.2% may be applied.

The funds for such interest rate reductions are provided through interest subsidies granted by the government, via the Japan Finance Corporation, to designated financial institutions.

To receive financial support under this performance-linked interest subsidy scheme, the relevant business adaptation plan must satisfy certain criteria, including:

- the setting of ambitious targets;
- the soundness and reasonableness of the transition strategy;
- appropriate monitoring and reporting arrangements; and
- an expectation of enhanced competitiveness.

With respect to target-setting, transition strategy, and monitoring and reporting, external verification is required to confirm consistency with the Guidelines and with the Guidance on Sustainability-Linked Loan Principles published by LMA, APLMA and LSTA, thereby ensuring alignment with market-based evaluations.

For plan certification, it is essential that the plan be structured in an integrated manner, encompassing not only environmental objectives but also targets relating to productivity improvements and enhanced competitiveness. Designing long-term and interim targets coherently, satisfying the four elements set out in the Guidelines – strategy and governance, materiality, a science-based approach, and transparency – and articulating a concrete pathway for steadily reducing CO_2 emissions consistent with international frameworks constitute key requirements for plan certification and the application of financial support.

Cases in the maritime sector

Within the maritime sector, transition-linked loans have increasingly been adopted by Japanese shipping companies, particularly major operators. The performance-linked interest subsidy scheme has been applied within this framework, under which the following business adaptation plans have been approved.

Case 1

- Implementation period of the business adaptation plan – ten years.
- Environmental objectives – wWith a view to achieving net-zero emissions by 2050, the company aims, through initiatives in the environmental field, to reduce GHG emissions from transportation by an average of 1.4% per year by 2030 compared with the 2019 level, and by 45% by fiscal year 2035 compared with fiscal year 2019. Through these initiatives to reduce environmental impact, the company seeks to enhance corporate value while simultaneously strengthening its competitiveness.
- Financial performance objective – to improve consolidated adjusted return on assets (ROA) by at least 2% points.
- Actions to be taken to achieve the objectives –
  (a) introduction of clean energy;
  (b) further deployment of energy-saving technologies;
  (c) more efficient operational practices;
  (d) development of business models enabling net-zero emissions; and

(e) expansion of low- and zero-carbon businesses through group-wide initiatives.

Case 2

- Implementation period of the business adaptation plan – ten years.
- Environmental objectives – by addressing key issues related to the sustainable development goals (SDGs), namely safety, the environment, and human resources, the company aims to create both corporate and social value and contribute to the achievement of the SDGs. Specifically, through initiatives towards the decarbonisation of vessels, the company seeks to reduce total GHG emissions under Scope 1 and Scope 2 by 45% by fiscal year 2030, and to achieve net-zero emissions by 2050, including Scope 3.
- Financial performance objective – to improve consolidated adjusted ROA by at least 2% points.
- Actions to be taken to achieve the objectives –
  (a) introduction of LNG-fuelled vessels;
  (b) development of new propulsion systems;
  (c) use of ammonia as a marine fuel; and
  (d) deployment of more efficient vessel operation technologies.

Documentation of transition-linked loans

Transition-linked loans share many conceptual features with sustainability-linked loans in terms of their underlying financial structure. Accordingly, irrespective of the governing law of the relevant loan documentation, when considering loan terms specific to transition-linked loans, it is practically useful to refer to the Draft Provisions for Sustainability-Linked Loans published by the LMA in May 2023.

By way of illustration, such documentation may include, inter alia:

- provisions in the interest clause addressing sustainability margin adjustments;
- provisions in the borrower's undertakings requiring the submission of a framework forming the basis for assessing the achievement of SPTs, together with reports issued by external reviewers evaluating such framework;
- provisions imposing an obligation on the borrower to submit periodic reports to the lenders during the life of the loan, as well as provisions addressing the consequences where the contents of such reports are deemed insufficient; and
- provisions governing the treatment of material changes to the borrower's climate transition strategy, or situations where relevant principles are determined not to have been complied with.

With respect to the criteria for determining whether an interest rate reduction is applicable, certain transactions incorporating a performance-linked interest subsidy scheme include a mechanism under which the government makes such determination. However, irrespective of whether such a scheme applies, the achievement status of the SPTs in each transaction ultimately requires lenders to conduct their own review and reach a determination.

In this context, in addition to making use of evaluations conducted by independent third-party reviewers, it may also be effective for lenders to incorporate quantitative assessment methods as part of their covenant monitoring practices. For example, where an SPT is established by reference to the Energy Efficiency Operational Indicator (EEOI) as a key performance indicator, the relevant calculation methodology is set out in guidelines issued by the IMO, and the relationship with GHG emission reduction targets is relatively clear. As a result, such an indicator allows for objective, science-based quantitative assessment and is comparatively straightforward for lenders to monitor.

That said, the environment surrounding transition finance continues to evolve rapidly. Owing to technological developments, further regulatory tightening, and changes in social and economic conditions, it cannot be ruled out that indicators determined at the time of structuring a transaction may, over time, cease to contribute meaningfully to the sustainable growth of the relevant company or to broader societal development. In such circumstances, it may become necessary to revisit the applicable KPIs, and there is also a risk of divergence between the originally assumed evaluation criteria and actual circumstances.

On the other hand, having independent third-party reviewers assess whether initiatives aligned with a relevant roadmap are being appropriately implemented

has a certain degree of rationality, particularly given that transition is, by its nature, a gradual and continuous process. Nevertheless, reliance on third-party assessments entails inherent challenges, including the potential influence of evaluative judgment and issues of transparency and fairness.

The practical application of transition-linked loans remains at a developing stage, and a number of issues continue to warrant further consideration, including the reliability of disclosed information and the establishment of robust evaluation methodologies. In particular, with respect to assessing the four elements emphasised in the Guidelines, an appropriate combination of qualitative and quantitative analysis is essential to enhancing credibility. Further accumulation of market practice and continued development of the relevant frameworks are therefore anticipated.

Concluding remarks

The practical application of transition-linked loans remains at an evolving stage, particularly with respect to the assessment of transition strategies, the reliability of disclosed information, and the appropriate combination of qualitative and quantitative evaluation methods. These issues are not unique to individual transactions but reflect broader structural characteristics of transition finance, which is inherently gradual and subject to technological, regulatory and economic change.

In this context, it is appropriate to recall the fundamental role that the maritime industry has long played in supporting socio-economic activity through the provision of stable and reliable transportation services, including the carriage of energy resources. The continued ability of the maritime sector to maintain and enhance such transport capacity remains of central importance to sustainable economic development.

While the use of non-fossil fuels, including renewable energy sources, has been steadily expanding, diversification of energy supply methods is significant not only from the perspective of decarbonisation, but also from the standpoint of ensuring the stability of supply. In this context, the maritime industry is expected to continue contributing to society by addressing both decarbonisation and the maintenance of stable transportation services.

At the same time, efforts towards decarbonisation do not yield economic results in a single step. They must instead proceed incrementally under conditions of uncertainty arising from technological constraints, regulatory developments, geopolitical factors and market volatility. Shipping, in particular, is characterised by a high degree of volatility influenced by factors such as exchange rates and freight markets beyond the control of individual companies. Sustaining continuous efforts towards decarbonisation therefore presupposes a sound medium- to long-term business foundation, supported by stakeholder trust and a virtuous cycle linked to the enhancement of corporate value.

From this perspective, financial support based on a long-term outlook plays an important role, especially where it takes the form of stable debt financing. Greater shared understanding, both domestically and internationally, of the role of transition finance as a means of supporting decarbonisation investment – while underpinning stable supply – is therefore warranted. If companies, market participants, financial institutions and governments each fulfil their respective roles, and if transition finance continues to be developed and applied in a measured and credible manner, it can contribute meaningfully to the sustainable development of the maritime industry and to the continued provision of stable transportation services.