

## **Attention-Attracting EU Parliament Election and Future of Decarbonization Policy**

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From May 16 through 20, I had opportunities to have discussions with energy industry stakeholders and experts in London on a wide range of energy issues. However, our discussion focused on the upcoming European Parliament and British parliament elections and the future of Europe's decarbonization policy. In the following, I would like to summarize my personal view on the future of Europe's decarbonization policy, based on the London discussion.

Europe or the European Union has played an important role in leading the decarbonization policy around the world, taking the initiative in announcing a carbon neutrality target by 2050. In this sense, Europe's decarbonization policy has always been the center of global attention. The Ukraine crisis, which broke out in 2022, has brought about unprecedented difficulties for Europe, which has been heavily dependent on energy supply from Russia, prompting the EU to give top priority to energy security. In the midst of the crisis, European countries implemented emergency measures that prioritized a stable energy supply, without hesitating even to use coal-fired power generation. However, the EU formulated and strongly promoted the so-called "REPowerEU" policy to not only enhance energy security (phase out dependence on the Russian energy supply) but also to pursue decarbonization. Regarding today's important challenge to balance energy security with decarbonization, Europe has attracted global attention.

In fact, however, Europe has suffered from soaring energy prices, with its economy and industry facing heavy burdens and difficulties. Energy subsidies were introduced, demonstrating that European society and economy are vulnerable to rising energy costs. It is noteworthy that European countries last year took measures to avoid energy cost hikes, such as the postponement of a ban on sales of new internal combustion engine vehicles, indicating the so-called "green backlash." Even so, however, EU initiatives to promote decarbonization more ambitiously have been seen. In February this year, the European Commission issued a recommendation that the EU should aim for a 90% reduction from 1990 in greenhouse gas emissions by 2040 following the "Fit for 55" policy package to cut GHG emissions by 55% from 1990 by 2030. Although it may not be easy for the EU to achieve the 2030 target, the recommendation demonstrates the attitude of promoting decarbonization initiatives more ambitiously under a higher target for 2040 to achieve carbon neutrality by 2050.

Under these circumstances, the European Parliament election to be held on June 6-9 is attracting global attention. This is because the results of the election will determine the new lineup of the European Commission and future EU policies. Election results in European countries since last year have demonstrated the growth of right-wing forces, leading observers to forecast a similar shift to the right through the European Parliament election. Of course, the environment-focused political forces that promote stronger climate action and decarbonization have a strong base in Europe, indicating that their mainstream position may remain unfazed. At the latest discussion in London,

however, I frequently heard that if right-wing forces with populist claims grow, the European Parliament may become more cautious about promoting decarbonization policies that entail costly burdens. In this sense, the extent to which right-wing forces will grow will be a major issue.

At the same time, however, I frequently heard that regardless of the outcome of the election, the EU's policies or the European Commission's stances would continue to emphasize extremely ambitious decarbonization initiatives. This is because it is difficult to predict that the promotion of decarbonization, which is considered to be a key "raison d'être" for the European Commission, will be easily changed or reversed. Incidentally, the next British general election is expected to lead the Labor Party to replace the Conservative Party as a ruling party. Even in this case, the emphasis on climate change measures is expected to remain unchanged or even be enhanced. However, we will have to closely watch the results of these key European elections and their impacts that would exert a great influence on the international political situation and the world's energy and decarbonization policies.

However, what left a stronger impression on me through the London discussion was the view that political, economic, and social realities in European countries in addition to the coming elections will have greater impacts on the future decarbonization policy. Even in Europe, national governments play greater roles and exert greater impacts than the EU or the European Commission in implementing policies or taking specific measures. Given national realities, I felt that the pace of progress in decarbonization is perceived as likely to slow down at least in the immediate future for the following reasons:

The first reason behind the belief that the pace of decarbonization may fail to be as fast as expected or may slow down is that the European economy and industry are facing harsh realities, with society being vulnerable to energy cost hikes, which was mentioned earlier. In the face of such economic and social realities, policy initiatives that involve likely rising costs may tend to be stalled. However, it has been pointed out that there are other factors that may have an additional significant influence.

Second, many at the London discussion cited the severity of fiscal constraints in European countries. While private sector companies invest in the promotion of decarbonization, public support from governments and policies is inevitable for them to respond to externalities such as climate change. Public support needs to be backed financially. However, fiscal constraints are believed to have become extremely severe in European countries due to significant spending growth for enhanced decarbonization measures, countermeasures to combat the COVID-19 pandemic, fiscal stimulus for economic recovery from the COVID-19 disaster, support for Ukraine, and energy security measures. Under these circumstances, these countries are required to allocate fiscal resources to various measures in the future while considering the abovementioned first reason.

Third, how to deal with China in the future will also be a factor that will affect Europe's decarbonization policy. Maximizing the use of Chinese-made electric vehicles and solar panels can be the lowest-cost and quickest way for decarbonization due to their superior cost competitiveness. Recently, however, European countries have grown more cautious of using Chinese products from the perspective of economic security and concerns about the impact of Chinese products on their economies, industries, and employment. If the use of Chinese products is restrained, the promotion of decarbonization will be costlier and slower.

Fourth, it has been pointed out that strengthening security measures against Russia has

emerged as a new important priority for European countries, leading to defense spending growth for themselves as well as Ukraine, which will be coupled with the abovementioned fiscal constraints to affect decarbonization. There are significant differences among European countries in the approach to security against Russia. However, the need to strengthen security is pervasive. If Donald Trump wins the November U.S. presidential election, Europe may have no choice but to push forward to enhance its own security. Under these circumstances, I feel that although progress will be made in decarbonization in each European country, the speed of decarbonization may not be as fast as expected. Developments in Europe, along with those in the United States regarding the presidential election, will have major impacts on Japan and the rest of the world. These future developments will attract attention.

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