

An Analysis of Future U.S. and European Energy Policies and Challenges for Japan

Ken Koyama, PhD
Chief Economist, Senior Managing Director
The Institute of Energy Economics, Japan

On July 19, the Institute of Energy Economics, Japan, held the 447th forum on research works, titled "Future U.S. and European Energy Policies and Challenges for Japan," in a hybrid format that included face-to-face and online participation at the Keidanren Hall in Tokyo. While advisory panel discussions for the formulation of Japan's Seventh Strategic Energy Plan are underway, the energy situation surrounding Japan is changing from moment to moment. In particular, the outcome of the U.S. presidential election to be held in November is noteworthy as an extremely important factor that will have significant impacts on the overall international energy situation. It is also important to pay attention to how political changes such as the results of the recent European Parliament elections will affect the world, as Europe has been leading global climate change policy. Other matters Japan cannot overlook include the future course of the international energy situation centered on fossil fuels, as well as relations between the situation in the Middle East as the gravity center of fossil fuel supply and the incoming U.S. administration.

At the forum on research works, four reports were presented according to the title of the forum, followed by a lecture on Japan's energy policy issues by IEEJ Chairman Tatsuya Terazawa and a panel discussion by the report presenters. In the following, I would like to summarize and comment on the important points of the above four reports in my personal way.

The first report, "Overview and Future Prospects of the U.S. Presidential Election," was presented by Ayako Sugino, a visiting researcher at the IEEJ and an associate professor at Musashino University. Following a debate between Democrat Joe Biden and Republican Donald Trump in late June, pressure grew on Biden to withdraw from the presidential race and Trump was attacked by a shooting. The U.S. presidential race has thus been turbulent, affected by unprecedented developments. At present, Trump is said to have a small lead. However, future developments are unpredictable.

If Biden is reelected, the Biden administration is expected to leverage the Inflation Reduction Act, which is considered to be an important achievement of the administration, to promote investment in clean energy and energy transition with an emphasis put on decarbonization. In this sense, there will basically be no major change from the Biden administration's course so far, ensuring U.S. policy continuity. If Trump comes back to the presidency, however, he will withdraw the United States from the Paris Climate Accord again to dramatically change U.S. climate change policy. The potential second Trump administration is expected to review and relax automobile exhaust gas and power plant regulations and advocate the reconstruction of U.S. manufacturing industries. If Trump regains the White House, the fate of U.S. policies in all areas will be a matter of great concern to the world. Attention-attracting future developments will include Biden's decision to stay in or withdraw from the presidential race, the impacts of the Trump shooting on public opinion and voters, and the presidential candidates' efforts to woo voters in swing states that hold the key to the presidential

election outcome.

The second report, "International Situation Centered on Fossil Fuels," came from Ichiro Kutani, senior research director at the IEEJ Resource, Fuel, and Energy Security Unit. Despite renewable energy's rapid surge, fossil fuels have remained a main energy source, accounting for 81% of global energy supply in 2023. The fossil fuels share has taken more than half a century to fall by a little more than 10 percentage points, indicating that the energy transition may take an extremely long time. The Ukraine crisis has led the world to reaffirm the importance of securing a stable supply of fossil fuels. Although the international energy market has regained some stability after emerging from the severe supply uncertainties caused by the outbreak of the Ukraine crisis, fossil fuel prices remain high. In this context, the world is plagued with various issues such as the uncertain Middle East situation, the strategy of OPEC-plus oil-producing countries, the mismatch between oil refining capacity and demand for petroleum products, and how to secure medium- to long-term LNG supply capacity, demonstrating that efforts to stabilize the fossil fuel markets are important.

As gaps between decarbonization targets and realities widen, fossil fuel consumption is very likely to play an important role to meet the widening gaps. If investment in fossil fuel development is constrained under such a situation, however, fossil fuel prices may soar to the disadvantage of the Global South and low-income people. The risk of underinvestment is an important issue for the stable supply of fossil fuels. Balancing clean energy investment with fossil fuel investment is important for steadily and smoothly advancing the long-term energy transition.

The third report, "U.S. and European Climate Change Policy Trends," was presented by Toshiyuki Sakamoto, director of the IEEJ Climate Change and Energy Efficiency Unit. As for the United States, climate change policy could change significantly depending on whether the Trump administration would come back, as pointed out in the first report. On the other hand, it is interesting to note that Trump and Biden are competing for a more hardline policy against China. In this respect, carbon border adjustment measures to prevent carbon dumping, in which cheap products from countries with lax environmental standards would flood into the United States to the disadvantage of U.S. industry, are attracting bipartisan attention apart from the presidential election.

It is important to note how political changes in Europe will affect future European climate change policy. The recent European Parliament elections that resulted in the growth of rightists and the retreat of leftists or environmentalists have reflected the voices of European citizens, economies and industries. Under the circumstance, it is likely that European governments should become more cautious of promoting policies that would lead to an increase in energy costs. The Strategic Agenda 2024-2029, an important policy document released at the European Council in June, clearly gives greater priority to the enhancement of European competitiveness than to climate change measures, marking a significant change from the previous strategic agenda given five years ago. In Europe (and in the United States, which could retain the Biden administration), there will be no significant change in the approach of enhancing decarbonization efforts under high ideals. However, governments will face widening gaps between ideals and reality and struggle to respond to such widening gaps. Attention should be paid to future developments.

The fourth report, "The Next U.S. President and the Middle East Situation," was given by Sachi Sakanashi, director of the JIME Center. The United States as the world's superpower has been deeply involved in the stability of the Middle East. One of the most important Middle East issues for the United States now and in the future is the Palestinian issue. The Gaza crisis since October 2023 has confronted the United States and the world with the seriousness and complexity of the Palestinian

issue. Another important Middle East issue that the United States needs to address is the Iranian nuclear program. How the next U.S. administration confronts these two conundrum issues will have an extremely significant impact on the stability of the Middle East and the international energy situation.

If the Biden administration is retained, its policy towards Israel is expected to remain unchanged. With regard to Iran, the emergence of a reformist president on the Iranian side could lead to efforts to explore some kind of agreement to stop Iran's development of nuclear weapons. If the Trump administration takes office, support for Israel could be enhanced, with the siege of Iran being toughened. If Trump aides include influential hardliners against Iran, the U.S.-Iran relationship could become very tense. In that case, there would be significant risk factors for the stability of the Middle East as a whole and the international energy market. It may be essential for Japan to enhance efforts to prepare for strategic responses to emergencies and call for international cooperation in stabilizing the international energy market, while making maximum efforts to stabilize the Middle East.

Contact: report@tky.ieej.or.jp

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