

Climate Change Policy Trends in the U.S. and Europe **<Report Summary>**

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Trends in the U.S.

1. There has been a string of climate change-related policy decisions made in the U.S. from the start of 2024 that would appear to have the presidential election in mind. For example, in January it was announced that LNG export permit decisions would be temporarily halted until the conclusion of a review of the screening standards by the DOE, and it is being reported that the move reflects awareness of the country's environmental left. In addition, in March the EPA finalized its motor vehicle GHG emissions regulations, but conversely, these significantly lowered the future BEV ratio compared to the initial proposal, and this is being said to reflect awareness of the United Auto Workers in the State of Michigan, a so-called swing state.
2. Both candidates, Joe Biden and Donald Trump, are also competing on taking a hardline stance toward China. Amid that, the current Administration in May announced substantial increases in tariffs on imports of Chinese products such as EVs, batteries and solar cells. Of these products, the only item the U.S. has a track record of importing from China in significant volume is batteries, and while some concerns are being expressed about the impact on grid decarbonization, any other near-term impacts are viewed as minor.
3. The current Administration and Congress are showing a great deal of interest in a carbon border adjustment mechanism (CBAM) as an issue surrounding climate and trade. In April the White House announced it was setting up a Climate and Trade Task Force in order to respond to "carbon dumping," whereby relatively cheap products flow into the U.S. as a result of its lenient climate change policies. In Congress also, multiple bills are being proposed in relation to a CBAM, and there is bipartisan interest in a CBAM as the policy that factors in China. Consequently, irrespective of the outcome of the presidential election, it will no doubt be worth paying attention to future developments.
4. The current Administration is trumpeting the Inflation Reduction Act (IRA) for its effects in promoting investment and generating employment, but the Congressional

Budget Office (CBO) in February released a forecast that the costs will balloon to more than double the initial expenditure estimate (\$369 billion). At the end of 2025 it will become necessary to extend the income tax cuts implemented by the previous Trump Administration, and it will be essential to secure the financial resources for continuing those cuts. Potentially, reducing IRA aid will emerge as a plausible candidate for achieving that.

5. In its 2024 policy platform, the Republican Party vowed to realize reliable and abundant low-cost energy and to once again achieve energy independence and dominance by lifting restrictions on fossil fuels and terminating the “Socialist Green New Deal.” The Party is vowing to cancel the Biden Administration’s EV mandate also. The platform makes no mention of the Paris Agreement, but in the past candidate Donald Trump declared he would withdraw the U.S. from the Agreement. In the event a Trump Administration emerges, the U.S.’ climate change policies will likely undergo a major review, including also reviewing support for EVs in the IRA.

Trends in Europe

6. In Europe, in February the European Commission proposed making the 2040 emissions reduction target a reduction of at least 90% (compared to 1990). That represents a 63% reduction (compared to 2019) by 2035, and is an ambitious target that goes beyond the emissions reduction path (a 60% reduction) in the global stocktake (GST) agreed upon at COP28.
7. Reflecting changes in public opinion among the citizens of Europe, in the June European Parliament election, in addition to the center right, seats were also gained by right-wing radicals and the far right, both factions of which are voicing doubts over ambitious climate change policies. This trend is pronounced in Germany and France. The left obtained a seat majority in France’s lower house election, but in Germany, a general election is scheduled to be held by September next year. From here forward it will be important to keep an eye on the course of climate change-related debate both in the European Parliament and in respective countries.
8. The rules of fiscal discipline that were suspended in the face of the COVID-19 pandemic began being applied again from this year. In June, the European Commission commenced procedures for measures that include sanctions and recommendations to improve excess fiscal deficits. Those measures cover seven countries, including France and Italy. Countries in Europe will have limited leeway for fiscal stimulus going forward, and under those circumstances, priority-setting and budget allocation for various policies will take place.
9. In Europe there is a sense of fatigue over the numerous regulations arising from the

Green Deal, and there are strong calls for competitiveness to be improved. Amid that, in the strategic agenda 2024-2029, which is the conclusion document of the European Council's meeting in June, bolstering competitiveness was positioned as a high-level concept of climate change measures. Clearly, Europe is beginning to shift its axis towards ramping up competitiveness.

10. Europe will also hike its tariffs on China. In June the European Commission announced additional provisional tariff rates on subsidy countervailing duties related to imports of China-made EVs. In April the European Commission launched an anti-subsidy investigation into China-made wind power generating equipment too. Going forward, it seems likely the European Commission will be compelled to navigate a difficult course while taking into account complex factors that include shutting cheap Chinese products out of the market as an economic measure and the slowdown in decarbonization that will result from that, safeguarding its own countries' industries and conversely the impact of sanctions from China, and the need to abide by WTO rules.
11. In terms of Europe's schedule going forward, its 2040 target will be formally proposed by the new European Commission launching in November, with a final decision to be made at a trilogue that will include both the European Parliament and the Council of the European Union also. Following that the 2023 target of the next NDC will be submitted to the United Nations, but the timing for that will likely be after the middle of next year.

Deviations between targets and actual emissions

12. While Japan's emissions record is "on track" to progress in line with the 2030 target in its current NDC, in the U.S. and Europe, major deviations are surfacing. In the U.S. (in a case where the Biden Administration remains in place) and in Europe, although high targets will be set in their next NDCs, concerns over energy costs and industry competitiveness, fiscal constraints, and other factors will make it difficult to increase the intensity of individual measures, and there is a possibility that emission pathways toward targets and the actual emissions will continue to deviate from here on as well. Japan needs to respond based on these possibilities.

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