Outlook and Challenges of Climate Change Policies in 2020

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Global Developments

1. With the rulebook for the Paris Agreement mostly formulated in December 2018, the focus moved on to the update of the 2030 targets under the Agreement. COP25 mainly discussed the guidance on cooperative approaches that involve the use of internationally transferred mitigation outcomes referred to in Article 6, paragraph 2, of the Paris Agreement, and the rules, modalities and procedures for the mechanism for mitigation activities established by Article 6, paragraph 4, of the Agreement, which had been carried over from COP24, but the Parties did not reach an agreement due to differences in their positions. Discussions will continue, with a view to adopting decisions at COP26 scheduled for November 2020. Meanwhile, through an extremely difficult negotiation, COP25 managed to finalize a decision that urges Parties to reflect their highest possible ambition when communicating by 2020 their nationally determined contributions (NDCs).

2. The Parties are required to submit their NDCs at least 9 to 12 months in advance of COP26, which will be held in November 2020 in Glasgow, UK. However, at the Climate Action Summit held in September 2019 in New York, no major country including the EU, China, and India announced it will boost its 2030 target. It has therefore become less likely that any major country will raise its 2030 target in 2020.

3. In terms of policy priority, climate actions are now the most important policy in the EU and among the Democrats in the US. Further, the link between climate policies and trade and financial policies is becoming stronger in the EU and the US. President von der Leyen of the EU Commission is considering introducing a carbon border adjustment mechanism, while in the US, both the Democratic and Republican Parties are considering imposing border carbon adjustments heading toward the presidential election. In the EU, discussions are under way on taxonomy, a classification system for economic activities that are deemed to be environmentally sustainable, aiming to
promote the issuance of green bonds and financial products, and incorporate sustainability into prudential rules for banks and insurance companies. Meanwhile, there are moves in the US to restrain ESG finance, claiming that it may be hampering investment in energy infrastructure.

Developments in Each Country/Region

4. In the EU, greener parties gained seats in the European Parliament election in May 2019. European Commission President von der Leyen proposed a European Green Deal in December 2019, and a carbon border adjustment mechanism will be discussed throughout 2020. A classification system (taxonomy) for sustainable activities is also being considered for greener financing. The draft taxonomy excludes nuclear power, alongside coal-fired power, from the list of “sustainable activities” on the ground that no permanent and operating disposal site for high-level wastes exist yet. Attention must be paid to developments in the discussions on the design of the carbon border adjustment mechanism and taxonomy.

5. In the United States, the presidential election is the key focus of attention. Among Democrats, climate actions is regarded as the top priority, and candidates are being required to put forward active climate measures. Several promising Democratic candidates are proposing imposing border carbon adjustments on imported goods. With the Republican Party also considering imposing a carbon tariff, the discussions on border carbon adjustments deserve close attention. Meanwhile, some consider that ESG finance may be hampering investment in energy infrastructure; future developments must be watched closely.

6. For China, attention must be paid to the discussions leading to the fourteenth 5-year plan (2021-2025). The launch of a national emissions trading system is also receiving attention. The key points of the former are at what levels the intermediate 2025 targets will be set, and whether any new targets such as absolute value indicators will be introduced. For the latter, allocation of emissions allowances, trial trading, and when the emission trading system will start are of interest.

7. Under the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) of the International Civil Aviation Organization (ICAO), airline operators will be required to offset any increase in their CO₂ emissions from 2020 levels by using emission units. The ICAO is currently assessing which emissions unit programs are eligible for this purpose. Meanwhile, China, Russia, and India are opposing CORSIA itself, claiming that it disadvantages emerging economies.
8. Japan is on track overall to meet the FY2030 emissions reduction target, but the pace of CO₂ reduction is expected to slow in 2019 and 2020. To achieve the FY2030 energy mix, it is necessary to steadily restart nuclear power plants, lower the cost of renewable energies, and address the rising burden on households in particular.

9. Medium- to long-term challenges include the lack of growth in research and development expenditure by business enterprises, which covers most of the spending on environmental and energy science and technology. To reduce GHG by 80% by 2050 while simultaneously achieving economic growth and addressing climate change, work on innovation toward 2050 should immediately be started, and efforts at the global level and disruptive innovation in areas such as hydrogen as well as CCS and CCU/carbon recycling is indispensable. Challenges also include designating innovative and disruptive technologies as focus areas through the government’s Progressive Environmental Innovation Strategy, investing public and private finance in innovation, and promoting international joint researches.