

The EU-Japan Centre for Industrial Cooperation ZOOM webinar

Current Status and Prospects of EU-Japan Relations

- Focusing on green, digital, economic security, etc. –

Thursday, September 21, 2023 15:00-16:00 Tokyo (8:00-9:00 Brussels)

(Summary)

Tanabe, the Managing Director, the EU-Japan Centre for Industrial Cooperation introduced the presenter Yamazaki and then the presentation was started.

- Takuya Yamazaki, Chief Director, Digital Agency, Government of Japan (Former Director General, Japan Machinery Exporters Association (JMC) & Japan External Trade Organization (JETRO) Brussels)
- Talk about the recent economic situation, green/digital/strategic autonomy, and the EU's external relations. First, the economic situation. The growth rate is at a level of less than 1%, and monetary tightening due to high inflation is taking effect. Regarding inflation, although energy prices are declining, core prices remain high. Looking at business confidence by country, the decline in Germany is significant. However, overall, 2024 is expected to be better than this year. About energy prices. The dependence to Russia on gas has fallen from 40% to 7.5% in October last year. However, prices have not increased due to a decline in demand and an increase in storage rates. About fiscal policy. As per EU rules, the accumulated debt balance must be kept within 60% of the GDP. A considerable number of countries, mainly in Southern Europe, exceed this level. There is currently a reprieve due to the COVID-19, but this is the problem. There are large differences in fiscal space between countries. Some countries require relief funds at EU level. The thoughts of each country are mixed.
- Regarding the three major policies such as the Green Deal. The end of October next year is the deadline for the current EU system. It usually takes a year and a half to enact legislation, so even if a new bill is introduced now, it will not be enacted. In September, the current president of the commission emphasized achieving three outcomes: green, digital, and strategic autonomy. Regarding the



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Green Deal, she advocated continued support for European companies' industries. Regarding digital, she also touched on unlocking the capabilities of supercomputers. About strategic autonomy, she mentioned the start of an investigation into China's EV subsidies.

- About the Green Deal. FIT55, a 13-legislative package for a 55% reduction of CO₂ in 2030, was announced in July 2021, and all of the bills have now been passed. The key point is that all of the proposals are more ambitious than the European Commission's original proposal. The situation in Ukraine is having an impact. This is due to the idea that energy security = decarbonization. In Europe, the overall trend is to reduce gas consumption by combining other means, including nuclear power. In addition, there is the Renewable Energy Directive. Among these is the Green Hydrogen Regulation. This states that if hydrogen is used, 42% of it must be green hydrogen by 2030 and 60% by 2035. This regulation will create a large hydrogen market and industry. The renewable energy ratio in Europe's electricity mix already exceeded 40% in 2020, and could rise to 70% by 2030. Due to the great potential of renewable energy, green concept is becoming more and more emphasized.
- Next, let's talk about digital. Overall, things are progressing with a data-driven growth strategy. The base is the development of the semiconductor industry, and each country places emphasis on establishing manufacturing bases. Regarding the handling of information, discussions are progressing not only about the handling of personal information but also about the handling of non-personal information such as IoT information. The idea behind this is how data can eventually be used to foster industry within the EU.
- About strategic autonomy. The concept is to move the supply chain from outside the region to within the region and strategically increase dependence. A bill (Net-zero Industry Act) has been published that aims to establish 40% of net-zero industries within the region by 2030. In addition, a bill to increase the region's dependence on important minerals (the Critical Raw Materials Act) has been proposed based on a similar idea. A policy document on economic security was issued in June. Originally, the EU centered on the economy, and the idea was that security belonged to each country. This document reverses that and is interesting in that it takes the EU into security. The phrase is economic security, but attention

will be focused on the extent to which Brussels can take the lead. How to address the dual use of cutting-edge technology may become a point of common interest for the EU and each country. Although it cannot be institutionalized under the current administration, it will become an important strategy for the next term. Regarding this issue, I get the impression that the government is intentionally mixing economic security and industrial policy, making them vague.

- Regarding external relations. Relations with the United States are not as bad as they were during the Trump era, but they are not that good either. There are also some uncertainties, as seen in developments related to the US Inflation Control Act (IRA). We need to think about China in phases. 2016 is the turning point. Since the same year, China's investment in the EU has decreased sharply. On the other hand, investment from the EU to China is on the rise. However, invariably only companies invest. Isn't this the result of taking risks into consideration? However, EV-related investment from China is also active. Regarding EVs, there is certainly a tendency to believe that battery investment from China to Europe is good, but EVs themselves are not. What will happen in the future, and will even batteries become useless?
- As a summary. There is a strong possibility that the EU will continue to provide subsidies to Central and Eastern European countries, so it may be worth it for Japanese companies to actively look into this region. Regarding strategic autonomy, the concept of economic security has emerged, and if the right wing gains momentum in next year's European Parliament elections, an atmosphere of prioritizing one's own country over the EU as a whole could lead to conflict. We need to pay attention to these things.

After each presentation, the Q&A session was proceeded with the moderator Tanabe. The main topics were as follows.

- I would like to know how delegated acts will be handled regarding EU energy-related legislation.
- How much is the subsidy for hydrogen production?
- What are the possibilities for Japan-Europe industrial cooperation regarding hydrogen production?

- Will 80 gigawatts of green hydrogen be enough to power 60 to 80 nuclear power plants, and is that even possible?
- What are the differences in renewable energy potential between Japan and the EU?
- Are Japan-EU relations getting better or worse?
- Is the power of the Directorate General of Trade weakening within the UE Committee?
- Why is the proportion of fossil fuels increasing in the energy mix?
- Can net zero be achieved without China?

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