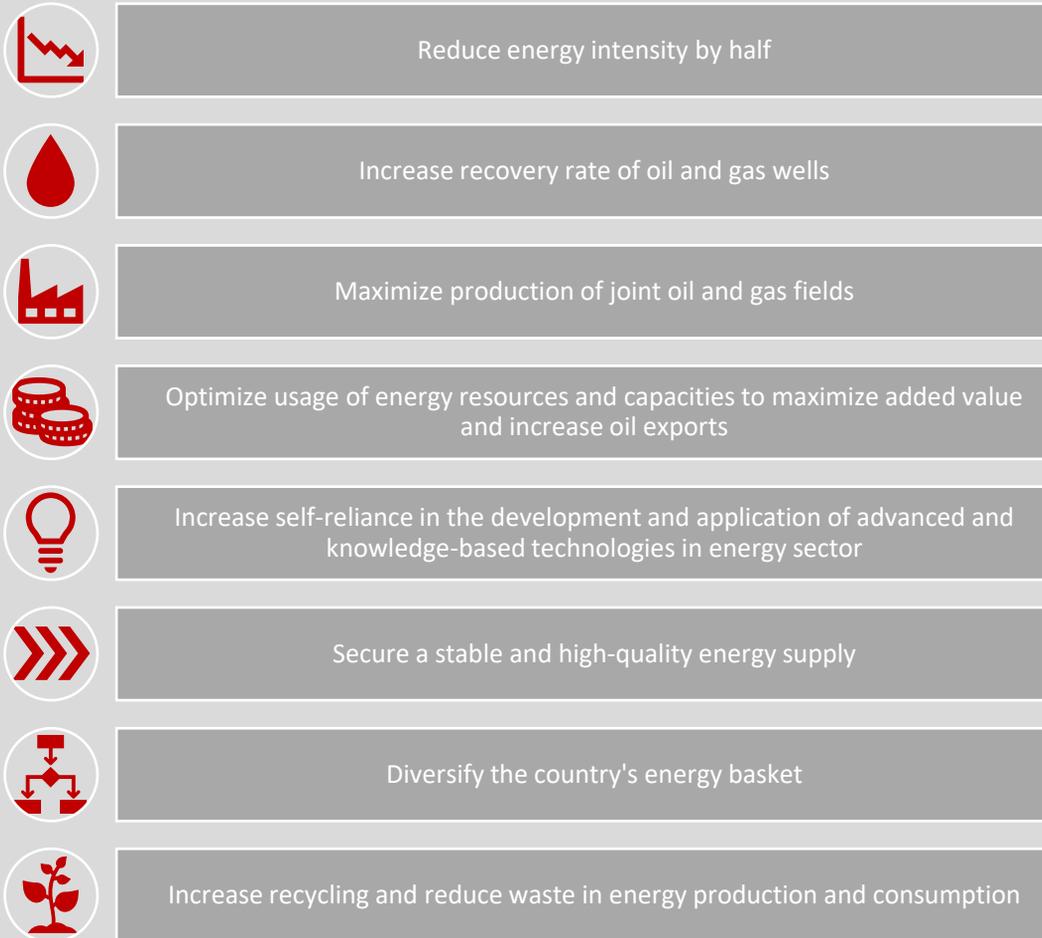




Supporting Iran in implementation of an integrated energy efficiency market

## Energy Efficiency in Iran's Energy Action Plan

Figure 1- Specified Macro Goals in the Energy Action Plan



### Policy Framework of the New Energy Action Plan

The traditional five-year development plans are important for planning and policy development in Iran. The 5th five-year development plan – set out for the period 2012-2016 – presented for the first time a National Energy Strategy (NES).

The NES provides guiding principles for policy-making processes in the energy sector. The NES states comprehensive long-term goals and outlines policies and strategies for the energy sector until 2041.

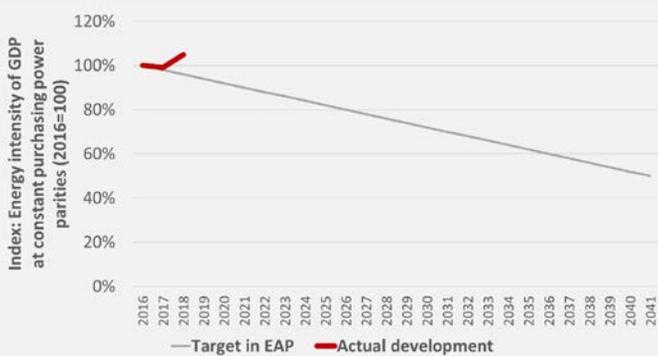
In July 2017 the NES was finally approved. The corresponding short-term Energy Action Plan (EAP) for the first phase was published in April 2020.\*

While the NES stipulates a total of 14 macro goals for guiding Iranian Energy Policies, the EAP specifies implementation strategies and numeric targets for eight of the 14 macro goals (see Figure 1) – mainly up to the year 2021.

## Energy Efficiency as Main Goal

The most important strategic objective - the reduction of the high energy intensity in Iran – is perceived as a long-term objective. Clause B - Row 1 in the EAP states that the country's energy intensity should be reduced by half until 2041 compared to the base year 2016. Achieving this self-defined target will require a departure from the current set of policies, the implementation of structural reforms, and continuous efforts by the successive governments to implement the reforms. Despite the self-declared target, the energy intensity of the economy already increased during the period 2016 and 2018 by 5% (see Figure 2).

**Figure 2- Energy intensity between 2016-2041: self-defined target and actual development**



Source of data: Calculated based on the Targets of the Energy Action Plan and Data from the International Energy Agency

The EAP defines the following principles for reaching the stipulated energy-intensity reduction:

- Promoting and expanding a culture of saving and optimizing energy consumption and supporting the development of energy service companies (ESCOs)
- Development of production of goods with optimal efficiency (based on an energy consumption intensity index)

These principles imply that a successful implementation of the EAP will require sizeable investments in energy-efficient technology by energy consumers – irrespective of whether they are companies, households, or public institutions. Under Clause B- Row 4 the EAP emphasizes in particular the

importance of the private sector in energy efficiency investments.

## More Realistic Energy Prices Would Promote Investments in Energy-Efficiency

The National Energy Strategy serves as a planning tool. But it also has a signaling and steering effect for the economy. After all, economic agents and market players must form an expectation about the future policy course and will adjust their decisions accordingly. Signaling that energy intensity needs to be reduced by half until 2041 is therefore a first step in shaping the expectations of Iran's market players.

Emphasizing the role of the private sector in important Iranian strategy documents indicates a potentially stronger role of market principles to stimulate investments in energy efficiency in the future. The currently ongoing development and implementation of the Market for Energy Efficiency and Environment (M3E) would fit with the strategies specified in the NES and EAP.

Nevertheless, the implementation of a market-based mechanism like the M3E to take up energy efficiency measures has revealed persisting challenges that need to be addressed to pave the way for achieving Iran's self-defined objectives: The economic viability of energy-efficiency investments depends crucially on the level of energy prices. The current extremely low energy prices will not foster a quick and broad roll-out of energy-efficient technologies and appliances. "Promoting and expanding a culture of energy-saving and optimizing energy consumption" by itself – as pointed out in the EAP – will not be enough to reduce energy intensity significantly. "More realistic energy prices" in the near future as well as the reduction of existing generous energy subsidies should be addressed as stipulated in the NES.

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### \* Read more:

National Energy Strategy Document & Comprehensive Energy Action Plan -in Farsi- [www.cabinetoffice.ir](http://www.cabinetoffice.ir)