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IENE Comment

5 Energy Challenges for Europe in 2025

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2024 was a year fraught with challenges for Europe's energy policies and the transition to a low-carbon system. This year is shaping up from the very beginning to be even more challenging for net-zero ambitions. Here are five areas that will dominate the 2025 EU energy story.

#1 Energy prices

The expiry of the Russia-Ukraine gas transit deal and the Ukraine's decision to not renew it, put Europe in an even more precarious position than it already was with regard to energy security. While there are alternatives to Russia pipeline flows—including Russian LNG—none are as affordable as the pipeline gas.

Norway, the closest and most obvious alternative, cannot ramp up gas production fast enough to offset the loss of the last Russian gas. The United States and Qatar are massive LNG exporters and the EU is a massive buyer—for a price. That price is one reason energy costs across the EU will continue higher this year, making economic growth even more problematic than it was last year. Not only this, but gas prices in particular are likely to remain elevated beyond winter as EU members begin to refill their storage, which this year is set to end winter at much lower than last year's levels.

#2 Transition funding

The price tag for the energy transition keeps getting fatter and fatter, and sources of funding are scarce, essentially boiling down to taxpayer money. This fact has already created a backlash, as evidenced by the turning tide of political sentiment among voters, which incumbents have slammed as "far-right".

However they want to call it, though, the tide is turning and this is a direct result of EU member state – and EP – energy policies that have not made energy supply more reliable or secure but have instead made it consistently more expensive. The promise that current financial discomfort will at some point in the future disappear as the transition gets cheaper is no longer holding much water. What the EU is doing is likely to make matters worse still, with calls to put a price on carbon dioxide quite likely to seal the EU's deindustrialisation fate.

#3 EVs

Electric vehicles are still considered a pillar of the energy transition but selling them has become harder as the money for subsidies runs out. European carmakers are in trouble and this trouble is set to deepen this year as they face billions in fines from national governments in the EU for failure to fulfil their EV sales quota.

The UK offers a cautionary tale in this respect, with carmakers in the country spending 4.5 billion pounds last year on EV discounts in order to entice buyers. Had they not spent that money n discounts, they would have been forced to spend even more on fines for failing to sell as many EVs as mandated by the government.

The moral of the story is that mandates are not the optimal government tool for effecting change. Alas, there is no sign in Europe that anyone has learned that moral. This virtually guarantees more pain for the car industry—part of Europe's backbone. And that's without even factoring in cheap Chinese EV imports.

#4 Overregulation

The European Union is well on the way to regulating itself into oblivion, especially in the energy department. It has put meticulous effort into creating a whole set of sustainability reporting rules complete with a taxonomy of all forms of green investments. This has put additional strain on businesses with investment activities. None other than the European Investment Bank has sounded the alarm, albeit privately.

A leaked report from the institution showed this month that the bank's leadership sees a "major reputational risk" from the EU's new sustainability reporting rules – because under these rules, only 1% of the EIB's assets would be classified as green. To compare, per the EIB's own rules, half of its assets are green.

The overregulation drive that Brussels has engaged in over the past few years as it seeks to ensure that green means green and not greenwashed, and that every business has motivation go get increasingly greener, could backfire in a spectacular way unless this drive ends. Perhaps it's time to remember there is such a thing as a free market.

#5 Donald Trump

Through no fault of their own – a rare exception to the rule – this year European energy policymakers would have to contend with the additional risks related to Donald Trump's presidency, which begins January 20th. Trump will most likely pull the United States out of the Paris Agreement once again, and fear is already running high in Brussels. The thinking behind that fear is that with the U.S. out of the Paris Agreement, people will start wondering "What's the point if they're out?"

Indeed, a lot of people are already asking that question as living standards slump across the developed world. They don't need Trump to wonder about the gap between transition promises and transition realities. Yet instead of admitting the mistakes made, Europe's climate leaders are planning on doubling down on what they have been doing so far – overregulation, overspending with taxpayer money, mandates, and taxation. And they're surprised the political pendulum is swinging right.

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