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IENE Comment

EU and the Trump Effect

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In less than a month since he took office, the 47th U.S. president has managed to shake up the global economy like no concerted net-zero transition effort has ever shaken it. Using the simplest—and crudest—of weapons, the threat of tariffs, Donald Trump has so far pressured Colombia into accepting deported illegal migrants, and Canada and Mexico on spending a lot more generously on border control. The EU is up next.

Trump has threatened to slap tariff on European imports into the U.S. unless the EU starts to buy more U.S. products to fix what he deems an unacceptable trade deficit. Energy is, naturally, at the top of the list of U.S. imports that the EU should step up, according to the U.S. president. This is where the awkward moment comes: the EU is already importing lots of U.S. energy. If it could, it would import more. But there are affordability constraints.

Last month, the European Union bought almost all the LNG that U.S. producers exported, or 86% to be precise, based on LSEG data. The surge in imports was driven by seasonally high demand and greater availability thanks to weaker Asian demand. There is even a rare Australian LNG cargo heading for Europe right now, according to shipping data that Bloomberg cited last week. Europe cannot get enough natural gas—not when its storage levels are plummeting before winter is over and not when the continent is facing refill season. All this is costing Europe an arm and a leg but it is sucking it up, for now.

That should make the U.S. president happy even though EU politicians are posturing as people in a position of strength, threatening retaliation—that U.S. LNG is really quite costly. Meanwhile, European businesses are warning about the fallout of a tariff war and TotalEnergies' CEO is calling for long-term LNG purchase commitments to ensure the energy security of Europe—and suddenly no one is talking about those methane caps that the EU introduced on all energy imports, notably LNG, in order to ensure the gas it was buying was as green as possible. Enter the Trump effect: when one's export revenues and energy costs are on the line, one quickly forgets about green goals and decarbonisation ambitions.

The EU's current leadership is adamant about reducing the continent's consumption of hydrocarbons, or at least it was adamant until the new U.S. president essentially said "Either buy more of our gas or we'll tariff your imports". So the EU bought more American gas—and not a word about those methane caps or those glorious plans to reduce hydrocarbon consumption by replacing gas-fired power generation with wind and solar. Not only this, but because the seasonal surge and limited availability of natural gas for Europe caused a price spike, some in Europe cranked up the coal-fired power plants.

January saw the highest coal-fired generation since the start of 2022 in the UK and Germany—the most ambitious among the ambitious pro-transition governments in Europe. This is a consequence of the Trump effect, and we are going to see more of this particular consequence as energy security once again reasserts itself over any and all energy transition attempts. A recent case in point was a discussion at the EU level to reduce import tariffs on U.S. cars—despite those 2035 internal combustion engine plans that Brussels has. And this is only the beginning.

The European Union will quite likely widen the scope of concessions it would be willing to make in order to boost imports of U.S. products as demanded by the U.S. president. This would necessarily affect the so-called carbon border adjustment mechanism, commonly known as the “carbon tax” that the EU decided to introduce in a bid to prop up local businesses struggling with excessive energy costs and cheaper import competition. There is no way the EU would dare slap a carbon tax on American LNG imports, not over the next four years.

This could prove to be the fatal blow to transition plans, after years of the green shift’s advocates claiming the transition was good business and the only way forward for human civilization. In less than a month, Donald Trump has demonstrated this is quite far from the truth by employing a version of that tried and tested method of conviction that essentially comes down to “Nice economy you got there. You wouldn’t want something to happen to it, would you?”

Indonesia is considering pulling out of the Paris Agreement after Trump pulled the U.S. out of the deal. It will not remain the first and last developing economy to do that. The latest research on transition investment shows substantial declines in Europe, the UK, and Biden’s U.S. last year. The tab for the transition keeps getting bigger and bigger, and even EU politicians are beginning to notice it. The Trump effect might actually provide them with an easy exit from an increasingly uncomfortable situation, in which the claims that the transition is cheaper than oil and gas rings more and more hollow by the day.

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