Special Bulletin

A Japanese Perspective on the International Energy Landscape (745) June 12, 2025

Challenges for the Uncertain and Difficult Energy Situation Surrounding Europe

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On June 3-6, I visited the United Kingdom, where I participated in an international conference and had in-person discussions with many energy industry stakeholders and experts on the international energy situation, mainly in Europe. The discussion covered a wide range of topics, including the impact of Trump’s tariffs and other Trump 2.0 policies on the international energy situation, the uncertain outcome of the Russia-Ukraine war and its impact on the European energy market, and the impact of the significant expansion of U.S. liquefied natural gas supply in the future. In the following, I would like to summarize my comments on the particularly impressive points of the discussion in Europe.

First, I would like to point out that I have become strongly aware of the fact that the economic and energy situation in Europe continues to be very severe. The International Monetary Fund's World Economic Outlook released in April, projected the eurozone’s economic growth at 0.8% in 2025, down from 0.9% in the previous year, indicating that eurozone growth may slip below 1% for the second consecutive year. Germany, Europe's largest economy, is expected to grow by 0.0% in 2025, remaining stagnant. Moreover, as discussed later, the impact of the Trump tariff policy is likely to put downward pressure on such economic growth (not only in Europe but also in the entire world). In 2025 and 2026, the European economy will remain in a difficult situation.

Amid the severe economic situation, Europe's emphasis on strengthening industrial competitiveness is becoming apparent. There is a growing awareness that it is of the utmost importance to protect the economy and employment in response to the increasingly severe international economic environment. On the other hand, Europe is well known for taking the lead in global decarbonization, striving to enhance decarbonization initiatives. Even in the face of various difficulties, Europe has continued efforts to accelerate decarbonization, using these difficulties as a springboard.

Even when suffering from the enormous economic and social impact of the COVID-19 pandemic, Europe promoted the Green Deal initiative, contending that clean energy investment for decarbonization would be effective for both long-term growth and short-term economic recovery. In the face of an energy and economic crisis amid the Ukraine crisis, Europe strongly promoted the REPowerEU Plan under the concept that phasing out dependence on Russian fossil fuels will contribute to decarbonization efforts. It seems that the current initiative to enhance industrial competitiveness is basically an attempt to implement and strengthen the promotion of clean energy and decarbonization. In reality, however, this approach is facing an extremely difficult situation. Efforts to simultaneously promote decarbonization and the enhancement of industrial competitiveness and energy security can lead to higher energy costs and prices for Europe, making it difficult for its society and economy to absorb them. This has affected European politics as indicated by recent European election results, where policies that lead to higher energy costs have become unpopular.

During my discussion in Europe, I had an opportunity to hear the view that annual energy-related subsidies in the European Union have far exceeded 300 billion euros since 2022. The sum is equivalent to as much as 2% of the EU's gross domestic product. For that reason, the issue of high energy prices can be said to weigh heavily on Europe. In the future as well, it will not be easy for Europe to implement policies and initiatives that will increase energy costs, given the social, economic, and political realities.

Furthermore, it should not be overlooked that the importance of security measures for Europe has been greatly highlighted. While the uncertainties about the outcome of the Russia-Ukraine war make it difficult to foresee future developments, Europe has no choice but to make drastic efforts to enhance its own security, no matter what the outcome may be, as explained later. That's why the EU is bracing for an increase in defense spending by announcing the European rearmament program, ReArm Europe, costing as much as 800 billion euros. Without a money mallet, the massive spending program may crowd out spending in other key areas, including the promotion of energy transition. It will be interesting to see how Europe's energy measures will develop amid the severe economic situation.

Second, I would like to point out that my discussion in Europe led me to a renewed awareness of a potential further slowdown or stagnation in the global economy in the future. While the abovementioned IMF outlook projects global economic growth at 2.8% in 2025, down 0.5 percentage points from the January outlook, there is some uncertainty as to whether the impact of the Trump tariff policy has been fully taken into account, given the timing of the publication of the latest outlook. During the discussion, it was noted that global economic growth in 2025 could slip below 2.8% even if the Trump administration makes relatively smooth progress in tariff negotiations with major U.S. trading partners in considering the tariff policy's adverse impact on the U.S. economy. Furthermore, it was pointed out that if tariff negotiations become more difficult or confidence in the U.S. economy is greatly hurt as a result of further damages to the global economy, global economic growth may plunge substantially. In such a case, Europe, plagued with low industrial competitiveness, may face an even more severe situation.

Third, I was reminded once again of the extremely important implications of the outcome of the Russia-Ukraine war for Europe in various important areas, such as security and the economy. Naturally, the outcome of the war will have a significant impact on the energy situation in Europe. On May 6, the European Commission announced a plan to phase out its dependence on Russian energy by the end of 2027 as a roadmap for the aforementioned REPowerEU plan. With regard to attention-attracting Russian gas, the plan calls for banning spot Russian gas imports by the end of 2025 and Russian pipeline and LNG imports under existing long-term contracts by the end of 2027.

The plan aims to increase pressure on Russia in connection with the Ukraine war and hurt Russia's war-waging capacity. It can also be seen as being related to the recently reported reduction of the cap on Russian oil transaction prices. In this sense, the plan represents a tougher stance against Russia. If it leads to a decline in Russian energy supply from the international energy market and a rise in energy prices, however, European and other energy-consuming countries may be affected adversely. The plan, thus, may be a double-edged sword for Europe. As a result, alternatives to the Russian energy supply may become an issue. Attracting interest regarding gas is the role of the next "big wave" of U.S. LNG, which is about to expand significantly. For Europe, the expansion of U.S. LNG imports will not only provide a substitute for Russian supply but also respond to the U.S. trade deficit problem.

Despite Europe's tough official and political stance against Russia, there is a view that some industry stakeholders are still interested in competitive Russian energy. My discussion with European energy industry stakeholders and experts covered a scenario in which Russian gas supply to Europe will be partially restored if Russia and Ukraine reach a compromise or agreement on a cease-fire or peace. In this scenario, the Russian gas supply restoration may be combined with the U.S. LNG supply expansion to ease the supply-demand balance in the global natural gas and LNG market. Especially in the European market, Russian gas and U.S. LNG may compete. The outcome of the Russia-Ukraine war will need to be closely watched in the context of the European and international energy situation.

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