

# German Energy Day 2025

## Energy & Politics (in a Geopolitical Recession)

**Henning Gloystein**

Head of Energy Climate & Resources – Eurasia Group

[gloystein@eurasiagroup.net](mailto:gloystein@eurasiagroup.net)

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# Global Outlook

## Geopolitical Upturn

### Globalization II

- **SETTING:** Interest rates & tariffs drop, the US leads geopolitically, while the broader 'West' keeps engaging on trade with China. Russia returns to being an uncomfortable, yet relatively dependable energy supplier.
- **The US re-engages globally following brief spats** over tariffs, Ukraine, MidEast.
- **US and Europe broker a strong ceasefire for Ukraine with backstops**, but which allows resumption of some Russian energy and raw material exports.
- **China softens policies**, incl. on trade and Taiwan.
- **Europe stabilizes politically and economically**, amid deeper integration (defense, markets, migration).
- **The Middle East de-escalates**, incl. between GCC/Israel (Saudi joins Abrahams Accords), GCC/Iran (US sanctions relief following nuclear deal).
- **India grows strongly and de-escalates with China** without endangering its deepening ties with western powers (esp. the US).
- **Global acceleration of the green transition** (EU/ China Green Deal).

## Geopolitical Stagnation

### Friends First

- **SETTING:** US leadership remains in place even under Trump 2.0, albeit with deepening fractions toward China and some estrangement with allies.
- **US-led alliance prevails but at lower integration**, incl. regional allies (Canada, Mexico), Europe (incl. over Ukraine), the Gulf, Indo-Pacific (esp. Australia, Japan, South Korea), and increasingly also India.
- **US-China relations remain tense but avoid conflict**, resulting in deeper trade divides (tariffs/export controls).
- **Europe remains US ally, as US brokers a Ukraine ceasefire with some backstops**. Still, Trump strains/tariffs drive more economic support, trade diplomacy, and defense.
- **GCC's geopolitical clout strengthens, as most powers seek closer relations** with the cash-rich Middle East, and as GCC members are well positioned to meet oil/LNG demand (even if it plateaus) as well as benefit from the green transition.
- **India's clout strengthens amid growth**, though it isn't capable to challenge China's past boom or to fully challenge Beijing's role in Asia.
- **Ongoing green transition, in which only the US deviates from past trends, though with regional and fiscal limitations** and increased support for low carbon fossil fuel solutions like CCS, and in which global efforts like COP lose influence.

## Geopolitical Recession

### Strategic Autonomy

- **SETTING:** US relations with allies deteriorate. EU launches path to more strategic autonomy. Canada & Mexico seek deeper no-US ties. US relations with China become tense, US relations with Russia improved. Global tariffs are raised.
- **US leadership system is in doubt** and its allies seek to build strategic autonomy. US abandons Ukraine, but Europe tries to enforce a semi-stable truce.
- **China seeks to avoid deeper conflict with US in the Indo Pacific** and tries to seek some engagement with the EU.
- **GCC becomes closer US ally** as US pushes Saudi/Israel deal.
- **Europe seeks to find deeper integration, focusing on trade/independent defense/industry/migration** amid deepening US rifts. This includes tighter ties with UK.
- **Europe's increased spending acts as economic stimulus** but creates higher fiscal pressure, and tariffs undermine exports.
- **India slows amid tariffs but maintains close US defense ties** to shield it from China.
- **Green transition is led by EU and China**, with US abandoning climate policies.

## Geopolitical Crisis

### World in Conflict

- **SETTING:** US geopolitical disengagement and broad trade tariffs, US economy slows, and dollar drops. Assertive China policies (e.g. on trade, Taiwan), sclerotic EU, unresolved and spreading conflict.
- **US starts to isolate as its economy stalls**. Relations with neighbors Canada (Carney wins elections) and Mexico are tense, Mexico turns to China, Canada to Europe.
- **China becomes more assertive geopolitically**, incl. in Europe, the Middle East, and ASEAN (risk of Taiwan crisis).
- **GCC remains strong energy and trade partner but has unresolved conflicts as Iran lashes out** and Trump fails to achieve a lasting solution to conflicts.
- **Russia re-asserts itself as regional hegemon**, splitting control of Ukraine with US, at the cost of EU.
- **Europe stalls as tariffs cause and recession, pushing support for populists/nationalists, who cripple EU** ability to act and push it into a neutral geopolitical position seesawing between the rivalling US and China.
- **India becomes more isolationist** and slow economically, amid broad EM fiscal stress.
- **The green transition slows** amid lacking cooperation and fiscal constraint.

# Global Outlook – Macro

## Globalization II

**SETTING:** Interest rates & tariffs are low, the US leads geopolitically, while the broader ‘West’ keeps engaging on trade with China. Russia returns to being an uncomfortable, yet relatively dependable energy supplier.

- **GDP grows healthily (4%)** amid more trade and AI benefits
- **Risks stem from high global debt levels** continued high real interest rates and complacent fiscal policy.

## Friends First

**SETTING:** US leadership remains in place even under Trump 2.0, albeit with deepening factions toward China and some estrangement with allies.

- **Relatively low GDP growth (3%),** though growth is slightly above inflation in DMs, healthy growth in EMs.
- **High trade barriers/protectionism feeds nationalist/populist policy support** that caps and threatens to undermine global trade volume and GDP growth as well as fiscal stability.

## Strategic Autonomy

**SETTING:** US ties with allies show rifts although its leadership remains partly in place (e.g. through NATO). EU becomes more assertive/independent, US relations with China deteriorate.

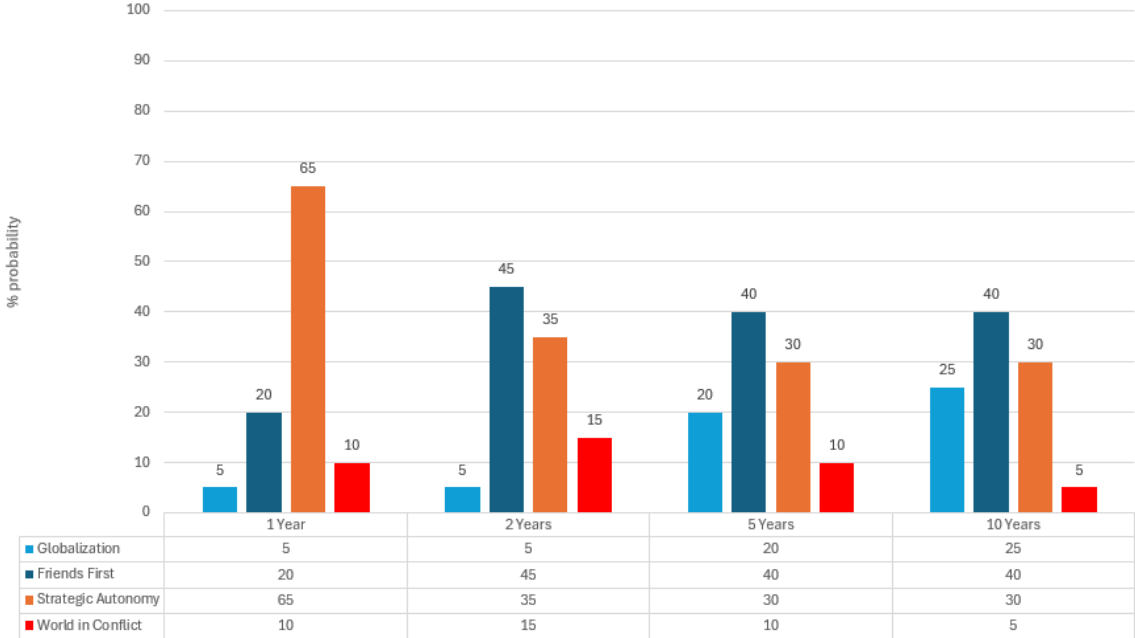
- **Low GDP growth (2%)** as DM are hit by stagflationary shocks (growth below inflation) and uncertainty that also cuts EM growth.
- **Low growth/high deficit threaten fiscal crises** in DMs and EMs.

## World in Conflict

**SETTING:** US geopolitical disengagement and broad trade tariffs, a strong US economic and fiscal deterioration, even more assertive China policies (e.g. on trade, Taiwan), sclerotic EU, unresolved and possibly more geopolitical conflict.

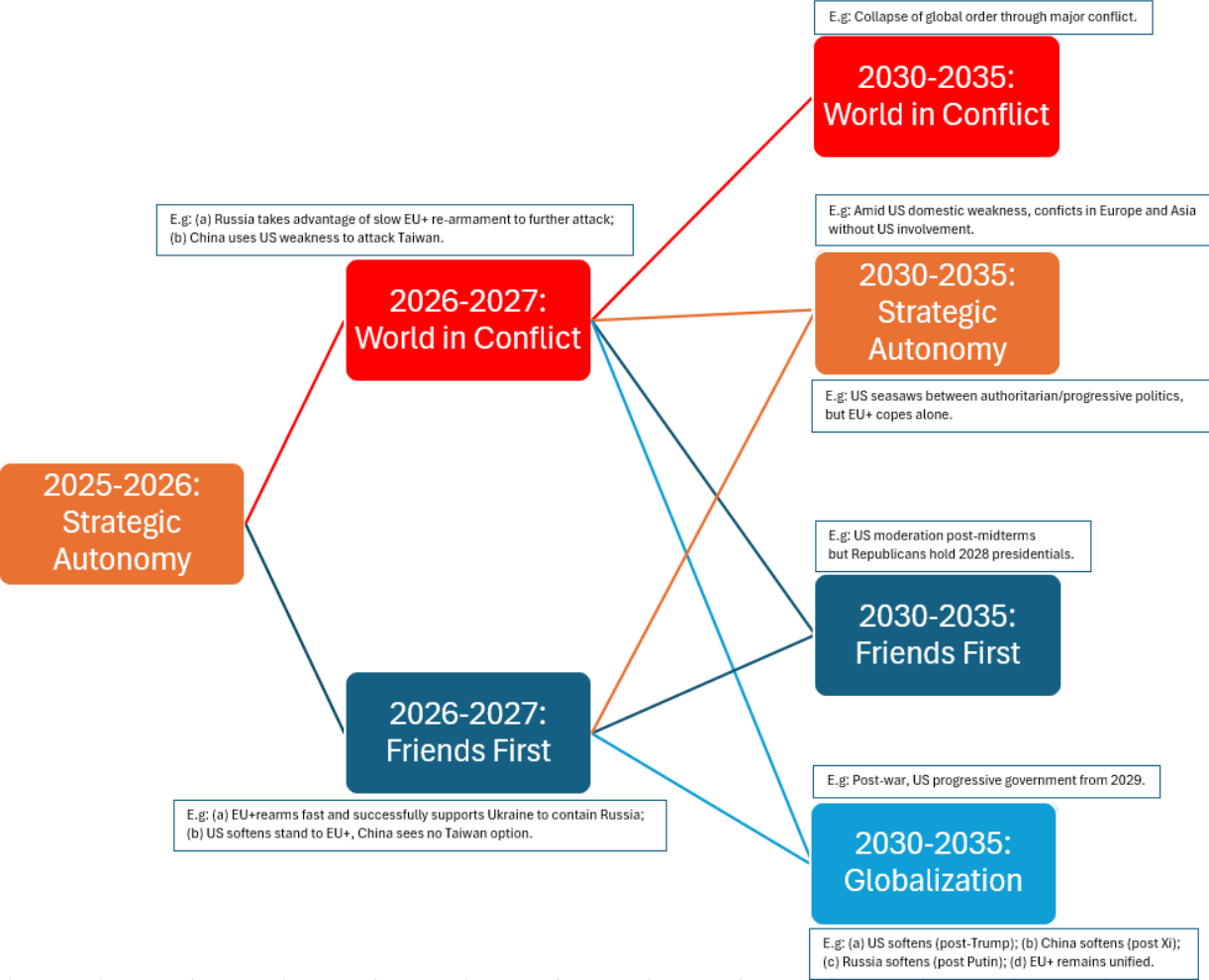
- **Risk of global recession/depression from fractured world** which also has high risk of serious international and domestic conflicts.
- **Global trade declines** amid conflict/fractures/recessions/fiscal crises/protectionism.

Global Scenario Likelihoods



# Global Scenarios: Pathways

- **In scenarios dominated by ‘Globalization’** almost all regions win (apart from Middle East). It’s also the only scenario in which climate change can be properly addressed through collaborative prevention and adaptation measures.
- **In a world dominated by ‘Friends First’** the US slightly weakens, while the Middle East becomes a strong power. Europe, China, and India muddle through. Climate policies continue, but not fast enough to avert major problems.
- **A world dominated by ‘Strategic Autonomy’** weakens the US, strengthens China and the Middle East, while Europa muddles through. India (and most EMs) suffer from lack of global cooperation. Climate policies continue, but not fast enough to avert major problems.
- **A ‘World in Conflict’** may, at best, only strengthen China as the 80 years of US-dominated order ends. Powers that rely on cooperation (and democracy) struggle. Lacking climate collaboration causes catastrophic damage as irreversible tipping points are passed.

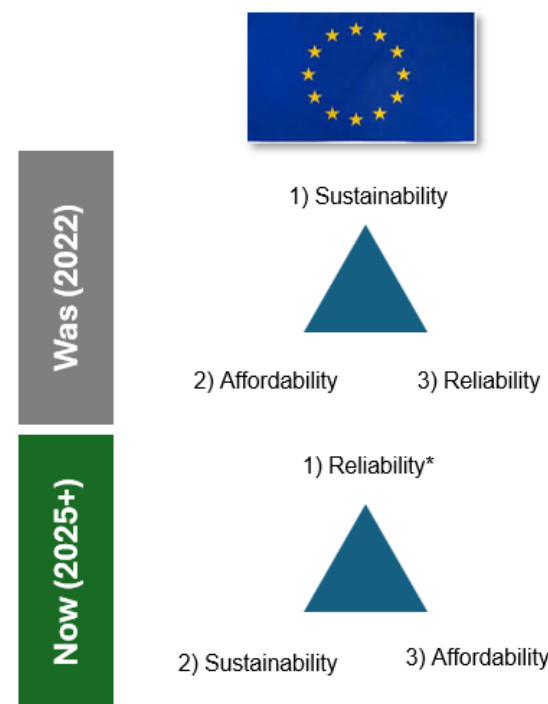




# Global Scenarios: Energy Security

- **Secure Supply** (i.e. immediately):
  - *Raise domestic capacity*, incl. identifying a large baseload and/or intermittency back-up source of energy.
  - *Reduce consumption* and improve efficiency.
  - *Identify suppliers* following a Tier 1-4 system:
    1. *Common market and defence partner*;
    2. *Free trade and defence partner*;
    3. *Comprehensive trade partner*;
    4. *No significant partnership but not hostile*;
    5. *None of the above* (do not build reliance!).
- **Control Costs** (i.e. medium term):
  - *Build a market that allows consumers to benefit* from the cheapest form of energy but that still incentivises investment.
  - *Maintain a carbon pricing model that rewards clean energy* production and consumption.
  - *Remove excess costs*, incl. taxes, fees, regulation.
- **Build Resilience** (i.e. long-term):
  - *Build storage systems* according to local strengths.
  - *Expand transmission* through EU cooperation.
  - *Invest in domestic low-carbon solutions* to combat pollution and climate change.

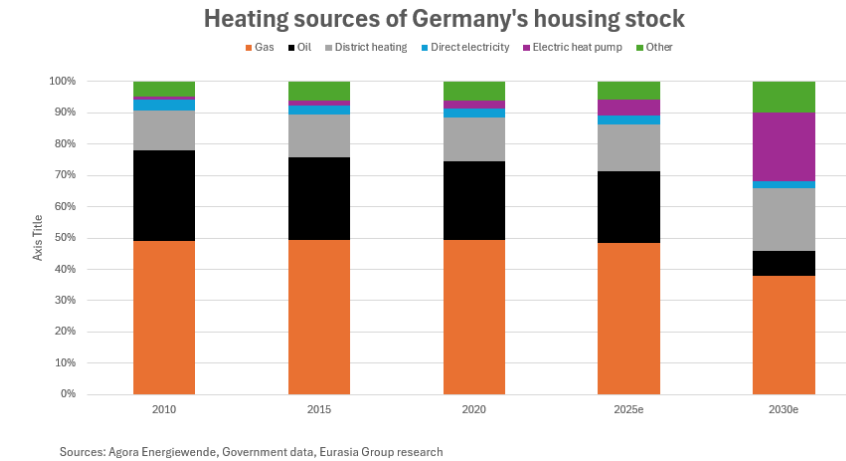
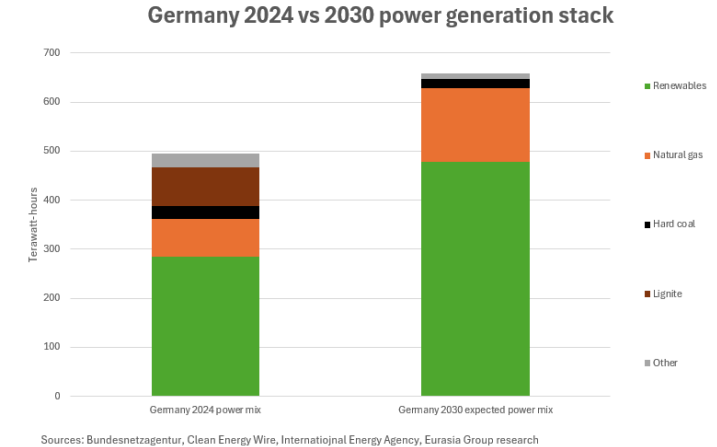
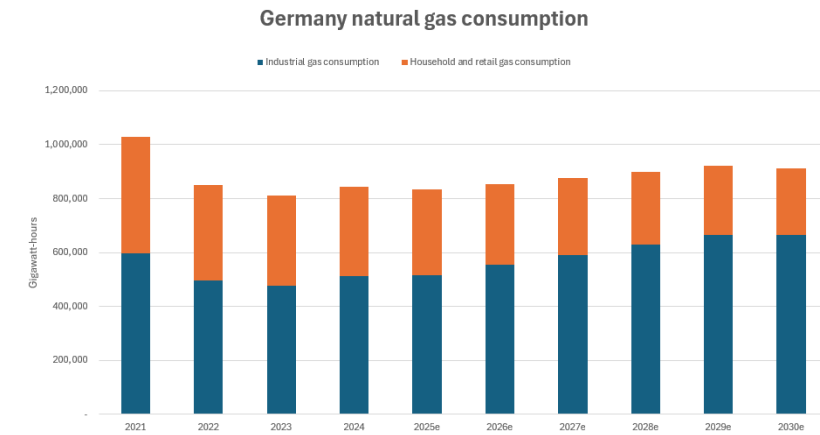
**Shift from : achieve one goal over others**  
**To: combining priorities to achieve a bigger goal**



\*Reliability is to be achieved by mass-electrification & establishment of a trans-continental grid, which aims to combine reliability (lower import reliance), sustainability (lower fossil fuel imports), and affordability (lower import costs).

# Example: Germany

- Secure Supply** (i.e. immediately):
  - *Raise domestic capacity (i.e. reduce import reliance)*, incl. identifying a large baseload and/or intermittency back-up source of energy (e.g. **renewables + 20 GW of gas**).
  - *Reduce consumption and improve efficiency* (e.g. **boiler replacements**).
  - *Identify suppliers following a Tier 1-4 system:*
    1. *Common market and defence partner* (e.g. **Norway**);
    2. *Free trade and defence partner* (e.g. ?);
    3. *Comprehensive trade partner* (e.g. **UAE**);
    4. *No significant partnership but not hostile* (e.g. **Qatar**);
    5. *None of the above* (do not build reliance!).
- Control Costs** (i.e. medium term):
  - *Build a market that allows consumers to benefit from the cheapest form of energy but that still incentivises investment* (e.g. **capacity markets, CfDs, PPAs, 24h-matching**).
  - *Maintain a carbon pricing model that rewards clean energy production and consumption* (e.g. **ETS2, CBAM**).
  - *Remove excess costs, incl. taxes, fees, regulation* (e.g. **electricity tax cut, removed storage fee, reduced access fee**).
- Build Resilience** (i.e. long-term):
  - *Build storage systems according to local strengths* (e.g. **CCS-law**).
  - *Expand transmission through EU cooperation* (e.g. **IPCEIs, H2-grid**).
  - *Invest in domestic low-carbon solutions to combat pollution and climate change* (e.g. **nuclear and battery research**).



# Impact

## Retail:

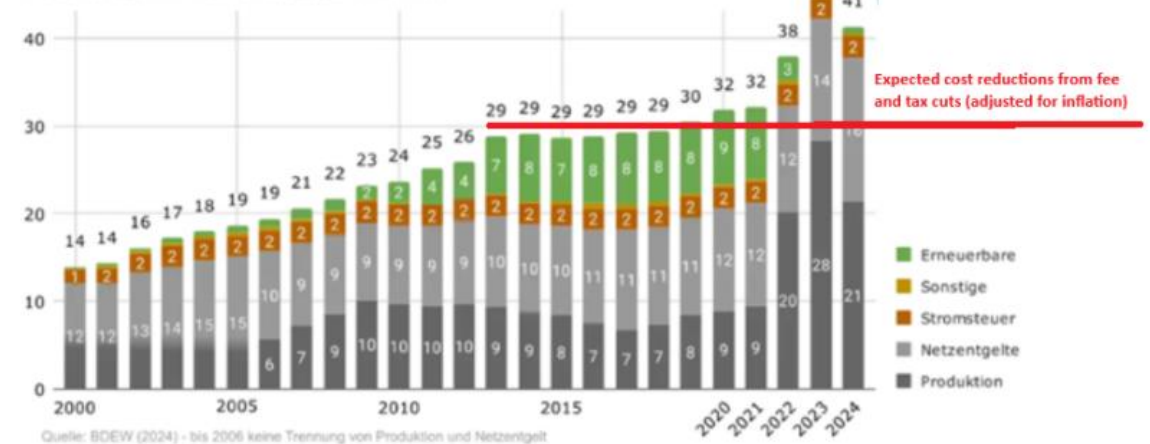
- Reduction of taxes and fees are expected to cut 5-8 cents/kwh out of retail tariffs. Adjusted for inflation that would bring costs to similar levels seen in the five years to 2020.
- Retail costs could drop further still, if wholesale prices also decline from 2026, as expected (see next point).

## Wholesale:

- Wholesale power prices are expected to drop fastest in regions/countries in which there is the biggest investment in and fastest deployment of power capacity/storage/transmission infrastructure.
- Germany may be on course to see its wholesale power prices drop below France's (post 2027), based on existing investment plans and regulatory/policy information.
- France, Poland, and Italy will struggle to bring down their wholesale costs, as they are not investing enough and there is regulatory backlog.
- Spain will continue to have relatively low electricity prices, as it builds on existing policy successes.

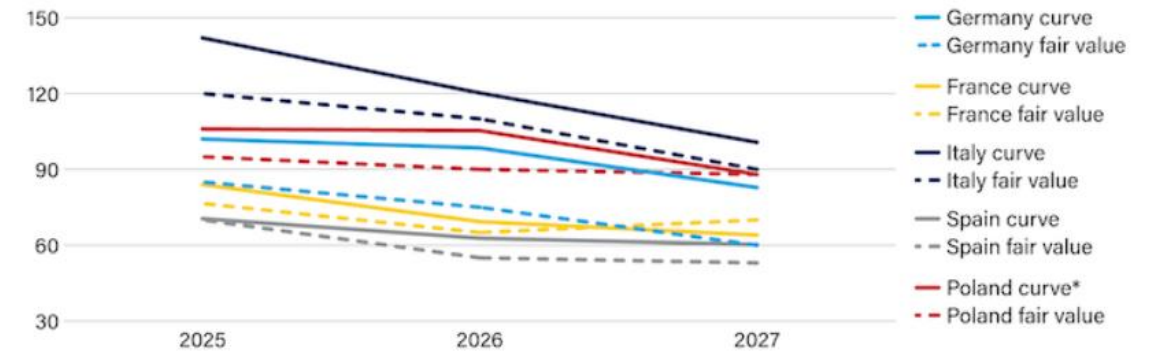
Strompreisentwicklung für deutsche Endverbraucher

in cCents pro kWh nach Einzelposten inkl. MwSt



Selected EU forward power price curves

€ per megawatt-hour



\*Due to lacking forward market liquidity, Poland's 2027 price and fair value are an equal fair value assessment by Eurasia Group. Curve prices as of 5 February 2025. Source: LSEG, Montel, Eurasia Group.



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