

51 | June 10, 2025

IENE Comment

Europe's Retreat from Net Zero Begins



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*By Irina Slav**

On the face of it, the European Union is as determined to accomplish its transition to a net-zero energy system today as it was two years ago. Below this face, however, things are beginning to change. The changes are subtle but they're there, and may well accelerate in the coming years.

One recent sign of these changes was revealed in a Bloomberg [report](#), citing European diplomats as saying that Brussels was considering a revision of net-zero targets. The revision, the publication reported, involved setting an interim emission reduction goal for 2040 and removing sub-targets for emission reduction for various industries.

It may not seem as much, indeed, it may not seem as a change at all but a change it is when taken together with another piece of news, this time about the carmaking sector. In late May, the European Union finally acknowledged that what many liked to call the EV revolution was not happening. Despite a double-digit increase in EV sales across the bloc since the start of the year, the outlook for the European car industry remains quite bleak, prompting warnings of trouble ahead unless the EU stepped in and revised EV sales targets—which it did.

Calling it “additional flexibility for carmakers,” Brussels [provided](#) some breathing space for the industry by switching from an annual emission reduction—meaning EV sales—quotas to a three-year quota. The change is supposed to give carmakers the opportunity to compensate for lower EV sales one year with higher sales in another year, all the way to 2027.

The news begs the question what necessitated this breathing space when [EV sales](#) in the EU rose by 23.9% in the first quarter of the year. Carmakers started releasing their lower-cost models, governments resumed paying subsidies that some had removed, only to witness a slump in sales, which forced them to resume the payments, all looked well. Yet these same governments, and the top brass in Brussels, seem to have realised one painful reality: subsidy money is not endless. And with big spending plans for the defence sector, there will be even less money for EV incentives. And for wind incentives. And solar incentives. Don't even talk about green hydrogen.

Until about a year ago, this did not matter. Brussels and net-zero devout national capitals made it seem that where there's a will there's a way, whether by raising taxes or by more borrowing. Now, it is beginning to surface that [debt levels](#) in some of Europe's biggest economies are nearing the point of unsustainability – or, indeed, past it already. This is a

problem both for the transition effort and the new defence spending ambition of Brussels.

Debt levels for the euro area stood at [87.4% of GDP](#) at the end of 2024. That was a slight decline from the 88.1% booked for the third quarter of the year but slight is nowhere near good enough when you want to boost spending on energy and defence at the same time, by a lot. Especially when economic growth is hard to come by and foreign direct investment in the EU as a whole has [dropped](#) to the lowest in nine years. Not only are foreign investors growing cold towards the EU but local businesses are considering [leaving](#)—because of energy costs.

What is happening should not come as a surprise, at least for those who don't get all their news from the mainstream media. There have been warnings, lots of them. Commentators have tried to draw attention to the fact that the energy transition could never succeed if it is entirely reliant on government funding and unable to survive in market conditions, simply because no government has an endless supply of money to throw at said transition. Now, this is unfolding in real life.

The EU never managed to attract all the private investment it needed in order to put the transition on a more market-based footing. It [never reached](#) its own investment goals, not least because crashes like Northvolt's bankruptcy didn't exactly do anything to spur investment appetite for the transition from the private sector. Quite the contrary, in fact. Appetite declined as the promised returns kept failing to materialise.

This is why the EU is now slowly and extremely tentatively starting to walk back from its net-zero targets. It can no longer afford them – even without the defence spending ramp-up plans. With those plans, the transition becomes financially impossible for the EU, regardless of how many new forms of incentivising wind, solar, and EV investments it manages to come up with, on paper.

To add insult to injury, China just threw the car industry into a panic by curbing rare earth exports. The muscle-flexing exercise should raise certain questions about transition component dependence in the EU. Because in addition to money, the transition needs China. Vitally. Talk about a major conundrum.

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IENE Comment – June 10, 2025 - Issue No.51– ISSN:179-9163

IENE Comment is published by the INSTITUTE OF ENERGY FOR SOUTH-EAST EUROPE (IENE)

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