**United in Diversity? Confronting Europe’s Energy Divides**

**While energy is the common foundation of Europe’s economy, EU member states have strikingly different energy policies. In the context of compounding security, economic, and environmental crises, calls to surmount the tensions surrounding energy are increasing. We spoke to economist Helen Thompson about the fault lines exposed by the energy crisis, government responses to our present disorder, and prospects for greater European unity.**

**Green European Journal: In late summer 2022, French president Emmanuel Macron warned that we had reached “the end of abundance”. What do you make of this idea, specifically in relation to energy?**

**Helen Thompson**: In some sense, Macron was engaging in truth-telling. We’re entering an age – or maybe we’ve been in one for a while – of relative energy scarcity, though I stress relative because this is not a straightforward issue. Economic conditions have got significantly more difficult and are unlikely to get much better in the foreseeable future. However, the phrase is also problematic because many people in Western countries haven’t been living in an age of abundance for some time. The underlying economic crisis around energy issues and the relationship between energy and financial and monetary issues that ultimately constrain growth have been experienced many people in Europe for years. That is why it is politically off-putting. Talking about an age of abundance totally neglects distributional issues.

**Many believe that the energy crisis is solely a result of Russia’s invasion of Ukraine. But to what extent was an energy crunch already on the way?**

The energy crisis pre-existed the war. Even if you see it as a short-term energy crisis as opposed to the longer-term story that I think it is, there were two watershed moments before the war. The first was the fall in oil production in 2019, the year before pandemic, leading to a not insignificant gap between global consumption and production. As soon as the post-pandemic economic recovery began in 2021, oil prices began to rise again quite sharply, and the Biden administration and European governments began to worry.

The second turning point came with the dramatic increase in China’s demand for gas imports during 2021. This was coupled with Gazprom’s apparent reluctance to make gas available in the spot markets for much of that year, preferring to limit itself to servicing long-term contracts with European countries. This led to structural competition over liquefied natural gas (LNG) between Asian and European countries, which paid much higher prices than the United States [a major LNG producer with only limited export capacity]. The effects of these developments in Europe were only dampened by the Omicron variant in late 2021. So we can see that the supply-side constraints at the heart of the energy crisis were on display well before the war broke out.

**Energy costs are driving up the cost of living. Is this the first time European households and businesses have felt the impact of global competition for goods they could previously access relatively affordably?**

In terms of the cost of living crisis, there is evidence of energy costs putting pressure on households from autumn 2021; it was only Omicron that eased the market. It also diverted attention elsewhere. Businesses grew more concerned about gas prices throughout the 2010s, particularly in energy-intensive industrial economies such as Germany. The stark divergence between European and American prices made German companies realise that they were carrying costs that the Americans were not.

**The energy crisis has prompted some retrograde steps for the green transition, including a return to coal. Some even argue the transition is partially responsible for the rising cost of living. How accurate is this?**

That’s a complicated question. It’s not clear that there’s any strong, direct link between the use of solar and wind in generating electricity and the cost of living issue, beyond cases where, as in Germany, some of the costs of the energy transition are structurally put into energy bills. However, there is an interaction between the problems posed by wind intermittency in particular and the gas problem. Several European countries have had relatively poor wind levels for a while now. This creates demand for gas that is then very expensive, sometimes prohibitively so – particularly in northern European countries that rely more heavily on wind than solar. So the fallback position becomes coal. In that sense, the limitations of the energy transition, particularly around intermittency, have at least partly contributed to the struggles with gas and the return to coal. Despite the fact that we’re supposed to be in a transition away from coal, we’ve got historically high coal prices.

**How is the current crisis exposing energy divides both between and within European countries?**

There is substantial variety in the energy mixes of different European countries. This is having a major impact on how the current energy crisis is playing out. What has also come to the fore is the difference between the countries with nuclear power and those without. Nuclear was a source of tension within the EU during the discussions over the green taxonomy and is a clear dividing line between France and Germany.

The return to coal will make it more difficult to put pressure on Poland for its high coal use by European standards. What European countries, not least Germany, have shown since the outbreak of the war in Ukraine is that coal is the energy source of last resort. The divisions are structural in that they arise from the fact that, for a long time, there has not been a great deal of unity in the way in which EU members have pursued their energy policies.

In terms of within countries, there are differences in the willingness of some people to accept the consequences of the part of the energy crisis linked to the war. It is in Italy where these differences can be seen most clearly. Mario Draghi’s government collapsed because of a lack of support from the Five Star Movement, which criticised Draghi for prioritising the war over the cost of living crisis. Although the leader of the Fratelli d’Italia – now Italy’s largest party – is a staunch supporter of the Ukrainian war effort, this problem is not going to go away. We’re seeing similar tensions over the cost of living in the Czech Republic, where there have recently been major anti-government demonstrations. This fault line between the cost of living and the war is unfortunate because it’s not true that the energy crisis emerged because of the war. The war was just a tipping point for the energy crisis, not its cause. It has made it worse, certainly. But it was not the primary cause.

The questions of how the energy crisis is framed, what fiscal support is offered both to households and to businesses, how long that support should last, and what happens to it if the war ends but the energy crisis doesn’t are quite divisive. Energy is essentially a distributional issue. The richer you are, the more you consume, and the poorer you are, the less you consume. If we need to cut energy consumption, the question of who this falls to becomes a sharply political question.

*“The war was just a tipping point for the energy crisis, not its cause.”*

**Many commentators have drawn comparisons between today’s energy crisis and that of the 1970s. To what extent was neoliberalism a fix for the West’s last major energy shock?**

It’s not possible to understand the response to the problems of the 1970s – which goes under the name neoliberalism – without seeing it primarily as a response to the energy crisis. To the extent that it’s coherent to talk about neoliberalism, i.e. the elevation of market principles over state intervention, it’s primarily a narrative about the United States and Britain. During the 1970s, the US energy crisis was addressed by an incredibly interventionist federal state that was involved in deciding which states were going to get which energy sources and for what purpose. It also deployed price controls. The Reagan presidency dismantled that federal energy state. Meanwhile, in the United Kingdom, Thatcher’s first government let North Sea oil production operate according to international market forces.

As to how the inflationary problems of the 1970s came to an end, this requires an energy answer as much as what might be described as a neoliberal monetary answer. In the early 1980s, the US Federal Reserve’s monetary policy created recessionary conditions – not just in the United States but across the world – that reset oil demand lower to allow time for new, more expensive production from the North Sea, Alaska, and Mexico to come into play. When oil prices came down with new supply, so did inflation.

**The 1980s was also a period of deindustrialisation in Europe. Can we tell a similar energy story about the rise of neoliberalism in today’s European Union?**

The first thing to say is that West Germany stood back from this thing that gets called neoliberalism, and certain features of the West German economy remained different. Germany, unlike the United States and Britain, is not an oil or gas producer and has never been in the position to let international markets take care of the energy issue. Germany’s dependence on foreign oil and gas has been a major vulnerability, also in macroeconomic terms, since the age of oil began. This is why so much importance has been attached to its trade surplus since 1945. If you are a significant energy importer, you need to be able to pay for it. It also explains why Germany was faster than other European countries and the United States down the energy transition road. It wasn’t just the climate; it reflected Germany’s long-term energy predicament around reliance on oil and gas.

At the same time, it was the monetary problems the European Community countries faced in the aftermath of the breakdown of Bretton Woods and the energy shocks of the 1970s that led the European Community, minus Britain, to monetary union. Through the shocks of the 1970s, the West German currency was much stronger and had much more anti-inflationary credibility than any other European currency. This was the context that ultimately gave birth to the Eurozone. There’s almost always a story about the relationship between the energy side of things and the monetary side of things at any given time.

The Spanish and Portuguese governments moved to cap prices, while other countries have nationalised energy firms and infrastructure. Will the state need to take on a more active role in guaranteeing energy security in the years to come?

In countries with high foreign energy dependency, the state has never moved away from a deep concern with energy security. The steps that we took to resolve the energy crisis of the 1970s or even that of the mid-2000s cannot be repeated. You cannot let market forces bring on new supply. Offshore oil in the North Sea has already been extracted, and geopolitical developments have turned reliance on Russia into a dead end. Furthermore, the monetary environment after 2008 – with quantitative easing that made it possible for lots of capital to be poured into unprofitable investments in the US shale sector – is no longer there. Indeed, we’re trying to undo that monetary environment because of the inflation problem.

In this context, the only way left to deal with this problem is a state that will have to be much more interventionist, whether through taking direct control over the industry or through huge fiscal support. The question is: can you have a huge fiscal outlay when bond markets are getting jittery, central banks are tightening policy, and the dollar is strengthened against most currencies in the world? There is a serious question for European countries as to whether the scale of the borrowing required to support the energy side will precipitate a currency crisis.

**While EU policies such as the Green Deal, the sanctions on Russia, and the single market all impact energy policy, there is no European energy policy as such. Do you think the EU will gain greater competence over this area?**

There is no doubt that common energy problems incentivise European cooperation. Energy was central to the EU’s predecessors – the European Coal and Steel Community and the European Atomic Energy Community. Generally, European countries have common energy problems. The era of divisions between energy importers and energy exporters such as the Netherlands, Norway, and the United Kingdom is not quite over, but it’s getting there – with the possible exception of Cyprus. The commonality of the energy problem as well as of climate change incentivises cooperation and integration.

On the other hand, there remain significant differences between EU countries. Europe’s geography complicates matters even further in terms of supply routes; it makes much more sense for France and Spain to look to Algeria than for the Baltics or Germany. And high-level energy consumption is no longer just a Western affair. To put it bluntly, Germany has filled up its gas tanks for the winter by making it extraordinarily difficult for Pakistan to buy any liquefied natural gas for most of the summer. The bottom line is that they simply couldn’t afford to pay the rates European countries were willing to pay. This has an impact on the potential for European unity because the relationships individual European countries have with the rest of Eurasia and Africa are not the same. Problems in northern Africa and the Middle East affect southern Europe differently than northern Europe. The incentives for unity are strong, but the actual specifics of finding common ground are considerably more difficult.

*“Common energy problems incentivise European cooperation.”*

**You’ve argued that, even with accelerated renewables deployment and stopgap fossil fuels, we need to use less energy. In the 1970s, Jimmy Carter was voted out of office for asking Americans to moderate their energy use. Why is calling for demand reduction so politically difficult in the West?**

Carter is the politician who tried this the most systematically and dramatically – certainly in terms of the language he used in his [July 1979] “malaise” speech – and he was punished for it. If you look back to 1970s Europe, however, you see that people were prepared to accept reduced speed limits and car-free Sundays to reduce energy consumption.

Something changed in Europe between the 1970s and now. It is striking that, until the war came along, no politician was willing to make those kinds of arguments for climate change reasons, or to respond to the cost of living situation. War has changed the situation by increasing the risk of supplies simply being cut off, and it’s easier for people to understand that consumption is an issue.

What defies explanation is why, in the 1980s and 1990s, it became so much tougher for European and US politicians to talk honestly about the energy constraints we face. Perhaps European democracies had become unused to thinking about energy or sacrifice by this point. In the 1970s, in contrast, perhaps there was still enough of a memory of austerity and food rationing that the idea of energy rationing didn’t seem like such a shock. In Britain, for example, food rationing went on until well into the 1950s, and the energy crisis began in 1973. That’s only 20 years.

**The war in Ukraine has pushed the energy transition to the fore. Should we attempt to marry our responses to the climate crisis and Europe’s security concerns?**

Yes, there is a story that can be told in those terms. You can frame it around the need to change how we consume energy, both because it makes us dependent on countries like Russia and because we’re already living through a climate crisis. In this sense, there is pain to be endured to reach a future where the climate is less threatening and leaders like Putin are unable to use their countries’ energy superpower status to wield geopolitical influence. The hope is then that you can produce a lot of energy domestically under a low-carbon energy scenario.

The downside to this narrative is that it misses out on an important part of the picture around fossil fuel resource constraints. The kind of framing used by Emmanuel Macron and [former] UK prime minister Liz Truss – “we just need to endure this for the sake of Ukraine” – presumes that, if and when the war comes to an end, the energy crisis will go away. It won’t.

Moreover, a low-carbon future won’t change European countries’ foreign resource dependency become dependent on foreign. Europe will be dependent on metals from the rest of the world. The geopolitics of extraction and the relationship between the standards of living in the parts of the world that benefit the most from high energy consumption and the parts of the world where the resources are and will be extracted from is a significant political problem coming our way consumer and extraction countries.

**Your latest book is entitled Disorder. Will this be the norm for the decades ahead? Or can the energy transition and the wider push for resilience in Europe genuinely deliver more security and stability in future?**

Historically, disorder tends to be the norm; periods of relative order are usually just interludes. Parts of the 20th and early 21st centuries took us away from that reality. The energy transition itself – which if successful is much better described as an energy “revolution” – implies enormous upheaval. It effectively involves rebuilding the energy foundations of our material civilisation. There is no economic activity without the deployment of some kind of energy. You might say economic activity is the application of energy. We’re committed to doing something that is extraordinarily trans- formative, and so it is difficult to foresee any real stability for many decades to come.

I’m not somebody who believes that we’re on a path to a utopia where all the problems associated with fossil fuel energy are going to be eliminated definitively by another energy basis. Nor do I think it is all destined to end in utter catastrophe. Is there a path to something sufficiently transformative that also offers a more stable future – however distant? I think there could be. If you think historically, even very long periods of disorder come to an end eventually.