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Planned Interventions in Energy Markets: Lessons from European Energy Policy

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The issue of when and how to intervene in energy markets in the face of large negative shocks to energy supply is one that has been exercising the European Union (EU), individual European governments and European companies since 2021. This is the topic that this paper seeks to address.

Our inspiration is the reaction to the European energy crisis of 2021 to 2023, which saw both electricity and gas prices in Europe reach unprecedented levels. This crisis subsided but, recently, the crisis in the Strait of Hormuz, which began in February 2026 has significantly raised global oil and liquified natural gas (LNG) prices and raised the prices of certain fossil products such as jet fuel, diesel and urea. This crisis has provided an opportunity to stress test, in Europe, some of the resilience measures put in place due to the earlier crisis. A key issue we seek to explore is the extent to which it is possible to be prepared for future crises and in doing so avoid arbitrary and destabilising policy interventions which undermine the normal, and effective, workings of energy markets.

Our perspective is that corporate actors need to be aware of the policy environment in which they operate. This is particularly true of the oil, gas and electricity companies that are directly affected by policy interventions triggered by energy price crises, but also of large energy consuming companies for whom the nature of the government response to crises will affect the prices they pay for energy. For corporate actors there is both a short-term crisis impact of policy and a long-term effect of government policy settings on their incentives to invest to self-insure against future energy price effects. The energy sector is one where private incentives, often operating at the global level, interact strongly with the political reality that governments must be seen to act in an energy price crisis.

We begin with a discussion of the European energy crisis of 2021-23 and a comparison with the 2026 crisis, so far. We explain the role of scarcity pricing and why intervention is (sometimes) necessary. We then go on to consider why it might be good to have a pre-announced rules for what is to be done in a crisis.

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We conclude that the 2021-23 European energy crisis had profound consequences for the EU and provoked a large amount of policy learning on the part of EU institutions, EU member state governments and European companies. Wholesale electricity and natural gas prices reached unprecedented levels and there was a fiscally costly intervention in retail energy markets. So far, the 2026 Strait of Hormuz energy crisis has not been as significant for the EU, partly because of a successful diversification of gas supplies, reductions in energy consumption and increases in non-fossil fuel energy. However, the future situation remains uncertain.

We observe that the most interesting EU policies to come out of the 2021-23 crisis was the precise definition of what would trigger a future 'energy price crisis' in both electricity and gas markets and, associated with this, the form that any crisis intervention in retail energy prices could take. Such interventions could range from setting long run targets to reduce exposure to supply shocks to increasingly hands on short run attempts to manage the available quantity of energy.

Corporations should help governments plan for energy supply shocks by encouraging them to think through the implications for the operation of the economy in the face of extreme price fluctuations. Both the Russia supply shock and the Strait of Hormuz shock were not 'Black Swan' events (Taleb, 2007). They were entirely predictable potential scenarios for European companies. Therefore, the highly engaged policy communities of Europe, which include energy intensive industries and energy companies, can and should work together on responsible crisis planning to build resilience ahead of future energy crises.

Both recent crises suggest that there is more scope to prepare energy policies in advance to avoid the need for policy making in the midst of a crisis. Electricity markets offer good examples of how up-front market design can avoid prolonged price-spikes. The maintenance of adequate medium run reserves – many of them held by the private sector - has also proved valuable in both oil and gas markets. There also seems to be more thinking to be done on pre-announcing special energy profit tax regimes for gas and electricity, learning from oil production taxes, to meet the legitimate concerns of energy companies about the need to avoid poorly designed one-off taxes which undermine incentives to invest.

European Union energy policy responses discussed in this paper show that it is possible for society to both prepare for external energy price shocks and to learn from them. Companies and public institutions in other jurisdictions, inside and outside Europe, continue to have much to learn from a close observation of the outworking of EU energy policy.

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