The euro crisis is also an oil crisis

by Hans-Josef Fell

A few years ago, many economists were warning that the world economy could not support an oil price of 100 dollars a barrel over the long term. Oil prices have now been hovering around this figure for the past eighteen months. This has coincided with the crisis in the euro zone, which is almost always presented as a financial, banking and sovereign debt crisis. The majority of economists, financial institutions and policy-makers rarely consider that the crisis might possibly be linked to rising fuel and other resource prices.

It's a fatal omission – for these price rises massively influence the euro crisis; indeed, they are probably the dominant factor. Of course, the financial policy analyses are necessary, even vital – but they are not enough for a genuinely sustainable solution to the euro crisis.

Between October 2010 and September 2011 alone, the 27 EU countries' dependence on imports of fossil fuels and other finite raw materials, principally **oil**, cost them 408 billion euros net. By comparison, the EU27's current account deficit amounted to 119 billion euros over the same period, according to a paper by the Green MEP Sven Giegold. This shows that the EU, overall, has the potential to post a very positive trade balance if it could at least halve its resource import costs. And rising oil prices also mean a burgeoning foreign trade deficit.

But politicians in Europe have very little influence over global resource prices. These prices simply reflect global supply and demand. Demand is still rising, but supply has been stagnating since crude oil production peaked in 2006. From August 2008 to the start of 2009, oil prices fell, but only because the record price of oil in July 2008 – almost 150 dollars a barrel – plunged the world into deep recession, triggered by the Lehman collapse, which had more to do with soaring oil prices than analyses suggest.

From mid 2009, the world economy recovered, along with oil prices, which reached 120 dollars a barrel in March 2012. Since then, the eye-watering price of oil has put the world economy back on the road to recession – and prices are falling again.

As well as the high costs of resource imports, other energy-related factors are also driving debt. Fossil resources are massively subsidized, placing increasingly heavy burdens on public budgets. According to analyses by the International Energy Agency (IEA), world subsidies for fossil fuels rose from 312 billion dollars in 2009 to 408 billion dollars in 2010. Many countries are paying higher subsidies in an attempt to stave off social unrest fuelled by rising oil prices.

It's a noble goal, but it's doomed to failure because growing resource scarcity will inevitably drive up the prices of all fossil fuels. Burgeoning sovereign debt and, ultimately, national bankruptcy are the likely outcomes of these attempts to use taxpayers' money to curb our oil consumption costs.

The only way out of the dependence on a fossil-fuelled economy is to make a rapid switch to an economy which is largely decoupled from fossil fuel and other resource prices. This has to

be a renewables-based economy: renewable energies for electricity, heat and transport, and renewable chemicals and organic farming.

Of course, converting our economy to 100 per cent renewable energies, chemicals and organic farming requires capital investment. But this is exactly what we need to create new jobs and end unemployment.

Germany has shown that this is the road to success. From 1998 to 2011, the number of jobs in its renewable energy industry increased from 30,000 to 380,000. Resource imports were progressively reduced at the same time. In 2011 alone, the use of renewable energies in Germany avoided energy imports amounting to 9 billion euros.

In other words, to tackle the euro crisis effectively, we not only need financial policy measures: we must invest massively in the transformation to a sustainable, renewables-based economy. The energy turnaround in Germany has shown that far from creating additional economic burdens, this is an urgent necessity if we are to avoid further economic crises.