

Funding the Future

Governments should be acting together to stop the warti...

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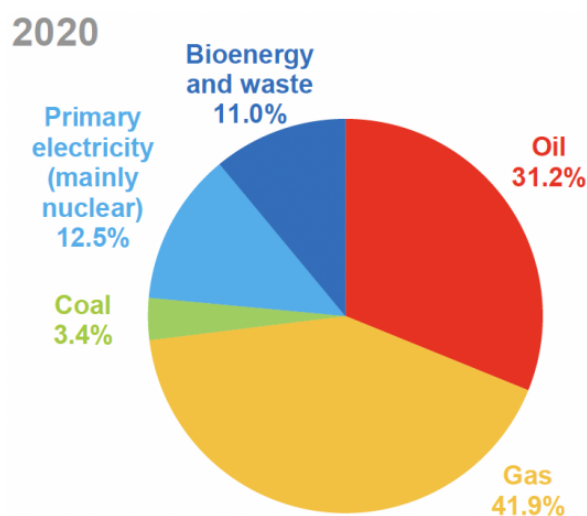
I wrote this yesterday:



Some of the messages under the tweet on the cost increases people are facing are shocking. Worse, few see a way around them.

And yet, let's be clear, what I said was true: the cost of producing energy has changed little, if at all, as a result of this crisis.

According [to the government](#), this is the composition of UK energy consumption:



Oil can be left out of most household energy costs, although I know not all. Its use is for

other purposes.

Then let's be clear: nuclear, bioenergy and coal production costs have not risen at all as a result of this crisis.

And the vast majority of gas and oil production costs have not risen either. According to [Investopedia](#) (a usually reliable source):

The top three producing countries in 2020—the U.S., Saudi Arabia and Russia—accounted for 43% of the world's petroleum liquids production. The top five producers also including Canada and China accounted for 54% of the global output.

It notes that Russia accounted for about 11%. I know gas may be a bit different, but this point is a simple one. It is that Russia is a big, but not the biggest producer of oil and gas in the world, and that it is likely that more than 85% of supplies in the world are, in effect, entirely unaffected by this crisis. Their costs of production are unchanged. Equate this back into our overall consumption and less than a 10% is likely impacted by this war.

So why a ninefold price increase, which is up again as I write this morning? There are three reasons.

The first is panic. The world is trying to buy what it thinks may not be available. That is especially true of those states like Germany and Italy that are heavily dependent on Russian oil and gas.

Second, there is speculation: when there is profit to be made speculators take it.

Third, there is profit-taking by energy companies, which is not quite the same as speculation, but clearly is related to it.

The reality is that because some countries face an energy crisis (and we are not one of them, but that does not change the reality that near neighbours are in this category) a worldwide price rise of utterly disproportionate scale has been triggered. The only people gaining are oil and gas speculators and oil and gas companies. Those losing are the people of the world who are going to be forced into fuel poverty. There is also the cost of a coming worldwide recession that these energy prices will trigger to take into account.

None of this is necessary, of course. First, significant parts of energy prices are fixed by governments around the world, including taxes charged on their consumption. These could be reduced without tax yields falling, and that would make sense right now.

Second, there is price regulation in many countries, including in the UK, where the marginal cost of supply to energy distribution companies is used as the basis for setting consumer prices, which is a process that affords no protection from producer

exploitation to consumers at all. Pricing regulations could be changed.

Third, artificially rigged markets - where there is supposed to be competition but where none actually exists, or where the consequences are perverse in acting against the consumer interest competition is meant to serve, as is the case in the UK - could be suspended.

Fourth, and most importantly, the world could notice that we are at war and come to an international agreement to regulate prices. It could, in other words, agree how energy supplies to countries directly impacted by the conflict might be diverted from other sources and suspend market pricing in that case, and as a result it could take panic buying out of the market as a result, reducing prices everywhere else as a consequence.

Are any or all of these suggestions beyond the wit of governments right now? Surely in amongst the many required responses to this war, these rank high on every governments' agenda? And if not, why not? Isn't protecting the people of the world from the profiteering consequences of war fundamental to the process of winning that war? Again, if not, why not?

It is profoundly disappointing to hear no talk of such interventions as yet. If they do not happen we will know that our government, with that of other nations, is happy to conspire for big oil and gas against us all. And the portents of that are not good when there is the small matter of climate change to come.