at the time. Then as now, West Europeans denounced the embargo as an American attempt to interfere with business and insisted that interdependence in gas with the Soviet Union was beneficial to their economies. In the end, despite Washington's objections, the pipeline went forward.

However, the significance of the episode does not end there. The Soviet leadership, urged on by the dying Brezhnev, reacted to the American embargo with an all-out push to equip the pipeline with Soviet-made compressors. In the end, about half of the compressor power on the pipeline was domestic. Today the Russians make their own large-diameter pipe and compressors. Brezhnev would have been pleased.

Indeed, although Brezhnev died in 1982, shortly after the gas campaign got under way, he would have taken considerable satisfaction from its success. The vision and ambitions of Kortunov and his team of West Siberians were fully vindicated. What they could not have foreseen, however, was that within a decade the gas industry would become the mainstay of a failed state.

CHAPTER 6

Crossing the Channel

The Neoliberal Tide Reaches Brussels

In the 1980s and 1990s, an intellectual and political revolution in Western Europe overturned the rules and regulations, and ultimately much of the structure, of the European energy industry. It happened that it was in these same years that the Soviet Union collapsed and the Iron Curtain disappeared. The result in the energy sector was that at the beginning of the 1990s, the statist-collectivist culture of the East, as it emerged from the isolation of the Soviet Union, came face to face in Europe with a newly reenergized capitalism from the West, together with a new regulatory regime emanating from Brussels. Two worlds struggled to understand one another, in politics, economics, and business. In the gas industry and the East-West gas trade the confrontation was particularly sharp. In this chapter we focus on the West European side of the story, while developments in Russia—particularly the Russians' response to the new business environment they encountered in the West—will be treated in following chapters. But to foreshadow the major theme ahead: the Russians entered the European gas market as players at the beginning of the 1990s under one set of rules and understandings, a set that was much more attuned to their own early experience of gas exports and could be summed up under the term "Groningen rules"—that is, long-term contracts with monopoly buyers, based on oil-price references. By 2010, they found themselves faced with a world transformed, one that they had not anticipated, did not understand, and for a long time did not accept. But that part of the story must wait until we have set the stage.

A Tide of Radical Thought

The term "revolution" is of course much abused. The neoliberal revolution was a broad tide of thought that originated mainly in the Anglo-American world and flowed to the Continent over the course of two decades. It has been called Chicago economics, Reaganomics, Thatcherism, the neomarket revival, the anti-Keynes reaction, the Hayek restoration, and many other names. I prefer the term "neoliberal," which emphasizes its capitalist foundations as well as its ultimately European roots and its retranslation into a European setting, notably by British officials and advisors. Its essence was a wholesale challenge to the statist, top-down, plan-oriented mode of thought that had dominated European thinking since World War II. That mode of thought was replaced by a cluster of ideas centered on the market: liberalization, privatization, globalization, and above all competition across an open market space and a level playing field, all backed by a new regulatory regime from a reenergized European Commission.

The neoliberal revolution in Western Europe was in large part a reaction to the events described in Chapter 3 on the age of anxiety. As a result of the two oil shocks, economic growth had come to a halt, inflation was rampant, and unemployment had reached levels not seen since the Great Depression. In Great Britain the situation was extreme. Widespread strikes gripped the country, and successive governments of both major parties were unable to deal with the crisis. During the "Winter of Discontent" of 1978, garbage rotted in the streets, and the dead lay unburied. The misery of the 1970s created the political momentum for neoliberalism in Great Britain.[1] In the United States and Great Britain, economists in a key handful of universities such as those of Chicago and Birmingham pinned the blame for these troubles on excessive state intervention and regulation and the inefficiencies of top-down state investment.[2] After decades in the intellectual wilderness, the ideas of Friedrich von Hayek and the Austrian school—which stressed the virtues of free-market capitalism and supply-side economics—began to attract interest again, while the prevailing statist,

demand-side doctrines associated with the name of John Maynard Keynes were forced into retreat. Before long, a tidal wave of renewed faith in markets and private enterprise began to build in Europe and the United States.

The role of the United States, and particularly that of the economics department at the University of Chicago, as the primary source of the neoliberal tide, is central. By the late 1970s a broad revolt against the prevailing Keynesian doctrines and the excesses of government regulation had caused neoliberal ideas to migrate to many economics departments across the United States and Great Britain. Particularly significant was US thinking on competition. In Europe, this was a real innovation. Both before and after World War II, cartels and interfirm cooperation were regarded as the norm on the Continent. Such cartels protected jobs, fostered innovation, and prevented wasteful competition—at least, these were their virtues in the eyes of most Europeans. But in the decades after the war, US officials pressed their European counterparts to accept competition as a fundamental goal of economic policy, with considerable success at the regional and local levels. As we shall see in Chapter 7, competition law turned out to be the chief weapon in the hands of the European Commission in the late 1990s and 2000s as it sought to reform the European gas sector.

A competing source of intellectual influence, especially on the Continent and in particular in Brussels, was German ordoliberalism. For the German ordoliberals, cartels and monopolies were the chief enemy, but the best instrument for combatting them was the state. "Market forces and a competitive economy were the standard for the Ordoliberals," write Daniel Yergin and Joseph Stanislaw, but "they believed in a strong state and a strong social morality."[3] The leading figure of ordoliberalism in the postwar years was Wilhelm Röpke, who taught in Geneva, but whose economic philosophy resonated throughout Germany and became the basis for German economic policy under Economics Minister Ludwig Erhard.[4] For Röpke, competition in a free market was paramount, but only a strong state could make sure that markets performed this function. His oft-quoted words virtually define the difference between Anglo-American neoliberalism and German ordoliberal thinking, but they also define much of the social-democratic economic philosophy of Jacques Delors, who as president of the European Commission from 1985 to 1995 led the fight for a single European market:

> A pure free-market economy . . . cannot float freely in a social, political, and moral vacuum, but must be maintained and protected by a strong social, political, and moral framework. Justice, the state, traditions and morals, firm standards and values, are part of this framework, as are the economic, social, and fiscal policies which, outside the market sphere, balance interests, protect the weak, restrain the immoderate, cut down excesses, limit power, set the rules of the game, and guard their observance.[5]

The result in Brussels, though neoliberal in its outline and essence, was much changed from its American version and was blended with other traditions. Yet arguably the British influence was paramount, as a generation of Commission officials, many of them British (and some of them Irish), arrived in Brussels after the 1980s. They had absorbed the neoliberal message via their education, their postdoctoral stays abroad (especially in the United States), and their early work experience, whether as regulators in Great Britain or executives in private business. What they brought was not drawn solely from Chicago or the United States but from what was by the 1980s and 1990s a broad neoliberal consensus in the Anglo-American world[6] that focused not just on liberalization and the internal market, but more broadly on globalization and privatization. To appreciate their role, one must look at the level of career civil servants rather than political appointees—that is, heads of directorates rather than commissioners or vice-chairmen. There is frequently a continuity, as one leading "Anglo-Saxon" official replaced another over the space of a generation.

Meanwhile, in the Soviet Union, the neoliberal revolution was more than a decade away. Chicago, to Soviet ears, meant organized labor, or perhaps organized crime, but not economics. Ronald Reagan and Margaret Thatcher were geostrategic threats, not market models. Hayek was anathema, mainly because of his book *The Road to Serfdom,* which could be read only in smuggled copies or in the safety of a *spetskhran*—a classified library collection.[7] Insofar as there was a model for economic reform in Moscow, it came from Budapest or Belgrade. Thus, when neoliberal economics finally reached Russian ears in the late 1980s, it came in a rush

as part of Mikhail Gorbachev's glasnost and perestroika, and while it was eagerly absorbed by radical young economists, mainly in Saint Petersburg, the understanding of these exotic ideas by the rest of the population boiled down to slogans—mainly privatization and decontrol of prices—without much awareness of (or, for that matter, interest in) the theoretical and philosophical underpinnings.[8] As a lasting consequence, even the most sophisticated Russians came into the 1990s with little awareness of the ideological changes that had taken place in London, Brussels, and the other capitals of Western Europe and their potential consequences for Russian business, including gas trade, as it moved into Europe in the early 1990s.

The story of the neoliberal revolution in Western Europe provides the essential background for understanding a further upheaval that followed directly after it: the spread of European Union law and competition doctrine throughout the member-states. But in the energy sector established interests—traditional monopoly utilities, particularly in the power and gas sectors—fought back, as statist elements in France and corporatist structures in Germany dug in to defend their traditional ways of doing business, safely shielded behind national borders. This was, at least at first, a struggle of Europeans against Europeans, as the Russians watched from a distance.

The irony of this story is that the primary source of competition doctrine and the market-based innovations that have transformed the gas and power sectors on the Continent stemmed above all from the country that was always the most reluctant member of the European Union and the most ambivalent about the European project—Great Britain. Yet it was British statesmen and officials who played the key roles in developing the Single European Market road map in Brussels and who, as the first competition commissioners in the EU Commission, were the pioneers in implementing it. Again, energy was a crucial battleground. The ideas that ultimately led to the controversial EU Gas and Power Directives of the 1990s and 2000s originated in ideas and reforms pioneered in Great Britain. The hub-based systems of trading used on the Continent today are modeled on ones first used in Great Britain. The revolutionary upheavals that eventually took place in the corporate structures and energy policies of the Continent were the culmination of political, economic, and intellectual developments that originated in Great Britain a generation earlier.[9]

Neoliberalism was absorbed in multiple places in Great Britain and blended to varying degrees with older liberal teachings. The London School of Economics (LSE) was a major source: Harry Johnson, one of the leading neoliberal stars at LSE, was originally at Chicago. David Newbery, who became one of the major neoliberal faculty members at Cambridge University and ultimately led the revolt against the prevailing Keynesianism in the economics department there, had been influenced by his experiences on the faculties of Stanford and Princeton Universities and at the World Bank. Stephen Littlechild, a major figure in the history of regulation of British utilities, originally came from the University of Birmingham (as did many others),[10] but he earned a doctorate at the University of Texas, and during his years in the United States he focused on deregulation in monopolies such as the airlines and telecommunications. There were many others whose careers thus spanned the Atlantic.

The translation of neoliberal ideas into EU policy in Brussels was, at the highest level, above all the work of two people, an odd couple indeed: Margaret Thatcher, prime minister of Great Britain from 1979 to 1990 and a convinced neoliberal, and Jacques Delors, a social-democrat. Their single greatest victory—despite their deep disagreement over nearly everything else—was the design and adoption of the Single European Market project, which then supplied the legal underpinning for the expansion of competition policy. The man who made this possible was Lord Cockfield,[11] whom Thatcher dispatched to Brussels as one of her close allies—"one of us," to use Thatcher's famous term—but with whom she subsequently broke. Yet the breach between the two proved fortuitous. "Much as I regret having to say so," Lord Cockfield wrote in his memoirs, "what emerged over the years was that the most powerful support I enjoyed in the Community was the Prime Minister's hostility."[12] Indeed, he added, "Her contribution consisted of trying to knock a hole in the bottom of the boat."[13]

The Revival of the European Idea

At the end of the 1970s the European project appeared becalmed. Commentators, historians, and statesmen agree that at the end of the 1970s the European Economic Community (EEC) was in the doldrums. A decade and a half of argument over British membership, the common agricultural policy, the multiple challenges of dealing with the two oil shocks, and other divisive matters had left the EEC exhausted. As Lord Cockfield recalled the scene in his memoirs, these difficulties "had brought the Community virtually to a halt."[14]

What sparked the revival of the EEC, and especially the European Commission, as a force for policy innovation?[15] After the conflicts of the 1960s and the exhausted passivity of the 1970s, there was a remarkable rebirth of optimism and enthusiasm on many sides. Several causes came together in the first half of the 1980s and drove Europe forward. The world recession caused by the two oil shocks began to fade, bringing new life to the EEC, and the anxiety over energy security that had followed the oil shocks began to pass, giving way to a greater focus on efficiency. "The flame was rekindled," writes one observer, "and the phrase 'relaunching the Community' came into popular use."[16]

Some authors stress the bottom-up movement that originated among a group of politicians who strove to revive the federalist project to create a political union. The group was led by the Italian statesman Altiero Spinelli and worked through the European Parliament, whose members in 1979 had become popularly elected.[17] Others point to the coincidence of three strong national leaders coming to power at about the same time (François Mitterrand, Helmut Kohl, and Margaret Thatcher), all of whom had their own reasons for backing a stronger Europe. There was also the accident of personality—in particular, the arrival in 1985 of Jacques Delors as the new president of the European Commission. Delors proved to be the most effective and visionary Commission president in the history of the European Union.[18]

For French authors, in particular, a major cause of the restart of the EEC was the pro-European convictions of Mitterrand, who began his presidency of the EEC with a pilgrimage to the various European capitals to rekindle enthusiasm. He found a kindred spirit in Kohl, and it was above all the partnership of these two leaders that gave new impetus to the EEC, beginning with the summit at Fontainebleau in June 1984. Delors paid tribute to Mitterrand as the chief catalyst: "He was the sole architect of the Fontainebleau Accord, without which the restart of 1985 would not have been possible."[19]

Yet another contributing cause, less noticed at the time but now considered to be highly significant, was the 1979 decision of the European Court of Justice (ECJ) in the *Cassis de Dijon* case.[20] It was a major step forward in the reinforcement of competition law as the indispensable basis for the Single European Market, and it affirmed the role of the ECJ as the principal ally of the European Commission in policing the implementation of the Single European Market project.

The *Cassis de Dijon* case was a landmark in opening the way for the single European market. The case involved cassis, a blackcurrant liqueur made in France. Mixed with white Burgundy wine, it makes a popular appetizer drink known as kir, after a certain clergyman, Canon Kir, who popularized it. A German importer had sought to market the product in Germany but was blocked by a national regulation that a "fruit liqueur" had to have an alcohol content of 25 percent or higher. The problem was that cassis had only 15 percent. The importer sued the German regulator, and the ECJ ruled in the importer's favor, thereby establishing a legal principle that was crucial for the single market. The court laid down the doctrine that any product that was lawfully produced and sold in one member nation could be sold throughout the EEC, and "any measure that now impedes, directly or indirectly, actually or potentially, free exchange within the Community" was ruled illegal. While the court recognized the possibility of exceptions for special circumstances, it placed the burden of proof squarely on the regulator.

"Nearly everything the European Union touches turns into law," trenchantly observes a scholar of European competition law.[21] This is one of the most remarkable features of the European Union. On most occasions, when the Commission prepares a directive, the ECJ backs up the Commission with its own verdicts. The decisions of the ECJ have generally been accepted by the national courts of the member-states and incorporated into national laws. As such, they are binding on the national governments. The process is lengthy—it generally takes several years for a member-state's complaint to reach the ECJ and produce a decision—but it has been decisive. The role of the court has been indispensable to establishing and maintaining the power of the Commission in promoting the single market. This has subsequently become a major factor in strengthening the single market doctrine in energy policy.

But not least as a cause of the revival of the European Union was the growing influence of neoliberal ideas, especially in the area of competition policy. This can be seen clearly in the genesis of the Single European Market project, and the role of British officials in launching it from Brussels.

Why the Single Market Program?

Granted that there was renewed interest in Europe in completing the unfinished agenda of the 1957 Treaty of Rome, why did it take the form of a high-priority push to complete the single market? There were other priorities. Indeed, in the "Solemn Declaration on European Union" signed at Stuttgart by the heads of government in June 1983, the single market came well down on the list of priorities, behind a long list of other policies such as monetary union and external strategies. And the declaration of the Fontainebleau meeting of the European Council in June 1984 did not even mention the single market, although it did focus on the free movement of individuals.

The single market may have been a subject of relative indifference on the Continent, but that was certainly not the case in Great Britain. The center of British interest was services, especially financial services. "You can see a lorry carrying goods stopped at the frontier," wrote Cockfield, who as Thatcher's envoy oversaw the creation of the Single Market Program. "But you cannot see a banking service or insurance stopped at the frontier."[22] Yet the Continental nations, especially France and Germany, "had a very illiberal approach and wanted to preserve it."[23] Hence Thatcher's choice of a successful businessman and senior civil servant to take the job. Thus began the historic partnership of Cockfield and the Commission president, Jacques Delors.

Delors and the Single Market

Delors was no neoliberal, but a Catholic socialist. Charles Grant, in his account *Delors—Inside the House that Jacques Built,* describes Delors as a rarity, "a successful socialist in an era of resurgent neoliberalism."[24] He was a European federalist through and through (hence his fervent belief in a common currency) and a staunch supporter of a stronger Commission. As he said more than once, "No move to integration can succeed without genuine institutional dynamism."[25] In short, Delors stood for everything that Thatcher disliked or distrusted about the EEC.

Yet they had more in common than might have appeared on the surface. They had both risen from modest beginnings, and thus on a subconscious level they understood one another. They shared a common idea of progress as something driven by industry and technology—hence the importance in their eyes of industrial policy. In the end, however, these beliefs made Delors more of an ordoliberal than a neoliberal. His attitude toward the single market policy was the prime example. Grant writes:

> Utilities such as Gaz de France and Electricité de France have always found a sympathetic ear in Delors's cabinet. The president never championed the Commission's plans to liberalize the gas and electricity markets, which by 1992 had stalled in the Council of Ministers. [*NB:* This jibed with Delors's general belief that Europe needed large companies if it was to hold its own in world markets.] Whatever some may say, I say 'Long live Euro-champions.'"[26]

Thus the paradox of the Delors decade, Grant concludes, was that "despite ten years of a French, socialist, and personalist president, the EC has become—across the whole range of its economic policies—more of a force for than against economic liberalism."[27]

So how did it happen that the single market became the flagship program of the Commission during Delors's presidency? It was not initially at the top of Delors's priorities. In 1985 Delors put economic and monetary union in first place, followed by the strengthening of the European Parliament.[28] But the Single Internal Market came to be the centerpiece of the Delors program and is now widely regarded as the main achievement

of the decade in which Delors was president of the Commission. How was it promoted to pole position in the Single European Act?

Arguably, it was British neoliberal thinking—the single most important part of that broad church known as Thatcherism—that provided the most important contribution to the development of Europe. But the individual who played the leading role was Arthur Cockfield, who, although he was an early member of the Thatcher team, would not have been called a neoliberal. And although he was sent to Brussels to implement a key neoliberal idea (the elimination of regulatory barriers to the free flow of goods, capital, money, and labor), Cockfield soon interpreted his mission in a far more expansive way. In the process, he broke with Thatcher, who became his active opponent and did not renew his appointment as commissioner after his first term.

Arthur Cockfield (later Lord Cockfield) rose from a modest background to take degrees in economics and law from the London School of Economics and then went on to distinguished careers in four different fields. He was a high official in the Treasury, a managing director of Boots (a leading chain of drugstores in Great Britain), and a member of Thatcher's cabinet for treasury and trade. But his fourth career, his crowning achievement, began in 1984, when he was nominated by Thatcher to be Great Britain's senior commissioner and vice president. In that capacity he became the close ally and collaborator of Delors, the new president of the Commission.

Cockfield's decisive contribution was largely forgotten over the decades, until the recent events surrounding Brexit caused his name to be revived and his contribution to be remembered. A frequent columnist in the *Financial Times,* David Allen Green, called Cockfield "the second most significant UK Tory politician of the 1980s."[29] Great Britain's problem, wrote Green bitterly in 2017, is that it "had a Cockfield to put the single market in place, but it certainly does not have one to take the UK out of the EU."

Gifted with near-perfect recall of even the most obscure document and supremely self-assured in his command of facts and figures, Cockfield was both admired and feared by his colleagues, and he was one of the few who dared to stand up to Thatcher. Cockfield's slow and deliberate delivery was easily parodied—it was said of him that he "spoke like a White

Paper."[30] Sir Roy Denman, the longtime EU ambassador to the United States and a lifelong admirer, wrote in Cockfield's obituary in the *Guardian:* "His conclusions would be remorseless in their logic; their presentation, in a slow, grave, deliberate voice, had the force of a glacier on the move. . . . He spoke with the authority of the Recording Angel."[31]

Why did Thatcher send such a man to Brussels as her chief negotiator on the single market? As Denman writes, "Cockfield was far from being regarded as a Euro-enthusiast. The prevalent view in Whitehall was that Thatcher had sent a dour and elderly Eurosceptic to clip the wings of an overweening bureaucracy."[32] Thatcher was initially enthusiastic about her choice. When Delors met with Thatcher and Cockfield at Downing Street in October 1984 to discuss Cockfield's assignment over dinner, it was Thatcher who made the case for Cockfield to take the internal market portfolio, and Delors was easily persuaded.[33] As Cockfield reflected later, "My success in the portfolio negotiations marked the high-water mark of my relations with the Prime Minister."[34]

But whatever their calculations may have been, Cockfield confounded everyone shortly after he arrived in Brussels. He became a whole-hearted convert to the European cause. For the next four years, Cockfield was Delors's most important ally and collaborator. It is widely acknowledged that the success of the Single European Market initiative was due above all to this highly productive alliance. To it Cockfield brought the same qualities—"the glacier on the move"—that had made him successful in his previous careers. He was efficient and persuasive, and above all, he knew what he wanted. As Cockfield wrote, with typical self-assurance, "I was not simply or primarily a politician. I had run a major British company and I had run it successfully; this was that sort of job and that was the way I wanted to run it."[35]

But there was more to Cockfield's conversion than met the eye. Denman hints at possibly deeper reasons in Cockfield's obituary: "Had Cockfield been born in France, with its respect for intellectual brilliance and the tradition of an authoritarian technocracy, he would have become one of the central pillars of the governing class. So his move to Brussels turned out to be an inspired choice, though at the time it did not seem like it."[36] It is hard to resist the thought that one reason behind Cockfield's "going native"[37]—as Thatcher famously put it in her *Autobiography*—was

that in Brussels he found himself in a congenial environment, in which his personality and gifts were respected and admired.

The Battle for the Single Market

"The term 'Internal Market' does not appear anywhere in the Treaties."[38] Cockfield explains that the original objective had been to create a single market for external matters—that is, a customs union. This was achieved in 1967. It had been assumed that once this was done, goods would circulate freely within the common market. But that did not happen. "Once the tariff barriers were removed it became evident that nontariff barriers remained as a very formidable obstacle. Moreover, despite the very categorical provisions of the Treaty, little or no progress had been made in important areas such as services, transport, and fiscal harmonization."[39] The European Commission had long been aware of this, yet in the atmosphere of the late 1960s and 1970s no progress was possible. "But in the early 1980s as the Community and the world as a whole emerged from the recession, the flame was rekindled."[40]

Cockfield did three things at the outset that created the conditions for his success in creating and putting through his program, which he called the Single Market White Paper. First, he obtained from Delors control over a wide range of sectors belonging to several different directorates. These included financial institutions and company taxation, the customs union, and indirect taxation. To Cockfield's pleased surprise, Delors not only agreed to this but offered him the entire industry portfolio as well. Cockfield carefully sidestepped "being lumbered with coal and steel" (as he put it), but he readily accepted Delors's offer, since the industry portfolio included all research and development and new technologies. Consequently, from the beginning of his tenure Cockfield had command of all the relevant branches that had to do with the internal market.[41]

The second innovation was to redefine the internal market as consisting not only of goods but also of services. This was a particularly good approach, because it guaranteed that Cockfield would have strong support from his home government and from British business: "There was enormous UK interest here because of our major stake in the service industries. Once one could demonstrate that there was no essential difference between goods and services one broke down the psychological barriers that had led to progress on 'goods' and stagnation on 'services.'"[42]

Cockfield's third innovation was to redefine the problem, by finding a single theme that would cover the literally hundreds of areas that constituted the European market, yet avoid vague phrases and empty platitudes. Cockfield's solution was to define his program around the elimination of obstacles. As he put it, "One ought not to be looking at freedom of movement *as such,* and certainly not at goods, services, people, and capital *separately,* but at the obstacles or barriers which prevented that freedom of movement." These consisted partly of physical frontiers: "As long as the frontiers are there they will attract controls: each control will be the excuse for some other control."[43] But in reality the greater problem was the impenetrable thicket of national standards and qualifications that defined in each member-state who could practice law or sell insurance or compete in a tender—or for that matter work as a plumber or an electrician. It was this jungle of restrictions on services that Cockfield now proposed to hack down.

Once he had created the framework for the White Paper, Cockfield went to work. "Delors left me to get on with it," recalled Cockfield.[44] Cockfield knew that if the 1992 deadline was to be met, most of the proposals needed to be approved by the Commission during Delors's first term (by the end of 1988). In the end, Cockfield, with Delors's steady support, very nearly met the target: of the three hundred or so proposals that made up the White Paper, the Commission reviewed and approved 90 percent. The Council of Ministers, which has the ultimate authority over the Commission's recommendations, lagged somewhat behind, yet it still managed to approve 50 percent of the White Paper's proposals by the end of 1988.[45]

Why was this approach so successful? Cockfield comments on the enthusiasm with which the draft White Paper was greeted throughout the Commission and then by the national leaders of the member-states. The single market was an idea whose time had come—or rather, come back. But skillful tactics were an important part of the story. Above all, Cockfield emphasized speed. He was aware that Delors had other priorities. In his inaugural speech to the European Parliament in March 1985, Delors had outlined four major issues that he proposed to concentrate on. Enlargement came first. The second was monetary union. The internal

market was only third. But in the spirit of the old adage that "he controls the agenda who writes the first memo," Cockfield and his team developed the proposals contained in the White Paper on the internal market so quickly that by the time Delors needed to put forward concrete proposals for the next Council meeting (scheduled for June 1985 in Milan), Cockfield's program was ready and the others were not. In this way, Cockfield relates, "the internal market became the Flagship of the Enterprise."[46]

Cockfield also understood the value of publicity, and he made sure that the media followed his progress. The result was a steady flow of newspaper articles describing "the Cockfield document" as a "prodigious program" (in the *Times*), and Cockfield himself as "Great Britain's most popular export to Europe for years" (in the *Guardian*).[47]

But in the torrent of favorable media coverage there lay a danger. One can well imagine how the following statement in the *Financial Times,* when read back in Downing Street, would raise hackles: "The White Paper deserves support [because] the Commission has rightly exploded the fallacy that Europe can somehow enjoy the benefits of a market of 320 million people without substantial concessions of national sovereignty."[48] Yet it was precisely such "concessions of national sovereignty" that Thatcher was determined to avoid. She wrote in her *Autobiography:* "Unfortunately, [Cockfield] tended to disregard the larger questions of politics—constitutional sovereignty, national sentiment, and the prompting of liberty. He was the prisoner as well as the master of his subject. It was all too easy for him, therefore, to go native . . . and to move from deregulating the market to re-regulating it under the rubric of harmonization."[49]

In pointing to the contradiction between reregulating the market to deregulate it—a particularly important issue in the reform of the gas market that followed—Thatcher had put her finger on a fundamental tension in the Single Market Program. The potential conflict came into the open over the issue of majority voting versus unanimity. For years the issue had been finessed under the so-called Luxembourg compromise, a gentleman's agreement that majority voting would be the rule unless one of the members felt that some essential interest was at stake—in which case it was the informal understanding that the member concerned would enjoy a de facto veto. But Cockfield had come to feel that the Luxembourg compromise was no longer viable: "Majority voting on Internal Market proposals was an absolute necessity if the program was to be completed and completed on time."[50] Delors agreed. For him, the gentleman's agreement was being abused: "Out of 100 decisions gathering dust on the Commission's shelves, only 45 required unanimity. Fifty-five were held up because of the invidious effect of the Luxembourg compromise."[51] As a consequence, both men had come to believe that "'majority voting' required a treaty amendment; and the treaty amendment required an Intergovernmental Conference."[52]

But majority voting was only the beginning. Cockfield had also come to believe that dismantling the obstacles to the single market required a strong state—or at least a strong Commission. This, as far as Thatcher was concerned, was the camel's nose of European federalism, and with a Brit in the role of the camel. For Thatcher, who was opposed to all of this, and above all to a new European treaty, it was too much.

The issue came to a head in Milan in June 1985, barely half a year into the joint tenure of Delors and Cockfield on the Commission. As the heads of state and their delegations converged on the city for the meeting of the Council of Ministers, the tension was palpable. In a Council meeting, the pressure is directly on the heads of state. In the nice phrase of Stephen Wall, who was part of the British delegation and later served as the British ambassador to the European Union (or to use the official term, as the permanent representative): "The European Council is like a boxing match: the seconds are out of the room and the combatants slug it out, being cooled down, fired up, congratulated, or cajoled by the men and women who hold the proverbial towel and sponge in between rounds."[53]

So it was at Milan. The British came to Milan believing they had support for a gentleman's agreement that would not require a new European treaty. But Kohl and Mitterrand had prepared a secret position paper calling for a new treaty, which in turn would require an Intergovernmental Conference to discuss a draft. The Italians, who had secretly conspired with the French and the Germans but did not show their hand until the last minute, came out in support of the Kohl-Mitterrand proposal. The British still thought that they could block the plan by invoking the gentleman's agreement, but at that moment Bettino Craxi, the Italian prime minister and president of the Council, sprang a surprise. Breaking

with precedent, he called a vote. This had never been done before in a Council meeting, but Craxi justified his innovation by calling it a procedural question. The Kohl-Mitterrand proposal passed handily by a wide majority, supported by all except the British, the Danes, and the Greeks. Suddenly, the British realized that they were isolated, their strategy in shreds. Swallowing her rage—at least in public—Thatcher joined the majority and voted for the proposal.[54] "I realized we must make the best of it," Thatcher wrote in her *Autobiography*. "I saw no merit in the alternative strategy . . . of the so-called 'empty chair.'"[55]

But in private, her fury was "Krakatoan."[56] Her rage and humiliation were shared by the rest of the British side. According to Wall, "British officials had not foreseen the ambush. It came as a slap in the face for Great Britain . . . the Italians had blindsided us."[57] The consequences of Milan were far-reaching. "Now Pandora's Box had been opened," writes Charles Moore in his magisterial biography of Thatcher. "Milan helped confirm Mrs. Thatcher in her Eurosceptic instincts."[58]

The coup in Milan demonstrated the tensions not only between Thatcher and the other Europeans, but also among the British. Sentiment among British officials in the mid-1980s, even within the Thatcher camp, was very far from the Euroscepticism that it later became. According to Wall, the rest of Whitehall shared Thatcher's enthusiasm for the single market, but not necessarily her suspicion of the European project as a whole. In a document called "Europe—the Future," written for the meeting of the European Council at Fontainebleau in June 1984, the larger global mission of the single market was clearly laid out:

> We must create the genuine common market in goods and services which is envisaged in the Treaty of Rome and will be crucial to our ability to meet the US and Japanese technological challenge. [The aim was] to harmonize standards and prevent their deliberate use as barriers to intra-Community trade . . . and liberalizing trade in services, including banking, insurance, and transportation of goods and people.[59]

This was clearly neoliberal language, injected directly from Whitehall into the European process. It brings us back to the larger questions of this chapter: What was the impact of British neoliberal thinking on the implementation of the Single Market Program, and by whom was it conveyed? What was the direct role of British players, and where did they come from? To what extent did their various contributions mirror actual British experience with energy reform?

The Brits in Brussels: A Thin Red Line

So far we have looked mainly at the direct connections between the Anglo-American sources of the neoliberal rebirth and their impact on the European Union via Thatcher and Cockfield and the Single Market Program. But to fully appraise the British contribution, one must look at the indirect influences as well.

Cockfield in his memoirs was bitterly critical of the attitudes of his own countrymen toward the EEC. "They recall little of its history," he wrote, "[they] know nothing of its philosophy, and even more striking is the virtually complete absence of hard factual knowledge."[60] He was speaking mainly of the politicians but also of officials in the Foreign Office. But with all due respect this was clearly an exaggerated view, marked no doubt by Cockfield's own disenchantment with Thatcher. Beginning with the United Kingdom's accession to the EEC in 1973, British officials began to migrate to Brussels. Some were Whitehall officials; others simply took jobs in the European Commission by a process of self-selection that reflected a diversity of motives, and stayed on to make careers there. One of those was Philip Lowe, who joined the Commission shortly after graduating from Oxford and went on over four decades to become director-general for competition (2002–2010) and energy (2010–2013), the key period when the liberalization of Europe's gas markets clashed head on with Russian expectations. An accomplished linguist who was equally at home in English, French, and German, Lowe was initially attracted to Brussels by his love of foreign places and cultures and by the appeal of the European idea. Another example from the same generation is Jonathan Faull, a lawyer who joined the Commission staff in 1978 after earning a master's degree in European studies at Bruges. Faull, a specialist in competition law, initially served in Cockfield's cabinet and then rose to become deputy director-general for competition in the 1990s, before occupying a host of other leadership positions.[61] In the 2000s, it was said in Brussels that Lowe

and Faull were two of the most talented and influential directors in the Commission. Commenting on the extensive British and American influence, especially in competition law and policy, Faull said:

> Yes, there was strong British influence, and yes, because of key individuals, such as myself and Philip Lowe, not to mention the early commissioners. But more than that. Many people working in the Commission and specifically DG-Comp [Directorate-General for Competition] had been educated in England. In the early days, all the literature on competition law came from England—and from the United States. Conferences on competition law tended to be held in the U.K. or the U.S. The whole area of competition law was a very English-language environment. That is no longer the case today—the continentals have caught up; every university in Europe has courses in competition law today.[62]

There were never many people such as Lowe and Faull in the European Commission—in any case, there were informal quotas that limited the number of citizens from any one member-state—but they made up an increasingly influential part of the professional staffs of the commissioners and directors-general. The flow of such people dwindled after the 1980s and had practically ceased by the 1990s and 2000s. Lowe, looking back on his own career, commented: "The number of officials of U.K. nationality in the Commission at senior levels was much more important in the 1980's and 90's than subsequently. There were several reasons: lukewarm support for the EU institutions from successive UK governments, Eurosceptic tabloids, higher salaries in London than Brussels, and a decline in foreign language learning in England as English became the dominant world language."[63]

Visualize instead a more diffuse and subtle process, as two successive generations of Brits come to Brussels. Strikingly, there are few economists among them, and no energy specialists. What they bring is not drawn directly from Chicago or the United States, but from an emerging neoliberal consensus in the Anglo-American world, focused not just on liberalization and the internal market but more broadly on globalization and privatization.

Lastly, one must look beyond the top political appointees to the career civil servants—that is, the heads of directorates rather than commissioners or vice-chairmen. An important example is Adrian Fortescue, who had been one of the first British officials to arrive in Brussels after Great Britain's accession in 1972.[64] A diplomat who had studied classics at Cambridge, Fortescue was also well versed in economics, having earned a degree in business administration at the London School of Economics. After serving under Lord Soames, the first UK commissioner, Fortescue returned to Brussels as Cockfield's *chef de cabinet*. It was Fortescue who was responsible for coordinating the many components of the White Paper on the Internal Market and gaining the cooperation of the other *chefs de cabinet*. Cockfield paid tribute to Fortescue in his book on the European Union: "Fortescue was able to secure virtually total agreement among the *chefs de cabinet* both to the White Paper and the 300 proposals it contained before the matter was referred to the Commission again." The proposal, Cockfield added, "could have taken many months, if not years," had it not been for Fortescue's diplomatic skill and his knowledge of the inner workings of the Commission.[65]

At this point we change gears: from the uploading of the internal market program, with all its antecedents, we turn to the downloading that followed—that is, the process by which the proposals contained in the White Paper were transposed into national law and then enforced by a combination of actions by the Commission and the ECJ. This second phase, which was particularly important in the translation of neoliberalism into the gas sector, proved to be lengthier than the first and more difficult. If one dates the beginning of the first phase of the European revival from the symbolic *Cassis de Dijon* decision of 1979, the ideas contained in the internal market program took thirteen years before they were fully approved by the Commission and the Council in 1992. But the phase of translation into national law and regulations, particularly in the area of electricity and gas, took another fifteen years, through to the adoption of the Third Gas and Power Directive in 2007. And whereas the progress of the White Paper was propelled by favorable winds of all sorts, the second phase faced strong headwinds in the form of determined opposition by national governments and established interests.

By the end of 1988 Cockfield was gone. His legacy was the Single European Market project. But at this stage it had not yet been translated

into policy, nor had it yet been applied to energy. At this point two things happened. First, competition policy became the leading Community (as opposed to national) policy. Second, competition policy tools were brought to bear on energy matters by the Commission—precisely because this is where the Commission (as opposed to national governments) had power.

The main roles fell to Peter Sutherland, the Irish commissioner who oversaw the competition directorate from 1985 to 1989 and whose term thus overlapped with Cockfield's; and Leon Brittan, who succeeded Cockfield as vice-chairman, taking over from Sutherland as commissioner for competition affairs. Both Sutherland and Brittan demonstrate the visible continuity of the English-speaking neoliberal influence in Brussels in the second half of the 1980s and early 1990s. But whereas Cockfield's main objective was the creation of the concept of a single European space, Sutherland and Brittan turned the concept into a powerful weapon, using competition law as their instrument.

The two men were very different in personality and in their relationship to Delors, yet both were highly effective.[66] Both were trained as lawyers. Sutherland had been attorney general of Ireland before he was sent to Brussels; he went on to become chairman of the General Agreement on Tariffs and Trade (subsequently renamed the World Trade Organization) and to have a distinguished career that included the chairmanship of BP and Goldman Sachs. "Sutherland asked Delors for the competition job," Grant relates, "because a close reading of the Treaty of Rome had shown him that, in theory, the Commission had more power in this field than in any other." Sutherland saw the ECJ as the most important European institution. "I saw the law," Sutherland used to say, "as a way of promoting federalism and the Court of Justice as the most important EC institution." Grant adds: "During Delors's 10 years as president, the Commission increased its powers over competition policy more than any other area. . . . By the end of his first term as president of the Commission, Delors had grown as close to Sutherland as to any of the commissioners."[67]

Brittan had a very different profile, illustrating once again the diverse paths by which British (and, in Sutherland's case, Irish) players entered the Commission structure.[68] He had been named to the British Cabinet as chief secretary of the Treasury in 1981 and served as a key aide to Geoffrey Howe.[69] Although he had the reputation of being anti-European, he proved a doughty champion of European interests. Born in the first month of World War II, the younger son of Lithuanian Jewish immigrants, "he was emotionally as well as intellectually European in his perspective."[70]

Brittan proved just as liberal and forceful in Delors's second term (1989–1992) as Sutherland had been in Delors's first. Surrounded by such colleagues, writes Charles Grant in his book on Delors's Commission, "Delors sometimes had to accept more liberal policies than he would have liked." Grant adds, "Delors had more respect for Brittan than any other member of his second and third commissions and describes him as "one of the most brilliant men I have met."[71] Brittan came to Brussels as a close ally of Thatcher, but "he too went native, in that he came to believe in a tighter union."[72]

More than any other figure at the key juncture of 1989–1992, Brittan played the lead role in the Delors Commission in turning the Cockfield White Paper into an explicit energy policy based on competition and modeled explicitly on the British example. In 1991, Brittan gave a key speech that acknowledged the direct influence of the British example of privatization as it had developed in the 1980s:

> Of course, I was not operating in a vacuum. The privatised but regulated gas and electricity industries in the UK offered one example of the introduction of a more competitive regime. Indeed, the Commission carried out a comprehensive enquiry into the competition policy implications of the new British arrangements and we asked for and obtained several significant changes in what was proposed.[73]

Both men were widely recognized for their intelligence and ability. Member-states were often criticized in those years for not sending their best and brightest to Brussels. In this group Sutherland and Brittan stood out. According to Grant, "The only stars of the first Commission were Cockfield and Sutherland. In the second, only Brittan could match Delors intellectually."[74] Both were perceived as forceful men, and powerful

voices for liberal policies: "Peter Sutherland . . . was one of the few commissioners who stood up to Delors. . . . Brittan proved just as liberal and forceful."[75]

Armed with the Single Market Program as a road map, the two men made vigorous use of the antimonopoly provisions implicit in the Treaty of Rome, pushing into many areas beyond state aid. Dawn raids now struck companies suspected of price-fixing: in 1986 fifteen polypropylene manufacturers were fined 60 million ecus (40 million pounds). In 1988 Sutherland went after the telecommunications industry, breaking up several public monopolies. In the same year he attacked mergers in the airlines industry, notably forcing British Airways to give up part of the routes it had absorbed when it bought out a competitor, British Caledonian.[76] In none of these cases did the Treaty of Rome actually give the Commission these wide powers, but Sutherland and Brittan seized upon Article 90, which allows the Commission to bypass the Council of Ministers in certain cases and to act by decree; Article 85, which bans anticompetitive agreements; and Article 86, which bans the abuse of dominant market positions.[77] Not for nothing did Delors nickname Sutherland *le petit shériff.* As for Brittan, "the Englishman's qualities, reinforced by an impressive *cabinet,* made him the most influential commissioner other than Delors."[78]

Where the big utilities were concerned, however, particularly in gas and power, Delors was less than wholehearted in his support for the reformers. As a result, the two competition commissioners gave more attention to other monopolies, particularly telecommunications, than to energy and did not push hard for action on gas and electricity. If they had, Delors might have taken stronger action to oppose them. Thus, the Germans were able to turn back the European Commission's early regulation on gas and power. One reason was the close friendship between Delors and Kohl. One of Delors's French aides told Grant, "On many big issues we've worked to defend German interests." Grant goes on: "Thus when Leon Brittan, then the competition commissioner, tried to cut Germany's subsidies to its coal industry, Delors blunted his attack. Similarly Delors helped to exempt the Treuhand Anstalt (the body responsible for privatizing East German industry) from the full force of

EC rules on competition."[79] Thus it took another decade before the rules and regulations developed in Brussels were applied successfully to the German utilities, as we shall see in the next chapter.

This chapter has recounted the origins of the migration of the neoliberal revolution of promarket ideas that traveled from Britain in the 1980s to Brussels and the rest of the EU. The centerpiece of the movement was the Single European Market project, catalyzed by Delors and a team of British and German EU officials in the European Commission, with the strong support of the heads of state of France, Germany, and (with reservations) Great Britain. Together these people restarted the process of creating the EU through a combination of increased regulatory authority in the Commission, backed by the European Court of Justice and the national courts. The 1980s were a rare time of alignment of national priorities and personal leadership in both Brussels and the member-state capitals, and the result was a flowering of liberalization measures, particularly in the area of competition law.

The influence of the neoliberal renaissance was conveyed to Brussels by a team of individuals who came to Brussels by many different paths, but whose background, both direct and indirect, was predominantly Anglo-American and who worked in Brussels as part of the Delors-Cockfield team. Thus a set of ideas and concepts that had formed the core of Thatcher's economic policies was transplanted to the Continent from Thatcherite Britain. The result was a wholesale challenge to the traditional statist orientation of the European nation-states and its displacement by a set of ideas emphasizing openness, competition, and marketization. These ideas were at the core of the Single European Market doctrine, which was the greatest achievement of the Delors Commission.

However, the translation of the White Paper into energy policy was delayed for a decade and a half by the staunch resistance of the member-states and the established national utilities. Indeed, the battle was not truly joined until the late 1990s. That is the subject of Chapter 7.

CHAPTER 7

Brussels

Marching to Market

Two battles broke out on the gas front as the result of the increasingly active policies pursued by the European Commission. The first was the conflict that took place in Western Europe, chiefly in Germany, between the mid-1990s and the end of the 2000s, culminating in the defeat of the established utilities and the victory of market forces. The second confrontation was between the Commission and Gazprom, which began in 2011. In both of these battles the lead was played by competition law and its application to energy. In this chapter we look at the process by which the Commission gained the power to play this role, as a result of which the old order of the European gas industry was overturned.

As we saw in Chapter 6, in 1985 Jacques Delors and Lord Cockfield launched the Single European Market project, the centerpiece of which was a White Paper with three hundred specific proposals aimed at overcoming the obstacles in the way of the single market. However, the White Paper contained no mention of energy. How, then, was the White Paper on the Single European Market turned into an energy program and then into the Gas and Power Packages, despite the opposition of established companies and several member-states? Why was the industry so opposed to reform? What caused the Commission to persist? What effect did the Commission have in driving the changes that have taken place in the European gas industry, as opposed to other objective forces (chiefly economic