

Rachel Guyet - 1st December 2021

The impact of the energy price crisis on vulnerable households: a new test for EU unity?

The energy price spike hitting Europe – and the world – in the winter 2021-2022 has dramatic consequences for the purchasing power of fragile consumers while other actors (fossil fuel suppliers and even the state through energy taxation policies) may see their revenues increase¹. Consumers who are struggling to pay their energy bills are going to spend a higher share of their income on energy costs because of the skyrocketing prices of gas, electricity and petrol that also affect the price of other essential goods, including food. According to the EU Energy Poverty Observatory, 82.3 million Europeans are spending more than twice as much of their income on energy expenditure compared to the national average in 2018 in the EU27 + UK². Vulnerable European households have been suffering under the health crisis since 2020 and their difficulties are now worsened by this new energy price crisis. Clearly, they need short term support to cope with the current price increases but long-term structural action is also needed to protect them against the next crisis. This will test the strength of EU unity considering the distribution of competences between the EU and the Member States with regard to the energy sector, the support offered to vulnerable households and the existing tensions relating to many energy-related issues such as climate targets or green taxonomy. Therefore, the current energy price crisis is questioning the ability of the EU to coordinate emergency measures to alleviate the burden of the price hike in the short term but also to better address social justice in the long term within the framework of its decarbonisation policy.

Vulnerable households are affected by the complex causes of the current energy price crisis

According to Eurostat, energy prices in the EU depend on a broad “range of factors relating to different supply and demand conditions, including the geopolitical situation, the national energy mix, import diversification, network costs, environmental protec-

tion costs, severe weather conditions, or levels of excise and taxation³”. Currently there is a combination of exceptional factors such as the high gas demand due to the economic recovery and unfavourable weather conditions, together with structural causes that have long term implications for vulnerable consumers⁴. When the first directives on the liberalisation of the electricity (1996) and gas (1998) markets were adopted, consumers were promised energy price decreases, thanks to market competition, a promise that remains largely unfulfilled. In Germany between 2000 and 2016, gas prices increased by 74% while electricity prices increased by 102% over the same period⁵. In France, the prices of electricity and gas kept increasing between 2011 and 2020, the former by 41% and the latter by 23%⁶. However these energy price increases have not been compensated by increases in income. On the contrary, in 2020 the average wage in the EU decreased by 4.8%⁷ with Croatia and Slovakia being in the worst position. This has exacerbated the so-called scissor effect between price and income. The high EU dependency on gas imports combined with the volatility of the wholesale market price and lack of alternative sources, has created a mismatch between supply and demand⁸. In such a context, the adjustment variable is the price which affects the most modest households first. The World Bank expects an average energy price increase of 80% in 2021 compared to 2020⁹.

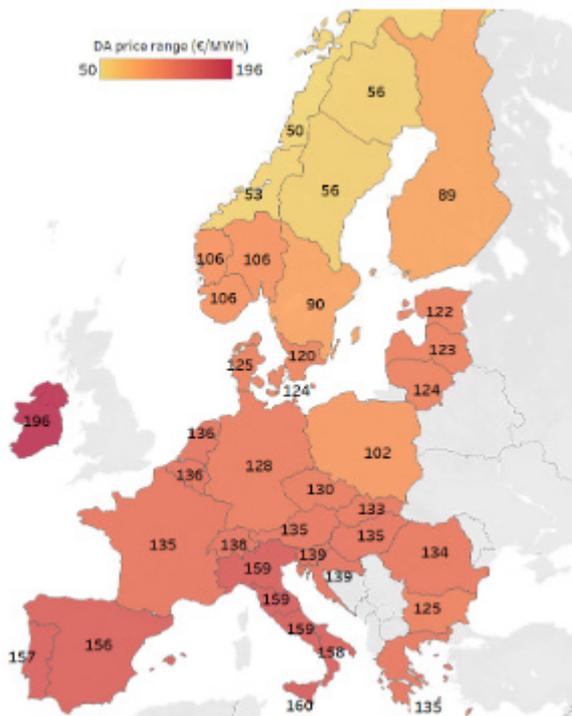
Another structural issue also relates to the way energy decarbonisation is funded. In a lot of EU countries, the choice was made to fund low carbon energy policy by taxes levied from the energy bills of each consumer. The share of the different taxes was the highest in 2020 in Denmark, Germany, Spain and Portugal as illustrated in the Eurostat graph [here](#).

Where the share of taxes levied on energy bills is high, citizens with modest incomes living in “thermal sieves” and using inefficient appliances consume more energy while facing difficulties in heating their homes properly or in paying for energy¹⁰. Thus,

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modest households are disproportionately contributing to taxes that are supposed to be reinvested in renewable energies – from which they can't benefit because they don't have the investment capacity or are tenants - and are contributing to funding social programmes that are supposed to support them but often miss their targets. Vulnerable consumers living in Southern European countries and Ireland where electricity generation depends on gas are facing an even graver situation, as illustrated in the map.

Average electricity prices for bidding zones in Europe in September 2021 (€/MWh)



Source: ACER based on ENTSO-E

During the lockdown periods, public and private actors made the decision to guarantee access to energy to all even if households were faced with bill arrears. Disconnections were banned in most EU countries. Price freezes, payment deferrals and income support were the main measures to be implemented. What lessons have been drawn from this extraordinary situation to cope with the current energy price crisis?

Short term support schemes

After intense debates and as early as October 13, 2021 the European Commission drafted a toolbox¹¹ to support Member States in implementing short term measures to shield consumers. Several Member States didn't wait for the European Commission to give the go ahead to act, but the toolbox's purpose here was to give legitimacy to national decisions and

represent incentives for those Member States that didn't react early. The EU toolbox was not controversial because it supported temporary actions targeting vulnerable households and that complied with EU rules.

In October, four main temporary and redistributive actions were taken to alleviate the pressure exerted by the price hike on the most vulnerable households, although the definition of this category varies from country to country:

- **income support** in the form of financial transfers to provide immediate and short-term relief to modest and vulnerable households was used by several European countries such as in France, Belgium, Latvia, Greece and Czechia. Energy vouchers, lump sums, monthly subsidies targeting low-income households, the extension of existing social tariffs were introduced quite early¹²,

- **temporary tax reductions**: considering the cost structure of electricity charges, reducing taxes offers a quick fix to lift the burden from electricity consumers. VAT reduction was used in Spain as early as summer 2021 but also in Italy and Czechia. Germany decided to reduce its EEG levy by 43% from January 1, 2022¹³ while Slovakia lowered some of the charges¹⁴;

- **a price freeze** was introduced by the French government on regulated gas prices until the end of 2022 and the next increase in electricity charges will be limited to 4%, thanks to a tax decrease¹⁵,

- **a disconnection ban** is a traditional consumer protection measure against energy vulnerability. Many EU countries had already imposed winter disconnection bans or have done so during the pandemic. In November 2021 Luxembourg considered a disconnection ban for the first time¹⁶.

- Fewer initiatives have been taken to address gasoline and diesel pump prices, except in Croatia, Hungary and in Portugal.

Though support is welcome, it is not sustainable - either for the households who need to be shielded against volatile prices over time, or for public finances when large amounts of money are being spent to indirectly subsidize fossil fuel consumption, neither is it sustainable for promoting a clean energy transition. This crisis is a reminder that energy is a source of injustices in Europe that needs to be addressed in a

more systemic way if the EU is aiming for a just transition.

A long-term EU coordinated approach?

Member States quickly agreed on the toolbox drafted by the European Commission to mitigate the immediate effects of energy price surges through redistributive tools to quell social discontent. However, they face greater difficulties finding a compromise with regard to more structural measures aimed at shielding all consumers (residential and industrial) - including the most vulnerable ones, from further price volatility and uncertainty. Finding a collective answer that addresses both the principle of social justice and the EU energy transition is the main challenge. If climate experts welcome high energy prices as a signal for more climate action and change in behaviour patterns, others question the unequal distribution of the costs and benefits of such a climate instrument if disconnected from its social dimensions. This highlights a key challenge for EU climate policy and action for social justice. In addition to the current divisions on taxonomy and the many other divisions regarding the recovery funds, there is no aligned position on the structural measures needed to address such systemic issues among the political parties in the EU Parliament and among the Member States.

There is a line of division existing between those countries supporting short term emergency measures only and others calling for mitigation measures to be combined with a deeper reform of the energy market. Another rift exists between countries blaming decarbonisation and the EU-ETS for the current crisis and others calling for the EU to fast track energy transition. The former case involves a small group of countries composed of France, Spain, Italy, Greece and Romania calling for a review of the energy market mechanisms to introduce more stability in the retail market and decouple gas from electricity prices and an opposing group of 10 countries (Germany, Luxembourg, Denmark, Finland, Ireland, Estonia, Latvia, Austria, Sweden and the Netherlands) reluctant to interfere in the design of internal market mechanisms arguing that the current crisis is exceptional. The second line of division runs between Central and Eastern European countries (Poland, Romania, Czechia and Hungary) that blame EU-ETS for

price increases and the above group of countries, plus Belgium and Portugal, which regard the deployment of renewable energies as an alternative solution to the current crisis¹⁷. If the European Commission acted quickly to publish its toolbox to support the short-term redistributive actions to help vulnerable consumers, attempts to find long-term solutions to ensure security of supply and affordable prices reflect strongly embedded diverging interests among Member States. As a way towards a compromise, the European Commission agreed on investigating gas and electricity market design, uncompetitive behaviour, on examining the EU-ETS and on reviewing energy taxation directive to align it with the objectives of the EU Green Deal¹⁸.

Indeed, voices have been raised to look into how the lever of the taxation system can be used to make energy prices paid by households fairer and more acceptable. Companies, experts and consumers' associations call for the EU and Member States to either share the burden of subsidies for renewable energy across all fuels or to shift it to general taxation so that electricity is not the only sector bearing the brunt of renewable deployment. This revision might be welcome in terms of equity if it is designed with the aim of creating more social justice and acceptance and avoiding any regressive impact on vulnerable households. This means that such a transformation needs to be designed in combination with other measures (e.g. retrofitting, energy saving, social, technical and financial support) to shield vulnerable consumers in the long term. The new Social Climate Fund amounting to 25% of carbon market revenues from EU-ETS, is intended to represent the main compensatory mechanisms for increased carbon prices. It represents a positive step towards alleviating the burden of climate action borne by the most vulnerable households. However, it might not be sufficient to protect them from the consequences of higher prices of energy and other goods and services in the long run. Nonetheless, the transition pathway can only be just and socially and politically accepted if climate instruments are driven by the principle of social justice. As illustrated by the diverging interests above, there is a long way to go before the EU and the Member States decide that social justice is a deciding factor surrounding climate action and is not merely an instrument for short term compensatory and redistributive mechanisms.

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