



OPINION

European Economic and Social Committee

Energy prices

Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions – Tackling rising energy prices: a toolbox for action and support
[COM(2021) 660 final]

TEN/761

Rapporteurs: **Thomas KATTNIG, Alena MASTANTUONO, Lutz RIBBE**



Referral	European Commission, 01/12/2021
Legal basis	Article 304 of the Treaty on the Functioning of the European Union
Section responsible	Transport, Energy, Infrastructure and the Information Society
Adopted in section	02/02/2022
Adopted at plenary	24/02/2022
Plenary session No	567
Outcome of vote (for/against/abstentions)	193/10/7

1. **Conclusions and recommendations**

- 1.1 The analysis by the Commission shows that the most intensive impact on the energy price rally comes from the sharp global increase in the demand for gas and was further pushed by the upward economic recovery, tightened supplies to the EU, lack of investment because of austerity policy after the financial market and economic crises and delayed infrastructure maintenance because of the pandemic. In addition, electricity prices also increased because of seasonal weather conditions (low water and wind over summer) which resulted in lower production of renewables in Europe. The contribution of the price increase to the Emission Trading System (ETS) was only limited.
- 1.2 The EU is on its way to deliver the 2030 climate targets that will lead us to the climate neutral economy by 2050. Besides the huge investments required by the transition, it also requires an adaptation of the whole energy ecosystem. With the push for an exit from fossil and – in some Member States – nuclear energy, the situation narrows the availability of other sources and strengthens dependence on those few that remain. This renders the European energy system more vulnerable, mainly in terms of volatility in prices, and needs a quick reaction in order to ensure a stable and predictable energy price environment.
- 1.3 The current energy price crisis would not hit European citizens and companies so hard if Europe was not so highly dependent on imports of fossil fuels. Certain countries exploit this dependency for geopolitical purposes. As a result, European businesses and consumers suffer. Most Member States have still not succeeded in reducing this dependency although the Commission defines this goal, amongst others such as putting the consumer at the centre of the energy system, as one of the strategic objectives for the Energy Union. In both regards, European energy policy is lagging far behind its own ambitions.
- 1.4 Because of growing electrification needs, generally accepted as a key vehicle for delivering on Europe's decarbonisation objectives, Europe needs significant investment in sustainable zero and low-carbon energy sources. This underlines the need to maximise efforts to increase the share of renewable energy, which could have a price-depressing effect and will certainly increase the EU's energy autonomy (less dependent on regimes that use energy sources as a geopolitical leverage).
- 1.5 National regulators need to play an active role in addressing consumer concerns of all kinds, and proactively inform consumers of their rights in the current high-price phase. Likewise, when setting tariffs, suppliers must be prompted to ensure that stable tariffs continue to be available to consumers and not only so-called "floater" tariffs, which reflect developments on the exchanges.
- 1.6 The EESC agrees with the Commission that measures to be taken in relation to rising energy prices may not undermine climate policy efforts. Therefore, those who are affected by price increases should definitely be supported, for example by enabling them to realise energy-saving measures, to participate in the generation and use of renewable energies on their own or in communities, and thus to benefit from lower prices of low and zero-emission energy sources.

- 1.7 The EESC appreciates the direct financial support, as well as the tax-based instruments, as the most effective and immediately disposable measure, helping vulnerable entities. At the same time, it supports a creation of specific Member State solutions, in response to the actual conditions in individual countries e.g., preventing the disconnection of energy supply during the cold season, long term instalment plans and using different tax policy instruments in them.
- 1.8 The EESC not only supports emergency measures to avoid drastic social consequences, but it is strongly in favour of market evaluations which test the behaviour of actors on the energy market. At the same time, the EESC points to the Union's shared values regarding services of general economic interest within the meaning of Article 14 of the Treaty on the Functioning of the European Union (TFEU), as set out in Protocol No 26 on services of general interest annexed to the Treaty on European Union (TEU). It could lead to more efficiency and the elimination of market failures. More effective market control by authorities is needed. In this context, the option for EU Member States to buy gas and oil jointly is worth considering, especially in light of recent events in Ukraine which have highlighted the need for the EU to enhance its ability in securing energy supplies when faced with a geopolitical crisis.
- 1.9 Also, improvements in the transmission grid system through the expansion of interconnectors and a better developed storage infrastructure are needed.
- 1.10 Incentives are needed to motivate households and businesses to acquire energy saving products and technologies, and produce the energy themselves. Direct assistance to those in need must be "targeted" and not "across the board". It must reflect the social dimension and not hinder the realisation of green transformation. A time-limited grant (e.g., for the first 300 kWh of electricity per person and household) up to an income limit to be defined, could be considered. Direct assistance should also be granted, below a revenue ceiling to be defined, provided that no affordable alternative solution is available in the respective situation.
- 1.11 The current price crisis also provides opportunities. It makes investment in European renewable sourcing and energy saving measures more attractive. However, many citizens cannot afford these investments. Specifically designed support programmes on a Union, Member State, and regional/municipal level are needed to enable citizens to fulfil their role as active consumers as provided in the Clean Energy Package, and benefit from decreasing renewable energy costs.
- 1.12 The EESC stresses the important role of energy providers as key players concerning the availability of services of general interest, and states that the change in the energy market design in the last 20 years has left Member States with fewer political instruments to tackle rising energy costs. The current energy market design seems to have shortcomings in reacting to price volatility and in offering benefits to small renewable energy producers and all consumers. The EESC therefore asks the European Commission to come up with a proposal that will offer an effective response to these shortcomings and fit the green transition.

2. Background, facts and context (as given in the Communication by the Commission)

- 2.1 The European Commission released its communication on how to tackle the increase in energy prices. The reason for its publication, which takes the form of a toolbox, is the sharp short-term

increase in energy prices, which have a negative impact on the post-COVID recovery and the EU population's wellbeing.

- 2.2 The communication on energy prices offers a set of measures on how the EU and the Member States should react in this difficult period of time. It includes a set of immediate, short-term and medium-term measures. These include both emergency and compensating tools, as well as investments and institutional and procedural changes; the key target groups are households and small and medium sized enterprises. The toolbox provides a co-ordinated approach to protect those most at risk.
- 2.3 From 2019 to September 2021, the increase in wholesale gas and electricity prices amounted to 429%, or 230%, respectively as an EU average. The retail price jump has so far been much more moderate (14%, or 7% respectively), however, the short-term prediction for this winter shows that they could follow wholesale prices as well. This development would mean a robust shock for household budgets and firm cash flow, and requires legitimate policy action, despite the fact that predictions say the market should stabilise by around April 2022 for gas and 2023 for electricity.
- 2.4 However, the large price differences are, to a large extent, the result of the market. This is also partly true for the ETS where we have seen similar price jumps. In the period of January 2020 to November 2021, the price of EUA allowances has increased from circa 20 EUR/tonne to circa 75 EUR/tonne.
- 2.5 The analysis by the Commission shows that the most intensive impact on the price rally comes from the sharp global increase in the demand for gas, and the price increase is only to a small extent due to EU ETS development. The increased demand for gas was pushed by the upward economic recovery, tightened supplies to the EU and delayed infrastructure maintenance because of the pandemic. In addition, electricity prices also increased because of seasonal weather conditions (low water and wind over summer) which resulted in lower production of renewables in Europe.
- 2.6 The Commission writes of "temporary" energy price increases and provides a good analysis supporting this point. The Commission also notes that the trend is completely different for renewables compared to fossil fuels, because costs have been falling continuously for years.
- 2.7 There is no one-size-fits-all solution. Energy prices vary widely across the EU. This is due, among other things, to the fact that the Member States intervene in the markets very differently today, e.g., with taxes and duties, exemptions or burdens that often only affect some consumers. In some Member States, most households' energy prices are based on exchange prices for electricity and natural gas (floating-prices).
- 2.8 The high dependence on fossil fuels imports is also a threat for supply security in Europe, as we can currently see. Supply levels forced the emptying of gas storage facilities and gas storage in Europe has dropped to historically low levels. The European Commission should take measures to use its strong negotiating position as a large, and for Russia strategically important, bulk buyer.

3. General comments

- 3.1 The EU is on its way to deliver the 2030 climate targets that will lead us to the climate neutral economy by 2050. Besides the huge investments required by the transition, it also requires an adaptation of the whole energy ecosystem. With the push for an exit from fossil and – in some Member States – nuclear energy, the situation narrows the availability of other sources and strengthens dependence on those few that remain. This renders the European energy system more vulnerable, mainly in terms of volatility in prices, and needs a quick reaction in order to ensure a stable and predictable energy price environment. In this regard, the EESC welcomes the fast reaction by the European Commission to the energy price increase and agrees with its content and mostly with the proposed instruments. The EESC calls on the Member States to make rapid use of these instruments in order to mitigate the negative effects of price rises on the most vulnerable groups.
- 3.2 The EESC understands that the immediate measures proposed are more focused on eliminating the negative consequences of the energy market development, and the mid-term measures are targeted to the solution of the causes.
- 3.3 The EESC supports the set of immediate measures and their nature, focused on the most vulnerable groups. Energy poor and low and lower-middle-income households are most impacted because they spend significantly higher shares of their income on energy. However, it also has a major impact on businesses, namely SMEs and energy intensive industries. The impact of high energy prices is felt unevenly across sectors and contributes significantly to the increase in inflation.
- 3.4 It should also be mentioned that wholesale gas prices in 2021 were not significantly higher than in 2008 or 2012; it is a very volatile market. However, the large price differences are to a large extent the result of the market. The analysis by the Commission shows that the most intensive impact on the energy price rally comes from the sharp global increase in the demand for gas and was further pushed by the upward economic recovery, tightened supplies to the EU, lack of investment because of austerity policy after the financial market and economic crises and because of seasonal weather conditions (low water and wind over summer) which resulted in lower production of renewables in Europe.
- 3.5 The EESC deems that society should be motivated via incentives, financial support, especially for low-income households and other vulnerable groups, and independent advice to switch from fossil fuels to renewables, which are not only characterised by relatively high starting investment costs, but also low production costs and low operating costs.
- 3.6 Another important stimulus is the phasing out of subsidies for fossil energy. Between 2015 and 2019, fossil fuel subsidies rose in the EU by 4 % and decreased measurably in 2020. They fell by 10 % in the energy sector and by 4 % in industry, while in transport they rose by 25 % and by 13 % for households who benefit from subsidies on heating oil and natural gas

consumption¹. Subsidies play an important role in the social area, as they ensure that the transition towards a climate-neutral economy happens in a just manner.

- 3.7 The EESC has always favoured a position that energy prices need to express the truth, which means that all externalities should be covered within the prices. In this sense, it is reasonable to expect that higher prices for fossil fuels will provide market-driven incentives for saving energy and the switch to renewables. In addition, ending environmentally harmful subsidies for fossil energies will contribute to increasing prices. Nevertheless, the social and economic impact of rising energy prices needs to be carefully analysed.
- 3.8 Because of growing electrification needs, generally accepted as a key vehicle for delivering on Europe's decarbonisation objectives, Europe needs significant investment in sustainable zero and low-carbon energy sources. Support to R&D and innovation in energy fields, for instance energy storage solutions, needs to be accelerated. The EESC also stresses the need to support energy production through the so-called Energy Communities, so that energy is consumed where it is produced, and that the stability of supplies to certain areas is ensured. Energy sharing through Energy Communities makes it possible for members, including vulnerable energy consumers or SMEs that cannot invest in RES themselves, can benefit from the advantages of decreasing RES costs.
- 3.9 Reducing Europe's high dependency on imports would also contribute to reduced energy prices. Some countries outside the EU exploit this dependency for geopolitical purposes. As a result, European businesses and consumers suffer. It is therefore correct that, the Commission has already made reducing imports of energy resources a strategic goal years ago, e.g. within the strategic framework of the Energy Union. However, announcing goals is not enough; the successes to date are more than modest (see TEN 724). Concrete actions are required, and these are lacking.
- 3.10 With regard to future energy carriers such as hydrogen, there is a risk that import dependency is even increasing, as many voices argue for supposedly "cheap" H2 imports, ignoring the fact that this would make Europe even more vulnerable to price manipulations by non-European countries with geopolitical interests, leading to consumers footing the bill. This is a well known problem dating back to the First Oil Crisis in 1973. Since then, almost nothing has been changed in the right direction, despite all promises given in the strategic framework of the Energy Union, for example.
- 3.11 The EESC deems that society should be motivated via incentives, financial support and independent advice to switch from fossil fuels to renewables, which are not only characterised by relatively high starting investment costs, but also low production costs and low operating costs. Regrettably, some renewables are not a stable source, pointing to a need for storage technology and, in a transitional phase, sources such as gas and safe and sustainable zero and low-carbon sources in order to secure energy supply. With this in mind, the European Commission should start a campaign to better explain the benefits of clean energy. The EESC should contribute to such a campaign and provide its expertise.

¹ COM(2021) 950 final.

- 3.12 For end-consumers, there are two ways to immediately relieve themselves of the energy bill: a) save energy and b) use locally renewable energies. The problem: initial investments are necessary for both (e.g. in thermal insulation, more economical new devices, PV systems etc.). Those who suffer most from high energy prices cannot usually afford these investments. State run contracting could provide a remedy: the state finances such investments in advance, and consumers settle, from part of their savings in their electricity and heating bills, the interest and repayment. They can keep the rest of the savings. This model has proven itself in developing countries. It could easily be transferred to Europe. It is important to comply with minimum consumer law standards such as transparent accounting and termination options. Another option is direct investment grants.
- 3.13 The compensatory measures must be "targeted" and not "across the board"; they must reflect the social dimension and not hinder the realisation of green transformation. A time-limited grant (e.g. for the first 300 kWh of electricity per person in a household) up to an income limit to be defined, could be considered. A subsidy granted to vulnerable groups, provided no affordable alternative solution for heating or transport is available in their situation, seems essential
- 3.14 The EESC calls on the Member States to remove technical obstacles to the deployment of renewables such as long planning permissions for wind turbine installations. The EESC also calls on the Members States to consider, as much as possible, the use of 5G for the green transition to optimise energy consumption and savings. In this regard, the EESC welcomes the Commission's intention to address this issue in 2022.
- 3.15 The EESC calls for more autonomy in energy sources, as the high dependency on imports has an impact on energy prices. The European Commission has made reducing imports of energy resources a strategic goal. Concrete actions are required, and import dependency must be avoided for future energy carriers such as hydrogen.
- 3.16 The EESC not only supports the emergency measures to avoid drastic social consequences, but it is strongly in favour of market evaluations, which test the behaviour of actors on the energy market. At the same time, the EESC points to the Union's shared values regarding services of general economic interest within the meaning of Article 14 of the Treaty on the Functioning of the European Union (TFEU), as set out in Protocol No 26 on services of general interest annexed to the Treaty on European Union (TEU). It could lead to its improvement, efficiency and the elimination of market failures. More effective market control by authorities is needed.
- 3.17 The EESC calls upon the European Commission to permanently monitor the extraordinary energy market situation, to evaluate the results on a daily basis and to adjust the intensity of adopted measures to the developing situation.
- 3.18 While the EESC has always expressed the opinion that we need a strong ETS for pricing negative externalities, it needs to be considered that enterprises requiring allowances compete with financial institutions and intermediaries, as they emit CO₂ in the production process. Emission trading is an instrument used to price externalities such as climate damage, but should not become a marketplace for financial speculation. The European Commission should analyse

what options the European Union has to design market structures that prevent such developments that are extremely unhealthy for consumers, supply companies and investors.

- 3.19 The EESC stresses the important role of energy providers as key players concerning the availability of services of general interest and states that the change in the energy market design in the last 20 years has left Member States with fewer political instruments to tackle rising energy costs. The current energy market design seems to have shortcomings in reacting to price volatility and in offering benefits to small renewable energy producers and to all consumers. The EESC therefore asks the European Commission to come up with a proposal that will offer an effective response to these shortcomings and fit the green transition.
- 3.20 The EESC underlines that it is substantial to proceed with the mid-term measures supporting the resilience and sustainability of the EU energy market and its products at affordable prices. It is especially important to increase the volume of investments into renewable sources (as many of the current conventional capacities will soon be unavailable), and therefore support the supply side of the market. At the same time, it is equally important to develop the connectivity and security of energy deliveries throughout the EU, and to push public investments in the grid infrastructure. Otherwise, the European Commission's conviction that the best remedy for energy price stability and sustainability is the installation of new renewable sources, will not work.

4. Specific comments

- 4.1 The EESC is convinced that new, more precise and stricter regulatory rules should be adopted for energy supply companies offering commodities to final consumers. The EESC is of the opinion that some of these supply companies have not been acting competently. In other words, the suppliers should be able to withstand price fluctuations in the market and not have to terminate contracts with consumers immediately. That is, for example, that they have a sufficient capital reserve or meet certain conditions. The EESC deems that the role of national regulators should also consist in a regular in-depth analysis of accountability of market operators.
- 4.2 National regulators need to play an active role in addressing consumer concerns of all kinds, and proactively inform consumers of their rights in the current high-price phase. This includes the provision of information on supplier changes and cancellation options or independent comparison portals where different tariffs and their conditions can be compared, but also support in disputes and the implementation of arbitration procedures. Likewise, when setting tariffs, suppliers must be prompted to ensure that stable tariffs continue to be available to consumers and not only so-called "floater" tariffs, which reflect developments on the exchanges.
- 4.3 The EESC proposes a more proactive consumer protection policy aimed at informing consumers and a better crisis preparedness of supply companies, including an obligation to hedge against rising wholesale market prices as problem.
- 4.4 Consumers need better protection, transparent contractual conditions, effective price control, independent advice and simple legal enforcement possibilities, most of all in the field of heating

and cooling supply. There is a need for demarcation between energy savings contracting and facilities contracting. It should be legally framed that tenants should pay only "real" operating costs for the energy supply. In the case of heat generation in the building, these are only the costs of the energy source used, plus reasonable costs for the maintenance and support of the heating system. Contractual and financial risks from contracting agreements should be borne by those who conclude such basic agreements, e.g., property developers and landlords.

- 4.5 The EESC appreciates the direct financial support, as well as the tax-based instruments, as the most effective and immediately disposable measure, helping vulnerable entities. At the same time, it supports a creation of specific Member States solution, reacting to the actual conditions in individual countries e.g., preventing the disconnection of energy supply during the cold season, long term instalment plans and using different tax policy instruments in them. Member States must also implement specific instruments and programmes that help particularly low-income households to implement energy efficiency measures.
- 4.6 With regard to taxation, in its toolbox, the Commission recommends reducing energy-related taxes to the minimum tax rates set by the directives (Energy Tax Directive, VAT Directive). In order to promote access to green energy, especially renewable electricity, a tax rate that differentiates between the environmental impact of energy sources is needed, as proposed by the Commission in the amendment to the Energy Taxation Directive (COM 2021 (563)).
- 4.7 In order to support energy-poor households, the EESC points out the important role of local and regional authorities or actors in supporting these households. Often, specific bundles of measures, for example in Austria the heating subsidies to support the financial affordability of heating and hot water, are the responsibility of the federal states (regions) and municipalities. These support services should be listed in the National Energy and Climate Plans in order to enable comparability between the Member States and, based on this, mutual learning.
- 4.8 The access to affordable energy is a central prerequisite for social participation and dignified living conditions, since energy is what makes the supply of light, heat, mobility and communication possible in the first place. People who are affected by energy poverty cannot make use of this kind of provision without worry, which is why they are massively restricted in their everyday lives. This must be resolutely countered and energy poverty must be fought sustainably.

Brussels, 24 February 2022

Christa SCHWENG

The president of the European Economic and Social Committee

APPENDIX
to the
OPINION
of the European Economic and Social Committee

The following amendment, which received at least a quarter of the votes cast, was rejected during the discussion:

Point 3.12

Amend this point:

<i>Section opinion</i>	<i>Amendment</i>
For end-consumers, there are two ways to immediately relieve themselves of the energy bill: a) save energy and b) use locally renewable energies. The problem: initial investments are necessary for both (e.g. in thermal insulation, more economical new devices, PV systems etc.). Those who suffer most from high energy prices cannot usually afford these investments. <i>State run contracting could provide a remedy: the state finances such investments in advance, and consumers settle, from part of their savings in their electricity and heating bills, the interest and repayment. They can keep the rest of the savings. This model has proven itself in developing countries. It could easily be transferred to Europe. It is important to comply with minimum consumer law standards such as transparent accounting and termination options. Another option is direct investment grants.</i>	For end-consumers, there are two ways to immediately relieve themselves of the energy bill: a) save energy and b) use locally renewable energies. The problem: initial investments are necessary for both (e.g. in thermal insulation, more economical new devices, PV systems etc.). Those who suffer most from high energy prices cannot usually afford these investments.

Reason
Delete, as it is incomprehensible and the proposed solution is unclear and it is not correct to propose transferring solutions from developing countries to Europe without thorough verification.

Outcome of the vote on the amendment:

Votes in favour: 44
Votes against: 120
Abstentions: 51