

16 proposals to end energy poverty in European Union

Executive Summary



PRESENTATION

Ten students of the Master 2 Europe of Sciences Po Strasbourg, under the supervision of Michel Derdevet and assisted by Thomas Dorget and Pierre Fouquet, have written a report and made 16 proposals to end energy poverty in the EU.

In this synthesis, Theo Giubilei, Claire Péage and Lucas le Loup review the main points and concrete proposals of this report.

On the 24th of February 2022, Russia decided to invade Ukraine. This political turning point for Europe is not only a military challenge, but also a social and ecological one. This crisis reinforces energy poverty and makes it more tangible. Energy prices, which have been rising sharply since the summer of 2021 due to the pandemic and its aftermath, have been increasing since the start of the war to unprecedented levels. These soaring prices increase the difficulty for the poorest households to keep their homes warm enough or to use their vehicles to get to work. Energy poverty was already high in the European Union (EU), with between 50 and 125 million people unable to afford proper indoor thermal comfort, and addressing it should have been a social priority as well as a mean to achieve the ecological transition.

Energy poverty is more than ever at the center of the debate in the European Union. This report was produced before the war started. The 16 proposals mentioned below are the result of the work of ten students of the Master in European and International Studies of Sciences Po Strasbourg, in partnership with the European Think Tank Confrontation Europe; the reflection is based on academic research and interviews with experts of the energy sector, scientists and politicians from different Member States.

Although energy poverty is a widespread issue in the EU, it remains difficult to define and measure. Figures collected by the European Energy Poverty Observatory (EU-EPO) show the diversity of situations in the Member States.

Member State	Inability to keep home adequately warm	Share of incomes spent in energy	Low absolute energy consumption
Bulgaria	33,7% (2018)	11,5% (2015)	9,4% (2015)
Luxemburg	2,1% (2018)	11,3% (2015)	8,9% (2015)
France	5% (2018)	15% (2015)	19,5% (2015)
Danemark	3% (2018)	17,9% (2010)	13% (2010)
EU	7,3%	16,5%	16%

While energy poverty may seem simple to identify through these few national indicators, it is in fact a more complex issue. Indeed, this graph hides a diversity of national situations, sometimes even a disparity within countries, which makes comparison and analysis very difficult. Moreover, the available data are the result of the work of national institutions that do not have the same collection capacities or the same approaches to the concept. In Europe, energy poverty is considered more of a socioeconomic issue than a technical one. However, some EU Member States don't consider energy poverty as a specific issue but as a part of poverty in its broad definition.

France, Spain and Slovakia are among the few States that officially recognize energy poverty and have adopted a definition. There are three main causes of energy poverty: high energy costs, low income and energy inefficient building.

The first finding of this report is that the EU does not have a common definition and indicators for energy poverty. Despite the use by the EU-EPO of two expenditure-based indicators to reveal "situations where energy consumption is an unbearable burden for households," European harmonization of these data is in its infancy and is only carried out once every five years by Eurostat.

As energy poverty is a cross-sector issue, there are various levers available to address it. European independence on its production or fairer taxation could help reduce the cost of energy for poorer households (I). On the other hand, thermal renovation (II) or social policies (III) could specifically target these populations. The definition of energy poverty should not be limited to buildings and heating, as European citizens use energy in their daily movements (IV). In order to build a coherent response, horizontal governance should be favored, as each country, region, city and neighborhood is unique (V). This report aims to study energy poverty as a multidimensional problem and highlights some solutions for European actors.

Part I. Ending energy poverty by reducing the energy cost

Since the beginning of European integration, Member States of the European Coal and Steel Community (1951) have cooperated on production, supply and investment in the energy sector. The EU's competences have expanded in this sector, especially in the 1990s with the establishment of the internal energy market, followed by the creation of the European Agency for the Cooperation of Energy Regulators in 2011. Its stated objectives are to ensure security of supply, promote network interconnection and guarantee the functioning of the energy market, while maintaining a reasonable cost for households and businesses and meeting the challenges of the ecological transition. In this period of crisis, citizens expect a strong response from the EU, in particular to reduce energy prices, which depends on the cost of raw materials, distribution and taxes.

The EU remains dependent on fossil fuels, which represent 68.4 % of its energy mix in 2020. Member States, having low fossil energy resources on their territory, therefore depend on third countries. The EU imported 61% of its energy in 2019, particularly from Russia for gas. These issues of dependence are therefore at the heart of current debates.

In order to strengthen the role of renewable energies and to reinforce European independence, the European Commission has revised its objective of increasing the share of renewable energy in the European energy mix to 40% by 2030 in the Fit for 55 presented in July 2021, a real challenge for some European countries.

→ Proposal 1: Drastically accelerate the installation of renewable capacities on European territory to be less dependent on fossil fuels and gas.

In order to encourage the development of renewable energies, Member States can use fiscal levers, since they have flexibility in the taxation of energy. However, this taxation can be a source of inequality. For example, value added tax (VAT) is applied equally to all households, regardless of income, and accounts for around 20% of the cost of energy. As energy prices have risen in recent months, some countries have chosen to reduce taxes, including Malta, Spain and Italy.

→ **Proposal 2: Reduce the price of energy for the most precarious households by introducing progressivity in taxation at the European level and by reducing taxes on renewable energy.**

Part II. Ending energy poverty through thermal renovation of buildings

According to the European Commission, buildings are responsible for 40% of final energy consumption and 36% of greenhouse gas emissions in the EU. Renovating existing buildings could reduce total EU energy consumption by 5-6% and cut carbon dioxide emissions by about 5% by 2030. While less than 1% of the national building stock is renovated each year, the current renovation rate would need to be at least doubled to meet EU targets. European action on energy poverty focuses mainly on energy efficiency, through Directives 2010/31/EU and 2012/27/EU. As part of the Green Deal, the Commission has set a target of reducing energy consumption by at least 32.5% by 2030, including through the recast of the Energy Efficiency Directive (COM [2021] 558 final) presented in the Fit for 55 and the Energy Performance of Buildings Directive (COM [2021] 802 final)

Moreover, the Commission proposes that all new buildings should be zero-emission from 2030 (from 2027 for the public sector). In this regard, minimum European energy performance standards will have to be calculated and harmonized in the Union. These measures should make it impossible to rent out collective and individual dwellings that do not comply with European standards and encourage owners to renovate their properties. However, tenants should not have to bear the burden of this work. To counter this perverse effect, some institutes propose integrating a climate component into housing assistance for the most precarious, on the model of the Klimazuschuss set up in Berlin. Furthermore, the gradual exclusion of rental and sale of real estate should be implemented according to a precise and differentiated timetable depending on the Member States and their capacities.

→ **Proposal 3: Support the introduction of ambitious minimum energy efficiency standards and prohibit energy-consuming housing for rent and sale**

Thermal renovation is characterized by its massive cost. Aids put in place by Member States mainly target small works or installations and lack a truly effective global renovation vision. They do not always take into consideration the households specificities: conditionality of resources and degressivity in the coverage of renovation work are essential for a fair transition. In Germany, loans of up to €120,000 can be repaid in 30 years thanks to the public investment bank Kreditanstalt für Wiederaufbau, which lends 50% of its funds to German commercial banks for energy transition projects.

These banks can therefore provide loans to individuals and be 100% guaranteed by the federal government if their project meets the energy efficiency requirements. Nevertheless, these bank loans, which also imply a long-term commitment, are often not a priority for the most precarious households.

→ Proposal 4: Implement measures to cover the full cost of a complete energy renovation work for low-income households.

The International Energy Agency (IEA) estimates that a global transition to carbon neutrality by 2050 would require increasing global energy investments to at least 2% of GDP in 2030. In order to finance these subsidies and investments, a common loan at the European level would raise significant funds through the trust placed in the EU by banks, but many frugal countries are reluctant to this idea. A reform of the European budgetary rules, which is now inevitable, could exclude from the calculation, the public deficit of the Member States due to the public expenditure necessary for investments in the ecological transition.

→ Proposal 5: Reform budgetary rules to allow Member States to devote 2% of their GDP to investments in the ecological transition.

Private actors represent potentially powerful levers of action in thermal renovation. For example, some companies offer to finance the entire renovation work and are reimbursed each month according to the energy savings achieved. The EU can stimulate these partnerships, notably through the European Investment Bank, and encourage investment by the regions.

→ Proposal 6 : Encourage partnerships with the private sector through public investments and European funds (such as ERDF, EIB) and regulate them.

Access to social rights remains a major problem. Despite the existence of many programs, administrative procedures and the succession of interlocutors discourage some households. Thus, the assistance mechanisms would mainly benefit less vulnerable individuals.

→ Proposal 7: Improve support for vulnerable households by creating one-stop counters with more human and financial resources.

The impact of energy poverty on health

Health is very rarely taken into account as an indicator of energy poverty. However, energy efficiency improvements in housing can combat many illnesses. In addition to the worrying consequences at the individual level, there is also a cost to health systems. According to a study published in 2016 by Eurofound (European foundation for the improvement of living and working conditions), "inadequate" housing is estimated to cost the EU almost €194 billion per year. Effective public policies in this area could therefore lead to a reduction risk and cost reduction for the individuals affected and, more generally, for society as a whole. Health is therefore an indicator that needs to be taken into account in the negotiations on the energy efficiency and energy performance of buildings.

Part III. Ending energy poverty through effective social measures

While energy poverty is not strictly correlated to resources, it mainly affects low-income households, as they are more likely to live in poorly performing housing and see their energy expenses increase, squeezing their budget and their ability to invest.

The Social Climate Fund (SCF) regulation proposed under the Fit for 55 program attempts to address the social impact that the expansion of the Emissions Trading Scheme (ETS 2) will have on households. While energy prices have already risen sharply as a result of Covid-19 and the war in Ukraine, the amount provided by the FSC falls far short of what is needed. The price of many products will be affected and will represent a general loss of purchasing power for households. Moreover, the timetable for the implementation of the FSC proposed by the Commission will not allow the necessary investments to be made before the entry into force of the ETS 2. As it stands, the SCF is not an effective tool to help combat energy poverty.

→ Proposal 8: Postpone the entry into force of the ETS2 and increase the amount of the Social Climate Fund by financing it through the ETS1, in order to promote a just transition.

Many Member States have put in place a range of measures to support the most vulnerable households in different ways depending on the national context. Social measures to address energy poverty account for 60% of the measures put in place by Member States and are therefore the main focus. A concrete example of a successful measure is the Portuguese "social energy tariff": this payback mechanism allows both to support the most vulnerable citizens and, through its automaticity, to respond to the problem of non-take-up of rights and the digital divide.

→ Proposal 9: Automatic social tariffs and vouchers for vulnerable households to simplify access to social rights.

The short-term, stop-gap nature of social policies to tackle energy poverty remains their main flaw. Social energy tariffs and energy vouchers are not updated and rarely take into account changes in energy prices and household purchasing power.

→ Proposal 10: Index the amount of bill payment aid annually to inflation.

Part IV. Ending energy poverty in its mobility dimension

Often overlooked in the definition of energy poverty, the mobility dimension is nevertheless crucial and must be taken into account in policies to end it. Sometimes referred to as "combined energy poverty" (i.e., housing and mobility are integrated into the discussion), it describes a situation where the energy used for mobility (mainly fossil fuels) is a burden for households. It mainly concerns households living in peri-urban areas - reinforced by the phenomenon of peri-urbanization - who need their car for work or school. In order to be able to put an end to this dimension of energy poverty, institutions must be able to measure it and therefore have at their disposal indicators

→ Proposal 11: Include indicators that measure energy poverty in its mobility dimension at the European level.

It is impossible to fight energy poverty due to citizens' mobility without developing means of transport other than the car, especially public transport. Various methods have been implemented in EU countries, including the Austrian "climate ticket" (KlimaTicket Ö) launched in October 2021. This ticket allows each citizen to use all of the country's public transport for an annual price of between €821 and €1095, depending on the citizen's situation. "Climate tickets" could be generalized in the EU. In addition, the creation of social fares associated with these tickets could be an option to make them affordable for households in energy poverty, as the existing tickets in Germany (€4,000 for the BahnCard 100) or Switzerland (CHF 3,860 for the General Abonnement) are today clearly too expensive to be massively adopted and effective.

→ Proposal 12: Put in place a European "climate ticket" and national "climate tickets" with social fares by 2028.

The implementation of these climate tickets must therefore be accompanied by the development of an appropriate infrastructure to facilitate access to public transport. Consequently, it seems fundamental to increase the amount of the European Regional Development Fund (ERDF) and to devote 50 billion per year until 2030 to the development of alternatives to the car, targeting the geographical areas most prone to energy poverty in its mobility dimension. We also recommend establishing a distribution key based in part on the level of difficulty of access to public transport, which should be updated to be as relevant as possible. It should be based on the finest possible targeting of geographic areas where energy poverty is high.

→ Proposal 13: Raise the European Regional Development Fund and spend 50 billions each year until 2030 for alternative mobility solutions, with a focus on geographic areas where the mobility dimension of energy poverty is high.

Part V. Ending energy poverty by strengthening the multi-level governance approach

Local and regional authorities perceive the needs and difficulties of citizens, often better than national authorities. Thus, improving the fight against energy poverty at EU level should not be limited to the State level. In its opinion "Multi-level governance and cross-sectoral cooperation to combat energy poverty" (November 2019), the European Committee of the Regions highlighted the benefits for local and regional authorities of energy poverty management policies, as they promote "energy efficiency, the reduction of greenhouse gas emissions, the improvement of citizens' health, social inclusion and social protection, and thus the quality of life of citizens in sustainable conditions". Such action by local and regional authorities can be facilitated through two main channels: access to information and access to finance.

The existence of networks that facilitate the sharing of good practice is an important resource for local and regional authorities. These networks include the Covenant of Mayors, EnergyCities, and Eurocities.

However, concerning the Covenant of Mayors, there is a need to fill the existing gaps in coordination and to strengthen the presence of these networks at the local level. This would allow local and regional authorities to broaden their scope of action.

→ Proposal 14: Increase the number of Covenant of Mayors coordinators, especially in Central and Eastern European countries, in order to improve access to information and funding and to facilitate the exchange of good practice between European local authorities.

To this end, their legal and financial instruments must also be strengthened. The *Fit for 55* package could be an opportunity to initiate the implementation of such measures. In particular, a share of the Social Climate Fund should go directly to local authorities so they could implement efficient measures best suited to the local situation (e.g. renovation of public and social housing, affordability of local public transport).

→ Proposal 15: Rethink the Climate Social Fund model by taking up, for example, the model of the Just Transition Fund, based on the idea of direct support for territories.

This decentralized ownership is also necessary to address inequalities within a Member State. The indicators used at European level are limited to national averages. However, taking into account the disparities between different geographical areas, notably through the Energy Efficiency Directive, is essential for an appropriate and effective approach to the problem.

→ Proposal 16: Implement public policies to support local authorities in setting up local plans and developing methods of targeting energy poverty that are more appropriate to the situation in the territory.

Conclusion

Given the diversity of understanding of energy poverty in the Member States and the approaches chosen to combat it, we felt it necessary to propose the following multidimensional European definition of energy poverty:

"The situation where a household or individual cannot afford the basic energy services (heating, cooling, lighting, mobility and electricity) that ensure a decent standard of living, due to a combination of low income, high energy expenditure and low energy efficiency of their dwelling and captivity to the private car as a mode of transport for essential activities."

This definition, once operationalized by the Commission, should allow a comprehensive assessment to be made of the situation in each EU Member State and, within those States, to refine the analysis to identify the areas most affected and to focus efforts on them as a priority. The causes of energy poverty are multiple and we are convinced that an approach based on only one of the dimensions identified in this report will not be sufficient to eradicate the phenomenon. The fight against energy poverty must be recognized as a multi-dimensional issue, which cannot be tackled without greater inclusion of all levels of governance.

We believe that the Fit for 55 program is a major lever for strengthening and coordinating local action to fight energy poverty at the EU level. A plurality of public policy instruments should be implemented, integrating in a complementary way the different facets of the problem and not focusing only on the social or housing dimensions, which are most often retained by national governments and European institutions.

Thus, it seems essential to us to take up each of the measures that we have listed throughout these pages. These solutions are not exhaustive. They undoubtedly deserve to be completed and deepened, which will certainly be done during the debates in the European Parliament and the Council if they are included. If generalized across the European Union, they would go a long way to ending energy poverty in Europe by 2030, and would provide a range of measures to enable the EU to become the model for the just transition.

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