ETUC recommendations in light of the Energy price Crisis

Resolution adopted at the Executive Committee meeting of 22-23 June 2022

Summary of key messages

- **The current energy price crisis, exacerbated by the recent Russian invasion of Ukraine severely affects consumers and workers.** Skyrocketing prices of oil, gas and electricity have reduced the purchasing power of many EU citizens and have increased energy poverty. At the same time, this energy inflation puts at risk the viability of many companies and therefore threatens the jobs of working people. Russia's invasion of Ukraine has further exacerbated the tensions on the commodity and electricity markets and highlighted the EU's dependence on Russian fossil fuels.

- **The EU needs to rapidly and drastically reduce its dependency on Russian fossil fuels imports while working towards achieving European Green Deal's objectives.** In the short term, this means diversifying EU's energy supplies, ensuring sufficient gas storage, and adopting a more coordinated purchasing policy. This also means that the EU should accelerate the roll out of its European Green Deal on the basis of a strong just transition legal framework, notably when it comes to energy efficiency, energy savings, circular economy and renewable energy. Climate action is part of the solution to ensure sufficient energy supply, energy security, energy affordability, reduce fluctuation of energy prices and availability of raw materials.

- **In parallel, policy makers need to speed up and scale up policy measures supporting most affected consumers, workers and companies.** ETUC details below a list of concrete measures necessary to protect vulnerable EU citizens from the negative consequences of the crisis.

- **The current crisis should also act as a wakeup call for policy makers to question and revise the current functioning of the EU energy market.** The last section of this paper details ETUC's recommendations on how to improve the design of the energy market, notably when it comes to price setting mechanisms, emergency mechanisms to cap/regulate energy prices, increased consumer rights in energy contracts, reinforcement of public service obligations, the promotion of public ownership where relevant, the creation of a right to energy and fight against energy poverty.

Background

Gas, electricity and oil prices have skyrocketed in Europe over the last year. This energy price crisis is the result of a combination of several factors:

Mid 2021, the strong rebound in consumption and economic activity resulting from the ease of COVID19 measures lead to a significant increase in gas demand, especially in Asia. In parallel, a particularly cold winter in Europe in 2021 combined with a lower than usual availability of wind and solar energy resulted in lower gas storage and further increased energy prices. A lower production of liquefied natural gas worldwide in 2021, due to a series of unplanned outages as well as shutdowns of nuclear plants in 2022 (due to maintenance or defect of infrastructures) further reinforced the tensions on the markets[1]. To a much lesser extent, the price increases in carbon emission allowances of the European Emission Trading System has also contributed to the rise in electricity prices. Last but not least, geopolitical tensions around Nord Stream 2 and the recent Russian invasion of Ukraine further contributed to exacerbate the energy price crisis, by adding even more volatility and uncertainty in the oil and gas markets, also highlighting EU's dependence on Russian imports for those commodities.

Rising energy prices, a key concern for European workers

These energy price increases are a key concern for European workers who are affected twice by this crisis.

The rise in energy prices directly affects workers' purchasing power as they see their energy bills increase, often at a higher rate than their wages. This is especially the case for low- and middle-income households who have signed flexible energy contracts. Without the adequate policies in place, there is a real risk to see a severe surge of energy poverty in the coming months, while we know that before the crisis, over 34 million people in the European Union were already experiencing energy poverty[2]. Besides energy costs, the purchasing power of workers is also negatively impacted by the price increases of other products, commodities and services, resulting from tensions on the markets and the higher production costs that companies often pass on to consumers to keep, or in some cases increase, their profit margins.

Rises in energy prices also affect workers through the negative impact such inflation can have on companies. Higher energy costs can indeed reduce the investment capacity of companies and therefore affects employment prospects. This puts at risk the jobs of many workers who could see themselves being temporarily or definitively laid off. This is particularly true for energy intensive sectors, even though many other sectors could also be concerned. The energy price crises meet unfavourable reinvestment cycles. If energy gets too expensive or it is even impossible to get energy, many industries could leave Europe.

Action taken by the European Commission so far

To answer this energy price crisis, the European Commission released several policy documents: on 13 October 2022, the Commission released a first Communication titled *Tackling rising energy prices: A toolbox for action and support,* which provides a list of measures that Member States can take to ease the burden on consumers in the short term. On 8 March, following the Russian invasion of Ukraine, the EU Executive branch adopted another Communication called *REPowerEU: Joint European action for more affordable, secure and sustainable energy* with the aim of reducing considerably the EU's dependence on Russian gas imports and mitigating the energy price crisis. A third Communication was published on 23 March *Security of supply and affordable energy prices: Options to mitigate high energy prices with common gas purchases and minimum gas storage obligations* to further detail the measures of REPower EU, to consolidate the list of measures available to Member States. End of April, ACER – the European Union Agency for the Cooperation of Energy Regulators – published its *Final*

[1] On 27 April, 28 of France's 56 reactors were shut down due to routine maintenance or defects, forcing EDF to buy electricity from the European grid instead, at a time of soaring demand.
[2] See estimations from the Energy Poverty Advisory Hub.

Assessment of the EU Wholesale Electricity Market Design in the light of the current energy crisis. Finally, on 18 May, the Commission published a consolidated version of its REPowerEU strategy, further detailing measures to achieve energy savings, diversify energy supplies and accelerate the roll-out of renewable energy to replace fossil fuels in homes, industry and power generation, as well as a communication on Energy markets announcing possible reforms for the long term improvement of the Electricity Market Design.

Need to rapidly and drastically reduce EU's dependency to Russian fossil fuels imports while achieving the European Green Deal's objectives

ETUC believes that reducing rapidly and drastically the EU's dependency on Russian fossil fuels imports should be a top priority for EU policy makers. This is of utmost importance to avoid that European citizens' money continues to finance Putin's illegal war.

In the short term, this means diversifying EU's energy supplies (for example by enhancing LNG and non-Russian gas pipeline imports, boosting domestic biomethane production[3] and accelerating clean hydrogen deployment), securing energy transport and transit, ensuring sufficient gas storage in prevision of next winter, as well as adopting a more coordinated purchasing policy[4]. Policy makers should however pay attention not to replace one dependency by another. It should be kept in mind that some political regimes of countries exporting fossil fuels are in breach of human rights. In parallel, methods such as fracking have a very high carbon footprint. Any new agreements should therefore be concluded based on robust impact assessments and should include strong conditions when it comes to the respect of democratic values, human rights, workers rights[5] and environmental protection. Diversification can also lead to energy prices rise. Measures for consumers are therefore even more important. ETUC also reminds that in its *Roadmap to Net Zero by 2050*, the International Energy Agency says that to keep that climate goal possible, there should be no investment in new fossil fuel supply projects[6]. Future contracts related to the import of fossil fuel energy should therefore take this imperative into account and remain limited to short periods of time. If new infrastructures for fossil fuel are built, it should be ready for use in the future to import climate neutral hydrogen.

In parallel to those short-term considerations, policy makers should make sure that the EU's strategy to reduce its dependency towards Russia is in line with the European Green Deal objectives in the long term. The latest IPCC report is absolutely clear about the need to speed up climate action if we want to remain within the 1,5°C limit[7]. The new context brought about by the Russian invasion should not overshadow the necessity to act now for a sustainable future. It is also important to keep in mind that climate policies are not the cause of the sudden price increase. Climate action is part of the solution as it is not only key to limit global warming but also to ensure sufficient energy supply,

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[3] As long as it is done in a way that does not compete with other land uses such as food production GHG emissions capture, etc.

[4] It should be noted that, whatever the energy mix chosen by member states to reduce their dependency towards Russian fossil fuels, the EU will continue to import energy as well as raw materials. While the EU international policy of investment protection should not prevent the implementation of public policies to control energy prices, EU trade policies should ensure secure transport, transit and prices of energy related products (see ETUC position on the Energy Charter Treaty).

[5] Indeed, if trade agreements do not ensure the fair distribution of profits, the respect of human rights and worker's rights in the partner countries, they will contribute to social instability there and therefore work against the EU energy security itself.

[6] Press release - Pathway to critical and formidable goal of net-zero emissions by 2050 is narrow but brings huge benefits, according to IEA special report, https://www.iea.org/news/pathway-to-critical-and-formidable-goal-of-net-zero-emissions-by-2050-is-narrow-but-brings-huge-benefits

[7] See IPCC Sixth Assessment Report, Climate Change 2022: Mitigation of Climate Change, the Working Group III contribution.

energy security, energy affordability, reduce fluctuation of energy prices and ensure the availability of raw materials.

In that regard, ETUC particularly insists on the need to make the energy efficiency first principle and energy savings core elements of the REPower EU strategy. EU countries should, for example, step up their building renovation strategies with public planning and public investment to help lower-income households first. Policy makers should also speed up the uptake of circular economy solutions as well as boost the deployment of renewables and other decarbonised solutions. This must go hand in hand with the development of the electricity network (through more interconnections, demand-response solutions, storage, capacity mechanism, etc.) and increased cooperation and coordination of Member States in securing energy supplies. Those solutions are essential in the short, medium and long term as they will considerably help the EU to reduce its fossil fuel imports while cutting Europe's GHG emissions and reducing energy poverty.

With the right policy framework in place, investing in those priorities and speeding up climate action also has the potential to create new quality job opportunities in Europe. However, if not properly managed, those rapid changes could have huge consequences for workers. It is therefore of primary importance to match the European Green Deal policies and REPowerEU with an equivalent social ambition, to make sure that workers are correctly accompanied and supported during this transition.

To our regret, the Social Dimension of the current crisis, and the challenge it poses in connection with the dramatic changes that we need to urgently undergo, is largely missing from the REPowerEU Plan. The challenges are indeed much broader than the half-hearted measures to relieve the most vulnerable, which consist of a reference to the pact for skills and a foot note to the proposed Council Recommendation on ensuring a fair transition to climate neutrality. This crisis might put millions of people, including middle income working people, into precarity and might cause a dramatic erosion of purchasing power. The Trade Union Movement therefore expects a much stronger and comprehensive approach that fully considers the challenges for our societies and working people and that offers appropriate and comprehensive policies to tackle them.

REPower EU and the European Green Deal should therefore be developed in close cooperation with the new industrial strategy and should rely on a just transition legal framework that truly involves workers and their trade unions[8]. Specific attention should also be given to training, reskilling and upskilling of workers to avoid labour shortages in strategic sectors needed to achieve the green transition. Europe must build on its know-how and technological leadership to keep and develop European industry value chains in the energy sector.

All this will, of course, require massive additional investments, both public and private. In the current context of uncertainty on the market, boosting further public investment will be essential; ETUC therefore calls EU policy makers to revise and redesign the EU Fiscal Framework, notably to allow for more flexibility in the Stability and Growth Pact[9]. In parallel, policy makers should look for additional sources of revenues through fairer and effective taxation. The EU state aid framework should also help increase strategic public investments. In parallel, the Commission and Member States should make full use

[8] See ETUC position for a Just Transition Legal Framework to accompany the Fit for 55 package.
[9] See ETUC resolution on the European Union public debt issue and the fiscal rules, adopted at the virtual Executive Committee Meeting of 5-6 October 2021.

of the taxonomy and other available tools to incentivise and reorient private investments toward those priorities.

Scale up policy measures supporting most affected consumers

In parallel to those strategic policy orientations and investments, the EU and its Member States need to adopt more ambitious extraordinary measures to ease the burden on households directly affected by the rise of energy prices in the short term, notably by introducing a cap on energy prices. Additional short-term support can also be put in place through various forms, for example energy vouchers targeted at low- and middle-income households (particularly those having flexible energy contracts), extension of social tariffs, temporary reduction of energy VAT for households most affected, reduction of VAT on public transport and/or a substantive lowering of their prices, etc. In parallel to those short-term measures, public authorities should invest massively in the financing of energy efficiency measures and the deployment of renewables for vulnerable households.

To finance such measures, the EU should strongly encourage Member States to tax the windfall profits made by energy companies and market actors because of the energy price crisis[10]. Extraordinary revenues coming from energy taxation[11], from the Emission Trading System or from the gradual phase out of subsidies to unabated fossil fuels should also serve that purpose, keeping in mind that ETS revenues also have a role to play to boost decarbonisation of the power system as well as to roll out low carbon technologies for energy intensive industries.

The current energy price crisis also highlights the necessity to assess distributional impacts on households when designing future climate policies and to make sure any regressive impacts are corrected and counter balanced. Therefore an Emission Trading System on road transport and building for households should be avoided as it would negatively affect consumers, particularly low- and middle-income ones[12].

Extraordinary measures needed to protect workers and companies in difficulty

When it comes to the world of work, public authorities should encourage companies to take concrete measures to ease the burden on workers and prevent losses in purchasing power. For example, the relevant actors should encourage and facilitate wage negotiations to allow wage increases that are at least in line with productivity development and inflation, in combination with public support due to the energy price crisis[13]. Companies could also increase the kilometre-allowance given to employees while promoting low carbon vehicles or car sharing, fully reimburse business travel, better reimburse public transport or incentivise walking and cycling. Companies should also provide an allowance to cover heating and electricity costs of their employees when teleworking. Those solutions should be discussed and negotiated in bipartite or tripartite social dialogue and implemented at company/sectoral/national levels.

When it comes to companies affected by the energy price crisis, the Commission and Member States should encourage an early involvement of Trade Unions through social dialogue and collective bargaining to anticipate and manage any negative consequences that could result from this situation. Policy makers should also reinforce workers rights

[10] Public authorities should also be able tax windfall profits made by speculators as well as other non-energy companies that have used their dominant position on the market to significantly increase their prices and margin, pretexting the inflation.
[11] See ETUC resolution on Wage policy in a volatile post-pandemic period, upcoming.
[12] See ETUC position on the creation of a second ETS on road transport and building and of a new Social Climate Fund
[13] See ETUC resolution on Wage policy in a volatile post-pandemic period, upcoming.

to information and consultation in case of restructuring processes. To do so at EU level, the European Commission should propose a just transition legal framework that would complement the European Green Deal and REPower EU.

In case of oil and gas shortages resulting from the current situation in Ukraine that would force companies to reduce or stop their activities, the EU should be ready to reactivate and strengthen solidarity mechanisms (such as SURE) to support short time work schemes and workers that would be temporarily laid-off, also by enlarging its scope to cover support to anti-poverty and just-transition national measures.

The Commission should also provide sufficient flexibility when it comes to state aid supporting undertakings in difficulty due to higher energy costs[14]. However, any state aid granted to companies is conditional to the maintenance of employment or job-to-job-transition planning through social dialogue and collective bargaining, the respect of applicable collective agreements and labour law as well as the right for trade union representation. Companies benefitting from public aid should also be obliged to suspend dividend payment, share buybacks, executive bonuses, and should not practice any kind of tax avoidance or aggressive tax planning. Such state aid should also be conditional to the reduction of GHG emissions in the long term and development of JT agreements with workers.

Need to revise the functioning of the EU energy market

Together with strategic policy orientations and urgent measures to support consumers and workers, the EU should also look more closely at the the current functioning of its energy market. The ETUC acknowledges the decision of the European Commission to further analyse a set of issues with a view to improving the electricity market design through possible guidance and legislative proposals, as described in its 18 May communication COM (2022)236. However, the ETUC stresses the need to go beyond a cosmetic adjustment to launch a deep reform of the electricity market design based on the demands developed below.

The trade union movement has long been critical of the historical decision to liberalise the EU energy market. ETUC believes that important structural features of the *2019/944 Directive on common rules for the internal market for electricity* as well as the *2019/943 Regulation on the internal market for electricity* have contributed to exacerbate the energy price crisis, and should be revised.

First, policy makers should revise the current price setting mechanism based on marginal pricing so that fossil fuel is no longer used as electricity price setter. Fixing the electricity prices on the basis of fossil fuel generation is not adapted to a world aiming at carbon neutrality where renewable energy sources, producing energy at much lower price, will become increasingly important. Marginal price setting mechanism is particularly problematic in a context of high commodity prices and increasing carbon price. An alternative price setting mechanism should be found so that final consumers pay electricity prices that reflect the costs of the generation mix used to serve their consumption. This could be done through the revision of Article 6 of the 2019/943 Regulation. When undertaking such revision, the Commission should conduct an impact assessment that clarifies the distributional effects of a new system.

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[14] To avoid too many distortions and to prevent further inequalities between countries and regions, those State aids should be coordinated at EU level.

Second, EU policy makers should agree on an emergency mechanism to cap/regulate energy prices when they are above a certain level. Several Member States have taken that option in the light of the current crisis[15] but since this problem affects the entire EU, there should be a coordinated approach at EU level with a common mechanism to avoid disparities between countries. This might necessitate revising Article 5 of the 2019/944 Directive. On the other hand, EU countries should avoid a race-to-the-bottom when it comes to energy prices for companies, competing against each other while the costs are paid for by households (as consumers and/or taxpayers). A minimum EU price for companies could be considered in this regard, as long as there is no single European energy price for companies. In any case, the Commission should also look at solutions to prevent excessive speculation on the energy markets.

Third, existing legislation should also be revised to increase transparency and predictability when it comes to energy contracts for individual consumers. Suppliers should better clarify the risks associated with choosing a flexible contract and should not provide this as default option.

Fourth, it should be mandatory for suppliers to offer the consumer the opportunity to opt for fixed long term energy contracts, which is currently not the case. The 2019/944 Directive should be revised to introduce a right for household consumers to receive a supply offer that protects them from short-term electricity price variations.

Fifth, contrary to the full liberalisation of the energy market narrative and in line with the idea of creating a proper right to energy for EU citizens, the EU should ensure that energy, and its transport and distribution infrastructure, are considered as common good and not as a market commodity. Article 9 of the 2019/944 Directive dealing with Public Service Obligation should be revised to better reflect that. Public actors should be considered as key players when it comes to ensuring the availability of services of general interest and public ownership should be promoted where relevant.

Similarly, Articles 28 and 29 of the 2019/944 Directive dealing respectively with vulnerable consumers and energy poverty, should be revised to introduce a permanent ban of disconnections and to step up the fight against energy poverty. This would be in line with the European Pillar of Social Rights and the 2030 Porto targets related to the reduction of poverty and social exclusion. Article 16 should also be revised to further encourage the creation of citizen energy communities and cooperatives. This opportunity should also be used to revise Article 4 of the 2019/943 Regulation to further clarify the concept of just transition and to stress the role and the need for involvement of social partners in the anticipation and management of change.

When it comes to the impact of the Emission Trading System on energy prices, the Commission should propose more concrete actions to prevent speculation on the carbon market, to avoid that market actors take advantage from the current situation. No profit should be made on this war and the resulting energy price crisis. Policy makers should also avoid creating a new emission trading system covering road transport and buildings for households while finding alternative ways to finance the Social Climate Fund.

[15] See the list of different measures adopted by EU countries in Annex I.

ANNEX I – List of emergency measures adopted by EU countries to mitigate the energy price crisis.

Country / Policy	Reduced energy tax / VAT	Retail price regulation	Wholesale price regulation	Transfers to vulnerable groups	Mandate to State-owned firms	Windfall profits tax	Business support	Other
Austria	✓			✓			✓	
Belgium	✓	✓		✓				✓
Bulgaria		✓				✓	✓	
Croatia	✓			✓				
Cyprus	✓			✓	✓			
Czech Republic	✓	✓		✓			✓	
Denmark				✓				
Estonia	✓	✓		✓			✓	
Finland	✓			✓			✓	
France	✓	✓		✓	✓			
Germany	✓			✓		✓		✓
Greece				✓	✓		✓	
Hungary		✓						
Ireland	✓			✓				✓
Italy	✓			✓		✓	✓	
Latvia	✓			✓				
Lithuania		✓		✓				✓
Luxemburg				✓				
Netherlands	✓			✓				
Norway	✓			✓			✓	
Poland	✓	✓		✓				
Portugal	✓		✓	✓	✓			
Romania	✓	✓		✓		✓		
Spain	✓	✓	✓	✓		✓	✓	
Slovenia	✓			✓		✓	✓	
Sweden	✓			✓			✓	✓
United Kingdom		✓		✓			✓	✓

Table taken from Sgaravatti, G., S. Tagliapietra, G. Zachmann (2021) 'National policies to shield consumers from rising energy prices', Bruegel Datasets, first published 4 November, available at https://www.bruegel.org/publications/datasets/national-policies-to-shield-consumers-from-rising-energy-prices/