

Zooming in on...

Relieving citizens from high (energy) prices: a comparison between EU Member States

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Background

At the end of December 2022, “The Guardian” published an [article](#) with a - at first glance - very welcome headline: *“European gas prices fall to pre-Ukraine war level”*. Referring to the fact that energy prices at the spot market were – for the first time – lower than before the outbreak of Russia’s war against Ukraine, for many readers this headline suggested that the energy price crisis was over.

However, this is not the case. For example, gas prices are still several times [higher](#) than the average of the last 10 years. Moreover, throughout 2022, many citizens and businesses have been “protected” by fixed energy contracts. Now, many of such contracts run out and suppliers will pass on their purchase prices (which have been exceptionally high last year in particular) to their customers ([Allianz Trade](#)). This shows that the energy crisis is far from over and **2023 is connected with great uncertainties.**

Already in July 2022, FES Just Climate conducted an in-depth [analysis](#) of measures that EU Member States enacted to counter the consequences of high energy prices for citizens and businesses. Now, in April 2023, it is time to take a closer look again and draw a first conclusion. **What measures were implemented by the Member States? How targeted were they in terms of particularly supporting poorer households? And which policies were implemented with undesirable side effects?**

Reducing the price of petrol and diesel

Since the beginning of the energy crisis, one specific policy approach has been controversially discussed: the reduction of petrol and diesel prices. Felt directly by millions of Europeans in their daily lives, the sudden rise in prices created significant public pressure. But how did the Member States decide to tackle this challenge?

According to [Transport and Environment \(T&E\)](#), in total 18 EU countries introduced measures with the intention to lower petrol and diesel prices. Yet, as a matter of fact, such measures diverged significantly.

For example, in [Italy](#), in 2022, the fuel excise duty was cut substantially to enable price reductions of 25 cents (for 8 months) and later 15 cents (for one month). Choosing the same path, [Germany](#), from June to August 2022, reduced its fuel excise duty as far as permitted under European law: petrol by 29.55 cents per liter, and diesel by 14.04 cents per liter. In Germany alone, this measure accounted for 3.2 billion euros ([Bruegel](#)).

[France](#) chose a different approach: the government reimbursed petrol stations for giving a discount to their customers from April to December 2022. The rates of the discount thereby [changed](#): from 18 cents (April to August) to 30 cents (September and October) and to 10 cents in November and December. Importantly, while the general discount scheme expired, the Macron government announced new funding for early 2023 for those who rely on their cars to get to work. This way, 10 million citizens will [receive](#) a one-time payment of 100 euros. In [Poland](#), as part of the country's "inflation shield", the VAT rate was brought down from 23 percent to 8 percent, for the months of February to December 2022. In [Spain](#), from April to December 2022, the government applied a rebate scheme of 20 cents per liter of petrol and diesel. In [Hungary](#), the government eliminated its fuel price cap in December 2022 after it had been in place for a year. But this decision was not made voluntarily. Rather, due to the fact that the price cap consumption had [risen](#) by 20-25 percent while at the same time, foreign suppliers sold less fuel to Hungary. Consequently, filling stations simply ran out.

As varied as the measures in this area were, so was the criticism of them. Two key aspects were highlighted in this sense. Firstly, it was criticised that the reduction of prices limited the incentive to save petrol and diesel (which in turn could lower prices due to less demand). In this way, independence from Russian oil supplies could also have been accelerated. Secondly, such measures were – to the most extent – not targeted in terms of income. As a consequence, billions of euros of public spending brought relief also for those households that possessed incomes to cover the price increases on their own. As a matter of fact, according to [Transport and Environment \(T&E\)](#), this has led to *'inequitable social outcomes as the rich use eight times more fuel than the poor'*.

Relieving citizens from high gas and electricity prices

But not only the prices of petrol and diesel place a burden on households throughout Europe. Additionally, high prices for electricity and gas cause constant fear of the next bill. And rightly so, as such bills are harder to predict than the price display at the filling station which gives immediate clarity about the current price.

For this reason, Member States introduced far-reaching measures. The common goal - to ultimately lower the prices - was similar, but not the approaches, which often

differed from country to country - as shown in the following overview. Here, a special focus lays on **who** governments particularly supported (households and/or companies) and **how targeted** funds were distributed (e.g., by especially supporting lower-income households).

Poland

In Poland, the government has so far implemented relief measures for households and firms worth 12.4 billion euros ([Bruegel](#)). The **VAT was chosen as a central instrument** of the “inflation shield”. In addition to tax cuts to bring down fuel prices (as already mentioned above), the VAT was [reduced](#) to zero for basic food products and natural gas, as well as to 5 percent for heat and electricity.

Apart from these price measures, throughout the energy crisis, the government has laid **focus on targeted support for low-income households**. In this sense, [energy allowances](#) based on income and type of heating were introduced. Moreover, households with lower incomes will continue profiting from fiscal advantages. Concretely, the individual tax rate was [lowered](#) from 17 to 12 percent for those earning up to PLN 120 000 (approximately 25.000 euros). Accounting for the so-far biggest financial share of **untargeted** relief measures, in December 2021 and thereby already before the outbreak of the war, Poland [introduced](#) a cap on its electricity prices for households and small businesses until the end of 2023. Also, a gas price cap will be [applied](#) for households only. In this regard, a VAT refund for low-income households has also been [announced](#) at the end of 2022 – again strengthening the targeted effect of the implemented measures.

Spain

One of Spain’s central measure to lower energy prices has received a distinctive term - the “**Iberian exception**”. What lies behind it? Already early into the period of skyrocketing energy prices in spring 2022, Spain and Portugal aimed at lowering their energy prices by decoupling the price of electricity from that of gas (as in the current European electricity market design the most expensive source of energy, gas, sets the price for all other production forms). In fact, both governments decided to [cap](#) the gas price and subsidize producers of gas and coal-fired electricity above a certain price level. As this needed approval from the EU Commission, both countries referred to their low dependence on Russian gas and their electricity grid’s low interconnection with the rest of the EU countries. While the “Iberian exception”, which was eventually approved is valid until the end of May 2023, an [extension](#) by the EU Commission on request of Spain and Portugal is considered safe, at least until December 2023.

The question is: **has this mechanism met the expectations?** Here, the assessment needs to be two-fold. On the one hand, both governments succeeded in substantially

relieving households and firms from high energy prices. **As experts argue, this has especially been possible due to the already high share of renewables in the electricity mix.** On the other hand, unfortunately, the mechanism had an unpleasant side effect: in Spain, from the implementation of the price cap until December 2022, gas-fired power generation [went up by 42 percent](#). Spain now became a net exporter of electricity, as it was substantially cheaper than in neighbouring France. **This again led to a higher financial burden for the Spanish state as it suddenly subsidised French electricity consumption.** Nonetheless, it must be highlighted that also Spain [achieved](#) a 15 percent reduction in its overall gas use as agreed by EU Member States., e.g., according to its [winter energy saving plan](#).

Besides Spain's early ambition to cap energy prices, one-time payments also played and still play a significant role in the government's strategy to tackle high living costs. Here, however, the success rate was not as high as expected. The first payment for employees, self-employed, and unemployed was supposed to [benefit](#) 2,7 million people. However, it was conditional on a yearly household income of **no more than 14.000 euros gross**. Together with a rather complicated application process, this led to **only 600.000** people benefiting from the scheme. For this reason, the Spanish government recently renewed the measure. Now, the income limit is set at 27.000 euros. Also, the application procedure has been substantially [simplified](#).

Germany

When FES Just Climate conducted its assessment of Germany's energy price measures in July 2022, the government had already adopted a one-time payment of 300 euros for employees and the self-employed, a one-time family allowance of 100 euros per child, and an increase in the one-time payment to recipients of transfer benefits to 200 euros per person. In addition, there was a one-off heating allowance for recipients of housing benefits or state education subsidies. Later that year, also payments for pensioners (300 euros) and students (200 euros) were [announced](#).

In general, the payment of many of such aid measures proved and still proves to be a major challenge. This applies especially to the payment for employees. Due to the lack of data and because the administration is not sufficiently digitalized, **the German government has no possibility to directly send money to their bank accounts.** This has two consequences. Firstly, as it had already been a problem during the high phase of the COVID-19 pandemic, also in 2022 the state could not distribute relief funds based on the income of an employee or a household. Funds were rather – also in view of the urgency – “poured out with a watering can” to every employee. Secondly, the payment itself was complicated. It was made via payroll accounting and even had to be laid out by the employer. Then, in order to achieve a social steering effect, the energy bonus was taxed again. Lastly, students still had to wait for their 200-euro

energy bonus. [Announced](#) as early as September, applications can only be submitted starting from March 2023 onwards.

Apart from one-time payments, a variety of new measures were introduced. The most prominent ones have been the “price brakes” for electricity, gas, and heat. With retroactive effect from 1 January 2023, prices will be capped for 80% of the previous year's household electricity and gas consumption. And already in December, the state took over a complete month's bill for gas. Further price caps are also available for small, medium, and large enterprises. Overall, the government has attributed [200 billion euros](#) in total to these policies. **Nonetheless, the amount of funds being actually used will depend on the future development of energy prices.**

Czech Republic

In the Czech Republic, until mid of December 2022, the government had allocated close to 9.2 billion euros to reduce energy prices for households and firms. From this amount, 6.6 billion were meant to support households. Interestingly, the **cap on electricity and gas prices** – only applicable to households and small firms – as agreed in September 2022, already accounted for 5.4 billion. Furthermore, more than one billion euros financed **a discount on energy bills** as well as **direct payments to low-income households and pensioners**.

Following the energy price cap for households and small firms, in the mid of December 2022 the government [announced](#) a **second cap applicable to large firms**. This is because the country's economy is especially dependent on manufacturing and exports – for example in the automotive sector. Consequently, this will again lead to further expenditure on top of the 9.2 billion euros already allocated.

Italy

In Italy, according to calculations by [Bruegel](#), so far, the government has spent roughly 93 billion euros to relieve households and firms from high energy prices. The government thereby used [VAT reductions](#) and the [elimination of system charges](#), to lower gas and electricity prices. Additionally, for businesses, a number of [tax credits](#) were introduced.

Approximately 57 billion euros consisted of funding for households only. Here, a prominent role played multiple “one-time payments” for different societal groups. Interestingly, the design of these payments changed over the course of the year. For the first payment of 200 euros in early summer 2022, personal income played a minor role for [employees](#) and [self-employed](#) as they received the same payment as pensioners, those especially vulnerable and unemployed (while the latter groups were subject to an upper [income limit](#) of 35,000 euros). Then, a second payment of 150 euros to [employees](#) was linked to an income *not higher than 1538 euros gross* in

November 2022, substantially limiting the group of beneficiaries. As it was also the case in Germany, the bonus was [paid out](#) through the employers. For all other groups, an income of no more than [20.000 euros gross](#) in the year 2021 was set as a prerequisite to receiving the payment. In addition to that, for households with lower incomes, the Italian government introduced a [social bonus](#) and thereby a discount on energy bills, which was [renewed](#) later in the year 2022.

Sweden

In Sweden, the [discrepancy between the state funds allocated to households and energy utilities](#) is interesting to observe. While close to seven billion euros were used to relieve households, more than 23 billion euros in the form of credit guarantees were allocated to stabilise energy utilities which struggled to provide the guarantees needed to trade in electricity markets.

One more characteristic stands out. Much of the provided assistance to households can be considered as being directly targeted. Even though the income of households does not play a role in this approach, the state's energy support is **aimed at citizens living in southern Sweden**, who are especially affected by high energy prices. The reason behind this system is that Sweden's electricity market is divided in four zones. And while the north is home to 90% of the country's hydropower, the south is mostly dependent on nuclear energy. Due to the both temporary and final shutdown of several nuclear power reactors, the electricity supply in the south now has become tense, [driving up prices](#). Therefore, the government will provide individual relief based on electricity consumption during the period of October 2021 and September 2022.

What is particularly relevant in this case is what citizens have to do to receive the compensation. According to [Försäkringskassan](#), the Swedish Social Insurance Agency, they ***“do not have to do anything, but to get the money into your bank account you ought to register the account in Swedbank's account register”***. And even *“[if] you do not register your account, you will still get the money, but it will take longer”*.

Hungary

To Hungary's government, setting price caps for households is no news. Already since 2013 there has been a price cap, even though it has been described as *“unjust, against energy transformation and detrimental to the phase-out of fossil fuels”* ([Bankwatch](#)). However, in order to guarantee low prices, the Hungarian government depended on a cheap gas supply from the Russian supplier Gazprom.

But the energy price crisis caused by Russia's invasion of Ukraine became a whole new challenge for this arrangement. Because *“the price formula for the “discount” gas appeared to be linked to market prices from preceding months”*, in July 2022, the

Hungarian government “declared an ‘energy emergency’ and, in a significant reversal, announced plans to scrap price caps on household gas and electricity consumption above the national average” ([Meduza](#)) as the state’s budget came under severe pressure. Despite of these developments, in August 2022 Hungary [signed](#) a new gas deal with Gazprom and further secured itself an option for even more gas supplies in an agreement concluded in April 2023.

Lastly, besides the revised price caps for households, Hungary has also [financed](#) direct payments to companies which are especially affected by the war’s economic effects.

France

The fact that France’s dependency on Russian gas was limited to [17 percent](#) before Russia’s invasion of Ukraine (compared to [55 percent](#) in Germany) has not protected the country from soaring energy prices. One reason for that is Europe’s current electricity market design which lets the highest cost of electricity production (currently gas) set the price for all other producers. Another major reason is that the French nuclear power plant fleet has been increasingly unreliable and in need of repair, so that in January 2022, ten out of 56 reactors were [out of service](#). In November 2022, **26 reactors were temporarily [shut down](#). As a consequence, for the first time in almost 40 years, France became a [net importer](#) of electricity**, with not only [Germany](#) but also Spain as one of the suppliers (as described above).

In this light, already in early 2022, the French government decided to establish a “tariff shield” for households and businesses and cap the rise in both gas and electricity prices to [4 percent](#) (as prices would have otherwise doubled). From February 2023 onwards, the measure has been renewed, now capping the rise to [15 percent](#). This year alone, the price cap will [cost](#) the state 46 billion euros.

Moreover, the government offered **multiple direct payments for the most vulnerable**. Already at the end of 2021, the French state started [paying out](#) an inflation compensation worth 100 euros to citizens earning less than 2000 euros net per month. For employees, the payments were administrated through their employers. Then, in 2022, an “**exceptional return-from-summer-holidays bonus**” was [announced](#) worth another 100 euros in addition to 50 euros per child within a household. For this round of payments, around 11 million households already receiving social benefits were eligible.

Lastly, the French system of “energy checks” – which can be directly redeemed with the energy supplier – has played an important role. While, since 2018, millions of citizens profit from these checks once a year, in 2022 an exceptional check of either

200 or 100 euros (based on income and the household's composition) was [automatically delivered by the state](#).

More countries, more measures

In **Slovakia**, in February 2022, the government [announced](#) an agreement with the partly state-owned power producer Slovenské elektrárny (SE). While SE will guarantee a fixed electricity price to selected groups of vulnerable customers until 2024, the government assured to not impose new taxes on the company until 2025. Furthermore, in the beginning of 2023, a general price cap for all households has been introduced. This *“will keep household electricity prices flat while natural gas and heating prices will rise by 15%”* ([Reuters](#)). In **Belgium**, besides reducing the VAT on energy (from 21 to 6 percent), the government has especially [worked](#) with direct payments to households based on their income and also energy contract. Moreover, the so-called “social tariff” which provides regular support in paying bills was [extended](#) to make it accessible to more people. From April 2023 onwards, the government will start [phasing out](#) the energy support while further concentrating *“on the people who otherwise really would not be able to make ends meet”* ([The Brussels Times](#)).

The way forward

As this comparison has shown, the measures taken by EU countries to tackle high (energy) prices have been far-reaching, **accounting for [657 billion euros](#) in the EU**. Three specific instruments played a central role, and all brought some challenges with them. Firstly, the Member States implemented **VAT and energy tax reductions**. Especially in the case of subsidised petrol and diesel, consumers with higher incomes profited disproportionately while at the same time, the incentive to save fuel was limited. Secondly, long before the EU agreed to cap the price of gas and [market revenues of electricity producers](#), national governments introduced their own **price caps**. Sometimes, as the “Iberian exception” shows, that led to unintended consequences such as higher combustion of gas for electricity production. Thirdly, **direct payments** to citizens complemented the relief measures. While some countries made targeted payments to their citizens based on income and automatically without complicated administrative procedures, other countries struggled with that.

The analysis has further shown one key takeaway in particular: **in a common internal market, energy (price) policies need to be better coordinated at the European level to avoid unintended consequences**. The future joint purchase of gas, which is to be [kicked off](#) by the Commission by summer 2023, is therefore a significant step in the right direction. In addition, the current initiative to reform the European electricity market design and make it suitable for the age of renewable energy generation also holds great potential - even if an agreement will not be easy to reach as the ideas of the Member States [diverge substantially](#).

Bringing energy prices down in the medium-term and ensuring that they stay down permanently – due to a renewable energy system that is as decentralised as possible – will not only relieve households throughout the EU. It will also be the basis for the massive build-up of the production of solar panels, batteries, wind turbines, electrolysers and heat pumps, ultimately ensuring the future success of Europe’s industry. **This way, Europe will remain a producing continent - and does not become a mere consuming one.**

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