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20.04.2023 Session Brief

## Solving the energy crisis for EU households: from short-term fixes to long- term solutions



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# Solving the energy crisis for EU households: from short-term fixes to long-term solutions

The Think2030 Dialogue Sweden, held on 20 April 2023, gathered decision-makers and analysts from policy, business and research communities across Europe to debate the key sustainability issues at stake for EU policy. The Think2030 Dialogue Sweden is one of several activities within the Think2030 platform, created by the Institute for European Environmental Policy in 2018 to provide science-policy solutions for a more sustainable Europe.

As part of the Think2030 dialogue, the Institute for Sustainable Development and International Relations (IDDRI) and Basque Center for Climate Change (BC3) organized a session titled “Energy transitions and the cost of living: how to strike the right balance between short term fixes and long-term solutions to the energy crisis?” and this session brief summarizes the key take-aways from this session.

**Co-leads:** IDDRI & BC3

**Moderator:** Nicolas Berghmans, Lead European affairs and energy and climate expert, IDDRI

**Rapporteur:** Tomas Jungwirth Brezovsky, Head of the AMO Climate Team, AMO

**Speakers:**

- Mikel Gonzalez, Senior researcher, BC3 (Basque Centre for Climate Change)
- Anette Persson, Policy officer Energy efficiency: Buildings and Products at European Commission DG Energy
- Claudia Strambo, Research Fellow, SEI
- Oskar Ahnfelt, Vice President Public & Regulatory Affairs, Vattenfall
- Isabell Büschel, Spain Director, Transport & Environment (T&E)

## Key messages

- **The EU government's responses to the energy crisis so far have been costly for public budgets and in many cases not efficient enough from a holistic perspective that combines economic, environmental and social contexts.** This should lead to a revision towards more long-term action to accelerate the transition away from fossil fuels in building and transport for households, once energy prices start to decline.
- **The energy crisis following Russia's invasion of Ukraine is also a heritage of past policy decisions and existing socio-economic inequalities.** It is important to tackle the underlying causes of households' energy vulnerability and inequalities, rather than just fall back on energy subsidies or handing out compensations.
- **Energy savings are key to more secure, sustainable and affordable energy for households and to the level achieved in 2022.** Accelerating the uptake of building renovation, "clean mobility" and shifts to other modes of transport relies on an increase in available finance and support for skills and industrial capacities development.
- **Material and energy efficiency should be central in the design of green industrial policies across Europe,** as they have a strong potential to decrease supply-demand tensions on energy and resource markets and facilitate just access to affordable transport and energy services.

Since the fall of 2021, the ongoing energy crisis has shaken European economies and politics. In response, EU governments intervened swiftly to protect households, especially vulnerable ones, from bearing the full economic impact of the rise in energy prices. It is estimated that EU member states allocated close to 650 billion euros or over 3% GDP since September 2021 to measures to address the energy crisis<sup>1</sup>, an amount comparable to all investments needed for achieving the 2030 EU climate objective, according to the European Commission<sup>2</sup>. The efficiency – both socioeconomic and environmental – of these interventions has been put into question, as around three-quarters of these actions took the form of untargeted measures, benefiting households and companies regardless of their exposure to the energy crisis. While a quick reaction from governments was required in the first part of 2022 to alleviate energy bills and contain rising inflation, it is time to move on to much more focused measures.

During the Think2030 science and policy session, a recent [report](#)<sup>3</sup> by IEEP and BC3 was presented that shows that the impact of the energy crisis on the average household's disposable income varies considerably when taking into account government interventions across the EU27. Within Europe, the impact was between –6% to –1.5%, showing the different exposure in terms of energy mix and differences in emergency actions taken by member states. In certain countries, like Italy, poorer households bore the brunt of the price increase, while in Sweden it was quite even or in Poland where the richest households were more affected. In every member states, the negative effect was more pronounced in the rural areas than in the urban ones because of the difference in heating costs and the lack of alternative to individual cars as modes of transportation.

Session panellists shared insights on various measures that were taken within EU in response to the crisis. Among measures taken, general tax breaks on transport fuels adopted in several member states were especially criticized in the general public debate, as they end up subsidizing fossil fuels and generated questionable social outcomes, with middle and upper income households being the main beneficiaries – some was even captured by fuel retailers by inflating fuel prices. In some countries, more redistributive measures were adopted, such as a 9-euro-per-month train ticket covering local and regional trains in all of Germany or a tax cut for low-income groups in Greece, although the budgets dedicated to them were lower compared to fossil tax rebates. This shows the necessity to adapt short-term measures to more tailored long-term policies as an approach to address the distributional impact of the energy transition. The main priority

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<sup>1</sup> Sgaravatti, G., S. Tagliapietra, C. Trasi and G. Zachmann (2021) 'National policies to shield consumers from rising energy prices', Bruegel Datasets, first published 4 November 2021, available at <https://www.bruegel.org/dataset/national-policies-shield-consumers-rising-energy-prices>

<sup>2</sup> EC (2020) Impact assessment accompanying the Communication "Stepping up Europe's 2030 climate ambition" from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. See estimates p.71

<sup>3</sup> García-Muros, Xaquín, Claudia Dias Soares, Jesus Urios and Eva Alonso-Epelde (2023). *Who Took the Burden of the Energy Crisis? A Distributional Analysis of Energy Prices Shocks*. Policy Report. Institute for European Environmental Policy

is to transition away from fossil fuels, which are at the root of the energy crisis and climate crisis and which could be a wise strategy from a geopolitical perspective. The amount of energy saved during this year surpassed expectations, but these savings need to be complemented by measures to accelerate a just transition. Several policy recommendations emerged during the panel discussion:

- **Speed up the measures outlined in the “Fit for 55” package for decarbonizing the building and transport sectors and electricity production.** In particular, the renovation rate needs to double to reach 3% per year, prioritizing the most inefficient and vulnerable households.
- **Mobilize European funds available from the Social Climate Fund alongside the NextGenerationEU** via member states, primarily for building renovation and public and “clean” transportation infrastructure.
- **Address the availability of electricity, which is key given the need to electrify all parts of the economy.** Accelerating renewable production at the same time as saving energy is a necessity to guarantee energy security and affordability for residential consumers, while changes to the electricity market should be carefully assessed and aim at adapting to the increasing renewable energy share and preparing for possible supply shocks.
- **Fully embed a just transition in EU industrial policy.** On one side, more effort should be put on supporting the uptake of skills needed for the rollout of clean technologies and energy renovation, as these activities can provide new and sustainable jobs for European workers. On the other side, a stronger focus should be put on improving the material and energy footprint of goods and services, to be able to respond to the energy and mobility service demands of the populations with low and middle incomes.
- **Acknowledge that current challenges are a heritage of past decisions and existing inequalities.** Social inequalities include geographical factors but also factors related to the capacity to deal with the implications of decarbonization in the energy and transport sectors. Avoid past mistakes, such as underinvestment in energy efficiency, and address the underlying causes of social inequalities that undermine people’s capacity to cope rather than limiting public policies to compensation for financial impacts.
- **Make questions of lifestyle and social justice part of transition policies.** Consider measures that may have a limited impact on CO2 mitigation but may be deeply symbolic, such as regulation or taxation that limits or discourages private aviation for the very rich. High variations exist in carbon footprints among different income groups: the 1% who are richest in the world have twice the carbon footprint of the poorest 50%.
- **Ensure all stakeholders are on board to transform the economy.** Governance is important. Deliberation on the right set of policies and incentives should be open to all stakeholders (citizens, companies, workers) and inclusive.

## About Think2030

Launched by IEEP and its partners in 2018, Think2030 is an evidence-based, non-partisan platform of leading policy experts from European think tanks, civil society, the private sector and local authorities.

By focusing on producing relevant, timely and concrete policy recommendations, Think2030's key objective is to identify science-policy solutions for a more sustainable Europe.

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For more information on this paper please contact:

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