SUPPORTING HOUSEHOLDS IN THE ENERGY PRICE CRISIS:
A COMPARATIVE ANALYSIS OF APPROACHES IN GERMANY, POLAND AND ROMANIA

POLICY BRIEF

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Since the second half of 2021, the EU is experiencing a sharp rise in energy prices, mainly caused by an unprecedented increase in the price of natural gas. In 2021, demand for energy increased as the global economy recovered after Covid lockdowns, and production was not able to meet the rising demand. The Russian invasion of Ukraine has since escalated the situation, driving up gas prices and stoking fears of supply shortages. Robust allowance prices in the EU Emissions Trading System (EU ETS) have also contributed, although to a smaller extent. Even before the Russian invasion, the effect of the gas price increase on electricity prices was estimated to be nine times higher than the effect of the carbon price. Even so, member states with a high reliance on fossil fuels have seen relatively greater effects [3].

The significantly higher energy prices have strong ramifications for European consumers, with effects most acutely felt by low-income households. Governments are taking action to mitigate the distributional effects of the price increase, in some cases endeavouring to target those experiencing the most significant cost burden. While the EU has proactively responded to the energy crisis, individual EU member states have thus far taken the lead in rolling out compensatory measures. EU member states have passed legislation aimed at shielding households and businesses from the impact of rising prices, covering a range of different measures and committing considerable funds [11].

In this Policy Brief, we focus on measures directed at households taken at the national level in Germany, Poland and Romania that were enacted in the context of rising energy prices. We ask the question:

Are the measures efficient, effective, and have a long-lasting impact? Do they reach those most in need? What should be done differently in the future?
The potential realm of relief measures is wide, as governments can intervene from various angles. Policy can directly influence energy prices either through tax reforms or price controls. Support measures can target households by supplementing their disposable income through direct transfers or other income support measures. A mixture of energy price controls and income support can also take the form of (public) transport subsidies. In addition, policy can enable consumers to reduce their own energy consumption and thus costs. Besides information campaigns to encourage energy savings, subsidies may be tied to energy efficiency, or used to promote electric mobility and heating systems.

Non-financial support is also possible, as governments take steps to legally protect vulnerable consumers. Figure 1 summarizes the different types of policy measures taken by EU governments to support households with their energy costs.

THE RESPONSE IN GERMANY, POLAND AND ROMANIA

For a detailed overview of country measures, please see the summary table on page 12.

IN GERMANY, three relief packages worth a total of about 100 billion Euro were passed in March, April, and September 2022. The first relief package in March (15 billion Euro) was conceived against the backdrop of rising energy prices in 2021 and the post-Covid economic recovery. The second relief package (15 billion Euro) was introduced as a direct reaction to the Russian invasion of Ukraine [7]. The third and so-far largest relief package (65 billion Euro) is directed at shielding consumers from rising energy prices, counteracting the rapidly rising inflation, and implements measures that were already planned over the last few years.
Currently, discussions are ongoing about a cap on electricity and gas prices with a price tag of another 200 billion Euro announced by the German government in October 2022 [1]. With the various cost relief measures, households are supported across all three dimensions: they receive price and income support and are encouraged to reduce energy consumption.

In terms of price controls, the German government implemented measures to reduce the costs of various energy sources for consumers. Electricity prices were lowered by abolishing the renewable energy support surcharge six months earlier than planned (6.6 billion Euro). Gasoline and diesel prices were reduced by curtailing the excise tax for three months (3.4 billion Euro) and natural gas prices have been reduced by lowering the VAT on this energy carrier (11 billion Euro). Public transport prices were lowered for three months by offering a heavily subsidized ticket for all regional transport throughout the country (3 billion Euro). Furthermore, the government is postponing a scheduled increase of the national CO₂ price on transport and heating fuels for one year (10 billion Euro). As part of the German gas price cap, there are plans for the government to cover one month worth of bills for all gas consumers in December 2022 and to follow up with a broader price cap mechanism that will apply in 2023.

The German government also adopted both targeted and blanket income support measures. A lump-sum energy cost transfer of 300 Euro was issued to all employees and self-employed subject to income tax (10 billion Euro), as well as students and pensioners (7 billion Euro). Families, social welfare recipients, and the unemployed also received a one-off transfer of 100-200 Euro. A heating cost transfer of up to 700 Euro per person was paid to recipients of student loans and select transfer recipients (4 billion Euro). As a more medium-term measure, a reform of the social housing benefits increasing the size of transfers and making them available to additional households was brought forward and will become effective at the beginning of 2023 (10 billion Euro). Similarly, an expedited reform of the tax system will award additional tax relief to commuters (5 billion Euro) as well as pensioners and employees (15 billion Euro).

In addition to price and income support, programs to incentivize energy saving are part of the German government’s response, including a nationwide campaign to save energy and the establishment of a new work plan for energy efficiency [5]. Homeowners with gas heating are obliged to do a heat system check. The government packages further highlight the ongoing reforms of existing regulations and subsidy programs for energy efficient buildings, including improved energy performance standards (MEPs) and the replacement of fossil heating systems. It is unclear, however, how many of these measures are additional to existing plans and what their actual impact will be.
IN POLAND, two packages were adopted by the government so far. The first one, called Anti-inflationary Shield 1.0 (2 billion Euro), was presented at the end of November 2021 with the objective to slow down the price increases for electricity, natural gas, and motor fuels. However, after the proposed solutions proved to be insufficient, the Polish government introduced its amended Anti-inflationary Shield 2.0 (6.2 billion Euro) in January and February 2022 [11]. As part of these packages, households in Poland receive price and income support, albeit to a lesser extent relative to the equivalent German support programs. The Polish government is also engaged in energy efficiency programs, including a new measure targeting insulation in multi-family apartments.

In terms of price controls, the Polish government reduced the VAT rates on electricity, motor fuels, natural gas, district heat, fertilisers, and basic food products. The excise duty rate on electricity and motor fuels was reduced and motor fuels were exempted from the retail sales tax. Special gas tariffs have also been introduced to lower natural gas bills of households in multi-unit buildings, hospitals, schools, kindergartens, nurseries, and cultural institutions. Together, these tax reductions have a bill of about 6.2 billion Euro. Turning to residential energy costs, the price of the first 2000 kWh of electricity consumed by households will be capped in 2023, with this cap set to extend beyond 2000 kWh for disabled citizens and large families (4.8 billion Euro). Additionally, a temporary heat price cap will compensate producers for the regulated heat prices in the coming winter, which is estimated to cost about 1.4 billion Euro.

The Polish government will distribute energy-related income assistance for households via three allowances. The first is a new annual allowance for households, based on income-levels, size, and type of heating system. It has a broad coverage of more than 7 million households but is so far confirmed only for 2022 (0.9 billion Euro) [11]. The second allowance is a one-off payment targeted at households using coal as primary heat source (2.4 billion Euro) [8]. The third allowance extends these one-off payments to households with other heating sources (0.6 billion Euro).

Energy efficiency in Poland has been promoted through already existing programs such as “Clean air”, “My heat” and “My electricity”. Furthermore, the new “Warm apartment” program was instituted with the aim of increasing energy efficiency in multi-family residences.
IN ROMANIA, the most important measures were adopted in the autumn months of 2021 and in March and September 2022. A core challenge of the Romanian context has been the overlap of the energy crisis with local energy market liberalization. This exacerbated consumer vulnerabilities while rules for energy suppliers were relaxed. Still, the Romanian government has made efforts to respond to the energy crisis in each of the three intervention areas.

In terms of price controls, the Romanian government passed ‘compensation mechanisms’, to provide rebates on gas and electricity bills for the 2021-2022 winter. The policy was designed to limit payments to 25% of the final consumer bill. Theoretically, it promotes energy efficiency by stipulating that only households and enterprises with an energy consumption below a pre-defined threshold are eligible for compensation, but the complicated implementation process has left both suppliers and the consumers in a vulnerable position. In addition, as a response to the ongoing energy crisis, the Romanian government capped electricity and gas prices for households, SMEs, and some public sector actors. Household electricity costs are capped between 14 and 16 ct/kWh, and gas is capped at 7 ct/kWh. Furthermore, the government has instituted a reduction in the price of gasoline sold at gas stations, and a price cap for wood fuel was also adopted in October 2022. In a different measure, a windfall tax on non-fossil electricity producers was implemented, extending as a ‘solidarity tax’ also to suppliers, traders and other market actors. The revenues from the windfall tax are intended to partly finance both the price reductions and the compensation scheme.

The Romanian government has also passed dedicated income support measures. In particular, the Vulnerable Consumer Law uses an income threshold to identify consumers eligible for energy-cost payments related to use of electricity, gas, thermal energy, and wood (solid fuels). This measure is targeted at households with very low incomes. Fewer than 200,000 households meet the eligibility criteria in 2021, while the data indicate that around 700,000 households (10% of the total) fall under the poverty line after paying the energy bills. A final targeted income support measure is the distribution of food vouchers and other direct financial benefits to vulnerable groups.

Long-term energy efficiency programs already exist in Romania, including thermal rehabilitation schemes for buildings and subsidies for vehicle upgrades. They were, however, not fully adapted to the energy crisis. Romania also has a number of legal measures in place that specifically aim to protect the vulnerable consumer by averting disconnection, for example, or ensuring access to a minimum level of energy. While these highly targeted measures are good in theory, they lack legal enforcement.
OUR FINDINGS

All three countries investigated have acted to reduce consumer prices for electricity and fossil fuels as one of the main responses to the energy price crisis. Depending on the heating energy mix of each country, the price controls target different heating energy sources (gas in Germany and Romania and coal in Poland), as well as electricity. All countries also provide direct income support, primarily through one-off payments linked to rising energy costs. While some measures are targeted at low-incomes households, families, or those with specific heating systems, most measures rather provide blanket support for households across the board. Finally, all three countries emphasise the importance of measures to reduce energy consumption. However, measures in this area are least concrete and it is sometimes unclear to what extent they are additional to measures that already exist.

The bulk of the relief is financed out of the general budget of the respective country. Governments are also considering special ‘windfall taxes’ for energy suppliers, the revenues of which could help finance other cost relief measures. Romania has already implemented a windfall tax in the electricity sector. Germany is also considering the implementation of windfall taxes, while in Poland such a tax is a contentious issue.

SHORT VS. LONG-TERM MEASURES
(INSTANT SUPPORT VS. LONG RUN RELIEF)

The focus of relief packages in all three countries lies on immediate short-term support in the form of one-off payments or consumer price controls. Fast support is indispensable for those households that do not have the resources to bear a doubling or tripling of energy costs. Governments, however, also need to think in the long-term. It is likely that the energy price crisis will last beyond the current winter and possibly the next. What is more, the climate crisis is ongoing and needs to be addressed urgently. Therefore, it is vital to introduce measures that reduce dependency on fossil fuels in the medium and long term. While all three countries acknowledge the importance of decreasing (fossil) fuel use and fostering energy efficiency, these long-term measures are far less prominent in relief packages that have passed thus far. It also remains to be seen whether the efforts are additional to what had already been planned before the crisis.

WE CONCLUDE THAT WHILE INSTANT SUPPORT IS NECESSARY AND INDISPENSABLE FOR THOSE MOST AFFECTED, MORE CONSIDERATION SHOULD BE PLACED ON MEASURES PROVIDING LONG-TERM RELIEF.
TARGETED VS. BLANKET SUPPORT

While some income relief is targeted at vulnerable households, a much larger part of the funds goes into blanket support, for example, in the form of general price reductions of fossil fuels used in heating or transport, or income support payments for a wide range of consumers. Not all households are affected to the same degree by rising energy prices. The impact falls disproportionately on vulnerable low-income households, who tend to spend a much larger share of their disposable income on energy than high-income households.

| Blanket measures compensate all households, including those that could likely manage the rising costs on their own. A lot of relief money is thereby spent where it may not be impacting households facing the most significant cost burdens. |

There are also some examples where targeting was the initial idea that got lost along the way: Poland initially planned to provide direct income support only to households using coal as their primary heating fuel. As predominantly low-income households use coal for heating, this would have gone some way towards targeting vulnerable households. However, it was later decided to extend this support to all consumers regardless of heating type.

Some measures try to broadly target low-income households. For example, Germany and Poland are planning to introduce an electricity price cap applied to a basic level of use, which should favour household that use less electricity. Such an idea is good in principle as it maintains an incentive to reduce consumption. However, in Romania, where a capped price for a basic level of electricity use was introduced, it became clear that this does not adequately support households that use electricity as their primary heating source. These households are often those on lowest incomes and they have a higher consumption of electricity than the basic allowance as they use electricity not only for appliances but also for heating.

On the other hand, in some cases targeted measures do not include all vulnerable households that are in urgent need of support. This is the case for the Vulnerable Consumer Law in Romania reaching only about a third of those most in need. Similarly, in Germany, students and pensioners were left out of the first two relief packages – but were included in the third package after much public criticism.
In addition to being particularly affected by rising prices, low-income households often lack the means to invest in energy saving technologies, such as double-glazing, heat pumps, or electric vehicles. Many also live in rented property and are dependent on their landlords when it comes to the energy efficiency of their home. Like the price control and income support measures, the energy efficiency programs that are part of the relief packages also lack targeted components for low-income homeowners, or special measures for tenants and their landlords.

Not only is blanket support often unfair, but it is also more expensive than necessary and not financially sustainable in the long term. Therefore, governments should consider more targeted approaches. Especially, targeted energy efficiency measures should be promoted, as these can sustainably shield vulnerable and low-income consumers from price rises in the long-term.

WE CONCLUDE THAT BLANKET SUPPORT MEANS THAT A LARGE SHARE OF THE FUNDS IS ALLOCATED TO HOUSEHOLDS WITH RELATIVELY LOW BURDENS, AND MONEY COULD BE USED MORE EFFICIENTLY.

CLIMATE IMPACT

While the EU and national governments highlight the importance of the energy transition for reaching the dual goals of energy security and climate protection, many of the measures taken in Germany, Poland and Romania run directly counter to climate goals. Controlling consumer prices for fossil fuels, particularly through blanket measures such as tax reductions and price caps, can act as a fossil fuel subsidy and further incentivise their use, especially for wealthier households that may otherwise be able to reduce consumption. It also gives the impression that the government will always step in when prices get too high, thus undermining the urgency of the low-carbon transition and hindering investment in cleaner technologies. Again, a stronger focus on targeted, long-term solutions that foster energy efficiency and greater use of renewable energy for electro-mobility and heating systems would help reaching the goals of energy security and climate protection at the same time.

WE CONCLUDE THAT RELIEF PACKAGES SHOULD TAKE INTO ACCOUNT THE CLIMATE CRISIS MORE EXPLICITLY. PRICE BREAKS INCENTIVISING FOSSIL FUEL USE ONLY PROLONG THE DEPENDENCY ON THESE FUELS.
NATIONAL VS. EU APPROACHES

The EU initially responded to the energy price crisis by addressing broad issues of energy supply security while providing guidance to member states to develop their own price control and relief measures. Common EU approaches have since come up for debate.

In October 2021, the European Commission provided member states with a “toolbox” of appropriate measures to react to rising energy prices \(^3\). Other EU-level initiatives followed, including the Commission’s proposal for the REPowerEU plan, that aims to increase investment in renewables and make the EU independent from Russian fossil fuels \(^4\). Two EU Council emergency regulations were then passed, with the goal to reduce electricity demand and to redistribute ‘windfall profits’ from the energy sector. The Council further agreed on a voluntary target to reduce gas consumption by 15% over the next year, \(^2\), which becomes binding in the case of a severe gas shortage, and there are also plans for a ‘joint gas buying’ initiative, that could help to secure future supply.

An EU-wide approach to controlling prices through a ‘gas price cap’ is being discussed, but there is so far broad disagreement. Some member states are opposed to the idea of capping gas prices, while others are debating design issues. In the meantime, member states are moving ahead with national energy price controls, such as Germany announcing a 200 billion Euro national plan to cap electricity and gas prices.

While the EU seems to be taking the initiative regarding energy supply and security, member states have so far prioritised national measures to tackle demand reduction and protect consumers. As each country has its own socio-economic context, there is certainly a role for national approaches. For example, in some countries it may be possible to prescribe maximum indoor temperatures, while in others it is a culturally sensitive issue (especially in post-communist states, like Romania and Poland). Member states may also be able to pass legislation faster than the typical European bureaucratic process, which is important when urgent relief is needed. However, while “going it alone” may be easier in the short run, it is an unsustainable strategy considering the interconnected electricity and gas networks of the EU. Furthermore, it may undermine EU-wide solidarity and trust, which is of utmost importance in the current crisis.

WE CONCLUDE THAT IN ORDER TO FIND A SUSTAINABLE SOLUTION FOR ALL, A COORDINATED EU-WIDE APPROACH SHOULD BE EMPHASISED IN ADDITION TO NATIONAL RESPONSES.
### Table 1: Household relief measures in Germany, Poland, and Romania

<table>
<thead>
<tr>
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<th>PRICE CONTROLS</th>
<th>INCOME SUPPORT</th>
<th>ENERGY EFFICIENCY</th>
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<tbody>
<tr>
<td><strong>GERMANY</strong></td>
<td>Abolition of the RES surcharge 6 months early € 6.6 bn.</td>
<td>One-off transfer for all employees subject to income tax € 10 bn.</td>
<td>Mandatory heating system check for gas heating [5]</td>
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<td></td>
<td>Reduction of the excise tax on gasoline and diesel for 3 months € 3.4 bn.</td>
<td>One-off transfer for students and pensioners € 7 bn.</td>
<td>Existing and planned energy efficiency instruments, including subsidizing</td>
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<td>Subsidized public transport ticket for 3 months € 3 bn (follow-up € 1.5 bn and</td>
<td>One-off transfer for families, social welfare recipients, and the unemployed € 4</td>
<td>supporting replacement of old fossil heating (oil and gas) in buildings &amp;</td>
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<td></td>
<td>state financing)</td>
<td>bn.</td>
<td>industry and mandatory share of 65% renewable energy sources for newly</td>
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<td></td>
<td>Moratorium on raising CO₂ price for one year € 10 bn.</td>
<td>One-off transfer for students on loans and certain welfare recipients € 2 bn.</td>
<td>installed heating systems from 2024.</td>
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<td></td>
<td>Reduction of the VAT on natural gas used for heating € 11 bn.</td>
<td>Increase in annual transfers for families and welfare recipients € 10 bn.</td>
<td>Higher mandatory energy efficiency standards for new buildings from 2023.</td>
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<td>Gas price cap to apply from 2023 (taxed) refund of one month of gas bills as</td>
<td>Fiscal relief measures for taxpayers, pensioners, and commuters € 20 bn.</td>
<td>Highlighting the necessity to save energy through campaigns and the work plan</td>
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<td>Electricity price cap - yet undecided, likely to be a basic allowance approach</td>
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<tr>
<td><strong>POLAND</strong></td>
<td>Anti-inflationary shield 1.0: Reduction of VAT rates on electricity, motor</td>
<td>Additional annual transfer (allowance) to households, currently confirmed only</td>
<td>New “Warm Apartment” program with the purpose of reducing emission by supporting</td>
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<td>fuels, natural gas, district heat, fertilisers, and basic food products € 2 bn.</td>
<td>for 2022. The allowance is based on households’ income, size, and type of</td>
<td>improvement of energy efficiency in multi-family residential buildings € 0.3 bn.</td>
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<td></td>
<td>Anti-inflationary shield 2.0 valid until the end of 2022 with extended</td>
<td>heating system € 0.9 bn.</td>
<td>Coverage of existing instruments such as “Clean air”, “My heat” and “My</td>
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<td>measures from the first package, such as VAT reductions on food, gas and</td>
<td>One-off transfer for households with hard coal as the primary heat source € 2.4</td>
<td>electricity” programs.</td>
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<td>fertilizers to 0%, petrol and diesel to 8%, and heating to 8%; a reduction of</td>
<td>bn.</td>
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<td>the excise duty rate on electricity and motor fuels; exemptions from retail</td>
<td>One-off transfer for households and selected consumers with other primary heat</td>
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<td>sales tax; and special gas tariffs for selected consumers € 6.2 bn.</td>
<td>sources € 0.6 bn [8]</td>
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<td>Electricity price cap in 2023 € 4.8 bn.</td>
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<td>Heat price cap during winter 2022/ 2023 € 1.4 bn.</td>
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<td><strong>ROMANIA</strong></td>
<td>Compensation Mechanism to provide rebates on utility (gas and electricity)</td>
<td>The Vulnerable Consumer Law provides transfers based on heating costs € 0.3 bn</td>
<td>Coverage of existing instruments for energy efficiency in buildings, such as</td>
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<td>bills – blanket measure € 0.18 bn for the 2021-2022 winter season</td>
<td>for the 2021-2022 winter, plus an annual income supplement for vulnerable</td>
<td>the National Thermal Rehabilitation Program (€ 43 mn for 2021), the Renovation</td>
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<td></td>
<td>Price cap mechanism for electricity (between 14-16 cents/kWh, depending on</td>
<td>households € 6.5 mn for the first quarter of 2022 [10]</td>
<td>Wave of the National Recovery and Resilience Plan for urban building blocks (€ 1.3</td>
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<td>consumption level) and gas (7 cents/kWh) € 2.9 bn (not including the 2022-</td>
<td>Food vouchers and one-off payments to low-income families and pensioners.</td>
<td>bn for 2021-2026), the Solar Roof Programme, and the Energy Efficient House</td>
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<td>2023 winter season)</td>
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<td>Program. National Program for upgrading the vehicle fleet “Rabla” offers trade-</td>
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<td>Price cap mechanism for gasoline [12]</td>
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<td>in rebates on low-emission vehicles. Higher mandatory energy efficiency</td>
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LITERATURE AND SOURCES


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