
The long journey to end energy poverty in Europe¹

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Energy poverty, defined as the "inability to afford basic energy services such as adequate warmth, cooling, lighting and the energy to power appliances due to a combination of low income, high energy expenditure and poor energy efficiency of dwellings",² has recently been on the radar of policymakers, leading to some efforts in tackling the issue. Yet, developing adequate policy solutions has remained difficult both at the national and European level, not least due to the complexity and the multidimensional nature of the phenomenon and the limited competences of the European Union (EU) in the social area. Thus, despite some positive developments, there still is a long journey towards eradicating energy poverty. This paper presents some milestones along the way and recommendations for the future.

BACKGROUND

Energy poverty is on the rise in Europe. The share of the household budget that is spent on domestic energy services has been growing disproportionately among the lowest income quintile of the population, from 6% in 2000 to 9% in 2014, compared to an average increase from 5% to 6% for the entire population.³ The individual indicators related to energy poverty in the EU Survey on Income and Living Conditions (EU-SILC) show that 9.4% of the EU population was unable to keep their home adequately warm in 2015; 9.1% accumulated arrears on their electricity bills and 15.2% lived in home with a leaking roof, damp walls, porous window frames or floors. Energy poverty has harmful effects on individuals' physical and mental health, on their capacity to find or keep a job, and on their social connections, ultimately impacting growth and the economy, especially in vulnerable communities. Furthermore, there is also a safety issue component. Households faced with energy poverty do often have old appliances and fires originating from obsolete electricity systems amount to 280,000 in Europe every year.⁴

Although energy poverty is widespread across Europe, it is unevenly distributed across social groups and territories.⁵ Some studies highlight a tripartite division, with the Mediterranean region particularly affected due to falling incomes in the wake of the euro area crisis;⁶ central and eastern European countries (CEEC) structurally affected due to poor housing stock and the behavioural consumption legacy of centrally planned economies;⁷ and north-western Europe less affected, with a concentration of energy poverty among the lower income layers of the population.⁸ Other analytical works stress the existence of two macro-regions: core countries (northern and western European countries) and peripheral countries (southern and eastern countries). These groups differ in terms of the recognition of the problem (well-established in the former, limited in the latter), drivers (low incomes, inefficiency, high needs in the former, with housing tenure and infrastructural access to be added in the latter), and relationship with the energy transitions (high retail prices driven by support schemes to low carbon energy in the former, privatisation processes in CEEC).⁹

Elaborating strategic and comprehensive approaches to the fight against energy poverty is a daunting task for policymakers, especially due to the absence of reliable indicators. In general, research makes either use of self-reported information declared by consumers or data indicating the portion of a person's income that is dedicated to energy expenditure.¹⁰ However, both have their limits for policy purposes, as the reliability of indicators has been repeatedly questioned by research.¹¹ As a result, it is estimated that less than a third of member states recognise energy poverty at an official level and only four of them (UK, Ireland, France and Cyprus) have legislated definitions.¹²

Apart from the well-known problem of identifying reliable indicators and a pan-European definition, the design of policy solutions raises further challenges. First, property owners see interventions merely as a cost, as they do not benefit from cheaper energy bills, which are normally borne by tenants. As such, the question of how to split incentives between

landlords and tenants is particularly challenging. Second, the benefits of competition and the possibility to switch suppliers are not always obvious to consumers, who often struggle with excessively complex information reported on their energy bills. Furthermore, the upfront costs of building refurbishment are often exacerbated by small economic scale. Finally, vulnerable consumers do not get sufficient information on how more efficient appliances and smart technologies can optimise consumption and help them save money in the medium to long run.

STATE OF PLAY

The fight against energy poverty at member state level

The primary competence for dealing with energy poverty in the EU belongs to member states, as it is generally addressed through social policies, which remain in the national remit. Energy poverty is also extremely sensitive to local specificities in terms of drivers, and therefore needs tailor-made actions at local level rather than 'one-size-fits-all' interventions from higher governance levels.

Usually, national governments and local authorities fall back on two types of interventions: short-term relief measures and/or structural ones. Short-term measures include financial interventions aimed at providing financial relief to vulnerable consumers, whilst structural measures include additional protection, investment in the energy efficiency of buildings, and measures to increase information and awareness.

Financial interventions may include social support (36%), direct payments (39%), social tariffs (20%), or negotiated tariffs (5%).¹³ Direct payments to vulnerable groups are widespread in the UK and the Nordic countries, whilst social tariffs are more frequent in southern Europe. These financial interventions are often subject to criticism for two main reasons: first, they only focus on affordability, without providing any incentive to behavioural change or to structural interventions, discouraging the transition towards a smarter and greener energy consumption. Second, they often suffer from poor targeting. Recipients are usually identified through the social welfare system, which often targets individuals rather than households or relies on a too narrow range of data. Other consumer protection measures include disconnection safeguards; utilities codes of conduct; and debt protection measures.

Energy efficiency interventions, mainly focusing on building refurbishment, constitute the main structural approach to energy poverty. Again, measures vary across the EU. In the Netherlands and Sweden, rental fees include energy bills, to realign the interests of landlords and tenants. After a refurbishment intervention, a housing cost guarantee ensures that the total cost (rent and energy) does not increase. France uses energy checks, offering grants to tenants for thermal renovation works under conditions related to income and performance.

The increasing role of the EU

The EU raised in recent years its attention to vulnerable consumers, mainly through the development of legislation based on the EU competence related to the internal market for gas and electricity. The 'Third Energy Package' of 2009 asks member states to define vulnerable consumers to apply safeguards, on the condition it does not compromise the effective opening of the market. In the same vein, the Energy Union Communication of 2015 calls on member states to minimise the intervention on tariffs, and – when these interventions are necessary – to spread the cost of protection schemes among non-eligible consumers.

The 2016 'Clean Energy for All Europeans' package¹⁴ contains the review of EU legislation relevant to energy poverty, such as the Electricity Directive, the Energy Efficiency Directive (EED), and the Energy Performance of Buildings Directive (EPBD). Overall, the package puts a specific emphasis on consumers,¹⁵ treating them as an active component of an increasingly decentralised energy market.

The proposed review of the Electricity Directive calls on member states to define a set of criteria to measure energy poverty, monitor the number of households in energy poverty, and report energy poverty levels to the Commission every two years. The directive also requires that customers in arrears are given adequate information on alternatives to disconnection. The EED review asks member states to include a share of energy efficiency measures to be implemented in households affected by energy poverty under the Energy Efficiency Obligation Schemes, making a provision that used to be optional mandatory. The EPBD review requires long-term renovation strategies to contribute to the alleviation of energy poverty. Finally, to assist member states in monitoring energy poverty, the Commission will launch a European Energy Poverty Observatory (EPOV) aiming to increase the availability of pan-European knowledge on the issue and support decision-makers in reporting and developing policy measures.

These recent initiatives contain many positive innovations. First, the proposed legislation pushes member states to acknowledge the problem through reporting obligations, making sure domestic constituencies can hold them accountable on the energy poverty subject. Second, it encourages them to better target short-term measures and consider a progressive phasing out of these measures. Furthermore, by highlighting a preference for fighting energy poverty through social policies rather than market interventions, the Commission seems to acknowledge that price regulation is ultimately ineffective to fight energy poverty.¹⁶ Third, it pushes member states to move towards fighting the structural causes of energy poverty, notably by improving the building stock. Fourth, it facilitates access to information for consumers and switching conditions.

However, important obstacles persist to a more effective fight against energy poverty. First, a lack of consensus on definitions and indicators will continue to be a major obstacle to the elaboration of effective public policy. Some member states are not particularly eager to be subject to mandatory reporting on this topic, as this might expose them to domestic criticism. Second, funding initiatives remain not targeted enough or fit for purpose, as certain interventions – notably those addressing behavioural aspects and access to information – require community-based investment and close contact with consumers. Third, public finance constraints – notably in those countries which are more affected by energy poverty – will continue to undermine the member states' capacity to address the structural causes of energy poverty through public investment.

PROSPECTS

Although the eradication of energy poverty is often perceived as a national competence, the EU has recently demonstrated that it can also play a role. Because EU actions do often open the door to increased awareness and innovative practices in countries where a given issue is not on the governments' agenda, this paper argues that more can still be achieved through the European level.

Making the most out of the European Energy Poverty Observatory (EPOV)¹⁷

The EPOV offers great potential to progress on the fight against energy poverty. It will allow the centralisation of comparable data, which will help better map the problem, understand its interactions with overall poverty, and collect and share information on measures that have been implemented to address this complex issue.

However, the success of EPOV will be determined by its visibility and ability to drive policy changes. To this end, its main objective should be to go beyond the collection of indicators. More specifically, the information provided through EPOV should be used by the Commission as an instrument of policy guidance and promotion of good practices, helping the EU to give advice to member states on what works best. Furthermore, this information should be integrated into the wider spectrum of EU actions around social inclusion. Concretely, EPOV will provide additional information on the social drivers, the consequences and the spread of energy poverty. This information should be taken into consideration when other EU policies, including Cohesion Policy, are developed and when decisions about the allocation of EU funds are made. For instance, a minimum share of EU funds could be allocated to energy refurbishment of housing for low income families in the next multi-annual financial framework (MFF). Lastly, the observatory should stimulate a dialogue with non-state actors, such as businesses, social entrepreneurs, and banks, and increase awareness on the important role they also need to play in developing innovative solutions.

Upscaling social innovation across the EU

Social innovation has been used, mainly in Western Europe, as a tool to combat energy poverty, make consumers more aware of their energy consumption and develop community-based solutions. However, such initiatives are often limited in terms of space and scale. In fact, social innovation is still underdeveloped, in particular in the area of energy poverty and in CEEC. This is both due to challenges related to the identification of poor-energy households, a lack of public recognition of social innovation and difficulties for social entrepreneurs to access funding. Thus, social innovation projects often concentrate on small-scale initiatives with limited budgets, thus restricting their impact to few people.

To encourage social innovation initiatives and recognise their potential in developing customer-oriented solutions, three major steps need to be taken. Firstly, social entrepreneurs need a specific legal status in national legislation and their achievements in countries where social innovation is poorly developed need to receive heightened visibility. Secondly, there should be more awareness about how to develop and implement innovative business models in social areas, for instance, by developing a curriculum to be taught in schools, at university or during vocational training. Thirdly, figuring out how to measure their economic impact is key to demonstrate its economic return on investment and garner support from the banking sector. So far, the work conducted in this area remains patchy. To

give it a European dimension and reach out to countries where energy poverty is high, the ongoing work of the high-level Task Force on social infrastructure¹⁸ should be used to promote successful social infrastructure business models and improve the understanding of what works, where and under which circumstances.

Making energy efficiency for vulnerable consumers a sector worth investing in

Negotiations on the next MFF will start soon and both its volume and structure will certainly undergo some fundamental changes in the post-2020 period, not least because of the impact of Brexit. Such changes should serve as an opportunity to better align EU policy priorities – including the fight against energy poverty – with its funds, and develop new financial instruments to maximise the leverage effect of the EU budget. Too little is currently being invested in social infrastructures,¹⁹ in part because banks, social service providers or social entrepreneurs have little mutual understanding of their constraints. A lot needs to be done to make the EU's existing building stock more energy efficient. To do so, a significant amount of upfront investment is required. In this respect, the European Investment Bank (EIB) should showcase how the financial sector can respond to these social challenges, address the market failures, and disseminate good practices. Recently, the social impact bonds demonstrate that bridging the gap between the financial market and the social sector is possible. The EIB should look into scaling up these innovative instruments.

To conclude, this paper has shown that the multifaceted nature of energy poverty has led to short and long term interventions. Striking the right balance between the two is necessary to address the immediate problem of affordability faced by low-income households and the structural issue of energy poverty. Although most of these interventions take place at the national and local level and because actions by the EU are constrained by its limited competences in the social area, a lot can still be achieved through other channels as presented in this paper. The added value of EU actions in this field, however, should not be underestimated, not least due to the relatively new nature of the concept of energy poverty and the lack of policy experience of many member states to deal with the issue.

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The views expressed in this Policy Brief are the sole responsibility of the authors.

- ¹ This paper summarises the findings of the EPC Energy Poverty Task Force established in 2016 with the support of the Schneider Electric Foundation and the King Baudouin Foundation. The Task Force, kindly chaired by Lieve Fransen, EPC Senior Adviser, brought together a wide number of stakeholders involved in the understanding of and fight against energy poverty, comprising policymakers, researchers, civil society organisations, businesses and social innovators.
- ² This definition is provided in the proposed review of Electricity Directive COM(2016)894. See: <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52016PC0864R%2801%29>
- ³ European Commission (2015), Working paper on Energy Poverty – Vulnerable Consumers Working Group, available at: <https://ec.europa.eu/energy/sites/ener/files/documents/Working%20Paper%20on%20Energy%20Poverty.pdf>
- ⁴ Livre Blanc, "Sécurité électrique résidentielle – Comment propager le progrès ?", Forum for European Electrical Safety (FEEDS), janvier 2017.
- ⁵ S.Bouzarovski, S.Tirado Herrero (2015), "The energy divide: integrating energy transitions, regional inequalities and poverty trends in the European Union", in *European Urban and Regional Studies*, 1(18).
- ⁶ H.Thomson and C.Snell (2013), "Quantifying the prevalence of fuel poverty across the European Union", in *Energy Policy*, 52.
- ⁷ S.Bouzarovski (2014), "Energy poverty in the European Union: landscapes of vulnerability", *Wiley Interdisciplinary Reviews: Energy and Environment*, 3(3), 276-289.
- ⁸ B.Boardman (2010), *Fixing fuel poverty: challenges and solutions*, London, Earthscan.
- ⁹ S. Bouzarovski, S. Tirado Herrero, *Ibid.*
- ¹⁰ P.Heindl, R.Schuessler (2015), "Dynamic properties of energy affordability measures", *Energy Policy*, 86(2015), 123-132.
- ¹¹ H.Thomson, C.Snell (2016), "Definitions and indicators of energy poverty across the EU", in *Energy Poverty Handbook*, *Ibid.*
- ¹² S.Pye, A.Dobbins, *Ibid.*
- ¹³ *Idem.*
- ¹⁴ For a full overview of the package, see: <http://ec.europa.eu/energy/en/news/commission-proposes-new-rules-consumer-centred-clean-energy-transition>
- ¹⁵ S.Fischer (2017), "Energy Union: delivery pending", *Policy Perspectives*, 5(1), Centre for Security Studies – ETH Zurich.
- ¹⁶ European Commission (2015), *Ibid.*
- ¹⁷ EPOV has been awarded to a pan-European consortium of six key organisations including the EPC and led by the University of Manchester.
- ¹⁸ For more on the high-level Task Force, see: <http://www.eltia.eu/index.php/hltf-on-social-infrastructure>
- ¹⁹ Only 4% of the European Fund for Strategic Investment (EFSI) was allocated to social infrastructures in December 2016, although the social economy is one of its priority sectors.

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