ETUC position on EU proposals to mitigate the energy crisis

Adopted at the ETUC Executive Committee of 28 October 2022

Summary of key messages

- Given the structural nature of the energy crisis, ETUC calls policy makers to engage in a deep reform of its EU energy policies away from liberalisation dogma, that recognizes energy as a public good and that makes effective the right to clean and affordable energy with stronger public service obligations. EU energy policy must foster a just transition towards climate neutrality by 2050 and contribute to the EU strategic autonomy.
- The energy price crisis has considerably reduced the purchasing power of EU workers and has further increased energy poverty in Europe. It has also already strongly impacted Europe's industrial basis, especially in Energy intensive sectors. It is high time for policy makers to adopt bold and urgent measures fitted to the scale of the problem. The energy crisis in Europe is a structural problem that requires structural solutions for demand and supply.
- ETUC considers that measures to reduce gas and electricity consumption are absolutely essential for EU's energy security this winter as well as to reach climate objectives and build the EU open strategic autonomy. While urgently needed, the energy demand reduction measures should however not impact the most vulnerable who have already reached the limit of what they can save. A socially fair renovation wave must be the cornerstone of the EU strategy to reduce its energy demand from households. In the same way, demand reduction measures should not be implemented at the expense of Europe's industrial basis. ETUC would also not accept demand reduction measures that would put at risk people's jobs and that would not offer adequate compensation and protection for those workers.
- Guaranteeing EU's energy security also means to massively invest in its domestic energy supply and related infrastructures to produce the volumes of clean and affordable energy needed to reach the climate law objectives while reducing Europe's dependency on imported energy. To achieve this in a way that is fair for workers, the EU should urgently implement its REPower EU plan as well as its European Green Deal and accompany them with a strong just transition legal framework. Diversifying EU's suppliers and ensuring sufficient gas storage are important measures to cope with the urgent risk of supply disruption, and to mitigate price hikes, but it will not fix the structural energy dependence of Europe.
- ETUC welcomes measures to tax windfall profits such as the cap on revenues made by submarginal electricity producers and the solidarity contribution. However, trade unions ask to go further by increasing the taxation rate and by extending them to other companies and speculators who made significant gains on the market.
- ETUC calls EU policy makers to swiftly adopt measures to limit gas prices. The option of a price cap on gas imported to the EU deserves to be explored but, if applied, should be designed in a way that does not put at risk the security of energy supplies. In parallel, Member States should urgently agree on a common gas purchasing policy, mandatory requirement to reduce gas demand and intensify diplomatic talk with supplier countries while ensuring the respect of the highest human rights and environmental standards along the full supply chain.
- ETUC calls EU policy makers to agree on a structural reform of the electricity market that will secure investment at scale in the additional generation capacity needed as well as in developing the infrastructure to transport, store and distribute clean power. That reform must also prevent that fossil fuels set the price of decarbonised electricity. ETUC also suggests to cap the price of gas in electricity generation at a level that helps bring down electricity prices, with a financial mechanism that relies partly on contributions coming from the excess profits made by some energy compagnies.
- A European integrated energy system is a key requirement to deal with the energy crisis in a coordinated and solidaristic way. Implemented measures must keep developing the European energy infrastructures and avoid to fragment the European energy system.

Background

Since the Russian invasion of Ukraine, gas, oil and coal prices have skyrocketed in Europe, which in turn also dramatically increased electricity prices on EU markets. This energy price crisis has already considerably reduced the purchasing power of EU citizens and has further increased energy poverty, especially among low and middle income households for whom it has become extremely difficult – for some of them almost impossible – to pay their energy bills[1]. At the same time, this energy inflation puts at risk the viability of many European companies and therefore threatens working people who are worried for their jobs and wages.

We have now reached a point where gas and electricity prices in Europe are at odd with EU's key economic and social objectives. In parallel, we see some energy companies and speculators making huge and indecent profits out of the crisis. It is high time for the European Union to act and to protect European citizens before this situation leads to a major social, economic and democratic crisis. If this energy price crisis affects so hugely the European economy, it is because of its dependency to imports of fossil fuels, the failed renovation wave and the under-investment in domestic renewable energy production.

As an attempt to mitigate energy prices, the European Commission released on 14 September 2022, a proposal for a Council Regulation on an emergency intervention to address high energy prices. This package was adopted by the European Council on 30 September.

A few weeks later, on 18 October, the Commission put forward an emergency package of measures on gas. This Commission's proposal is still being discussed by Energy Ministers and Heads of States.

This ETUC position aim at making a first assessment of those emergency measures, and at providing concrete recommendations for additional measures to adress the crisis.

Obligations to reduce gas and electricity consumption : absolutely essential for energy security but not at the expense of most vulnerable

As part of the package, the Council agreed to a voluntary overall reduction target of 10% of gross electricity consumption and a mandatory reduction target of 5% of the electricity consumption in peak hours. Member states will be free to choose the appropriate measures to reduce consumption for both targets.

ETUC welcomes this decision and stresses that demand reduction measures, along with more energy efficiency and circular economy, are absolutely essential if we want to guarantee the security of energy supplies this winter.

At the same time, policy makers need to make sure that demand reduction measures do not impact the most vulnerable households who have already reached the limit of what they can save. A socially fair renovation wave, based on higher standards and regulations must be the cornerstone of the EU strategy to reduce its energy demand from households. In the same way, these measures should not be implemented at the expense of Europe's industrial basis. ETUC would not accept demand reduction

[1] *It should be noted that precarious workers, retired people, young people, migrants and women are publics particularly at risk of energy poverty.*

measures that would put at risk people's jobs in the long term and that would not offer adequate compensation and protection for those workers.

Guaranteeing EU's energy security also means to massively invest, especially through public investments, in its domestic energy supply and related infrastructures to produce the volumes of clean and affordable energy needed to reach the climate law objectives while reducing Europe's dependency on imported energy. To achieve this in a way that is fair for workers, REPower EU and the European Green Deal should be urgently complemented by a strong just transition legal framework. Diversifying EU's suppliers and ensuring sufficient gas storage are important measures in the short term to cope with the urgent risk of supply disruption, and to mitigate price hikes, but it will not fix the structural energy dependence of Europe.

Measures to tax windfall profits : a good first step but too late and too timid

As part of the package, the Council also agreed to cap the market revenues at 180 euros/MWh for electricity generators that use inframarginal technologies to produce electricity, such as renewables, nuclear and lignite. Such system will allow Member States to capture the difference between this limit and the actual income earned by producers and then redistribute it to households and companies in difficulty. The measures also leaves flexibility for Member States to maintain or introduce national measures that further limit market revenues of generators, for example through a lower cap.

In parallel, Member states agreed to set a mandatory temporary solidarity contribution on the profits of businesses active in the crude petroleum, natural gas, coal, and refinery sectors. The solidarity contribution would be calculated on taxable profits made in the fiscal year starting in 2022 and/or in 2023, which are above a 20% increase of the average yearly taxable profits since 2018. Those profits would be taxed at a rate of at least 33%. This solidarity contribution will apply in addition to regular taxes and levies applicable in member states. Again, member states will use proceeds from the solidarity contribution to provide financial support to households and companies and to mitigate the effects of high retail electricity prices.

ETUC has been calling for a long time for a tax on windfall profits made by energy companies as a result of the war in Ukraine and the energy price crisis[2]. We take note of both decisions to limit the income of sub-marginal electricity producers and to establish a solidarity contribution on the excess profits made by oil, gas and coal companies. However, these measures remain insufficient and should go a lot further. We ask the Council and the Member States to increase the taxation rate of the solidarity contribution from at least 33% to 100%. Windfall profits come from the bills of workers and families that are now struggling to light and heat their homes. If the solidarity contribution is set to at least 33%, it means that those companies still make windfall profits on the remaining 67%, which is immoral and unfair for those citizens who have seen their energy bills skyrocket.

The cap and the solidarity contribution should last as long as the inefficiencies and turbulence in the markets are ongoing. ETUC calls on the Commission to implement such tax on excessive profits as soon as possible and to extend it to other companies

[2] *More generally, ETUC has also been advocating for a tax on windfall profits made by companies who have benefitted from the pandemic and for a wealth tax. More effective antitrust legislation can also help prevent unjustified price increases from occurring in the first place.*

and speculators who made significant gains on the market as a result of the war in Ukraine. Policy makers should to make sure that the European legal framework allows national governments to develop legally sound policies without giving energy multinationals loopholes to challenge these excess profit taxes with lawsuits. In parallel, ETUC asks that energy companies are encouraged to suspend dividend payment, at least for the year 2023 and to use that money to invest in decarbonation of their activities and support for energy poors as a solidarity measure

When it comes to the revenues generated by those measures, ETUC calls the Commission, the Council and the Member States to make sure that the money captured through the cap and the solidarity contribution is used to immediately reduce the energy bills of low- and middle-income citizens. These additional revenues should also lead to massive public and private investment to tackle the structural causes of the energy crisis by financing: demand reduction measures, additional generation of decarbonised energy and the development of energy infrastructures. Support provided to compagnies in hardship must be conditional to strong social and environmental conditionalities.

The Iberian system, a solution to reduce electricity bills in the short term

Complementary to the measures proposed by the Commission, ETUC believes that the Commission should also explore the creation of a temporary EU-wide measure to limit the price of gas used for electricity generation. Such a mechanism implemented in Iberian Peninsula has demonstrated how it can quickly mitigate electricity prices. However, to be generalised it requires to be done in a coordinated manner at EU level. Moreover, it would also require a financial mechanism to limit the impact on public finance. Therefore, ETUC urges the EU policy makers to set up an EU framework to cap the price of gas in electricity generation at a level that helps bring down electricity prices without fragmenting the EU energy system, without undermining the Climate Law objectives, but with a funding mechanism that would rely among other sources on contributions coming from the windfall profits made by some energy compagnies. However, this would not solve the problem of gas prices when it comes to heating or industries using gas as primary source of energy or as feedstock. This requires other specific solutions.

Concrete measures to mitigate gas prices are urgently needed

On 18 October 2022, the Commission tabled several proposals to mitigate gas prices: (1) the creation of a new LNG pricing benchmark by March 2023 complementary to the Dutch TTF ; (2) in the meantime, the introduction of a temporary mechanism to establish a dynamic price limit for transactions on the TTF gas exchange, and a temporary collar or bandwith to prevent extreme intra-day price spikes in derivatives markets; (3) a mandatory joint purchasing of gas to meet at least 15% of their respective storage filling targets of the gas storage capacity and (4) default solidarity rules between Member States in case of supply shortages. Those proposals are now being discussed by Heads of Member States and Energy Ministers.

ETUC stresses the need to act on the issue of skyrocketing gas prices, reduce the volatility of the market and mitigate energy prices. However, at the time of adoption of this paper, many uncertainties remain with regard to the design, implementation and consequences of some of the measures proposed by the Commission, notably the dynamic price limit and the alternative benchmark. ETUC therefore asks the European

Commission to make a quick impact assessment to bring more clarity on what these proposals will entail.

Independently from what the Commission proposes, ETUC notes that a price cap on all gas imported to the EU spot market has been identified as necessary by a series of member states. ETUC is favourable to this idea and this proposal certainly deserves to be explored. Trade Unions however insist that, if adopted, such mechanism should always be designed in a way that ensures security of supply and the free flow of gas within Europe. The EU should engage early on in diplomatic talks with supplier countries to explain the reasons for such a price cap and to discuss the modalities of it. European policy makers must, in parallel, intensify their discussions with producers of gas imported by pipeline which is more difficult to deviate than LNG transported by cargo ships. Gas producers should understand that it is also in their interest to sell their gas at affordable price to avoid a major economic and democratic crisis in Europe.

In any case, Member States would also need to agree on a mandatory commitment to save gas demand beyond the current 15% reduction plan. This would in itself contribute to lower gas prices through lower demand. In its absence, the decrease in gas prices could result in increased gas consumption and a corresponding need for rationing which would put at risk European solidarity and energy security.

In any case, Member States should urgently agree on a common gas purchasing policy to allow the European Commission to negotiate gas contract in the name of all 27 EU countries. This joint purchasing should be mandatory and should go beyond the Commission's proposal of at least 15% of storage capacity. This would help avoid Member States competing one against each other on the international market and give more leverage to the EU to negotiate fair gas prices on international markets.

During their discussions, governments should keep in mind that actions taken at national level have important spillovers on other member states, so a coordinated approach at the European level based on cooperation and solidarity is more crucial than ever. Without a common European solution, the risk is that we see more fragmentation on the EU market and that inequalities between EU countries increase.

In that regard, it is essential to avoid unfair competition between Member States when subsiding energy prices to support companies. Moreover, ETUC insists that any state aid granted to companies should be 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 Just Transition agreements with workers.

A reform of the energy market, away from liberalisation dogma, is badly needed

Besides those short term urgent measures, there is also a need to reflect on the way our current energy market works.

In the current context of skyrocketing gas prices, the marginal pricing system leads to excessively high electricity prices for European consumers compared to real production costs. At the same time, this creates enormous windfall profits for energy producers who did not see their production cost increase.

ETUC therefore calls EU policy makers to decouple the electricity price setting mechanism from gas prices. Policy makers should indeed 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 also 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.

Speculation on financial markets also contributes to volatility and price hikes without necessarily reflecting fundamental supply and demand factors. ETUC believes that there should be more ambitious regulations to control those financial markets and prevent excessive speculation.

More generally, ETUC believes that the current crisis should be a wakeup call for policy makers to question the liberalisation of the EU energy market and to rethink its current functioning. EU policy makers should engage in deep reform of the EU energy market that recognize energy as a public good, away from liberalisation dogma. They should revise and improve the design of the energy market, notably when it comes to price setting mechanisms as stated above, emergency mechanisms to regulate energy prices, increased consumer rights in energy contracts, right to long-term fixed contracts for more predictability, reinforcement of public service obligations, the promotion of energy communities, and public ownership where relevant, the creation of a right to energy and eradicate energy poverty[3].

Conclusion

While this position focused on energy policies, the solutions to the energy price crisis go well beyond. To maintain decent living conditions, workers need to receive adequate support in these difficult time. In that regard, wage increases and income replacementthat are at least in line with inflation and productivity development as well as a SURE 2.0 are key conditions to maintain people’s purchasing power. Social dialogue and collective bargaining also constitute key tools to guarantee fairness and solidairty during this crisis. For more details about ETUC broader demands, see ETUC campaign “End the Cost of Living Crisis: Increase Wages, Tax Profits!”

---

[3] For more details, see Resolution “ETUC recommendations in light of the Energy price Crisis” adopted on 22 June 2022.