

**Opinion of the European Economic and Social Committee on 'Energy poverty in the context of liberalisation and the economic crisis' (exploratory opinion)**

(2011/C 44/09)

Rapporteur-general: **Mr Sergio SANTILLÁN CABEZA**

On 9 February 2010, with a view to its forthcoming presidency of the Council of the European Union, the Belgian government decided to consult the European Economic and Social Committee, under Article 304 of the Treaty on the Functioning of the European Union, on

*Energy poverty in the context of liberalisation and the economic crisis*

(exploratory opinion).

On 16 February 2010, the Committee Bureau instructed the Section for Transport, Energy, Infrastructure and the Information Society to prepare the Committee's work on the subject.

Given the urgent nature of the work, the European Economic and Social Committee appointed Mr Sergio SANTILLÁN CABEZA as rapporteur-general at its 464th plenary session, held on 14 and 15 July 2010 (meeting of 14 July), and adopted the following opinion by 124 votes in favour, with six abstentions.

## 1. Conclusions and suggestions

1.1 The prices of electricity, gas and other fuels such as coal are still rising, and this trend looks set to continue in the coming years, which means that, unless swift and effective action is taken, the number of vulnerable energy consumers could also increase markedly. The purpose of this opinion is not to consider the causes of energy price increases but to highlight the need to protect vulnerable consumers, in order to prevent situations of energy poverty.

1.2 Combating energy poverty is a new social priority that needs to be tackled at all tiers of government and the EU should provide common guidelines to ensure that all Member States adopt the same approach to eradicating this phenomenon. The work done by the EU in recent years on protecting vulnerable customers deserves to be highlighted. Many Member States, however, are still not fulfilling their obligations, and as a result, the EU should take action in line with the principle of subsidiarity, as defined in Article 5 TEC, when Member States do not comply with the measures that have been put in place.

1.3 While energy poverty affects the energy sector, it also impacts on other sectors such as health, consumer affairs and housing.

1.4 The EESC suggests that the EU adopt a common general definition of energy poverty that can then be adapted by each Member State. One option would be to define energy poverty as the difficulty or inability to ensure adequate heating in the dwelling and to have access to other essential energy services at a reasonable price. Although this is a general definition, other criteria could be added in order to bring the concept into line with developments in society. This would help to quantify and tackle energy poverty more effectively.

1.5 The Committee considers that existing statistics should be harmonised so that the most rigorous assessment possible can be made of the energy poverty situation in Europe. With this in mind, it is suggested that Eurostat and Member States' statistical offices adopt homogenous statistical methods that enable them to quantify the extent of energy poverty.

1.6 In the EESC's view and whilst acknowledging the existence of the Citizen's Energy Forum (London), it would make sense to set up a European Energy Poverty Monitoring Centre, which could fit within an existing body such as the Agency for the Cooperation of Energy Regulators, or any other body that could help involve all economic and social stakeholders who deal directly or indirectly with energy poverty such as energy suppliers, consumers, health and environmental associations, unions, and energy supply and construction company associations, for example. This group would be extremely useful to identify current good practices in the Member States, in order to make use of new mechanisms for tackling energy poverty and to promote an objective, accurate assessment of the effects of energy-market liberalisation on vulnerable consumers.

1.7 The Committee proposes that account be taken of energy poverty when any proposal on energy policy is drawn up.

1.8 The EESC wishes to stress the need to make technological innovations that optimise energy use available to vulnerable consumers, who are in greatest need of them.

1.9 It is important to implement approved measures relating to the energy performance of buildings and, in this case, of private homes. Given the difficulties that low-income households may face, the Member States should consider setting up assistance measures as and when possible.

1.10 Decentralised energy production may, in some cases, help to achieve the aims set out in this opinion (see point 6.8).

## 2. Energy poverty in the EU

2.1 Use of energy and access to it are linked to the wellbeing of individuals and communities. Amongst its many applications, energy is crucial to mobility, heating and lighting in areas such as industry, health and farming, and also in home life and leisure activities.

2.2 The concept of energy poverty can therefore be viewed in macro- or micro-economic terms. Access to sufficient and high-quality energy for industry, farming and other sectors is essential to a country's prosperity and competitiveness and its absence can lead to economic crisis, unemployment and widespread poverty. This opinion, however, focuses primarily on the energy policy affecting domestic use.

2.3 Energy poverty occurs where a household finds it difficult or impossible to ensure adequate heating in the dwelling at an affordable price (by way of reference, it might be worth adopting the definition used by the World Health Organization, which considers an adequate standard of warmth to be 21 °C in the living room and 18 °C in the other occupied rooms, or any other definition deemed technically appropriate) and having access to other energy-related services, such as lighting, transport or electricity for use of the Internet or other devices at a reasonable price. Although this is a general definition, other criteria could be added in order to update the concept when necessary.

2.4 Energy poverty is not an easily quantifiable phenomenon, although it can be measured on the basis of variables such as: a household's inability to keep the home adequately heated (21 % in the EU-27, Eurostat), the percentage of the population in arrears with their bills (7 % in the EU-27 in 2007) or the number of homes with leaks, cracks or other problems affecting the building (18 % of the EU-25 in 2007, EU-SILC Survey 2007). Although the lack of relevant statistics and studies mean there are no reliable data on the number of people affected, by comparing the known variables and taking account of a number of studies that have been published, it is estimated that, in Europe, at least 50 million people are afflicted by energy poverty (*Tackling Fuel Poverty in Europe. Recommendations Guide for Policy Makers*. [www.fuel-poverty.org](http://www.fuel-poverty.org)). Some estimates, however, claim the figures are much higher.

2.5 Not only is it difficult to quantify the extent of the problem, but there are also contradictions between European and national statistics. To give one example, EU-SILC data states that no one in the UK is in arrears on fuel bills, whilst the national energy regulator (Ofgem) puts the figure at 5 % ([www.fuel-poverty.org](http://www.fuel-poverty.org)).

2.6 The number of families affected by energy poverty in Europe could increase, given that:

- approximately 16 % of Europeans are at risk of poverty (Joint Report on Social Protection and Social Inclusion. European Commission 2009)

- from 2005 to 2007, the price of gas for households rose on average by 18 % (Eurostat 2007)

- from 2005 to 2007 the price of electricity for households rose on average by 14 % (EU-SILC Survey 2007)

- over 60 % of the EU's housing stock was built with no regard for thermal regulation standards.

2.7 Energy poverty is caused by a combination of three factors: low income, inadequate building quality and high energy prices.

2.8 The knock-on effects of energy poverty can include health problems, disconnection from the network by the energy supplier, energy being under-used to a level below what is comfortable, and the accumulation of debt.

2.9 The most vulnerable social groups are also those with the lowest income, such as the over-65s, single-parent families, the unemployed and those in receipt of social security benefits. Most people with low incomes also live in buildings with inadequate thermal insulation (*Housing Quality Deficiencies and the Link to Income in the EU*, Orsolya Lelkes. European Centre, March 2010), which exacerbates their energy poverty.

2.10 Some Member States have already adopted measures (*Good practices experienced in Belgium, Spain, France, Italy and United Kingdom to tackle fuel poverty* published by the EPEE working group) that are helping to prevent situations of energy poverty. Most of these good practices focus on the causes, such as:

- energy prices (for example, 'social' or subsidised tariffs);

- building quality (for example, promoting greater energy efficiency in both public and private housing);

- low income (for example, financial assistance).

Similarly, some Member States have taken corrective measures to mitigate the consequences of energy poverty, such as prohibiting the disconnection of vulnerable families at critical times, for example.

2.11 Improving energy efficiency in buildings is a key aspect of addressing energy poverty. The proposal to recast the Directive on the energy performance of buildings COM(2008) 780 final could represent an opportunity in this field.

### 3. The economic and financial crisis is reflected in 23 million unemployed

3.1 The European economy is experiencing its deepest recession since 1930. In 2009, EU-27 GDP was 4.2 % down on 2008, a year in which growth was already low (+0.8 %). There has been a steep increase in unemployment, which in January 2010 accounted for 9.5 % of the active population (1.5 percentage points more than in the same month in the previous year). As a result, in the first month of 2010, 22 979 000 men and women were out of work. In percentage terms, the lowest unemployment figures were recorded in the Netherlands (4.2 %) and in Austria (5.3 %); the highest levels were seen in Lithuania (22.9 %) and in Spain (18.8 %) (Eurostat).

3.2 Europe's Economic Recovery plan of late 2008 has not produced the hoped-for results. Just as worrying as the data on the current situation is the fact that the prognoses that have been made to date (including those made by the Commission) predict 'weak' recovery in the near future. Although fiscal stimuli equivalent to 5 % of GDP (for the EU-27) have been launched, these are insufficient and no properly coordinated "exit strategy" exists for dealing with the crisis.

3.3 The economic and financial crisis that started in 2007 occurred against a backdrop in which European workers' pay was stagnating or falling. Furthermore, the economic measures proposed in some Member States to reduce the high level of debt and the public deficit are having an effect on social security benefits (such as pensions and unemployment benefits, for example) and on public services.

3.4 All of this creates a worrying outlook for the households that are most vulnerable in the face of rising energy prices.

### 4. The EU's energy policy

4.1 The desire to liberalise the energy markets has been one of the EU's key policies in the last two decades. Following the Energy Council of June 1987, which kick-started the process, the first directives on opening up the gas and electricity markets were published in the late 1990s and since then, numerous steps have been taken in this direction.

4.2 Broadly speaking, the stated aims of the liberalisation process were to achieve a more efficient energy sector and a more competitive European economy. Not all Member States agreed on the measures adopted, however, and indeed some are strongly resisting implementing these policies.

4.3 There is currently considerable concentration of supply in the wholesale market both for gas (in 10 Member States, the three largest suppliers control 90 % or more of the market) and for electricity (above 80 % in 14 Member States) (COM(2009) 115 final).

4.4 Liberalisation benefits consumers if it genuinely promotes competition, but in a number of Member States,

public monopolies have been replaced by private oligopolies and as a result, there is a need to step up measures to promote transparency and competition in the energy sector.

4.5 It is therefore worth highlighting the need for the measures contained in the Third Energy Package to be implemented. These are aimed at establishing a real energy market based on cooperation between States, and include the better interlinking of networks, better coordination between operators and greater powers for national regulators.

### 5. Liberalisation should benefit consumers

5.1 Liberalisation favours energy decentralisation and diversification and should be a means of achieving some key gains, such as lower energy prices and guaranteed supply, improved service quality, greater choice, and a choice that is adapted to meet the needs of consumers in general and of vulnerable consumers in particular. Member States' initial experiences have, however, revealed problems due to the lack of transparency in tariffs and the high prices, amongst other things.

5.2 In the majority of Member States, prices in the first half of 2009 were higher than in 2008, although the trend in oil prices would indicate a more significant fall in end user prices. In part, this may be due to the time lag with which price changes on the oil market are factored into the end-user prices. However, it appears that the fall seen in wholesale energy costs has not been fully reflected in end-user prices (see COM(2009) 115 final).

5.3 As a consequence, electricity and gas supply services are having a less than satisfactory impact on household budgets. 60 % of consumers have stated that their energy provider has increased prices, as opposed to only 3-4 % that have seen reductions. Electricity and gas supply services have also posted particularly poor results in terms of comparing services and ease of changing supplier. The energy sector is where consumers change provider the least: only 7 % have changed their gas provider, with 8 % of customers having changed their electricity provider (European Commission. 2nd EU Annual Consumer Markets Scoreboard Report, 2 February 2009).

### 6. European action on energy poverty

6.1 Energy poverty is a new social priority, which needs support at all levels. Although the legal documents presented by the EU <sup>(1)</sup> are good ones, the reaction of the Member States has to date been inadequate. By way of example, despite the fact that they were made mandatory in the common market directives on gas and electricity (first Directive 2003/54/EC and then Directive 2009/72/EC), only 10 of the 27 Member States provide social tariffs for vulnerable customers and in only 8 Member States is the term 'vulnerable customer' in common use (*Status Review of the definitions of vulnerable customer, default supplier and supplier of last resort*. ERGEG, 2009).

<sup>(1)</sup> OJ L 211, 14.8.2009, p. 55, Art. 7.

6.2 Not all Member States are addressing this problem and those that are, act on their own, without seeking synergies with others, which makes it harder to identify, assess and deal with energy poverty at the European level. To give one example, the United Kingdom's definition differs from the one used by the other Member States, taking the view that energy poverty occurs when a household needs to spend more than 10 % of its income in order to heat its home to an adequate standard of warmth. Even within EU documents, the definition varies.

6.3 Every Member State acting within the established rules of competition (national, regional or local), is responsible for tackling energy poverty, but in the absence of effective national legislation on gas and electricity, the EU must take action, in line with the principle of subsidiarity, as defined in Article 5 TEC. Where other fuels, such as coal, are concerned, responsibility lies solely with the Member States.

6.4 The European Union legislates on energy policy, has powers in this field and consequently has an impact, whether direct or indirect, on energy poverty in the Member States. The EU must, therefore, act and deliver policies within its sphere of competence.

6.5 The European Commission proposed the European Charter on the Rights of Energy Consumers (COM(2007) 386 final) 'Towards a European Charter on the Rights of Energy Consumers' and the European Parliament Resolution of 19 June 2008 (P6 – TA(2008) 0306), on which the EESC has stated<sup>(2)</sup> that a binding legal form would be needed to guarantee the public's rights, as has been done on other occasions<sup>(3)</sup>. The Commission withdrew this charter and included some of the points in its Third Package, on the grounds that this would have a greater impact (for example, Articles 7 and 8 of Directive 2009/72/EC).

6.6 As regards the subject of this opinion, it is worth recalling, the text of the EU Charter of Fundamental Rights, which states that 'In order to combat social exclusion and poverty, the Union recognises and respects the right to social and housing assistance so as to ensure a decent existence for all those who lack sufficient resources, in accordance with the rules laid down by Community law and national laws and practices.' (Art. 34), and the duty to ensure a high level of consumer protection (Art. 38).

6.7 The EESC would reiterate the importance of ensuring the universal service guarantee is in place, respect for public service obligations, the protection of social groups that are economically disadvantaged and which face energy poverty, for example by prohibiting disconnection at critical times, economic, social and territorial cohesion and prices that are reasonable, easily and clearly comparable, and transparent<sup>(4)</sup>.

6.8 The EESC wishes to highlight the potential benefits in some cases for consumers - including the most vulnerable ones - of decentralised energy production, because this would:

- bring production closer to consumption centres, by installing smaller units, thus reducing energy loss through transport (for electricity, estimated at between 7 % and 10 %);
- promote the generation of renewable energies;
- boost technological development;
- have the potential to create jobs and complement centralised energy production.

Brussels, 14 July 2010.

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*of the European Economic and Social Committee*  
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<sup>(2)</sup> OJ C 151, 17.6.2008, p. 27.

<sup>(3)</sup> OJ L 46, 17.2.2004, p. 1.

<sup>(4)</sup> OJ C 151, 17.6.2008, p. 27.