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ENERGY POVERTY

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SPECIAL REPORT

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Around 31 million Europeans were living in energy poverty in 2019, a figure that is set to rise this year because of the coronavirus crisis and soaring energy prices, affecting the most vulnerable in society.

In this special report, EURACTIV looks at the drivers of energy poverty and the measures envisaged at the EU and national levels to prevent it from spreading further.

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Energy crisis could worsen poverty for millions of Europeans

By Frédéric Simon and Kira Taylor | EURACTIV.com

The energy crisis, combined with the COVID-19 crisis, could see 80 million people left to choose whether to heat their homes or buy food this winter, warns the NGO Friends of the Earth [Gerd Altmann / Pixabay]

Energy prices have skyrocketed in the past months, increasing the concern that millions of Europeans will have to choose between paying their bills and putting food on the table this winter.

"Unfortunately, the vulnerable will be made to pay the price for the volatility of our fossil fuel energy system," said Martha Myers from Friends of the Earth, an environmental NGO.

"It is a tragedy that in one of the richest continents in the world, one in four European households and more this winter are having to make the decision between heating their homes and having food on the table," she told EURACTIV.

Around 31 million Europeans were living in energy poverty and were unable to keep their homes adequately warm, according to Eurostat figures cited by the European Commission in its 2021 State of the Energy Union report.

However, many say that number may be underestimated because there is no common definition of energy poverty across Europe, which makes it difficult to evaluate the extent of the problem.

For instance, the Commission's Joint Research Centre calculated in 2019 that 50 million people were living in energy poverty – almost 20 million more than the EU's latest estimates.

Myers warned this number could rise to 80 million because of the current energy price crunch combined with the impact of the COVID crisis.

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The European Commission has acknowledged the risk of rising energy poverty in its recent "toolbox" of proposals to assist EU member states in dealing with high energy prices.

"While the recent price hikes affect everyone, the energy poor and the low and lower middle-income households are most impacted because they spend significantly higher shares of their incomes on energy," the EU executive said.

Although the rate of energy poverty varies from country to country, researchers say the ongoing energy price hike is made worse by the COVID-19 crisis, which has pushed some households closer to the brink.

"What we could expect is worsening existing energy poverty, more than people actually falling into energy poverty – at least that's from the data that we have in France," said Camille Defard, a research fellow for EU energy policy at the Jacques Delors Institute.

"We've seen that there are not more poor people, but the poorest are poorer due to the COVID-19 crisis. I think we could expect potentially similar results, due to the energy crisis," she told EURCTIV.

Already before the pandemic, one in five people in the EU were at risk of poverty and social exclusion – or around 110 million people, according to the President of the European Economic and Social Committee (EESC).

PAPERING OVER THE CRACKS

Across Europe, countries have rolled out measures to alleviate the impact of energy prices that crept up over the summer and grew to an international crisis by mid-autumn.

In the short term, solutions include temporary tax reductions and lump-sum payments to low-income households to help them pay their energy bills. Spain, France, Italy, and Greece have all brought in measures like these to help vulnerable households.

To guide national governments, the European Commission put forward a "toolbox" of measures in October that countries can use to tackle the crisis. The toolbox includes short term and long term solutions to alleviate pressure on households and small businesses "without harming the EU internal energy market or the green transition in the medium-term".

EU member states also have access to a treasure chest of €10.8 billion in additional revenues generated from the EU's emissions trading scheme that were accrued since the start of the year, the Commission pointed out.

"There is no limit to how much of this can be used to protect vulnerable households," said the EU's energy commissioner, Kadri Simson.

A PERMANENT CRISIS?

In the long-term, the solution put forward by Brussels is to decrease reliance on imported fossil fuels by ramping up energy savings and boosting the amount of home-grown renewables in Europe's energy mix.

"The only long-term remedy against demand shocks and price volatility is a transition to a green and more efficient energy system based on mostly local sources," Simson said, adding that wind and solar power "have continued to provide the most affordable electricity on the market throughout the crisis".

However, the energy transition will take time, and some are warning that volatility on energy markets is likely to remain high because the green transition will create more uncertainty for oil and gas.

"There will be a long-term increase in energy prices because of the environmental transition," said French economy minister Bruno le Maire, who predicted that this will be "one of the major political issues for the coming years".

Claude Turmes, the energy minister of Luxembourg, used similar terms during a recent press briefing in Brussels. "The question is whether there will be more volatility on energy markets on the way to climate neutrality in the long term," he told journalists. "And that is something which is not completely surprising, because fossil investments are less secure in the mid to long term and so safety margins in these markets are probably smaller."

Consumer groups point out that the energy crunch has exposed some of the contradictions of the green transition: while ditching imported oil and gas has become even more urgent, protecting consumers from price fluctuations will become increasingly necessary during the transition.

"What's happening now is a bit of an eye opener when it comes to the green transition," says Els Bruggeman, from Euroconsumers,

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an organisation with members in Belgium, Italy, Portugal and Spain.

"Some argue this situation won't last beyond Spring 2022. But probably it will happen again, especially when you consider the green transition. We will need much more flexibility in terms of gas back-up in case of shortages of renewable energy. And with more renewables coming into the electricity grid, it is not excluded this situation could happen again," she said.

"More than ever, it has become clear that the green transition must be a just transition. And if you don't have everyone on board, including consumers, it's not going to work," Bruggeman told EURACTIV in an interview.

ENDING ENERGY POVERTY GLOBALLY

Energy poverty is not just an issue in Europe. On a global level, one of the United Nations' sustainable development goals is to ensure access to "affordable, reliable, sustainable and modern energy for all," including significantly increasing the amount of renewables in the world's energy mix.

Over the last decade, there has been significant progress, with the number of people without access to electricity dropping from 1.2 billion to 759 million. The share of renewables has also increased from 16.3% to 17.3%.

But there is still a lot to be done to achieve a clean energy mix for the global population.

"An energy revolution based on renewables and energy efficiency is urgently needed not just to accelerate economic progress and development, but also to slash emissions that are rapidly warming our planet," according to the UN's report on energy access.

The report warns that the energy sector is still dominated by fossil fuels, which account for 73% of human-caused greenhouse gas emissions. These must be halved by 2030 to avoid increasing the frequency of extreme weather, population displacement and food and water insecurity, it says.

"As governments start to define a pathway out of the COVID-19 crisis, we must now ensure that all countries have the chance to be part of an energy transition that seizes the opportunity to significantly improve the wellbeing of people, and planet," the UN report reads.

INTERVIEW

Consumer group: 'Middle class people are also very much affected by rising energy prices'

By Frédéric Simon | EURACTIV.com

Short term measures adopted by EU member states in response to rising energy prices are just a patch, argues Els Bruggeman from Euroconsumers, a civil society group. In the long run, Europe needs to adopt a more structural approach, she argues. [Yevhen Prozhyrko / Shutterstock]

The energy crunch has highlighted the high share of taxes paid by consumers for their gas and electricity. With the energy transition expected to cause further volatility on fossil fuel markets, a shift in energy taxation is now becoming an urgent priority, according to rights group Euroconsumers.

Els Bruggeman is head of advocacy and enforcement at Euroconsumers, an organisation with members in Belgium, Italy, Portugal and Spain. Marco Pierani is public affairs & media relations director at Euroconsumers.

They spoke to EURACTIV's energy and environment editor, Frédéric Simon.

Energy prices have risen across Europe, raising concerns about heating bills going up ahead of winter. Governments across Europe have taken measures to support vulnerable households during the crisis, so what is your assessment so far: have governments done the right thing and are European consumers well protected against rising prices?

Els Bruggeman: It's true, the situation varies from country to country, and so far, the national measures being taken are very different.

However, they are all a reaction to a common trend in all EU countries caused by geopolitical problems with Russia not delivering sufficient gas or a lack of wind this summer.

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Now, governments are obviously very different from country to country – some, like France, have distributed energy vouchers to consumers, others have implemented temporary tax reductions on electricity bills or offered social tariffs.

But this is just a patch – in the long run, we will need to have more structural approaches. Prices have quadrupled in some places, and consumers with variable contracts are particularly badly affected right now. For them, this is becoming a very pressing matter.

And it's not just about vulnerable consumers, it's also middle-class people who are also very much affected by rising energy prices. This is a huge problem, especially when you consider that we need the support of all of them to make the green energy transition happen.

What are the common problems and potential solutions for consumers across Europe?

Els Bruggeman: A common features we see in each country where Euroconsumers is active are the high taxes and all kinds of levies paid by consumers in their gas and electricity bills.

These are turning energy bills into an extra tax sheet. If we want to keep energy affordable for all consumers, especially during the green transition, we need to do something about this.

Whether you have a low or high income, the taxes and levies remain the same. This means reducing energy bills to what they are supposed to be – a payment for getting actual gas or electricity.

Making a tax shift is now becoming an urgent priority.

Marco Pierani: More generally, consumers at the moment have no real perception of price from the demand side, which is a problem if Europe wants to create an internal energy market.

We believe Europe should seize the occasion created by this crisis to push ahead of the energy transition and react as a single market. We think the approach should be to have a more consistent and harmonised European market and geopolitics.

The European Commission presented a toolbox of measures a few weeks ago. Do you believe this was an appropriate response from the European Union to the crisis? What more – if anything – could the EU have done?

Els Bruggeman: The toolbox contains a lot of good potential measures that can be adopted at the national or European level. The way out will probably be a combination of many measures.

However, if anything, we believe the best way forward is to become less dependent on imported fossil fuels.

What's happening now is a bit of an eye-opener when it comes to the green transition. More than ever, it has become clear that the green transition must be a just transition. And if you don't have everyone on board, including consumers, it's not going to work.

This crisis has shown us that consumers are not prepared for this kind of increase in energy prices. And if we want and be ready for the next one, we need to have a broader rethink of how to manage the energy transition.

EU countries have very different poverty levels and different ways of approaching energy pricing – some have fixed tariffs, for example, while others have variable tariffs. How can the EU effectively respond to the crisis given those discrepancies?

Els Bruggeman: It's worth having a closer look at the behaviour of suppliers. We noticed how energy providers could sometimes play with the energy pricing system – a bit similar to what banks do when they speculate on financial markets – allowing them to make a lot of profit.

However, responsible energy providers don't rely completely on the wholesale market but anticipate changes in energy prices over the long run and use buffers as hedging strategies to offer more stable and affordable prices to consumers.

What is also clear is that, more than ever, we need to have a European internal market for energy with better interconnections and competition.

Marco Pierani: For us, market integration at the EU level should go

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alongside the transition to renewable energy. This is something that needs to be tackled today by the European Union at the highest political level.

Currently, governments are using public money to tackle the immediate effects of the crisis, but this is not sustainable in the long run. So we need to reshape the market. And the two levers we have is better integration of the energy markets and pushing ahead with the green transition.

Do you believe this crisis calls for an acceleration of the energy transition and can be a catalyser for it?

Marco Pierani: For sure, this crisis is an eye-opener. The economy has restarted, but the production and distribution of energy are not responding efficiently. This is a huge problem and an opportunity to further the integration of European energy markets, provided there is political leadership.

Els Bruggeman: From the EU perspective, it's also a perfect opportunity to accelerate the adoption of energy and climate laws in the 'Fit for 55' package.

Some countries – essentially in the Eastern part of the EU – have blamed the European Green Deal and the EU carbon market for making the crisis worse. Do you agree?

Els Bruggeman: Holding on to old recipes is not the solution. The green transition is not the problem, on the contrary, we believe it is part of the solution. Because the only way to cut our dependency on volatile gas prices and geopolitical situations is to be self-sufficient and have enough renewables to provide energy to European consumers.

From a certain point of view, it might seem easier to fall back on old solutions. But it's not the way forward, and we firmly believe the only way is to speed up the transition.

This crisis made us realise that this transition needs to be ambitious yet happen gradually, in a just and managed way.

With the green transition, the price of fossil fuels generally is likely to remain high and volatile in the long term. Do you believe social support measures will need to become permanent as a result?

Els Bruggeman: Consumers will always need to have access to affordable gas during the transition. But the long term goal is clear – it's to have a more integrated EU energy market based on renewables and energy efficiency.

That said, there might be times when gas prices will be high and others when they will be really low. So the question is, how do energy providers position themselves in a market that is becoming more and more volatile?

One way for them to do this is to turn to the stock market and potentially make some big profits. But they can also use the price fluctuations to hedge their bets and ensure stable prices for consumers.

So, when talking about managing energy prices, we should also have a closer look at the responsibility of the suppliers.

Supporting vulnerable consumers in the short term often implies direct income support like the €100 energy vouchers that was decided in France. However, these are essentially subsidies for fossil fuel consumption. When do you believe these measures should be withdrawn?

Els Bruggeman: Yes, it's necessary at the moment to support all consumers who are the most heavily impacted – not just the poorest or the most vulnerable.

However, in parallel, there must also be massive investments in longer-term solutions like building renovation, energy efficiency, solar panels, heat pumps, etc.

We don't believe these are mutually exclusive; on the contrary, they should go hand-in-hand. But we know this is a gradual process and that it will take years to get legislation like the 'Fit for 55' package adopted and implemented.

The climate social fund, alongside the Just transition mechanism, was one of the flagship proposals of the European Commission to address social issues related to the Green transition. Do you believe this proposal provides an answer commensurate with the scale of the challenge when it comes to the social aspect of the energy transition?

Marco Pierani: The social responses should be more intense during times of crisis because energy is a fundamental right for consumers – they cannot be left without lighting or heating.

So, the EU climate social fund probably goes in the right direction, but we lack intensity and speeding up

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the implementation of projects. We also believe energy providers should have clearer obligations under the EU internal market to behave more responsibly towards consumers. We are stronger together, but we need to have a framework in place to support his ambition.

So essentially, you're supporting the calls by Spain and France to have a more profound reform of the electricity market in response to the crisis?

Els Bruggeman: It's not really **about supporting one particular** country or a **specific point of view. But as a consumer organisation, being confronted every day with the real problems consumers are facing**, it is our job to raise questions and have a closer look to see if everything is still working as it should.

On a more general note. Until now, a lot of attention went to protecting vulnerable consumers, and we fully support this, it's very much necessary. But there is also the biggest group which is the middle class, who also need support. Probably the measures for them will be different, but they cannot be ignored.

On a more general note. Until now, a lot of attention went to protecting vulnerable consumers, and we fully support this, it's very much necessary. But there is also the biggest group which is the middle class, who also need support. Probably the measures for them will be different, but they cannot be ignored.

Is the energy price crisis a wake-up-call for Europe that we should be phasing out gas more quickly?

Els Bruggeman: Yes, we believe so. Many were already convinced about this before this crisis came about. And for those who weren't, I hope this will be a wake-up call.

We all realise it's very unreliable to be so dependent on gas. And the only way to be less dependent is to rely more on the self-production of renewables. It's a no-brainer – we need to do it for the climate anyway, and it has become even clearer with the crisis. But we need to do it in a just way, keeping all consumers on board.

Europe's social climate fund too small to make a difference, critics say

By Kira Taylor | EURACTIV.com

EU climate chief, Frans Timmermans, has said he wants to see energy poverty eradicated by 2030, but some are worried the Commission's proposals could make it worse [Christophe Licoppe / EC Audiovisual Service]

The European Commission proposed a "social climate fund" to protect vulnerable people from changes brought by the energy transition. Still, it is not fit for purpose, according to researchers and policymakers in the European Parliament.

The EU executive's proposal came as part of a July package of climate legislation and was sold as a way to ensure the most vulnerable households are included in the green transition.

But the fund has been criticised for falling short of what's needed to support the poorest European households. And the money is expected to come from a separate proposal to introduce a carbon market for road transport and buildings, which critics say risks fuelling energy poverty.

According to the Jacques Delors Institute, a think-tank, this second Emissions Trading Scheme for transport and heating fuels risks worsening the social challenges associated with the energy transition.

The higher energy bills created by the carbon price could have significant social consequences for European families in return for only limited decarbonisation benefits, the think tank warns in a paper written by researcher Camille Defard.

She argues that "the Social Climate Fund as currently proposed will not be enough to mitigate the negative and unfair effects of the ETS II on Europeans, leading to a high risk of social unrest".

The European Parliament and EU countries, who are currently debating the legislation, should "bury" the proposal, according to Defard.

Speaking to EURACTIV, she said the European Commission should decouple the social climate fund from the second ETS in order to avoid compensating for the price increase. Instead, the fund should use additional revenues from the original ETS, which were far higher than expected this

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year, she argued.

The proposed fund is something environmental organisations like Friends of the Earth have been campaigning for, but the proposed funding mechanism tied to the second ETS has made them hesitant to support it.

"The Commission has made it very hard for us to support and be behind them on this because they have put the social climate fund as a kind of add-on measure to push through a very regressive climate policy," said Martha Myers from Friends of the Earth

"It [risks] millions of Europeans entering into energy poverty and experiencing energy rationing, which is exactly what we don't need going into the last half of this decade," she told EURACTIV.

Similar criticism has come from EU countries, like Poland, whose opposition to the idea has only strengthened since the energy price crisis hit European consumers in the Autumn.

"We are already observing a very worrying situation regarding rising energy prices and the Commission's proposals may significantly worsen the situation," said the Polish climate and environment minister, Adam Guibourgé-Czetwertyński [at a ministerial meeting in October](#).

The creation of a separate ETS for transport and heating for buildings "could lead to a further significant increase in the prices of energy, especially in countries where a high percent of households rely on coal-fired boilers", warned Guibourgé-Czetwertyński.

But the European Commission has made it clear that the social climate fund will remain connected to the ETS.

"No ETS, no social climate funds, so then we will have to look for other ways to help our citizens," warned the EU's climate chief, Frans Timmermans.

The European Commission maintains that the social climate fund will help, even if it remains attached to the new ETS.

Asked by EURACTIV about the concerns, a Commission spokesperson said: "The Commission realises that the transition towards a climate neutral economy may impact different regions and groups differently. Therefore, fairness and solidarity are key principles of the European Green Deal."

"Through the new Social Climate Fund, the Commission will provide €72.2 billion in current prices for the period 2025-2032 in the EU budget, using in principle 25% of the additional revenues from the ETS extension. The proposal is to combine this with national contributions of at least 50%. This would allow the Fund to mobilise €144.4 billion for a socially fair transition," they explained.

TOO LITTLE, TOO LATE

But the amount of money available is also the subject of criticism. Even leaving out the controversial connection to the second ETS, the social climate fund will come too late and will not provide enough money to end energy poverty in Europe, according to Cornelia Ernst, a German member of the European Parliament for the Left.

"We see a big problem – a €72 billion Social Climate Fund over seven years, starting in 2025. This is really very, very conservative. We think we need an earlier start and we think the money is not [enough]," Ernst told EURACTIV.

The European Parliament should push for an earlier implementation of the fund, she insisted.

Defard also warns about the funding coming late, saying protection for vulnerable families will only happen at the "eleventh hour".

There is also concern that the fund is just not large enough to alleviate the impact of the second ETS and provide money for building renovation programmes or green mobility solutions.

According to a European Commission spokesperson, "The fund will enable member states to provide direct income support to vulnerable low and middle-income households, transport users, and micro-enterprises as well as support green investments, including investments into energy efficiency and renovations of buildings, clean heating and cooling, and integrate renewable energy, and access to zero- and low- emission mobility."

However, many are convinced the fund will fall short of that.

"Even if we're just looking into renovation costs, it's not even going to scratch the surface of what this fund has to deliver on. And that's before we get into obviously addressing the upfront of Community Energy ownership, renewables access, heat pumps. And finally, of course, green transport, which is itself a hugely expensive infrastructure change," said Myers.

Europe's energy price hike fuelled by speculators, Spain and Poland say

By Frédéric Simon | EURACTIV.com

Spain has called for measures to restrict speculation on the EU carbon market, saying it has driven up electricity prices. "EU ETS trading should not be available to all agents, especially not to speculators with market power," it said in a paper sent to the European Commission in September. [Rafael Matsunaga / Flickr]

In the face of rising energy prices, Spain and Poland have called for trading limits to be placed on the world's largest carbon market, the EU Emissions Trading Scheme (EU ETS). Market analysts, however, say speculative positions are currently too small to be statistically significant.

Is a price bubble building up on the EU carbon market, fuelling the ongoing energy price hike? According to Madrid and Warsaw, the answer is yes – at least partially.

"There is a significant correlation between increasing price levels [o the ETS] and the increased presence of non-incumbents in the market, especially after July 2020," the Spanish government said in a 'non-paper' sent to the European Commission on 30 September.

The paper was sent after a rapid surge in electricity prices, which analysts say is caused primarily by a squeeze in gas supplies coming from Russia.

Meanwhile, the cost of CO2 permits on Europe's carbon market has contributed "about one fifth" to the energy price increase, according to Frans Timmermans, the EU's climate chief.

Still, Spain called for measures to restrict trading on the EU carbon market, saying speculation has driven up electricity prices.

"EU ETS trading should not be available to all agents, especially not to speculators with market power," it said in the non-paper.

For Madrid, the EU carbon market should act as a signal for industry to decarbonise, not as a tool for speculators to make easy money. "If financial speculation, rather than real factors, drives prices up too quickly, it threatens the smooth transition to an industry powered by clean energy," it argued.

"A bubble on EU ETS is the last thing we need," Madrid warned.

Spain is not alone in pointing the finger at speculators. An almost identical message came from Poland, which said the price surge seen on the ETS "is driven by speculation rather than market fundamentals."

"The price hike of ETS allowances we are witnessing since the summer of 2020 raises concerns over a potential market bubble," Warsaw said in a 'non-paper' of its own, circulated in

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October.

"This is putting the financial credibility of energy companies at risk, hindering the green transition of their assets and overburdening our most vulnerable citizens," it added.

ENERGY POVERTY CONCERNS

For Poland, the issue is not only about the green transition – it's also about protecting people from energy poverty. In a country where GDP per capita is below the EU average, cushioning the impact of higher energy prices on small businesses and consumers is a top political priority.

According to Warsaw, the "creation of the new financial mechanisms and expansion of the existing instruments preventing and reducing energy poverty are needed urgently."

Those mechanisms, it added, should be "embedded in EU funds" and "focused in particular on households, with an objective to address adverse social effects of the EU climate policy today and in the future".

Poland also accused Moscow of engineering Europe's gas supply squeeze and called on the European Commission's antitrust department to look into potential abusive practices on the gas market.

At an EU summit in October, heads of states instructed the European Commission to look further into the issue, asking the EU executive to "study" trading behaviour on the EU carbon market and crack down on potential abuse on energy markets.

But until now, no smoking gun has been found.

A preliminary assessment by ACER – the EU Agency for the Cooperation of Energy Regulators – detected "no obvious indication nor evidence of systematic manipulative behaviour or insider trading" on wholesale electricity markets.

The agency only noted that nations with higher shares of natural gas and low interconnectivity with neighbouring countries were the most exposed to fluctuations in electricity prices.

Similarly, the European Securities and Markets Authority (ESMA) said growing interest from banks and hedge funds in the EU carbon market was no evidence of abusive behaviour.

"Open positions held by investment funds and other financial counterparties remain relatively low," ESMA said in a preliminary assessment report.

Besides, the breakdown of open positions held by different categories of market participants – banks, hedge funds or traditional players – "does not appear to have significantly changed since 2018 and is broadly in line with the expected functioning of the market," it said.

Yet, it would be incorrect to say speculators have had no influence on the ETS.

"In our work, we come to a different conclusion than ESMA," said Dr Michael Pahle, a researcher at the Potsdam Institute for Climate Impact Research (PIK) in Germany.

"Financials might be more of a looming than a present threat to allowances markets," Pahle told EURACTIV in emailed comments. But with the number of CO2 allowances set to shrink over time and the number of market actors widening, "allowing financials to operate without sufficient monitoring controls is a recipe for turmoil and serious market disruption," he warned.

"In light of this, much better monitoring and integrated regulation combining financial and environmental market aspects is urgently needed," Pahle said, noting that ESMA had also identified some data integrity issues on the ETS.

Other economists have taken a similar view. In a study published on 30 June, researchers Robert Jeszke and Sebastian Lizak said volatility on the EU carbon market is "resulting mainly from the growing role of speculative entities" and "can contribute to forming a price bubble."

To prevent market instability, Jeszke and Lizak recommended introducing some kind of 'safety valve', which can be triggered when the situation requires it.

DATA SHOWS GROWING INTEREST FROM SPECULATORS

But does the data actually confirm those claims?

Florian Rothenberg, an analyst at commodity intelligence services firm ICIS, took a deep dive into ESMA reports.

According to the data, "speculative positions from financial players have been building up since May 2020, increasing by 40 million tonnes of

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CO_2 equivalent in net long holdings on the secondary market at the end of 2020 and oscillating between 40-64 million tonnes ever since," he told EURACTIV.

"And at the same time, the price increased as well," Rothenberg remarked.

New players on the EU ETS market include hedge funds, and commodity trading houses. But their positions are currently too small to be really significant, he cautioned.

"Currently there is oversupply of 1.4 billion allowances on the market. And speculative players from the financial sector – mainly hedge funds – hold about 46 million allowances on the secondary market, according to ESMA. So the fraction is very small."

Besides, he said speculative positions on the market are held mainly by traditional players like power companies, which are required by law to cut their emissions under the ETS and buy allowances in anticipation of higher carbon prices in the future.

"Overall, we would estimate there are between 150 and 200 million speculative positions, of which two thirds approximately are held by the classic players on the market – so those industries covered by the ETS like the power generation sector," Rothenberg said.

"What's kind of new – and where the concern may be coming from – is so-called ETFs, or Exchange Traded Funds, which hold a long position of 11 million allowances," Rothenberg continued, saying these positions have increased significantly and could be blocking carbon allowances that would otherwise be available to traditional market participants.

"However, we don't see this to be a high risk at the moment, because the volume is not large compared to the oversupply in the EU ETS," he added.

For Rothenberg, a bigger driver behind the CO_2 price hike is the general tightening of gas supplies and the widespread anticipation by market players about growing scarcity on the carbon market, which is driven by the EU's more ambitious climate policies.

Anyway, he said, speculation is not always a bad thing.

"It would be lying to say that there is not a growing interest from speculators. But speculation is not necessarily a bad thing – it's something that helps to establish more market liquidity and price visibility and thus operators and regulated industries to hedge against future price fluctuations."

Poland and Spain have called for restricting access to the EU ETS for financial players – basically reserving a greater share of carbon allowances to the industries covered by the ETS.

But Rothenberg dismissed the idea. "At what price would they trade? Would it be a lower price for compliance players? It doesn't sound very realistic," he said, adding: "Introducing holding limits as part of the current reform in my view would be rather counterproductive."

And in case there is a sudden shortage of carbon allowances on the market, Rothenberg says mechanisms are already in place to stabilise the price.

"The European Commission already has tools like Article 29 (a) for example: If the carbon price would increase very rapidly, then they can decide to bring in more volume and liquidity to the market so that compliance players can buy volume."

If anything, Article 29 (a) "is one of the elements that could be strengthened during the ongoing reform" of the ETS, he says.

GAS MARKET REFORM

For others, the upcoming revision of EU gas market rules, due on 14 December, is also an opportunity to crack down on speculators.

"The EU should use the opportunity of the gas directive revision at the end of the year to look more precisely at the behaviour of some traders on the market," said Claude Turmes, the energy minister of Luxembourg.

"There are indications that there are some extremely speculative traders on the market. And probably there is a need in this gas directive to come up with more detailed regulation on traders," he told journalists during a visit to Brussels on 1 October.

Turmes also proposed imposing a minimum of hedging to all market participants to prevent excessive speculation on gas markets.

"It's very important to understand that most gas companies in Europe have hedging strategies. We know that they have bought gas over the last year and a half at much lower prices. They have hedged their risks, and the price rise during the winter should be contained," he said.

STAKEHOLDER OPINION

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Tackling high energy prices and fighting energy poverty – a view from Poland

By Adam Guibourgé-Czetwertyński

Adam Guibourgé-Czetwertyński is the Undersecretary of State at the Polish Ministry of Climate and Environment.. [PKEE]

Citizens across Europe are currently struggling with the challenge of skyrocketing energy prices. Over the last year, the prices of coal have risen nearly three times, the prices of natural gas in European markets have risen even ten times in this period.

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Surging energy prices translate into higher costs for consumers, either directly in energy bills or indirectly – through rapidly growing prices of other goods and services. Various Member States, including Poland, are introducing immediate measures to provide relief for their citizens and businesses. But urgent action at the EU level is also necessary. Following the discussion at the October European Council, the Commission is tasked with analysing the causes behind the energy price spikes, including potential manipulations on the gas and ETS markets.

On the EU gas market, the issue is pretty clear: the dominant supplier is not responding to market signals and is abusing its market position. In order to ensure security of supply, protect its citizens and businesses, the EU needs to act firmly against these practices, in particular through bringing actions under EU competition law. Equally importantly, the EU acquis must be fully enforced with regards to import infrastructure.

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The rising cost of ETS allowances is an issue that often seems to be overlooked in Brussels. It is the crucial one for Poland and other CEE countries, as it has a significant impact not only on electricity but also on heating prices.

In Poland, about 5.8 million households, i.e. about 15 million people, make use of district heating systems. This accounts for about 40% of all households across the country. The district heating sector has been recently under strong pressure of cost drivers. Moreover, the district heating sector is particularly vulnerable to rises in the prices of emissions trading allowances. Given that coal is a key fuel in the district heating sector, the cost of emissions trading allowances, similarly to the prices of fuels, will result directly in the rise in the prices of heat for customers.

The problem is serious, especially for the most vulnerable households in countries like Poland, where winters tend to be long and cold. This social aspect is one of the reasons why we need effective safeguards against speculation and excessive increases in the price of ETS allowances. The role of ETS is to promote cost-effective emission reductions, not to drive businesses into bankruptcy or citizens into poverty in the meantime.

Poland's energy system is undergoing a far-reaching transition. We are heavily investing in energy efficiency and in renewable energy sources. But wind and solar depend on weather conditions, so they need backup. Energy storage solutions can help to integrate renewables, but the high costs of batteries and limited availability of critical minerals are important barriers in their development.

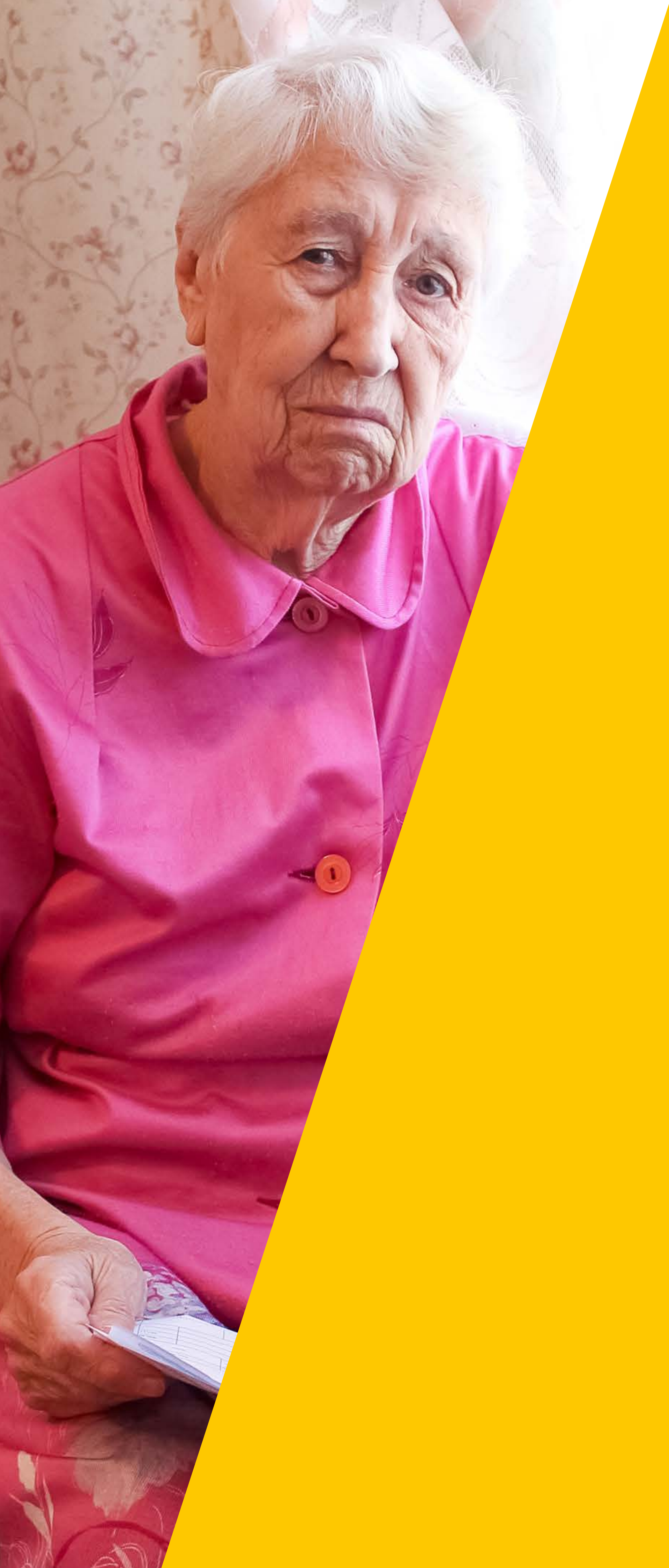
In Member States still dependent on most emissive fuels like coal or oil, natural gas will be the optimal transitional solution for the years to come. It enables rapid reduction of CO2 emissions, eliminates air pollution and helps to stabilize electricity grids, allowing fora growing share of renewable power. When it comes to large-scale district heating, a switch from coal to gas is currently the only viable way to reduce emissions and keep homes warm at the same time.

We need a positive investment climate for all low-emission and transition technologies. This is why it is so important that the Commission urgently adopts the complementary delegated act, allowing for the inclusion of nuclear energy and gas in the EU Taxonomy.

COP26 in Glasgow sends a clear message: the worldwide emissions gap needs to be significantly reduced. The "Fit for 55" package, tabled by the Commission this summer and currently under discussion in the Council and Parliament, will be key in delivering emission reductions in the EU. But we need to look carefully at each measure from the "Fit for 55" proposal and ask ourselves a few simple, but important questions. Is it likely to increase energy poverty? Could it put an excessive burden on our businesses or citizens? Will it really be helpful in cutting our emissions and carrying out a successful and just transition?

If the risk for consumers is high and the emission reduction potential is low, then perhaps we should be looking for alternative solutions. For example, rather than extending ETS to buildings and transport maybe we should focus on improving EU-wide standards? Perhaps Member States should retain flexibility in energy taxation if it allows them to reduce energy bills and prevent further energy poverty?

Our climate and energy policy needs to be ambitious but also socially acceptable. Putting too much pressure on households and individual consumers may lead to social rejection of the EU's climate goals and undermine the whole transition effort. In response to the current energy price crisis, Poland is working on introducing a compensation mechanism dedicated to vulnerable households. But we need European solutions as well. If we want the EU climate policy to be truly successful, we must ensure that no one is left behind.



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