CENTRE FOR EUROPEAN REFORM
LONDON ★ BRUSSELS ★ BERLIN
1998-2023

Press release

New CER analysis finds Europe is not investing enough in alternatives to Russian fossil fuels.

A new Centre for European Reform policy brief, 'Europe needs fiscal and energy solidarity', evaluates how European countries – and the EU – have responded to high energy prices. It assesses the investment needed in alternatives to Russian fossil fuels, and whether the EU should finance more of the energy transition collectively.

According to our analysis, European governments have spent four times more on energy price controls, rather than giving households cash transfers. Cash transfers are a better tool than price controls for conserving energy, because households could turn down thermostats and spend the money on other things.

Only a third of energy subsidies have been targeted on poorer and other vulnerable households – the rest has gone to everyone unconditionally. That unconditional support should be phased out now that energy prices have fallen from their autumn highs. But according to gas futures markets, they're likely to be higher than the pre-war average for several years. The European economy needs to adjust to those higher prices and switch rapidly from gas, oil and coal to other energy sources.

Governments should switch towards higher investment in buildings insulation, heat pumps, renewables and upgrading electric grids. According to our analysis, the increase in public funding for energy efficiency investment has been very small since Russia's invasion of Ukraine, especially when compared to the spending on energy subsidies.

The money needed for energy investment is very big. The extra public spending needed to meet 2030 climate targets will be around €250-300 billion a year across the EU. The EU is making left-over Recovery and Resilience Facility (RRF) lending available to member-states to spend on getting off Russian gas. But the subsidy provided through lower borrowing costs is small – our rough calculations make it around €6 billion a year to 2026, when the RRF ends.

Commenting, one of the report's authors, Elisabetta Cornago, said: "*The huge amounts that governments have spent on energy subsidies through the past year show that governments can step up energy spending when it's necessary. As high energy prices are expected to persist for the next few years, EU governments should tune down untargeted subsidies and focus on supporting consumers who are at risk of energy poverty. Governments should increase incentives for investment in energy efficiency: that would structurally reduce the consumption of fossil fuels, lower energy prices and improve Europe's energy security.*"

The other author, John Springford, said: *"To speed the transition away from Russian energy – and to meet climate targets – the EU should consider more joint borrowing for a climate fund, which should be much larger than the amount spent under the Recovery and Resilience Facility on energy. That would lower the cost of the energy transition, and ensure that poorer or more indebted member-states undertake the investment that's needed. The EU is obsessing about the US Inflation Reduction Act, and its own subsidies for green tech manufacturers. It should spend more resources on getting energy costs down, with alternative sources and more energy efficiency."*

Note for editors:
For further information on the new research and to request an interview with Elisabetta Cornago @ElisabettaCo or John Springford @JohnSpringford please contact Octavia Hughes in the CER press office on pressoffice@cer.eu or +44 (0) 20 7233 1199.

The Centre for European Reform is a think-tank devoted to making the EU work better and strengthening its role in the world. The CER is pro-European but not uncritical. Follow us on Twitter: @CER_EU