CAN
CLIMATE ACTION NETWORK
Europe

Fair Relief, Not Fossil Lock-In:

Short term measures to address Europe's energy price crisis and a long term strategy to exit fossil fuel dependency

Non-paper

April 2026

Contents

Authors

Olivier Vardakoulias, Isabelle Brachet, Christophe Jost (CAN Europe).

1. Introduction

The current energy price crisis highlights the European Union's structural vulnerability to external shocks and dependency on fossil fuels. Beyond the tragic human toll, the devastating conflict in the middle-east has heightened uncertainty in global fossil fuel markets, driving volatility in energy prices. Given the EU's continued dependence on fossil fuels, these disruptions quickly translate into higher energy costs for households and businesses across Europe.This may in turn, as happened in 2022, trigger generalised inflation and exacerbate the cost of living crisis. Energy poverty is already now a major challenge in the EU with 47 million Europeans affected, who are unable to afford adequate energy to ensure a decent standard of living.

In this context, short-term policy responses are necessary but must be carefully calibrated. Rather than broad market interventions that distort price formation and bleed public budgets, the focus should be on targeted and temporary support measures, such as direct income transfers or targeted subsidies such as transport and energy vouchers for vulnerable households. Depending on the fiscal capacity of Member States, and the proportion of the population in energy poverty or at risk of poverty, the scheme can also be extended to cover a larger proportion of the population e.g. lower middle class and middle class.

Preserving the price signal is crucial, as it encourages energy savings and maintains incentives to shift away from fossil fuels. By avoiding direct interference in fossil fuel markets, these measures can cushion the social impact of price shocks while remaining consistent with the EU's long-term objective of reducing dependency on fossil fuels and advancing the energy transition.
Last but not least, while the impact of the current fossil fuel crisis through price rises is hitting people in Europe hard, it is also having particularly devastating consequences on people in the Global South. This underlines the urgent need for debt cancellation and financial support. Therefore, the Santa Marta Conference on Just Transitioning Away from Fossil Fuels comes at a decisive moment. It is an opportunity to send a clear political signal that the fossil fuel era is ending and that governments, particularly the EU, must translate this into concrete phase-out frameworks. The EU should seize this momentum to align its internal energy security agenda with emerging global leadership on fossil fuel phase-out, including efforts towards an international roadmap and stronger cooperation between Global North and South.

The first part of this briefing aims at presenting a hierarchy of options that are available to policy makers for short-term impacts, including those that we consider less effective, so that CAN Europe members can better assess policy interventions implemented in Member States.

The briefing uses colour codes:

- Green – the best solutions.
- Yellow – acceptable solutions.
- Red – the worst solutions.

The options are evaluated across **three key markets** – gas, electricity, oil – reflecting the different dynamics that shape each of them.

As those short term measures should be part of a long term strategy to provide structural solutions for Europe's energy security, strategic autonomy, and right to energy, the second part of this briefing outlines key elements that should underpin such a vision.

2. Short-term measures

This note is about measures that can provide some **temporary marginal relief**, but cannot address the structural fact that, given the EU's energy mix, any significant increase in global oil & gas prices will trigger significant costs to the EU economy; Indeed, the European Commission assessed that in the first 17 days of the Iran crisis alone, the EU has spent about EUR 6 billion more on fossil fuel imports. marginal measures can only ensure a fair distribution of immediate costs (between consumers, companies and taxpayers) whilst ensuring that structural incentives for accelerating the energy transition remain in place.

We are focusing on **microeconomic interventions in specific markets**. To address wider impacts to the economy (e.g. generalised inflation, sizable increase of food prices due to reduced supply of fertilisers & energy costs) other macroeconomic measures will be necessary. For example, a generalised deepening of the cost-of-living crisis will require more systemic redistributive measures linked to our wider policy demands (e.g. extreme wealth tax, etc.).

Doing nothing is not an option as this means suppliers will pass these costs directly to consumers. Households face bills they cannot pay; businesses face costs they cannot absorb. This would be **socially and politically unacceptable:** It would lead to increases of energy poverty, widespread disconnections, and a political backlash that could destabilise governments and undermine public support for the energy transition. It would be **economically problematic:** Energy-intensive industries could close or relocate, leading to job losses and deindustrialisation. The economic damage would far outweigh the cost of intervening.

The evaluation of possible policy measures is based on a list of principles – namely:

Distributional progressivity	Does the measure protect the vulnerable while ensuring the wealthy pay their fair share?
Maintaining Incentives	Does it maintain a price signal that encourages demand reduction, efficiency, and fuel-switching?
Fiscal sustainability	Is it affordable, and does it avoid creating permanent fiscal problems, esp in a context when ECB rates may increase due to inflation and nearly half of member states' public spending is heavily constrained by the EU fiscal rules?
Fossil fuel subsidy minimisation	Does it avoid channelling public money directly into fossil fuel consumption / fossil fuel producers by increasing enormously fossil fuel subsidies as happened in 2022?
Political and administrative feasibility	Can it be implemented quickly and explained clearly to citizens?

It is important to bear in mind that, despite the fact there are preferable options vis-a-vis the criteria laid out above, those may not always be feasible depending on the national context. A mix of measures and policies will have to be put in place, mostly at national level, taking into account the energy mix, the ability to identify those in need of support, the level of the energy price increase, and lessons learned from measures implemented back in 2022-2023.

2.1. **Transversal measures**

Before looking at market-specific measures for oil, electricity and gas, Member States have at their disposal a set of transversal measures that can both alleviate the social and economic impacts of the current crisis and structurally reduce dependence on fossil fuels. A European framework should be introduced to coordinate these efforts and provide guidance and support to member states to introduce the following measures:

A fossil fuel excess profit tax

In response to the 2022-2023 energy crisis, the EU already introduced a temporary solidarity contribution on oil, gas and coal companies, targeting at least 33% of profits exceeding historical averages. This type of windfall profit tax is designed to capture extraordinary rents arising from crisis conditions rather than productive investments. For example, T&E reports 1.3 billion EUR excess profits by refiners and distributors of road fuel since the start of the attack on Iran, part of which could fall under the scope of an EU tax. A windfall tax on fossil fuel profits and inframarginal electricity generators (renewables, nuclear, coal) who benefit from crisis-driven prices is urgently needed. Member states should build on this precedent to introduce a permanent differentiated corporate tax framework for fossil fuel companies (see below section III).

Sufficiency and demand reduction measures

Represent a crucial, cost effective response. Such measures can ease pressure on the global markets with positive impact on prices. The EU has already demonstrated the potential of coordinated demand reduction, for instance through voluntary and mandatory targets to cut gas and electricity consumption during the crisis in 2022. Policies in this area include behavioural changes (e.g. reduced heating and cooling, more teleworking options etc.), efficiency improvements, and demand-side management to shift or reduce peak consumption. A coordinated demand reduction at EU level would contribute to reducing pressure on global demand, limiting the resulting price increase and Europe's dependence on imported fuels. Such measures can deliver rapid relief to consumers while lowering system costs and exposure to volatile fossil fuel prices. The IEA recently identified 10 measures that can be implemented quickly by governments, businesses and households, focussing primarily on road transport. Special attention should be paid to luxury consumption patterns.

Social Climate Fund and ETS2 frontloading

Member States can leverage financial instruments to address energy and transport poverty and ensure a socially fair energy transition. The SCF is specifically designed to redistribute revenues from the new Emission Trading System for buildings and transport (ETS2) towards vulnerable households. Few countries submitted their Social Climate Plans on time. These documents should be seen as crucial levers to identify beneficiaries and roll out concrete measures rapidly towards them without any delay. In addition, the ETS2 frontloading facility allows earlier access to expected carbon revenues for Member States to finance social support and clean investments before carbon pricing takes full effect. These tools can be complemented by existing EU funds and national schemes to provide targeted income support, finance energy efficiency renovations and accelerate the uptake of clean heating and mobility solutions - which is the mid-term solution to end our fossil fuel dependence.

Short-term measures to shield consumers from energy price volatility

Green – the best solutions
Yellow – acceptable solutions
Red – the worst solutions

Oil market (petrol, diesel, heating oil)

- Option 1: Three-legged approach
- Option 2: Targeted VAT reduction
- Option 3: Generalized tax cuts
- Option 4: Retail price cap

Electricity market

- Option 1: Temporary VAT reduction and lower electricity taxes
- Option 2: Market ontervention with targeted protection
- Option 3: Blanket electricity price cap for consumers

Gas market (non-electricity, for heating)

- Option 1: Income-linked rebate
- Option 2: Blanket rebate on gas bills
- Option 3: VAT cut on gas
- Option 4: Price cap on gas

2.2 Market-specific measures

2.2.1 Oil market (petrol, diesel, heating oil)

Market Specificity: Oil is a globally traded commodity; the EU is a price-taker with limited influence over the wholesale price. Demand is relatively inelastic in the short term, particularly for transport and for heating in off-grid rural areas and certain urban areas where oil boilers still dominate. The main social challenge is "transport poverty" – the inability to afford essential travel for work, education, or healthcare. Road transport fuels indeed make more than 47% of oil use in Europe.

Option 1: Three-legged approach

Maintain excise taxes + recycle revenues + excess or windfall profit tax on oil companies

The mechanics:

This approach consists of three interlocking components:

Component A: Maintain the price signal.
We do not cut excise duties or VAT on oil products. The full market price, including all existing taxes, is passed through to consumers. This ensures that the price signal remains intact for everyone. A wealthy household with two cars and a long commute feels the full pain of high prices and is incentivised to reduce mileage, switch to public transport, do car sharing or invest in a more efficient vehicle.

Component B: Capture the revenue.
The high price at the pump generates significant additional revenue for the state through existing VAT. This is not "new" money in the sense of a tax increase—it is a windfall to the public purse resulting from the crisis itself. Alongside this, we impose an excess or windfall profit tax on oil companies. The windfall tax targets extraordinary profits that are clearly a result of the exceptional market circumstances — for example, refining margins that spike far above historical averages. The excess profit tax applies to profits above a certain return of investment, and can be a permanent tax.

Component C: Recycle the revenue.
All revenues from the windfall/excess profit tax, plus a portion of the additional excise and VAT receipts, are used to finance a means-tested "mobility voucher" or direct cash transfer. The voucher should primarily be delivered to households identified as vulnerable through existing tax and social welfare data—for example, low-income families in rural postal codes, recipients of certain benefits, or those with high essential travel needs verified through administrative data. The work carried by Member States to identify and reach the transport poor or those at risk of transport poverty that could benefit from support from the Social Climate Fund would be very useful to help identify those in need. The voucher can be used for fuel or for alternative transport (bus passes, train tickets, bike schemes). Crucially, the amount can be adjusted by region, with higher payments for those in areas with no public transport alternatives.

Depending on the additional public revenue generated, the fiscal capacity of Member States, and the proportion of the population in energy poverty or at risk of poverty, the scheme can also be extended to cover a larger proportion of the population e.g. lower middle class and middle class.

Why this is the best option:

- **Distributional progressivity:** The wealthy pay the full price at the pump and receive no voucher. The vulnerable receive targeted cash support. The system is explicitly designed to transfer resources from those least affected by high prices to those most affected.
- **Incentive preservation:** The price signal remains intact for everyone. A middle-income household still feels the pain of filling the tank and may choose to drive less or do car sharing. A wealthy household still has a strong financial reason to buy an electric vehicle next time. Only those at risk of transport poverty are cushioned, while they still face some residual price signal, encouraging modest energy savings.
- **Fiscal sustainability:** The scheme is self-financing. It does not rely on general taxation or deficit spending; it is funded by the very crisis that creates the need for support. The fossil fuel profit tax (in the form of a temporary or permanent tax) ensures that extraordinary/excessive corporate profits are recaptured for the public good and limit the attractiveness of fossil fuel investments.
- **Fossil fuel subsidy minimisation:** This is not a subsidy on the fuel itself. It is an income supplement which minimizes fossil subsidies. The price at the pump remains high, so no public money is used to lower the cost of fossil fuel consumption in a horizontal/universal way.

It is possible to earmark part of the windfall VAT revenues in place to support commercial vehicles (trucks) by distributing vouchers to companies affected. In addition, this crisis shows the absolute necessity to increase investments in public transport and car sharing services in Europe, on top of providing targeted support to households dependent on oil for their individual car, who are living in areas poorly deserved by public transport.

Option 2: Targeted VAT reduction

Temporary VAT reduction on heating oil for off-grid households

The mechanics:

Instead of a general VAT cut, this measure would apply only to heating oil and only to households in designated off-grid areas. Using postcode-level data and household registries, the government could arrange for a reduced VAT rate (e.g., 5% instead of 20%) to be applied automatically to deliveries of heating oil to eligible addresses. The measure would be explicitly temporary, with a sunset clause of, say, six months or even less, renewable only if crisis conditions persist and under the discretion of the government. It is fundamental to make very clear to fossil fuel companies that they can’t expect such schemes to last, nor trigger legal suits for losing expected profits when they end.

Why this Is only acceptable, not best:

- Better than a general cut: It is targeted to a specific vulnerable group (e.g. off-grid households with main residence) and a specific essential use (heating). It avoids subsidising petrol for wealthy commuters or secondary residences.

- But still flawed: It is administratively complex to implement accurately. It still blunts the price signal for the targeted group, reducing their incentive to invest in insulation or heat pumps. And it is a direct fossil fuel subsidy, albeit a narrow one. It should only be used if the more sophisticated voucher for heating cannot be implemented quickly enough.

Option 3: Generalized tax cuts

Reducing excise duties or VAT on petrol and diesel for all consumers

The mechanics:

This is the classic political response: announce a cut in fuel taxes, often framed as "giving money back to hard-pressed families." The reduction is applied at the pump, lowering the price for everyone who fills up. **CAN Europe opposes such an approach.**

Why this is bad:

- Regressive: The richest 20% of households typically consume far more fuel than the poorest 20%. A tax cut therefore gives the largest absolute benefit to the wealthiest. It is a textbook example of an untargeted, regressive measure.
- Fiscally expensive: Cutting fuel taxes bleeds billions from the public purse at the very moment when revenues are needed for targeted support. The money spent on subsidising fuel for the wealthy cannot be spent on insulating the homes of the poor.
- Destroys the price signal: By lowering the price at the pump, the government actively encourages the same level of consumption that caused the problem. It removes the incentive for energy conservation, efficiency, and fuel-switching.
- Fossil fuel subsidy: It is a direct, unambiguous subsidy to fossil fuel consumption, paid for by taxpayers.

Option 4: Retail price cap

Legislating a maximum price that fuel retailers can charge

The mechanics:

The government sets a legal maximum price for petrol, diesel, or heating oil. Retailers are required to sell below this cap, and the government either compensates them for the difference (using taxpayer money) or forces them to absorb the loss.

Why this is the worst option:

- Massive, untargeted subsidy: It subsidises every litre of fuel sold, regardless of who buys it. A billionaire filling a yacht gets the same subsidy as a nurse filling a small car.
- Eliminates the price signal entirely: With a price cap, there is no incentive for anyone—rich or poor—to reduce consumption. Demand remains artificially high, prolonging the crisis.

- Risk of shortages: If the cap is set below the market-clearing price, demand will exceed supply. Retailers may run out of fuel, leading to queues, rationing, and black markets. We saw this in the 1970s and in some countries during the 2022 crisis.
- Fiscally unsustainable: Compensating retailers for the difference between the capped price and the wholesale price can quickly become an unlimited liability, draining public finances.
- Legally and practically complex: Enforcing a price cap requires a massive administrative apparatus and invites legal challenges from retailers and suppliers.

2.2.2 **Electricity market**

Market specificity: The electricity market design is based on the merit-order system, where the most expensive source of generation (typically gas) sets the price for all electricity. This means that when gas prices spike, the price of electricity spikes for everyone in markets where gas is a frequent price setter, even if most of the power is coming from cheap renewables. This creates enormous windfall profits for generators whilst making electricity unaffordable for households and businesses. Conversely, countries with strong renewable energy in their mix are less exposed to the influence of high gas prices.

Option 1: Temporary VAT reduction and lower electricity taxes

Reducing VAT on electricity for a defined period

The mechanics:

The government temporarily reduces the VAT rate on electricity from the standard rate (e.g., 20%) to a reduced rate (e.g., 6%) for a fixed period, such as six months. It should also strive to shift taxation and levies on electricity in a way to incentivise electrification. The reduction applies to all households and businesses automatically, via their bills.

Why this is a good option:

- Provides immediate relief: It is simple to implement and provides immediate, visible relief on household bills.
- But untargeted: A wealthy household with a large house, a heated pool, and high consumption gets a much larger absolute benefit than a poor family in a small flat. The subsidy is largest for those who need it least. A permanent tax reform should be made progressive with consumption thresholds.
- Reduces public revenue: The foregone VAT revenue could have been used to fund more targeted measures, such as investments grants for low-income households. In the case of a broader reform, energy levies ust be shifted from the energy bill to general taxation.
- No price signal: By lowering the price for everyone, it reduces the incentive for all consumers, including the wealthy, to reduce consumption. If this is part of a broader reform, also impacting fossil taxes, a lower electricity taxation incentivises electrification.

Option 2: Market intervention with targeted protection

Gas price cap for power generation, combined with progressive household tariffs and windfall profit recapture

The mechanics:

This approach tackles the market failure at its root while ensuring the benefits flow to consumers, not just to generators.

Component A: cap the gas price for power generation.
Inspired by the "Iberian exception," a cap on the price of gas used for electricity generation is set. Gas plants are paid a fixed, reasonable price for their fuel, rather than the full spot market price, and receive from the government the difference with market price (see below). This dramatically lowers the marginal cost of generation and therefore the wholesale electricity price. It must be noted that some reports from the Iberian experience indicate that the exemption led to market distorsion, with higher gas consumption for electricity production and also subsidised exports of electricity to France, showing that this component should be coupled with demand reduction measures to limit advert effects.

Component B: Recapture windfall profits to fund the cap.
The cap on gas prices requires compensating the gas plants for the difference between the capped price and the actual market price. This compensation is not paid by taxpayers. Instead, it is funded by a levy on the windfall profits of inframarginal generators—the renewables, nuclear, and coal plants that continue to receive the (now lower) market price for their output but whose costs have not changed. Their profits are still higher than normal, but the levy captures a portion of these gains to fund the gas plant compensation. The system is designed to be budget-neutral for the state.

Component C: Progressive household tariffs.
Even with a lower wholesale price, electricity may still be expensive. We therefore mandate or strongly encourage the introduction of progressive (or "social" or “block”) tariffs for households. The first block of consumption—covering essential needs like lighting, refrigeration, and basic appliance use—is priced at a low, regulated rate. Consumption above a certain threshold (e.g., 150% of the median household consumption in that climate zone) is exposed to the full market price. The threshold can be adjusted by household size/characteristics.

Why this can be considered:

- Tackles the core market failure: By capping the gas price for power generation, it directly addresses the mechanism that drives electricity prices to unaffordable levels during a gas crisis.
- Self-financing: The levy on inframarginal profits ensures the scheme does not burden public finances. It simply recycles crisis-driven gains from low-carbon generators to fund the gas cap.
- Distributional progressivity: Progressive tariffs ensure that low-income, low-consumption households pay very little for their essential electricity, while wealthy, high-consumption households face the full market price and are incentivised to reduce consumption or invest in efficiency.
- Maintains incentives for demand reduction: High prices for consumption above the baseline send a strong signal to invest in efficiency etc.

Given the potential risk of market distorsion, another less effective but still viable option is to only apply a tax on windfall profits of inframarginal rents and redistribute it to consumers i.e. without Component A. In case of soaring gas prices impacting electricity prices, it must be noted that without market intervention, the only alternatives to governments will be to finance relief measures through debt, which will have a huge impact on public finances.

🔴 Option 3: Blanket electricity price cap for consumers

Legislating a maximum retail price per kWh for all households

The mechanics:

The government sets a maximum price that suppliers can charge for electricity. Suppliers are required to sell below this cap, and the government compensates them for the difference, or forces them to absorb the loss. This is often paired with complex mechanisms to prevent supplier collapse. Such an option exists at EU level in the electricity market directive, but under very restrictive conditions (very high and lasting prices - article 66a).

Why this is bad:

- Extremely expensive: Compensating suppliers for the gap between the capped price and the wholesale price can cost billions / be fiscally unsustainable.
- Regressive: As with VAT cuts, the absolute benefit is largest for high-consumption households, who receive the biggest subsidy.
- Destroys the price signal: With a cap, there is no incentive for anyone to reduce consumption. It removes the market's primary mechanism for encouraging conservation and efficiency.
- Market distortions: It can lead to supplier bankruptcies, market exits, and the need for government bailouts (e.g. in the UK in 2022-23).

2.2.3 Gas market (non-electricity, for heating)

Market specificity: Market specificity: Gas for heating is still a necessity for millions of European households. Unlike transport, where alternatives exist (public transport, cycling, EVs), switching from a gas boiler is not an overnight option. It requires significant investment and often depends on homeownership and building regulations. The challenge is to shield households from unaffordable bills without creating a permanent dependency on subsidised fossil fuels. Today, nearly one out of ten Europeans (9,2%) are already unable to keep their homes adequately warm.

🟢 Option 1: Income-linked rebate

Gas heating rebate (means-tested) + winter disconnection ban + funded compensation programme

The mechanics:

This is the equivalent to the oil mobility voucher, adapted for the heating context.

Component A: Define essential consumption.
Using data from energy suppliers and census information, we establish a baseline for "essential heating needs." This could be expressed as a percentage of median consumption for a given household type in a given climate zone (e.g., 80% of the median for a three-bedroom house in northern Europe). This baseline represents the gas needed to keep a home adequately warm, not to heat a swimming pool or maintain tropical temperatures.

Component B: Provide a targeted rebate.
For households identified as vulnerable (using the same criteria as for oil i.e. low income, benefit recipients, people with particular needs, etc.), the government provides a direct rebate on their gas bill covering a significant portion (e.g., 50%-100%) of the cost of that essential consumption volume. The rebate is delivered automatically via the bill, using data already held by suppliers and social welfare agencies. Consumption above the baseline is charged at the full market price.

Component C: Ban on disconnections.
A legally enforced winter ban on disconnections ensures that no household loses heat between November and March (nb: the impacts of the current crisis are highly likely to be felt next Winter, as EU reserves run very low and may not be filled by then due to the current crisis). Suppliers are compensated for unpaid bills in cases of genuine hardship through a dedicated fund, financed by the sources outlined below.

Component D: funding model for rebates and efficiency.
The rebates can be funded through several revenue streams, which could also be used for longer-term measures (e.g. financing renovations and heat pumps installations) e.g.:

- **A windfall profit tax:** A high-rate tax on the extraordinary profits of gas producers, gas importers, and inframarginal electricity generators (renewables, nuclear, coal) who benefit from crisis-driven prices. A pre-committed portion of this revenue is allocated to the fund.
- **Recycled crisis revenue:** A portion of the additional VAT receipts generated by higher energy bills (since we do not cut VAT) is ring-fenced and paid into the fund, rather than disappearing into the general budget.
- **A high-income solidarity tax (backstop):** If the above sources are insufficient, a temporary, progressive surtax on the top 1% or 5% of earners is activated, with the revenue explicitly dedicated to fund these measures.

Why this is the best option:

- **Perfectly targeted:** Support goes only to those who need it, and only for the volume of gas required for basic needs. Wealthy households pay the full price for all their consumption.
- **Preserves the price signal:** The incentive for conservation and efficiency remains intact. If vulnerable households pay a portion of their essential bill, that can encourage modest reductions - if not all reductions would come from any consumption above the threshold. All households pay the full price for any consumption above the baseline, strongly incentivising investment in efficiency.
- **Fiscally sustainable:** Funded by windfall taxes and other relevant revenues, not by general taxation or deficit spending.

Option 2: Blanket rebate on gas bills

A flat, universal discount on every household's gas bill

The mechanics:

The government provides a fixed discount (e.g., €100 per month) or a percentage discount (e.g., 20%) on all residential gas bills, regardless of income or consumption level. The discount is applied automatically by suppliers, and the government reimburses them.

Why this is only acceptable:

- **Provides quick relief:** It is simple to implement and provides immediate help to all households.
- **But untargeted and expensive:** It subsidises the heating bills of wealthy households in large homes just as much as the vulnerable. The cost is enormous, as it covers all consumption for all households.
- **Destroys the price signal:** By lowering the effective price for everyone, it reduces the incentive for all consumers to conserve or invest in efficiency.

This measure should only be considered as a very short-term bridge if the more sophisticated income-linked rebate cannot be implemented quickly enough. It must be paired with a clear commitment to transition to a targeted system as soon as possible.

Option 3: VAT cut on gas

Reducing the VAT rate on gas for all households

The mechanics:

The government temporarily reduces the VAT rate on gas from the standard rate to a reduced rate. The reduction applies to all consumption, for all households.

Why this is bad:

- **Regressive**: As with all untargeted tax cuts, the largest absolute benefit flows to the highest-consuming (often wealthiest) households.
- **Fiscally wasteful**: The foregone revenue is substantial and could have been used for targeted support or efficiency investments.
- **Blunts the price signal:** It reduces the incentive for everyone to conserve, including those who could easily afford to turn down the thermostat or invest in insulation.
- **Fossil Fuel Subsidy:** It is a direct subsidy to fossil fuel consumption, paid for by taxpayers.

Option 4: Price cap on gas

Forcing suppliers to sell gas to households below the wholesale market price

The mechanics:

Such a mechanism existed at EU level from December 2022 until January 2025, and was never activated as the conditions to be implemented were not fulfilled. The government sets a maximum price that suppliers can charge for gas, set below the wholesale market price. Suppliers are required to absorb the loss or are promised compensation. This is often presented as "protecting consumers from profiteering" but presents very serious issues in an environment whereby EU suppliers don't control global prices.

Why this isn't necessarily a good option:

- **Destroys supplier viability:** If the retail price is set below the wholesale cost, suppliers lose money on every unit sold. This quickly leads to bankruptcies, market exits, and the collapse of the retail market, as seen in some countries in 2022.
- **Requires massive state intervention:** To prevent collapse, the government must either provide unlimited compensation to suppliers (fiscally unsustainable) or even nationalise suppliers (politically difficult, and can also be costly for the public purse).
- **Fossil Fuel Subsidy:** If instead the state decides to compensate suppliers for their loss in "real time" (to maintain their margins and access to global supply), this would funnel billions into the fossil fuel industry.
- **Eliminates the price signal:** With an artificially low price, there is no incentive for anyone to reduce consumption, conserve, electrify, or invest in efficiency. Demand remains high, prolonging the crisis.
- **Can lead to shortages:** If suppliers go bust or refuse to take on new customers, households may be left without a supplier entirely, requiring a complex and costly "supplier of last resort" process.

3. Long-term structural solutions that deliver for the future

The short-term measures described above must be designed with a clear long-term strategy in mind to end fossil fuel dependencies. This means accelerating the transition by applying a combination of measures in the ongoing and forthcoming EU legal framework:

3.1. Prioritising efficiency and demand reduction

Now more than ever, Member States should implement with ambition the current framework set by key EU legislation, the Energy Efficiency Directive (EED) and the Energy Performance of Buildings Directive (EPBD). This requires full and robust transposition of the into national law, accompanied by strong enforcement, adequate administrative capacity, and the removal of persistent implementation gaps, notably for EED.

For EPBD, through ambitious and socially just National Building Renovation Plans (NBRPs), to ensure a decarbonised building stock that phases out volatile and dangerous fossil fuels, while enabling reduced energy demand and improved comfort in homes. The multiple co-benefits of energy efficiency and sufficiency must be acknowledged, and both should form an integral part of reducing energy demand in the EU. The revision of Governance regulation and designing an ambitious and effective post-2030 energy efficiency framework will be essential to ensure that Member States set clear, binding trajectories for reducing energy demand, supported by robust monitoring and enforcement mechanisms, and enabling conditions. Luxury energy consumption (yachts, private jets, frequent flights, unnecessarily large passenger vehicles including SUVs) should be addressed as a priority.

3.2. **Investing in renewable energy, energy efficiency, grid modernisation, flexibility and electrification**

Member States should robustly transpose and implement the Renewable Energy Directive (RED III) and the Electricity Market Design (EMD) reform by removing practical barriers to renewable deployment, such as enhancing flexibility and further supporting long-term contracts.. Reforming the energy taxation (by reducing taxes and levies on electricity, shifting them to the general budget or rebalancing them to other energy carriers), and making enhanced use of EU funds and ETS revenues, which represent a crucial source of funding that Member States can leverage.

Importantly, the Social Climate Fund and ETS2 revenues frontloading are key opportunities to address energy and transport poverty. The forthcoming Electrification Action Plan by the European Commission should play a central role in accelerating the shift towards direct electrification across buildings, transport, and industry, ensuring that renewable electricity becomes the backbone of the energy system. This must go hand in hand with the swift adoption and implementation of the Grids Package to enable the necessary infrastructure expansion, interconnectors, smarter system management, and better integration of renewables and flexibility solutions. At the same time, designing an ambitious and forward-looking post-2030 renewable energy framework will be essential to provide long-term investment certainty, scale up deployment.

3.3. **A European Strategy for Fossil Fuel Phase Out**

The EU needs a clear Fossil Fuel exit plan, in particular fossil gas imports regardless of their origin. Reducing fossil gas dependency must therefore be elevated as a core pillar of the EU's Energy Security Framework. The most effective and permanent route to energy security and affordability is fundamentally reducing demand for fossil fuels through renewables based electrification, energy savings through efficiency and demand-reduction measures and the rapid deployment of domestic renewable energy and non-fossil flexibility, shielding vulnerable households and businesses from geopolitical shocks and volatile global fuel markets.

The Commission's upcoming Energy Security proposal needs to explicitly recognize the inherent vulnerability that comes with the EU's fossil fuel dependency, particularly in view of increasing reliance on US LNG, and propose concrete measures to reduce this dependency as a key lever for EU security and strategic autonomy. In order to deliver a fossil fuel phase-out, the EU equally needs a clear plan and roadmap to phase out fossil fuel subsidies.

Contact:

Christophe Jost,
Energy Policy Coordinator at Climate Action Network Europe (CAN Europe)
E: christophe.jost@caneurope.org

Isabelle Brachet,
Senior Just Transition and Fiscal Policy Coordinator at Climate Action Network (CAN) Europe
E: Isabelle.brachet@caneurope.org

Olivier Vardakoulias,
Senior Finance and Subsidies Policy Coordinator at Climate Action Network (CAN) Europe
E: olivier.vardakoulias@caneurope.org

CAN
CLIMATE ACTION NETWORK
Europe