

Short- and medium-term policy measures to dampen the socioeconomic effects of rising energy prices

Julian Milek, Lukas Feldhaus, Rouven Stubbe

Berlin, February 2022

Structure

1. Motivation
2. Immediate measures to cushion effects of rising energy prices
 - 2.1 Emergency income support
 - 2.2 Measures to reduce energy use
 - 2.3 Tax relief
3. Medium-term measures to tackle structural problems
 - 3.1 Engaging international partners
 - 3.2 Increase of energy storage
 - 3.3 Supporting consumers to install their own energy supply
 - 3.4 Investing in renewable energy and in energy efficiency
4. Overall assessment
5. Conclusion

Annex

1. Motivation

Background

- The international spike in energy prices necessitates higher electricity prices in Kosovo, as imports of electricity have become extremely expensive
- Rising energy prices are of key social and political interest:
 - They raise the cost of production in many industries
 - They make basic necessities more expensive (cooking, washing, heating)
 - They hit especially poor households hard, who spend large shares of their income on energy
- Tackling energy poverty has the potential to bring multiple benefits such as lower spending on health and improved household budgets

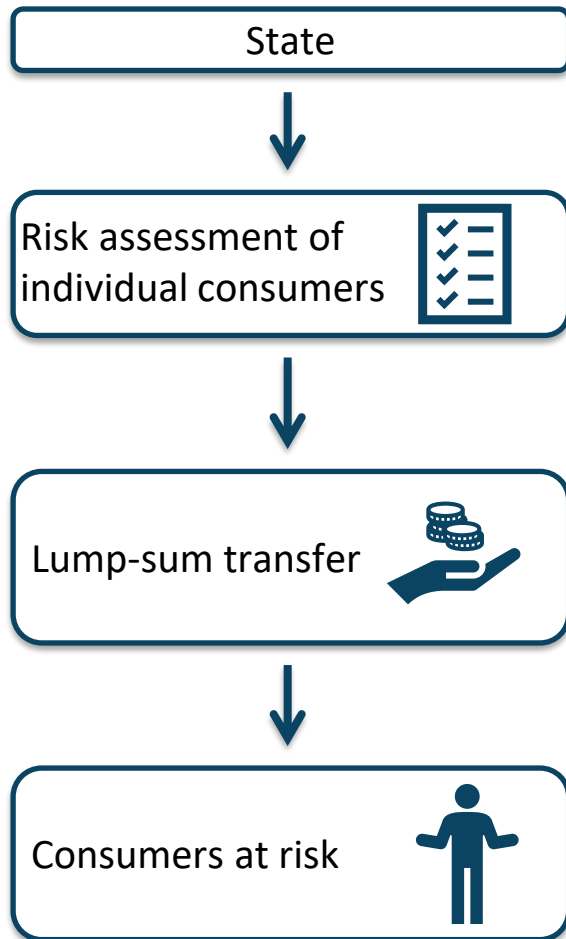
Objective of this Policy Briefing

- Presentation of short- and medium-term measures for businesses and households to dampen the effect of rising energy prices
- The ideas are based on action measures suggested by the EU Commission

2. Short-term measures to cushion effects of rising energy prices

2.a Emergency income support

Overview of emergency income support



Source: Own illustration

Description: The state pays a monthly sum to people and businesses in need.

Target group: Vulnerable consumers and small businesses

Advantages: The most efficient solution: It keeps up the price-incentive to save energy, but protects low-income households and relevant businesses.

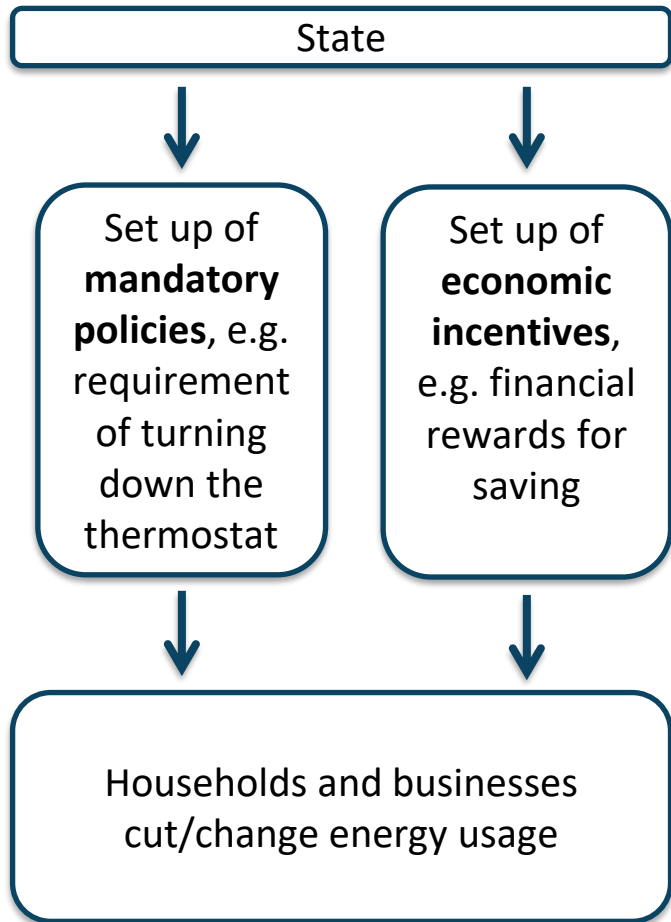
Disadvantages: Funds must be available, overview over low-income households and businesses must be available, distribution system must be available

Conclusion: Most economically efficient instrument

Examples: Greece (support irrespective of income) and Romania (support only for consumers of less than 500 kWh/month)

2.b Measures to reduce energy use

Overview of Energy Conservation



Source: Own illustration

Description: Alternative to price rises - The state promotes energy conservation with command-and-control policies (e.g., requirement to turn down the thermostat) or economic incentives (e.g., financial rewards for saving). May be combined with subsidy for non-electricity heating systems.

Target group: All energy consumers

Advantages: Effectively lower energy demand, no price rise needed

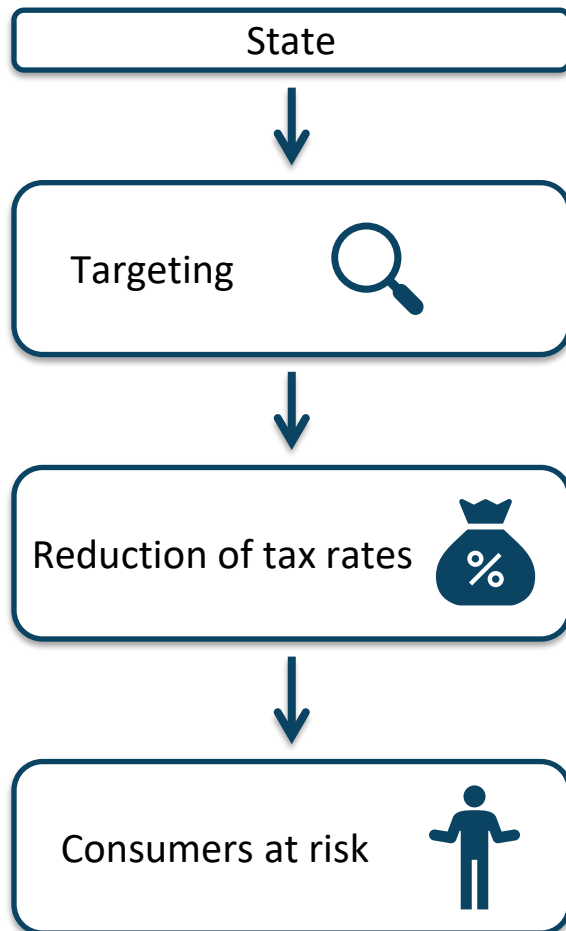
Disadvantages: May benefit wealthy consumers; Difficult to estimate how much energy will actually be saved; If program effective, costs for government may spike.

Conclusion: Alternative to raising prices awareness

Examples: None

2.c Tax Relief

Overview of Taxation



Source: Own illustration

Description: Reduction of the surcharges on energy consumption (like taxes, grid connection charges, etc.)

Target group: All energy consumers (flexible)

Advantages: The exemption or reduction of surcharges is easy to implement and can cover all consumers.

Disadvantages: Reducing taxes may benefit mainly wealthy consumers (who consume much energy); Lower prices may lead to more energy demand; Surcharges may cause only a small proportion of the overall bill

Conclusion: Adequate economic policy response if well targeted and distortions are avoided

Examples: Germany (reduced renewable energy surcharge), Italy (reduced VAT), Estonia (reduction of network fees, Portugal (reduction of network access fees for industry)

3. Medium-term measures to tackle structural problems

3.a Engaging international partners

Engaging international partners



Source: Own illustration

Description: The dialogue with international partners aims at enhancing the liquidity and flexibility of the international energy market with a wide-ranging supply chain in order to ensure sufficient and competitive energy supplies

Target group: All energy consumers

Advantages: Ensures the security and resilience of international energy markets throughout the ongoing energy transition

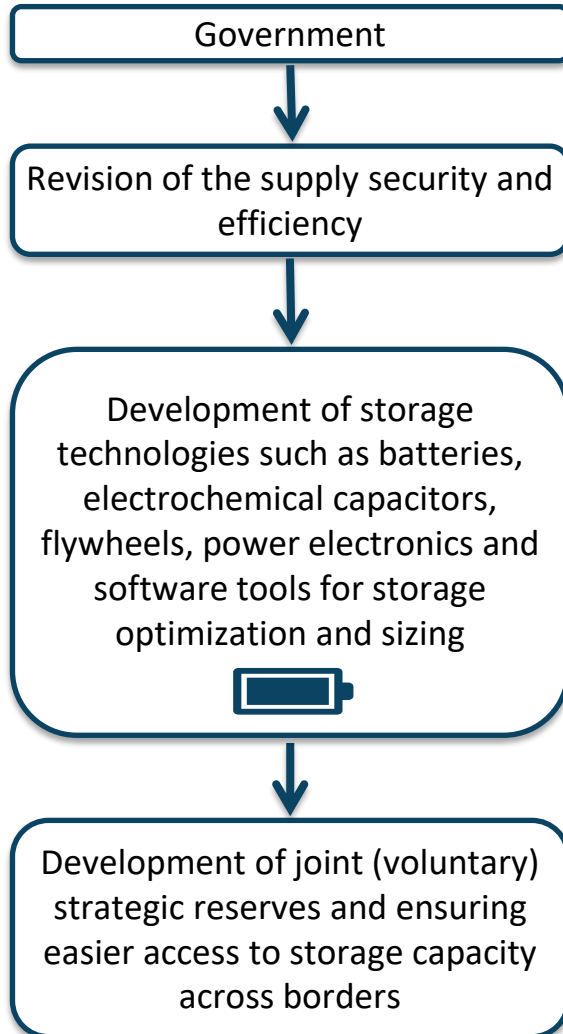
Disadvantages: The set-up might include lengthy dialogues and in case of emergency partner countries could lack of gas as well

Conclusion: Can facilitate energy trade in general and act as a prompt shock absorber to dampen future price fluctuations

3.b Increase of energy storage

Overview of

increase of energy storage



Source: Own illustration

Description: Design of national preventive and emergency action plans and the design of future-proof energy storage as a key short-term flexibility tool, which can be extended to long-term storage options

Target group: Cross border regional energy risk groups

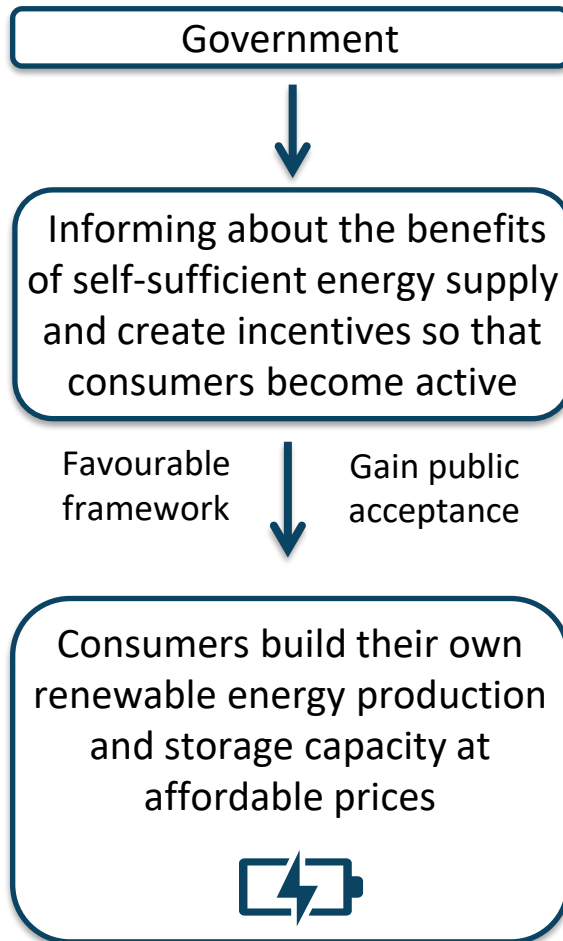
Advantages: Strengthening of the resilience of the national energy market, improved power quality and the reliably delivery of electricity to customers as well as improved stability and reliability of transmission and distribution systems

Disadvantages: Requires considerable investment and an extensive dialogue with involved governments

Conclusion: Adequate storage and cross-border interconnectors will strengthen preparedness for possible future price shocks offsetting possible temporary shortages (or surpluses)

3.c Supporting consumers to install their own energy supply

Overview of supporting consumers to install their own energy supply



Description: Support consumers to set up their own decentralised energy supply from renewable energy sources allowing them to participate in the energy market. This can include solar power, renewable electricity supply, wind energy, air source heat pumps, biomass systems, solar heating and hydroelectric systems.

Target group: All consumers (flexible)

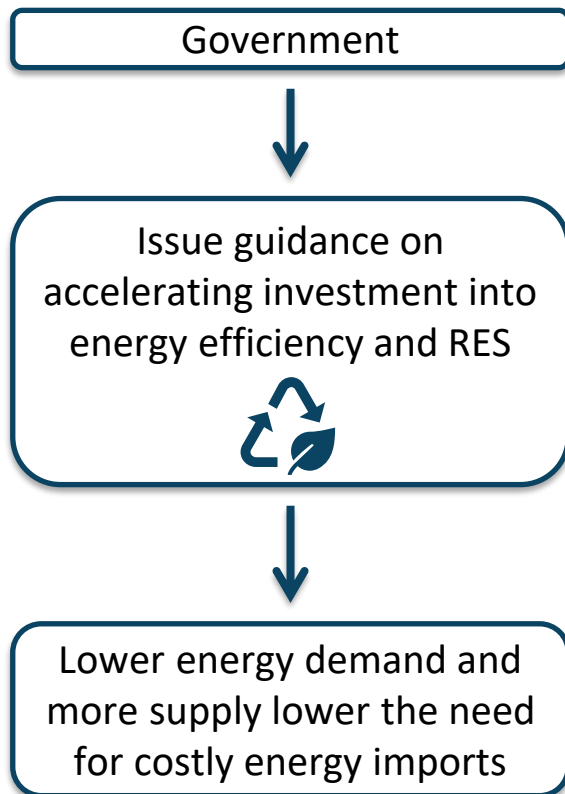
Advantages: Boost the role and the protection of consumers in the energy market with mobilisation of private capital investments in renewable energy and low-carbon gases

Disadvantages: Costs for individuals might be too high, leading to loss of public acceptance

Conclusion: Consumers can hedge their exposure to future price developments enjoying a higher degree of protection

3.d Investing in renewable energy and in energy efficiency

Overview of Investing in renewable energy and in energy efficiency



Source: Own illustration

Description: Higher investment into renewables (supply-side, i.e. more provision of energy) and energy efficiency (demand-side, e.g. more efficient heating systems) not only lower energy consumption but also enhance supply, which may ease pressure on energy markets

Target group: Vulnerable consumers and small businesses (flexible)

Advantages: More renewables and demand-side efficiency translate into larger flexibility and lower wholesale market prices reducing the need for costly imports

Disadvantages: Regulatory barriers with lengthy and complex permit procedures can harm the acceleration of the deployment of renewables

Conclusion: If regulatory barriers are removed, this measure can be highly effective in the facilitation of funding for energy efficiency and renewable electricity

4. Conclusion

- The measures described in this policy briefing aim to provide a response to the current energy price surge while at the same time contributing to a socially just and sustainable energy transition
- States can take a number of measures linked to direct income support, taxation and other well targeted and temporary measures to reduce energy price volatility and imbalances in energy supply and demand
- Measures with a medium-term horizon can ensure more resilient and efficient energy markets with better preparedness for future price shocks and for the challenges of the energy transition
- As stated by the EU: the clean energy transition is the best insurance against price shocks like the one European countries facing at the moment

About the German Economic Team



Financed by the Federal Ministry for Economic Affairs and Climate Action, the German Economic Team (GET) advises the governments of Ukraine, Belarus, Moldova, Kosovo, Georgia, Armenia and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy.

CONTACT

Julian Milek, Project Manager Kosovo
milek@berlin-economics.com

German Economic Team
c/o BE Berlin Economics GmbH
Schillerstraße 59
10627 Berlin

Tel: +49 30 / 20 61 34 64 0
info@german-economic-team.com
www.german-economic-team.com

Implemented by

 **Berlin**
Economics

The logo for Berlin Economics consists of two dark blue squares stacked vertically, followed by the word 'Berlin' in a bold, dark blue, sans-serif font, and the word 'Economics' in a lighter blue, sans-serif font below it.