EUROPEAN COMMISSION
DIRECTORATE GENERAL
ECONOMIC AND FINANCIAL AFFAIRS

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Energy measures to attenuate the impact of the current spike in energy prices

Note to the attention of the Eurogroup

Executive summary

Four years after Russia's invasion of Ukraine the European Union faces the spectre of energy supply disruptions. The war in the Middle East has caused a major disruption in the global supply of oil and gas, pushing up energy prices from still elevated levels. In the first 17 days of the Iran crisis alone, the EU has spent about EUR 6 billion more on fossil fuel imports.

Since 2022, the EU has made significant progress in diversifying energy sources and increasing investments in renewable energy. By 2025, renewable energy sources accounted for about 48% of the EU's electricity consumption, reducing dependence on fossil fuels for its electricity mix, although not fully safeguarding against external shocks. Sectors such as transport however remain heavily reliant on imports of oil and petroleum products.

The current situation underscores the urgent need for the EU to accelerate its transition towards an electrified economy. This transition will require significant investments in clean energy, and its impact on prices may take time to play out. Still, even at the current juncture, a structural shift towards low-carbon electrification remains the only solution to ensure security of supply and permanently address Europe's vulnerability to external energy shocks.

Short-term measures to provide relief to consumers (households and industries) could be considered. However, a key lesson from the 2022-2023 energy crisis is that many of these measures were broad and untargeted, leading to inefficiencies and very large fiscal costs. Against this background, it is key that any possible short-term measures:

- *Be coherent with the need to decarbonise the energy system;*
- *Do not unduly increase aggregate demand for gas and oil;*
- *Are temporary and account for, and minimise, fiscal costs;*
- *Are targeted to the most vulnerable households and industries.*

As mentioned by the European Council in its Conclusions of 19 March 2026, the EU response needs to be coordinated. This is essential to avoid the fragmentation of our single energy market, maximise the impact and minimise the fiscal cost of interventions. Allowing additional flexibility under the EU fiscal rules for energy support measures would risk undermining the integrity and credibility of the fiscal framework, at a time that fiscal positions are already stretched. Member States must ensure that support measures remain consistent with fiscal rules and do not compromise medium-term fiscal sustainability.

Questions for discussion:

- *Do you agree with the four key principles for designing short-term measures to minimise distortion and their fiscal costs? Are you already applying these principles?*

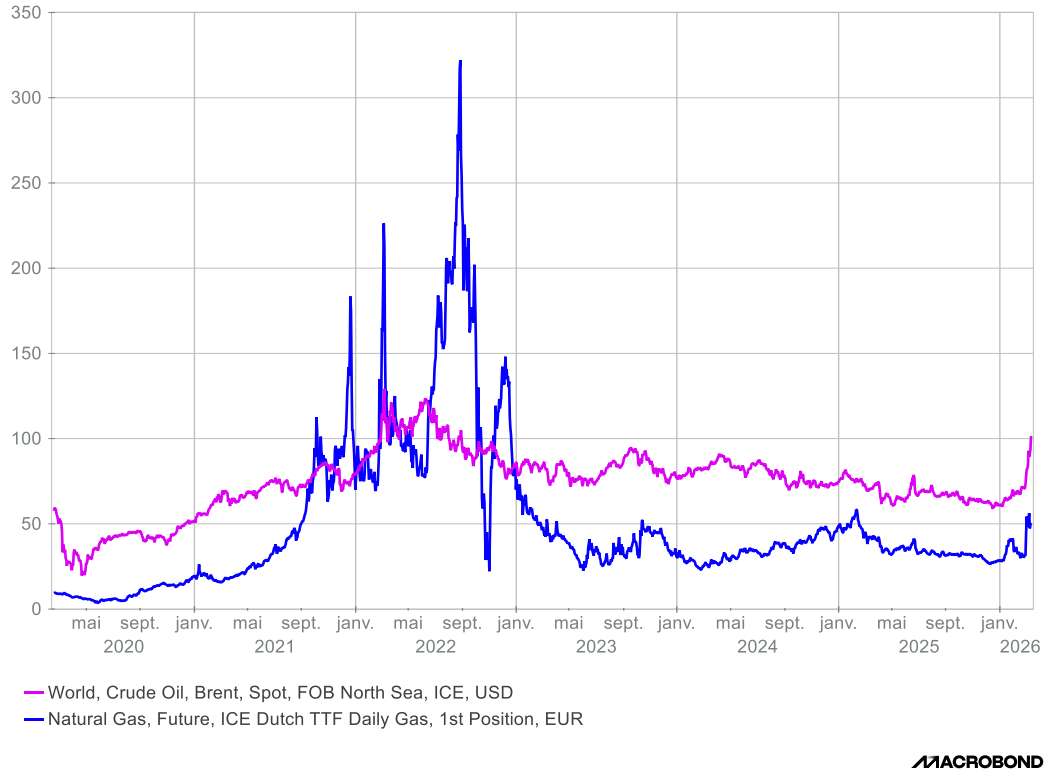
- *How can the EU enhance coordination among Member States to implement targeted energy relief measures effectively without increasing energy demand and causing market fragmentation?*
- *How do you ensure that the overall public effort that could be provided by Member States to mitigate the impact of higher energy prices is compatible with ensuring fiscal sustainability and respecting the commitments under the EU's fiscal surveillance framework?*

I. Scene setter

Since 2021, the EU has been facing a persistent energy challenge. Although energy prices have fallen from their 2022 peaks, they remain above pre-crisis levels. In the second half of 2025, wholesale electricity prices were roughly 40% higher than in early 2021, while wholesale gas prices were about 50% higher.

The impact of the current Middle East War on gas and oil prices has changed this situation. It adds uncertainty and exacerbates the price issue. There is significant volatility in oil and gas prices, based in particular on expectations regarding the duration of the war. Moreover, while oil and natural gas prices are increasing, especially natural gas prices are still far from the levels reached during the 2022-2023 energy crisis. Oil prices, on the other hand, have meanwhile reached levels above USD 100 per barrel, last seen in August 2022 (see Graph 1). In the first 17 days of the Iran crisis alone, the EU has spent about EUR 6 billion more on fossil fuel imports.

Graph 1: Oil and natural gas price development



Source: Macrobond. Note: Last data point is 12 March 2026.

While the energy shock that the EU faced following the invasion of Ukraine by Russia and the current shock triggered by the war in Iran stem mainly from the EU's reliance on (mostly imported) fossil fuels and geopolitical tensions, they differ significantly. The crisis following the war in Ukraine resulted from a sudden and permanent fall in the supply of gas and oil from Russia. At present, the current outlook largely reflects uncertainty as to (i) for how long the blockage of oil and gas flows through the Strait of Hormuz will extend and (ii) how permanent the impacts of the physical damage of energy supply and distribution infrastructure will be.

The EU's internal energy landscape has evolved significantly over the last years. Member States have reduced the Union's dependence on gas, primarily through accelerated investments in renewable energy and energy efficiency. The share of renewables in the electricity mix rose from 36% in 2021 to about 48% in 2025, driven largely by increased wind and solar energy generation. Conversely, the share of fossil fuels fell from 34% to 26% over the same period. Natural gas supplies have also diversified, with Russian imports dropping from 45% in 2021 to 12% in 2025, compensated in part by an increase of LNG import from the US[1]. While this structural shift has made the European energy architecture more resilient to gas shocks, the transition is not yet complete. Moreover, key sectors like transport[2] remain heavily reliant on oil. In 2024, 19% of the net imports of oil and petroleum products to the EU originated from the Gulf region (with the US as the largest net exporter to the EU, followed by Norway and Kazakhstan, all three increasing their exports to the EU to replace our imports of Russian oil).

The public finances context is challenging. Deficit and debt levels as a percentage of GDP remain very elevated and sticky in several Member States and were forecast to increase further prior to the onset of the conflict in the Middle East, partly due to the needed ramp-up of defence spending. The recent uncertainty has contributed to increased volatility and upward pressure on sovereign bond yields across Europe. If energy-driven inflationary pressures persist, borrowing costs for governments could remain elevated. Against this backdrop, the implementation of the EU fiscal framework is a key anchor to preserve credibility of national public finances and limit the impact on borrowing costs.

II. Lessons learned from the 2022-2023 energy crisis

The Commission has monitored the fiscal measures taken following the energy shock of 2022 to mitigate its impact on households and companies. The following measures were classified as 'energy measures':

- measures that have a direct impact on the marginal cost of energy consumption paid by households and/or firms (**price measures**); 'energy consumption' includes the direct purchase of electricity and fossil fuels (gas, oil derivatives and coal) but also heating and transportation.
- measures providing **income support to households**, irrespective of whether the income support is specifically used or earmarked for energy consumption.
- measures providing targeted **compensation to firms** (other than price measures) involved in energy intensive activities (e.g. energy intensive industries or transport), irrespective of

[1] The share of natural gas sourced from the US increased from 6% in 2021 to 26% in 2025.

[2] In 2024, energy use in transport in the EU was for 90% covered by oil and petroleum products (excluding biofuels).

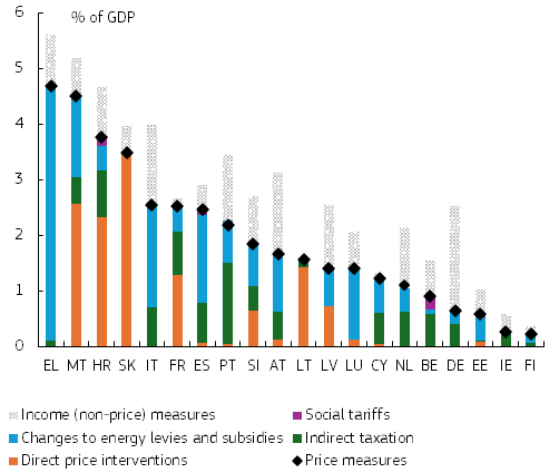
whether the income support is used or earmarked for energy intermediate consumption or not.

- revenues from **(taxes or levies on) windfall profits** by energy corporations.

The net budgetary cost of these measures reached 2.2% of GDP in the EU cumulatively between 2022 and 2024. Price and untargeted measures accounted for a significant share of the overall fiscal cost. The net cost of emergency support amounted to 1.2% of GDP in 2022, 0.9% of GDP in 2023 and 0.1% of GDP in 2024. Around 60% of this cost was spent on price measures, while the remaining 40% were income support (i.e. non-price) measures. This focus on price measures was most likely motivated by the need to ensure administrative simplicity but also resulted from political economy considerations, including visibility and impact on specific politically relevant groups. In addition, only a quarter of the overall support was targeted to vulnerable households and firms , with the remaining three quarters spent on untargeted measures. This put the effectiveness of the measures in protecting vulnerable households in question and increased their fiscal cost. Additionally, some Member States intervened directly in wholesale electricity markets to limit the transmission of high gas prices to power prices. The most prominent example was the so-called Iberian Exception introduced by Spain and Portugal.

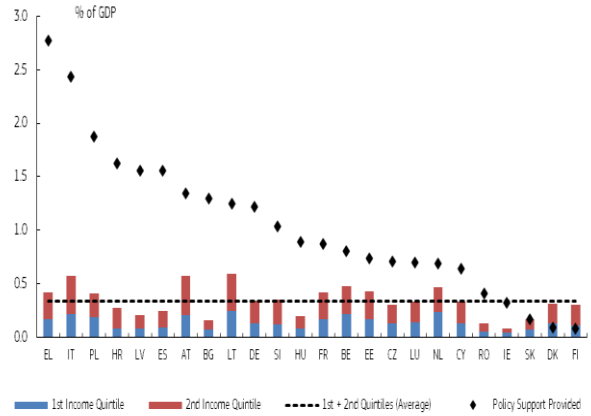
The Commission and the Council recommended targeted income support measures and two-tier pricing systems[3] as the most effective tools to support vulnerable households. These approaches aimed to provide targeted support to those most in need, while preserving incentives for energy savings and reducing energy consumption. Moreover, focusing assistance where it is most needed should have helped to minimise the fiscal cost compared to broad-based price interventions. Indeed, compensating only the bottom two quintiles of households for the increase in the price of residential energy and fuel transport in 2022 – through income-targeted handouts or tier-pricing systems targeted to the poorest 40% of the population – would have cost around 0.3% of GDP on average, a fraction of the fiscal cost that most Member States have actually borne (Graph 2).

Graph 1: Income and price support measures (budgetary cost in % GDP) in 2022-2024



Note: *The figures represent the cumulative gross budgetary cost over the 2022–2024 period. This is calculated as the sum of the annual*

Graph 2: Estimated increase in vulnerable households' energy spending versus cost of energy support measures in 2022



Note: *Estimated increase in vulnerable household based on household energy consumption from the Household Business Survey (HBS) with the*

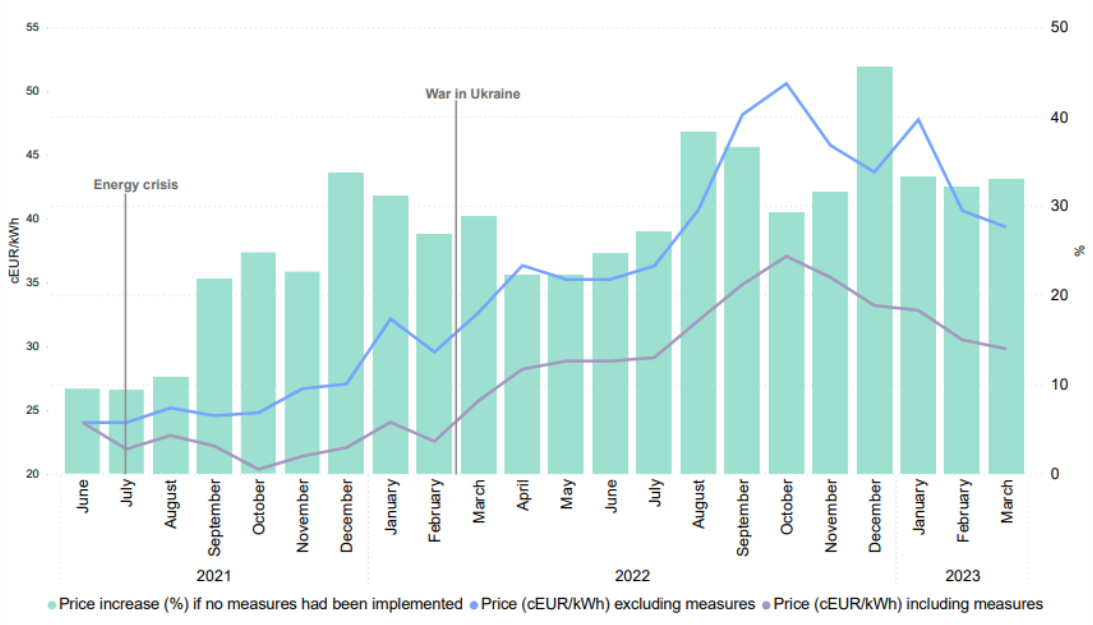
[3] I.e. targeted price interventions for vulnerable consumers and firms, safeguarding incentives to save energy by covering only a share of their energy consumption.

budgetary costs (expressed as a percentage of that year's nominal GDP) for each of the three years. This gross estimate does not consider the impact of windfall revenues.
Source: *Commission estimates consistent with Commission 2024 autumn forecast. November 2024.*

HICP energy components between Q4 2021 and Q4 2022 to estimate household energy spending by income quintile.
Sources: *Eurostat, Member States' Household Budget Surveys, AMECO and Commission's estimates.*

The energy measures implemented across the EU have been instrumental in mitigating high energy prices, but they came with substantial fiscal costs and other trade-offs. Initially intended to provide temporary support, some measures remained in place for much longer than initially planned, even when energy pressures began to fade, impacting the sustainability of public finances and the efficient allocation of both public and private resources. While, as seen in graph 3, emergency measures had a decreasing effect on electricity prices[4], muting the price signal carries drawbacks notably leading to increased demand for energy and compromising efforts to save energy. For example, Lou et al. (2025)[5] show that while the measure enacted in Spain and Portugal did mitigate the electricity price increase, it also significantly increased gas consumption in these countries at a time of severe gas supply constraints. This occurred because the cap made gas-fired generation cheaper, leading to higher utilisation. The measure also influenced cross-border electricity trade flows by increasing exports to surrounding countries, particularly to France that experienced production problems with their nuclear fleet. By increasing gas demand, it contributed to the price pressure on the already tight market. For this reason, one should be careful to scale up such measure to the European level. A case-by-case assessment will be needed.

Graph 3: Effect of emergency measures on retail prices – EU-27, June 2021 – April 2023 (% and cEUR/kWh)



Source: ACER (2023), VaasaETT

[4] ACER. Assessment of emergency measures in electricity markets 2023 Market Monitoring Report. 14 July 2023
[5] Hei Kan Lou, Michael G. Pollitt, David Robinson, and Angel Vargas Arcos (2025): The Iberian Exception: what was the cost of distorting electricity markets during the 2021-23 European energy crisis? EPRG Working Paper EPRG 2513. Cambridge Working Paper in Economics CWPE 2535

III. Possible measures to address the current energy crisis

The current situation highlights the urgent need for the EU to transition towards an electrified economy. This is key to achieve security of supply. Electrification represents a structural solution that would permanently protect the European economy from the volatility of fossil fuel prices. The energy transition is hence a necessity to achieve both security of supply and long-term energy sovereignty. However, as the transition is ongoing and a significant increase in investments is required, the transition's impact on prices will take time to play out and will be gradual. The deployment of several key technologies for the transition, such as heat pumps and electric vehicles, can be accelerated as they are already commercially available. However, some technologies which are key for energy intensive industries, such as hydrogen or carbon capture and storage, need further development and scale-up[6].

Accordingly, targeted and temporary support to provide immediate relief to vulnerable firms and consumers may be envisaged, but they need to be designed carefully. Drawing on lessons from the 2022-2023 period, a balanced strategy must be deployed: fostering a structural shift toward low-carbon electricity and electrification, in particular, of heat (both households and industry) and transport to reduce these sectors' dependence on fossil fuels, while ensuring that short-term relief measures are targeted and the overall effort is fiscally sustainable.

In this context, possible public interventions to address high energy prices should be governed by the following principles:

- **Any measure taken should be coherent with the decarbonisation of the energy system**: Policy measures should preserve incentives to save energy and invest in low-carbon energy as well as promote electrification. Short-term support must not lock in carbon-intensive behaviours or prolong obsolete fossil-fuel-based business models.
- **Any measure taken should not unduly increase aggregate demand for oil and gas**: Measures must be carefully designed to prevent unintended consequences that could worsen the supply-demand balance in the energy markets. In particular, measures that substantially reduce the marginal price of oil and gas will spur demand and contribute to higher aggregate prices and generate spillovers among Member States. Preference should be given to measures that lead to reduction in the consumption of fossil fuels.
- **Any measure taken should consider the fiscal costs**: Any public support provided by Member States to mitigate the impact of higher energy prices must be compatible with their fiscal situation and the commitments under the EU's fiscal surveillance framework. To limit the fiscal costs, Member States should target measures on the most vulnerable consumers, including energy-intensive industries.

Against this background, the following list of measures outlines potential options to address the current crisis, evaluating their respective pros and cons. Priority should be given to the least distortive measures that provide relief while preserving market functionality. EU-level coordination is essential to prevent market fragmentation and leverage economies of scale, thereby reducing the overall need for intervention.

[6] Commission Staff Working Document - Impact Assessment Report: Securing our future - Europe's 2040 climate target and path to climate neutrality by 2050 building a sustainable, just and prosperous society. SWD/2024/63 final.

- *Measures to encourage consumers to save energy* such as information campaigns and targeted incentives[7]. These should promote the use of public transport, accelerate the renovation of buildings, and continue to enhance energy efficiency in industry. These are a no-regret option.
- *Income measures*. This is a preferred option. It protects the most vulnerable households' purchasing power without distorting market price signals, though it requires precise targeting to avoid ineffective support and excessive fiscal burden.
- *Adapt the structure of electricity taxes and levies* so as to combat high electricity prices while supporting electrification. This would be in line with Action 1 of the Affordable Energy Action Plan (published in February 2025) to make electricity bills more affordable and Action 1 of the Citizens' Energy Package to lower taxes and levies on electricity for households to the EU minimum (published 10 March 2026). While it will help accelerating the electrification of the economy, it risks creating revenue shortfalls in national budgets and should hence be used carefully.
- *Targeted price interventions for vulnerable consumers and firms in the form of two-tier pricing for electricity or natural gas*. Such interventions would provide price relief for vulnerable consumers and firms while keeping an incentive to save energy. However, they distort energy prices, resulting in economic inefficiencies. Under the electricity and gas market Directives, Member States can, if they wish so, intervene in the price setting for the supply of electricity to the energy poor or vulnerable households[8]. This support can be extended to SMEs and all households if the Council declares a regional or EU-wide energy crisis. However, the conditions for such a crisis to be declared are not currently met[9]. Furthermore, State aid rules allow Member States to provide temporary electricity price relief for energy-intensive firms and to compensate sectors at genuine risk of carbon leakage for part of the high electricity prices arising from the effect of carbon prices on electricity generation costs.

Any such measure should include a clear sunset clause.

For the financing of such measures, Member States may take ETS revenues into consideration and consider taxing possible windfall profits linked to high energy prices.

Beyond managing the immediate energy shock and protecting the EU economy, the EU must move rapidly to measures that bring energy costs down more durably by addressing the structural drivers of high energy prices, focusing on electricity. To do so, we must act across the four main components that determine electricity prices: (1) the cost of electricity itself; (2) network/grid charges; (3) taxes and levies; and (4) carbon costs.

[7] Also, because of this type of measures, households decreased their natural gas consumption as share of total energy consumption, from 33.5% in 2021 to 29.4% in 2024 (or by 31% in absolute terms between 2021 and 2024).

[8] DIRECTIVE (EU) 2019/944 on common rules for the internal market for electricity amended by DIRECTIVE (EU) 2024/1711. DIRECTIVE (EU) 2024/1788 on common rules for the internal markets for renewable gas, natural gas and hydrogen.

[9] The Council, based on the Commission proposal, may declare an electricity (or gas) price crisis if wholesale prices exceed €180/MWh and are 2.5 times higher than the previous five-year average which is expected to continue for at least six months, alongside a 70% increase in retail prices expected to last at least three months.

The European Council Conclusions of 19 March provide for the elements of a coordinated EU response, covering both the short and the longer term, and various avenues are outlined in the letter by President Von der Leyen to leaders ahead of the 19 March European Council.

IV. Consequences for the EU fiscal framework

Under the EU fiscal framework any fiscal measures introduced should remain consistent with the net expenditure growth paths recommended by the Council. Member States can adopt fiscal measures they consider necessary provided that their net expenditure growth remains within the limits of the Council recommended net expenditure growth path. Deviations from the net expenditure path will be treated in the same manner irrespective of whether they originate from energy support measures or any other fiscal measure. This approach reinforces the credibility and transparency of the fiscal framework and avoids setting a precedent which may undermine the fiscal rules going forward. To the extent that measures are temporary in nature, their impact on the cumulative deviation will be limited over a medium-term horizon.

Activation of the General Escape Clause or national escape clauses would not be appropriate at this point in time[10]. On a recommendation from the Commission, the Council can adopt a recommendation activating the General Escape Clause (GEC) of the Stability and Growth Pact, enabling Member States to deviate from their net expenditure path. However, the GEC can only be activated *in the event of a severe economic downturn in the euro area or the EU as a whole*. While risks to EU economic outlook have increased significantly over recent weeks, it cannot be concluded at this stage that this condition has or will soon be met. Furthermore, the National Escape Clause (NEC) has been activated for several Member States for defence spending. The activation of both the GEC and the NEC are conditional on *not endangering medium-term fiscal sustainability (the so-called "sustainability clause")*. The Commission needs to assess this condition before recommending the activation of the escape clauses. The Commission has shown, in a staff working document, that the opening of the NEC for defence will lead to an increase in the deficit and debt in many Member States and will postpone debt reduction in highly indebted Member States by several years.

Energy support measures generally do not qualify as one-offs. The classification of a measure as one-off requires that it is inherently temporary (i.e. the measure cannot become permanent). The assessment also takes into consideration the degree of control the government, and the risk of creating inappropriate incentives for policymakers, especially regarding sustainability of public finances. As recent experience has shown, even if energy support measures are introduced on a temporary basis, they are prone to remain in place for an extended period of time or even become permanent. As there is nothing that prevents such measures from becoming permanent, they do not qualify as one-off. Moreover, unlike the response to a natural disaster, governments have a substantial degree of control over the magnitude and design of these measures. As such, the treatment of energy support measures as a once-off would constitute a departure from the well-established practice and risks undermining the concept of a one-off measure. For these reasons also,

[10] Similarly, requests to activate the national escape clause would also not be appropriate. The national escape clause is intended to address exceptional circumstances outside the control of the Member States and should not be used as a means of managing short-term shocks, which can already be addressed within the medium-term oriented fiscal framework.

the energy support measures introduced in response to the increase in energy prices in 2021 were not classified as one-offs. The same logic was also applied in the case for measures introduced in response to COVID-19.

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