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Perspectives on implementation of the ETS2



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At the 2025 edition of the Think2030 conference on 28 March 2025, Reform Institute hosted high-level speakers to discuss "Perspectives on Implementation of the ETS2". Moderated by Aleksander Śniegocki, CEO of Reform Institute, the session featured insightful interventions from the following speakers: Paweł Różycki – Deputy Director, Department of Air Protection and Climate Negotiations, Ministry of Climate and Environment, Julie Kjestrup – President of Efficient Buildings Europe, Energy Efficiency Policies Vice-Chair, Tomáš Jungwirth Březovský – Head of the Climate Team, AMO, and Adam Guibourgé-Czetwertyński – Head of Poland Office, European Federation for Transport and Environment

This policy brief presents the key takeaways from the discussion, highlighting the challenges and opportunities in implementing the ETS2 framework.

Perspectives on implementation of the ETS2

Key recommendations:

- **Prepare for targeted support measures and tailored compensation** for vulnerable households, using both the Social Climate Fund (SCF) and national ETS2 revenues, with a focus on renovation, mobility upgrades, and regional equity.
- **Avoid undermining regulatory predictability** through excessive reopening of the ETS2 directive—opt instead for targeted, time-limited amendments focusing on price stability, and ensure clear communication with stakeholders.
- **Strengthen early implementation frameworks** with strong technical design, simplified entity coverage, and comprehensive public communication strategies to build trust and uptake.
- **Link ETS2 implementation with broader social and fiscal reforms**, ensuring visibility of benefits (e.g. reduced bills, health benefits from improved air quality) and addressing structural inequities in access to funding.
- **Harness ETS2 as a tool to accelerate renovation and decarbonisation** in buildings and transport, ensuring alignment with NECPs and national climate objectives

ETS2: A Transformational Yet Challenging Shift

The upcoming Emissions Trading System for buildings and road transport (ETS2), slated for launch in 2027, is designed to incentivize long-term decarbonisation by pricing emissions in previously uncovered sectors. While its ambition aligns with the EU's 2050 climate neutrality goal, the implementation presents significant challenges in terms of fairness, feasibility, and political acceptability, in particular in Central and Eastern European Member States.

A clear concern across multiple governments is the affordability of the transition for vulnerable households and small businesses. Without adequate support mechanisms and price moderation, the financial impact may erode public trust in EU climate policies. While compensation frameworks such as the Social Climate Fund (SCF) are in place, their scope is limited, and broader national revenues from ETS2 will need to be strategically deployed.

Delivering Equity: The Role of Financial Redistribution

Revenues from ETS2 are substantial, but their redistributive potential hinges on national choices. In Poland, for example, ETS2 revenues are expected to reach €9 billion, while the SCF offers only €4 billion for direct compensation. Designing progressive policies that benefit lower-income households - such as regional climate dividends or targeted subsidies like Poland's "bon energetyczny" (energy voucher) - will be essential to prevent regressivity.

The challenge is not just income-related. In countries where car ownership and home heating systems differ starkly by region and class, policies must reflect these variations. While poor households in Poland may not own cars, fuel costs significantly affect working-class populations in countries like France. Flexibility in targeting is therefore crucial.

Integrating ETS2 with National and EU-Level Reforms

ETS2 cannot operate in isolation. Effective implementation requires coordination with other EU regulations and national strategies. Programmes for building renovation, transport electrification, and clean energy access must be scaled up, using ETS2 revenues not merely for compensation but also for structural change.

Successful models already exist. Poland's Clean Air programme has modernised around one million homes, with growing momentum. Expanding such schemes, supported by operators who assist citizens throughout the renovation process, can enhance both the pace and quality of the energy transition.

Yet structural support alone is insufficient without timing the interventions to people's life choices. Policy effectiveness increases when citizens are engaged during natural decision points: renovations, relocations, or vehicle replacements. This behavioural insight must inform outreach and subsidy design.

Navigating Political and Technical Realities

Implementation timelines remain contentious. While some governments advocate for immediate action, others, like Poland and Czechia, warn that hasty implementation without technical readiness and public buy-in may backfire. Czechia, facing intense political pushback, is seeking a one-year delay alongside measures to soften price volatility and enhance the market stability reserve. Poland wants an even longer delay – up to three years, arguing it will leave more time for renovation of buildings.

Despite legal constraints - postponing ETS2 would require reopening the directive - there may be political space in 2026 for limited, targeted amendments. These should aim to retain market predictability while accommodating national differences in preparedness and socioeconomic context. Measures to guarantee price stability, like price corridors or improved market stability reserve, will likely be on the table.

However, reopening the directive broadly could destabilize the regulatory environment, undermining planning and investment. The key lies in preserving the credibility of the climate framework while offering tailored flexibility.

Communicating Change and Building Public Trust

Public acceptance is not only shaped by economic outcomes but by narrative and transparency. Where governments have failed to explain the rationale and benefits of ETS2, climate policies have been co-opted by populist backlash. Restoring credibility demands clear, consistent communication about the interconnectedness of climate goals, taxation, and social equity.

Industry and civil society actors stress that communication must underscore competitiveness and long-term benefits, not just immediate costs. Moreover, non-price signals - such as information, incentives, and access to finance - are equally important in triggering behavioural change.

Conclusion

ETS2 can be a catalyst for transformative change in the EU's journey to climate neutrality. However, the system's success depends on a just, transparent, and coordinated approach to implementation. Policymakers must harness ETS2 revenues to deliver structural improvements while protecting vulnerable groups from short-term hardship. Delays may be unavoidable in some cases, but they must be used to prepare - by investing in infrastructure, refining compensation mechanisms, and building the public trust necessary for long-term legitimacy.

"There is no room for delays, and we really need to get started now. What we want the ETS2 to push for is permanent change." – Julie Kjestrup, President of Efficient Buildings Europe

About Think2030

Launched by IEEP and its partners in 2018, Think2030 is an evidence-based, non-partisan platform of leading policy experts from European think tanks, civil society, the private sector and local authorities.

By focusing on producing relevant, timely and concrete policy recommendations, Think2030's key objective is to identify science-policy solutions for a more sustainable Europe.

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