REPORT JUST AND FAIR TRANSITION

Visible costs, hidden gains

The balance of financial flows related to Poland's participation in the EU ETS

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REFORM

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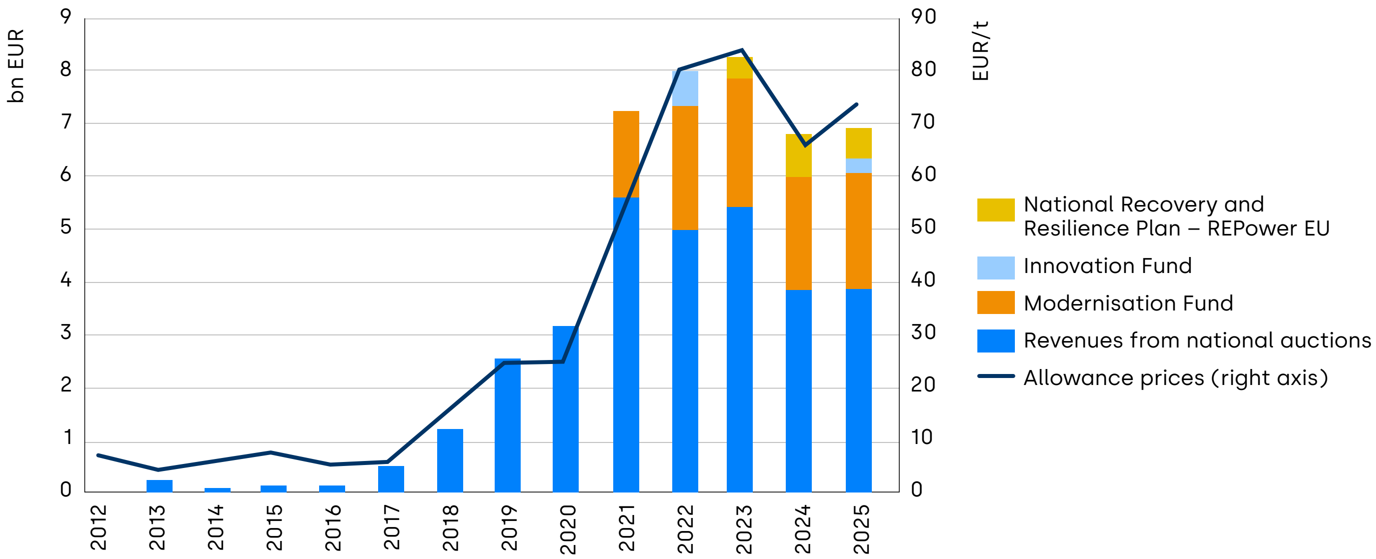
Executive Summary

The EU ETS is a significant source of funding for Poland

- Between 2012 and 2025, the Polish government and Polish entities received over PLN 200 billion from the EU ETS. These funds came not only from domestic allowance auctions, but also from the Modernisation Fund, the Innovation Fund and the REPowerEU chapter under the National Recovery and Resilience Plan.

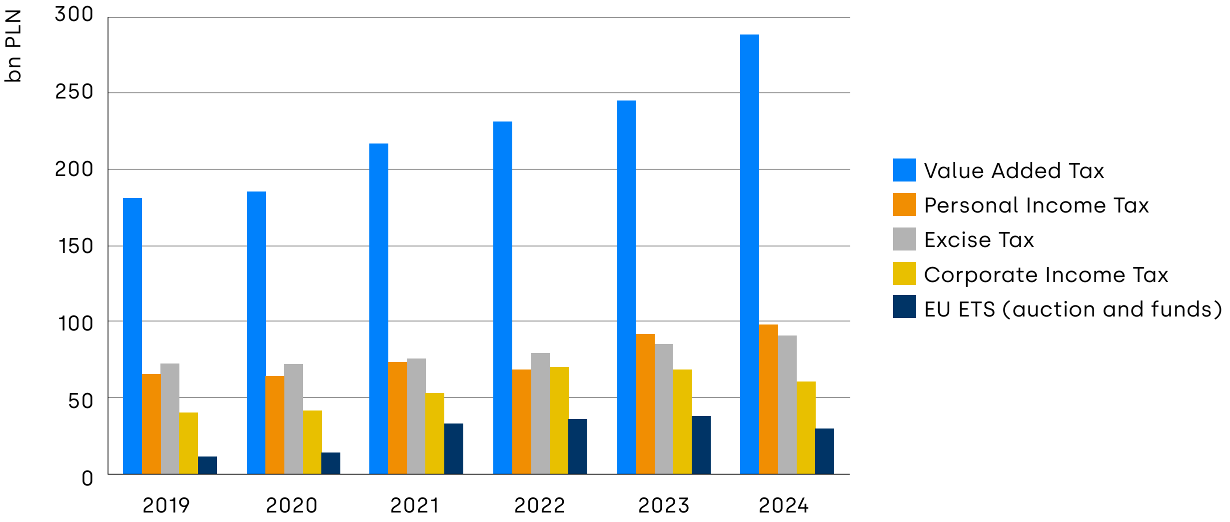
Figure 1. More than EUR 45 billion from EU ETS – financial flows to Poland from the EU ETS since 2012



Source: Reform Institute based on data from the EEA, the European Commission and EEX. Innovation Fund – total value of grants awarded to Polish projects in a given year

- In 2024, financial flows to Poland from the EU ETS amounted to the equivalent of approximately 45 per cent of expenditure on the 'Family 800+' programme. It also corresponded to 10 per cent of VAT revenue, 30 per cent of personal income tax (PIT) revenue and nearly 50 per cent of corporation tax (CIT) revenue. In turn, between 2019 and 2024, these funds accounted, on average, for the equivalent of around 7 per cent of total annual investment expenditure in Poland.

Figure 2. Financial flows to Poland from the EU ETS were lower than the main sources of tax revenue (in billion PLN)



Source: Reform Institute based on Ministry of Finance. Annual reports on the implementation of the state budget.

- In recent years, annual financial flows from the EU ETS have exceeded government expenditure in many individual sectors, including, amongst others: agriculture, forestry, hunting and fisheries, housing and local government, as well as unemployment benefits and housing allowances.

Table 2. Funding from the EU ETS was higher than government expenditure in many areas of public policy in Poland (in billion PLN).

COFOG categories	2019	2020	2021	2022	2023	2024
EU ETS funding (auctions and funds)	**10.95**	**14.04**	**33.01**	**35.85**	**37.46**	**29.23**
Pre-school and primary education	51.14	56.13	60.40	65.92	79.00	98.35
Higher education	28.39	28.56	31.64	33.08	42.07	45.68
Public debt transactions	32.84	31.95	30.42	52.02	76.32	87.83
General economic issues, trade and the labour market	9.00	98.50	34.22	25.65	27.79	19.49
Agriculture, forestry, hunting and fishing	10.81	13.06	11.02	18.64	22.63	23.95
Fuel and energy management	9.17	5.11	10.99	33.82	62.03	37.60
Mining, manufacturing and construction	1.29	1.55	1.69	2.77	3.31	8.99
Transport	76.60	85.13	93.62	107.01	127.88	125.86
Research and development in the field of business activity	2.62	2.82	2.93	3.13	4.62	4.49
Waste management	2.77	3.11	3.14	3.46	3.96	3.94
Wastewater management	4.66	4.48	4.52	5.73	7.69	10.73
Housing and utilities	12.43	11.32	12.23	15.35	23.56	21.99
Hospital services	71.44	79.96	93.01	99.31	119.86	138.40
Illness and disability benefits	46.60	54.26	54.55	57.08	62.13	72.07
Benefits for families and children	63.97	76.47	77.15	81.39	82.43	111.82
Unemployment benefits	6.30	6.98	6.92	7.02	7.49	8.36
Housing benefits	0.62	0.61	0.65	0.82	1.14	1.79

Expenditure figures that were lower than EU ETS funding in a given year are highlighted in green.

Source: Data on government expenditure based on Eurostat (the 'general government' sector, Classification of the Functions of Government – COFOG).

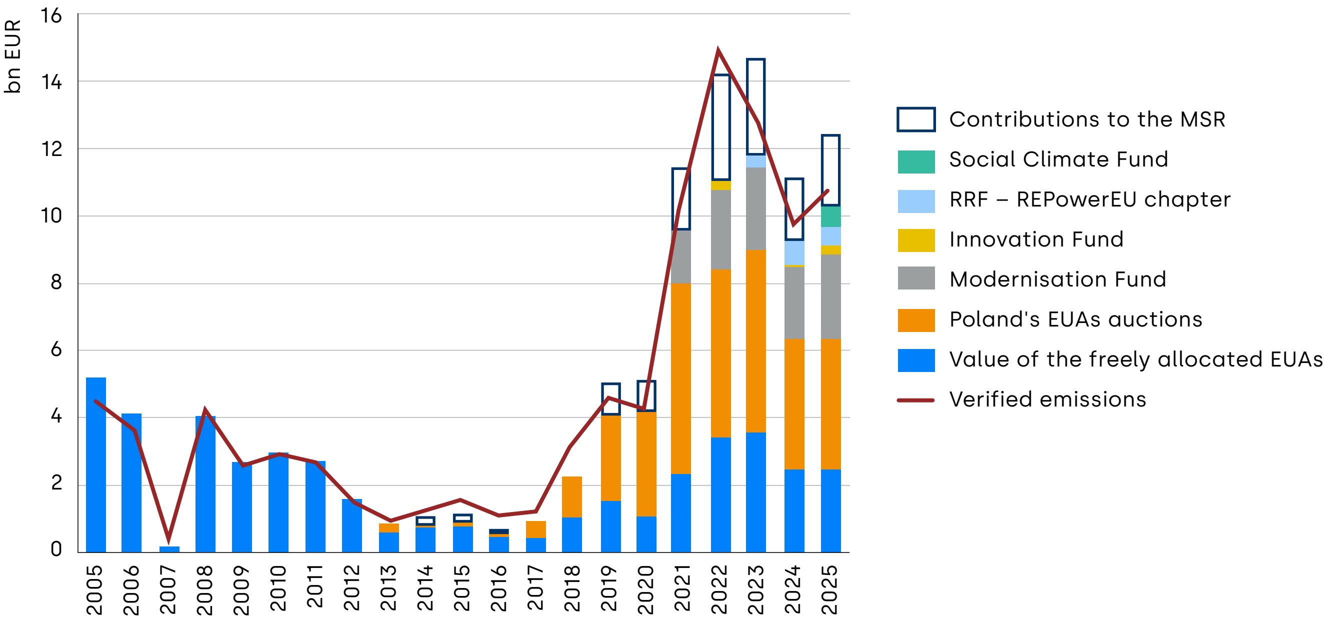
- Although EU ETS financial flows to Poland do not constitute a large proportion of total government expenditure, they have a noticeable impact on the state of public finances, including the level of the annual budget deficit. Between 2019 and 2024, revenue from domestic auctions and EU funds ranged from PLN 11 to 37 billion. By way of comparison, during the same period, annual expenditure from the state budget ranged from PLN 414 to 834 billion per year, whilst the annual budget deficit stood at between PLN 17 and 237 billion.

Incomplete picture of the EU ETS balance for Poland

- The term 'ETS gap', which is commonly used in the Polish public debate, does not reflect the full picture of the potential benefits of the scheme for Poland and thus overstates the negative balance.
- The estimate of the balance of financial flows related to Poland's participation in the EU ETS depends on the scope of the cash flows considered:
    - if the revenue from domestic auctions, EU funding, free allocations of allowances and the potential return of allowances transferred to the Market Stability Reserve (MSR)[1] are taken into account, between 2021 and 2025, Poland received approximately PLN 13 billion less from the EU ETS than Polish entities spent on purchasing emission allowances;
    - excluding the return of allowances to the MSR, Poland recorded a deficit of around PLN 27 billion over the last five years, of which approximately PLN 1.5 billion was attributable to 2024.
- In both cases, these are significantly lower deficits than the estimates circulating in the Polish public debate, which compare only auction revenues and costs of allowances bought by the companies.

[1] Assuming that the surplus allowances currently in the reserve are not cancelled. The current value of the allowances (assuming a price of 77 EUR/t) currently in the reserve, which may be returned to our country (assuming Poland's share is 10.7%), is estimated at approximately PLN 14 billion.

Figure 3. The 'ETS gap' is significantly smaller when the Market Stability Reserve (MSR) and EU funds inflow are considered.



Funds from Social Climate Fund will be available to Poland after implementation of ETS2.

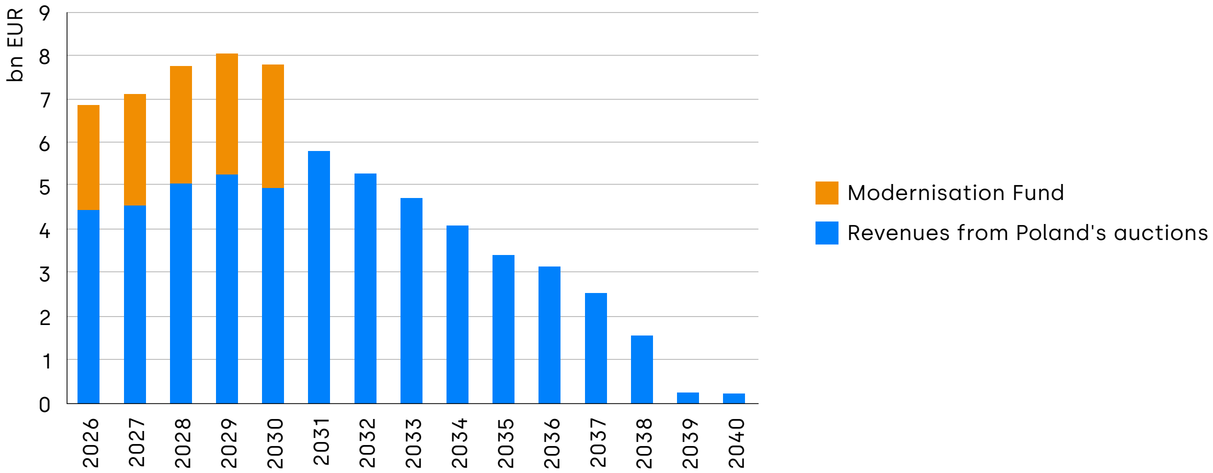
Source: Reform Institute based on EEA, EC, EEX.

- This deficit does not imply an automatic transfer of these funds to other Member States. This is mostly due to the structure of the entire system and the functioning of the MSR mechanism, including the cancellation of surplus allowances in the reserve. The reserve is intended to eliminate the oversupply of allowances in circulation. Consequently, Polish and other European companies must make up for their shortfalls through transactions on the secondary market. This involves purchasing allowances from those entities that have accumulated surpluses.
- Some of the allowances held in the MSR may return to the Polish auction market in the event of a supply shortage. As a result, the overall benefits of the EU ETS for Poland in recent years will be higher. Furthermore, the European Commission's proposal abolishes the mechanism for cancelling allowances in the reserve, thereby increasing the pool of allowances that may return to Poland in the future.

Maximising the benefits requires an active government policy

- Current discussions suggest that the EU ETS reform will focus primarily on adjustments and fine-tuning of stabilisation mechanisms, rather than a complete abandonment of the system. The EU ETS is consistently recognised by Brussels and the majority of Member States as a key tool for achieving reduction targets and energy security. However, the current priority of forthcoming legislative changes is to increase the system's predictability and take greater account of the challenging situation facing industry.
- The future balance of financial flows related to Poland's participation in the EU ETS will depend on the outcome of the ongoing negotiations at EU level. It is therefore crucial for Poland to participate actively in the negotiations on the EU ETS reform. This concerns, amongst other things, the operating principles of the MSR and the rules for the allocation of free allowances. It will also be very important for Poland to maintain the Modernisation Fund beyond 2030, as well as to develop favourable rules for accessing the new financial instrument – the ETS Investment Booster. Such measures could bring Poland tangible financial benefits. They are also more realistic than the calls to withdraw from the EU ETS or suspend the system, which are currently present in the Polish public debate.
- In the coming years, the Polish government can expect further significant revenue from the EU ETS. By 2032, the Polish government will have as much as PLN 200 billion at its disposal from national EU ETS auctions and the Modernisation Fund. This amount could be even higher if the Modernisation Fund is maintained beyond 2030 and favourable terms of access to the ETS Investment Booster are secured.

Figure 3. Under current regulations, the EU ETS will generate over EUR 48 billion for Poland from domestic auctions and the Modernisation Fund by 2032.



Potential sources of additional support for Polish businesses include the Innovation Fund, the extension of the Modernisation Fund beyond 2030, and new instruments, including those under the new EU budget.

Source: Reform Institute based on the Polish NECP, the 'EU ETS Revenue Simulator' tool by Carbon Market Watch and Climact, and the 'ETS Simulator' tool by Climact.

- The extension of the EU ETS to the buildings and road transport sectors (ETS2) and the implementation of the Social Climate Fund could provide additional funding. Taking these into account, the total pool of revenues available from the EU ETS and ETS2 to the Polish government could amount to approximately PLN 327 billion by 2032.
- Fully realising this potential requires greater efficiency and transparency in the spending of EU ETS funds[2]. Consolidating EU ETS revenues within a single, dedicated and transparent fund would help build trust among citizens and businesses in climate policy and its key instrument – the EU ETS. At the same time, it would ensure the long-term financial stability of modernisation investments in the process of Poland's energy transition. To this end, Poland should revisit the idea of establishing an Energy Transition Fund, financed by the EU ETS revenues. This should be accompanied by a multi-year spending plan agreed upon by society. The Croatian government's consultation initiative, for example, could serve as a point of reference here[3].

The full report (including the methodological note) is available in Polish here. ■

2 For more on the management of revenue from national auctions in Member States of significance to the system: Helak, M., Madej, D., Niewitała-Rej, M., Stefańczyk, A., Śniegocki, A., and Wojtyło, M. (2025), *The study on the EU ETS revenue use for social justice and climate neutrality in the context of the Social Climate Fund and ETS2*. Warsaw, Poland: Reform Institute.

3 In April, the Croatian Ministry of Environmental Protection and Green Transition submitted a plan for the expenditure of EU ETS funds (totalling EUR 650 million) for the period 2026–2030 for public consultation. Read more in Balkan Green Energy News here.

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