



Effective use of ETS2 revenues in Czechia

Main principles for maximizing the positive impact of carbon pricing of housing and transport

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Introduction

The Emissions Trading System (ETS) is a core instrument of European decarbonization efforts and an essential tool towards achieving the goal of European climate neutrality, internalizing negative impacts of burning fossil fuels into the price, incentivizing investments into clean solutions and also generating revenues for public funding of the energy transition. The introduction of carbon pricing to the housing and transportation sectors with the ETS2 is a key instrument toward achieving decarbonization in these sectors.

While there are legitimate concerns about socioeconomic impacts of the mechanism, there are effective tools to mitigate the adverse effects and even ensure a positive impact on households when implemented correctly. ETS2 will generate significant revenues: Czechia is expected to have approximately 150–200 billion CZK at its disposal from auctioning ETS2 allowances in the period 2027–2032, including 52 billion CZK⁽¹⁾ in the Social Climate Fund, which can be used to tackle the root causes of energy and transport poverty.

⁽¹⁾ actual volume will differ based on real ETS2 allowance price

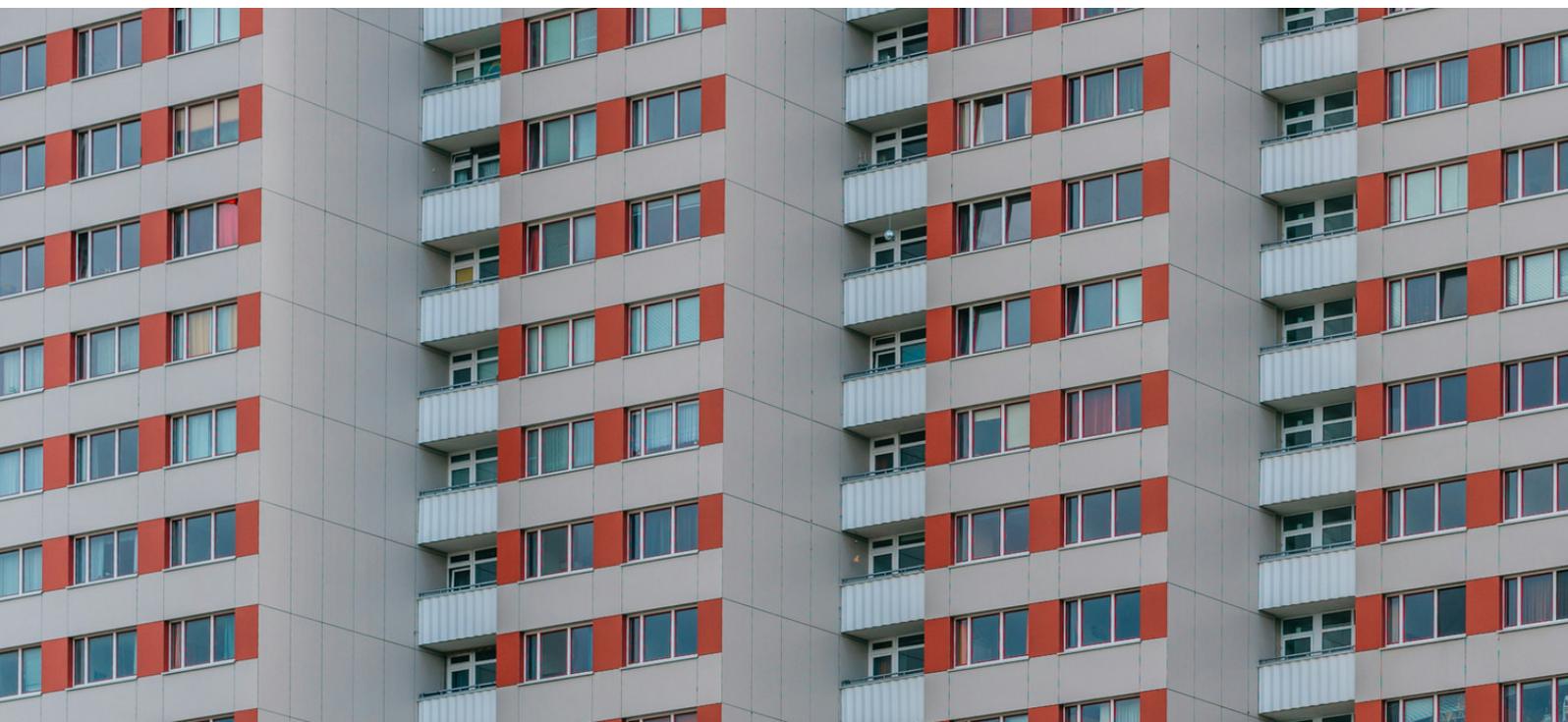
Recommendations

1. Implement ETS2 without delay

In order to reap the benefits of decarbonizing the sectors of buildings and transport, ETS2 needs to be implemented into national legislation without further delays and weakening. Whereas emissions in the energy sector have been consistently decreasing in the past decades, this is not the case for emissions in the sectors of buildings and especially transport, where emissions continue to increase over time. Successful transition towards climate neutrality requires fair contribution of all sectors of the economy. As shown in an [analysis conducted by PwC](#), investments from the ETS2 revenues would have a significant positive impact on the Czech economy, each billion invested generating between 300 millions and 1 billion of benefits depending on the kind of measures funded, while financial impacts on vulnerable households could be compensated. Without implementing ETS2, Czechia will not be able to use the revenues to support the transition of households towards cleaner solutions and to access the Social Climate Fund.

According to the Czech National Energy and Climate Plan (NECP), which also models the socioeconomic impacts of the clean transition (including implementation of ETS2), the relevant WAM (with additional measures) scenario would have positive impacts on most types of households in all regions regardless of used heating source. When ETS revenues are used to compensate for the adverse effects via direct financial support of households, clean transition would lead to significant reduction of energy poverty.

However, sufficient investment is necessary to drive the clean transition. Revenues from the current ETS system have been declining over the past years, with 16,7 billion CZK of revenues reported in 2024, but only 5,5 billion CZK foreseen in 2026 according to the Ministry of Environment. The proposed slashing of the renovation funding scheme New Green Savings threatens to lock households in dependency on inefficient burning of fossil fuels, exposing them to the risk of high energy bills for much longer than necessary. Implementing ETS2 would significantly help address the investment gap in clean housing and transport.



2. Utilizing revenues for measures with both environmental and social benefits

Revenues should be used primarily for measures that have both the highest positive impact on reducing GHG emissions and positive social impact, especially on vulnerable households. Notably, Member States are not limited by the 25% threshold for co-financing the Social Climate Fund and can provide a higher contribution to support vulnerable households and microbusinesses from the Fund. In addition, ETS2 revenues not included in the SCF should also be used primarily for activities with positive social impact, as stated in Article 30d of the ETS Directive: "Member States shall use their revenues or the equivalent in financial value of those revenues for one or more of the purposes referred to in Article 10(3) of this Directive, giving priority to activities that can contribute to addressing social aspects of the emissions trading under this Chapter[...]".

The directive also lists other purposes including decarbonisation of heating and cooling, financial support for low-income households in worst-performing buildings, measures improving multimodality, supporting shifts to zero-emission vehicles and to public transport, financing Social Climate Plans, and financial compensation to consumers of fuels where double counting of emissions could not be avoided.

Revenues should clearly be used for additional measures, not simply as a replacement for existing financial instruments. The implementation should ensure that all fossil fuels investments are excluded from support and that the Do Not Significant Harm (DNSH) principle is applied rigorously.

To tackle energy poverty, renovations of housing and construction of affordable social housing should be supported. According to the NECP, energy poverty disproportionately affects tenants of rental housing, seniors, and single-parent families, so support should be directed at those target groups. Expanding the New Green Savings programme, including the Light variation targeting lower-income segments of society, while continuing the efforts to make it as accessible as possible to the most vulnerable households would help address the root causes of energy poverty.

Implementing ETS2, phasing out fossil fuel boilers and implementing minimum energy performance standards would drive down energy costs of households by 34 percent by 2050 compared to a business as usual scenario, while requiring a total of 11,8 billion € investment. Czechia is also a country with one of the highest benefit-cost ratios for investment into energy savings in the EU, with a 3,6 € return on each invested euro.

According to the NECP, up to 479 thousand people were at risk of transport poverty in Czechia with 218 thousand living in rural areas. Therefore, the revenues should also be used to support clean transport solutions, especially in regions and areas with little availability of regular public transport service to improve availability and affordability of mobility. Multiple regional on-demand transport service projects have started in Czechia and on-demand transport should also be funded under the Social Climate Plan. The progress of those projects should be monitored and if successful, support could be extended. The potential of social leasing schemes for zero-emissions vehicles should also be analyzed.

In addition to supporting clean investment, direct financial compensation of adverse impacts on vulnerable households should be implemented. This support should be targeted to maximize the benefit for vulnerable households, and should be administratively as simple as possible to ensure access for all. Interlinkages with existing support mechanisms, especially the newly introduced unified "superbenefit", should be analyzed to ensure a fair implementation of direct compensation without unintended consequences like e.g. excluding households from eligibility criteria for other kinds of financial support.

While ETS2 revenues can significantly help with tackling the root causes of energy and transport poverty, the government should not rely on it as the sole instrument to tackle the social aspects of clean transition. Tax policies and social policies should also be reviewed to address existing inequalities and distributional impacts of clean transition.

3. Transparency and public participation

Czechia has been struggling with inefficient use of EU financial sources and achieving real impact as a systemic issue. ETS revenues are one of the main financial sources for decarbonization of the Czech economy and it is key to set up a transparent process that will ensure an effective use of the revenues. As decarbonization progresses, the price of ETS revenues is expected to keep increasing while the overall volume of revenues is expected to decrease, which makes the need for efficiency even more pressing.

Distribution of ETS revenues is covered in the implementation plan approved by the government annually. It is key that the preparation process is conducted in a transparent manner, ensuring involvement of all relevant stakeholders including representatives of the national administration, businesses, academia, experts, and civil society.

Proper consultation and public participation have to be conducted to ensure the plan addresses the challenges of clean transition effectively. The implementation plan should also include clear indicators of successful implementation that would allow monitoring of its effectiveness, including impact on emissions reduction, relevant socioeconomic impacts, and compatibility with the NECP and other national strategies. This would allow for clear monitoring and measuring of the impact and improving effectiveness of future implementation plans.





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