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Executive Summary

- Among the key elements of the EU's *Fit for 55* climate package are an extension of the EU Emissions Trading System (ETS 2) and a revision of the Energy Taxation Directive. ETS 2 is bound to cover buildings and road transport, while the revised Directive will tie the tax rates with the energy content and the environmental impact of energy products. If introduced, the changes will see Poland increase its excise tax rates on fossil fuels used for heating and road transportation while simultaneously lowering the rates on electricity.

- In cooperation with partners from the Think Sustainable Europe network, the project team deployed a microsimulation model developed by BC3 and IEEP to assess the direct economic gains and losses that will impact the welfare of European households as a result of the reforms.

- Of all the EU Member States, Poland will be the largest beneficiary of the Social Climate Fund. With its own contribution at EUR 659 million, Poland will receive EUR 1.3 billion for the support to vulnerable households and investments in the areas of road transportation and buildings.

- The impact on a typical household of the ETD reform alone is limited. It ranges from -0.4% (Hungary) to 0.6% (Denmark), with the impact for Poland being close to null. These results suggest that the changes proposed are cautious.

- In Poland's case, disaggregation by income group reveals the progressive character of the ETD reform: poorer households gain, while wealthier ones lose. The impact of lowering the electricity tax rates outweighs the impact of increasing the fossil fuels tax rates. This leads to welfare increasing by as much as 0.8% for the households in the poorest decile.

- As a result of the ETD reform, a typical urban household is better off, but a typical rural household, due to its higher reliance on high-emission energy carriers, is worse off. Still, between 40% (in case of subsidies to all households) to 50% (in case of subsidies to the poorest half) of the poorest rural households benefit from the change.

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- Compared with a scenario that only accounts for the ETD reform, the combined impact of the ETD reform and ETS 2 shows more distinct and overall less favourable effects for a typical EU household. The effect ranges from -2% in Poland to 0.5% in France and Denmark, where domestic taxes on CO_2 emissions are already in force.

- In Poland, the combined impact of the ETS 2 mechanism and the ETD reform is again progressive. In case that subsidies are disbursed to the poorest 50% of households, a positive or neutral impact will be observed in 30% of the poorest households.

- When assessing the impact of ETS 2, it is important to note the only 25% of the revenues from the emission allowances is assumed as earmarked for redistribution to households. The remaining part – in Poland's case, nearly EUR 2 billion per year – remains available for investments in green technologies in buildings and road transportation.

See here for the full report in Polish:

https://wise-europa.eu/wp-content/uploads/2022/03/Raport-krajowy-22.3.3.pdf

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