



ClimateFair Monitor

Towards climate-neutral buildings and road transport

PREPARING FOR ETS2 AND THE SOCIAL CLIMATE FUND IN CEE: challenges, opportunities and recommendations



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INTRODUCTION

The decarbonisation of buildings and road transport is high on the EU's agenda. Two powerful tools, the extension of the EU Emissions Trading System to cover these sectors ([ETS2](#)) and the Social Climate Fund ([SCF](#)), are expected to contribute significantly to this aim. ETS2 will increase the price of fossil fuel use in buildings and transport, and the SCF aims to alleviate the resulting burdens. A consortium of civil society organisations in Central and Eastern Europe (CEE) is carrying out the [ClimateFair Monitor](#), project funded by the German government's European Climate Initiative ([EUKI](#)), to help properly implement ETS2 and SCF. The consortium identified several challenges facing the implementation of ETS2 and SCF, as described below, and at the same time recommends practical solutions to these challenges.

The main challenges are the following:

- 1. Misinformation & Political Resistance:** Public debate is very limited, citizen involvement is weak, and populist narratives are abundant.
- 2. Energy & Transport Poverty:** Many households can not afford to keep their homes adequately warm during winter and/or adequately cool during summer. Transport poverty might hinder access to work and public services.
- 3. Misuse or Ineffective Use of Funds:** Due to institutional and legal deficiencies, the use of funds might not comply with the principles of sound financial management (economy, efficiency, effectiveness), transparency, budgetary balance, and the protection of the EU's financial interests.
- 4. Administrative & Workforce Capacity Gaps:** Managing authorities are often understaffed, and the workforce is lacking in implementing the required tasks.
- 5. Behavioral and Hidden-Economy Responses:** Biomass and household waste burning might be unintended responses to rising prices. Fuel-tourism and fuel smuggling might increase, too.



1. MISINFORMATION & POLITICAL RESISTANCE

1st Challenge: Misinformation & Political Resistance

Short Description of the Challenge

The greatest challenge is the spread of misinformation and disinformation, coupled with political resistance to the implementation of necessary measures. The implementation of ETS2 and SCF is closely related to households' daily lives, making them socially sensitive and prone to being used by populists, far-right forces, certain business groups, and even some governments to undermine the EU's climate policies.

According to the [Global Risk Report 2025](#) of the World Economic Forum, the top global risk is misinformation and disinformation. Awareness of the causes of climate change and the necessary mitigation and adaptation measures is extremely low among both the population and decision-makers. This situation is also conspicuously reflected in Europe, where the rise of populist forces – either denying that climate change is caused by humans or, more often, opposing the necessary measures with false arguments – has become increasingly visible. The latter is also true for most member state governments; this is exemplified by their successful effort to [postpone](#) and [water down](#) the implementation of the emission trading system for buildings and road transport (ETS2).

These governments and populist forces argue that ETS2 would hit vulnerable households the hardest, while the truth is that the current system highly [favours the rich at the expense of the poor](#), and the implementation of ETS2 with appropriate compensation for households would [reduce social inequality](#). Another, often expressed – but false – argument is that ETS2 would hurt the economy of the EU (or a member state), while the truth is that postponing the ETS2 would only benefit extremely polluting established industries, waste public money (due to enormous opportunity costs and the continuation of providing harmful subsidies), and delay the inevitable transition to a [better functioning economic system](#).

The lack of information on energy efficiency is a major risk, too. For example, many people are not aware of even the simplest methods to reduce heating and cooling costs. This is particularly relevant in Central and Eastern Europe, where the overwhelming majority of the buildings are characterised by a very low energy efficiency, and since it is impossible to renovate even a fraction of them within a short period of time, every opportunity must be seized to save energy. With [better knowledge](#), households could reduce their energy consumption and thus be less exposed to price increases – one of the key factors driving vulnerability to misinformation about climate policies such as ETS2.

The European Commission is also aware of the massive threat caused by misinformation, disinformation and lack of information. The Code of Conduct on Disinformation, accessible on the [Commission's website](#), provides a thorough and correct analysis of the situation and important recommendations, which, if implemented, would enable member states, citizens and other stakeholders to successfully counter misinformation and disinformation. The adoption of the [Digital Services Act](#) and the [European Media Freedom Act](#) are strong steps in the right direction. However, these legislative acts and other initiatives have proven to be insufficient so far, enabling misinformation and disinformation to thrive everywhere.

While social media, and, in several member states, even a large part of the media are inundating the public with misinformation and disinformation, the voices trying to dispel climate-related misinformation and disinformation are usually much weaker (especially on social media) than the voices of those spreading disinformation. Trustworthy media and environmental NGOs lack the funding to meaningfully counter the colossal forces engaged in the dissemination of disinformation. This is like

trying to extinguish a forest fire with a glass of water. If this tendency continues, the EU's climate policies are doomed to failure.

The situation is aggravated by the fact that meaningful public participation is often lacking, which might also lead to less efficient implementation of ETS2 and SCF. The very mixed experience from public participation in the drafting and updating of the National Energy and Climate Plans seems to repeat or even worsen in the case of Social Climate Plans in several member states. The problem is highlighted, among others, in the Commission's Communications on "EU Strategy for Civil Society" and "European Democracy Shield: Empowering Strong and Resilient Democracies".

The country-specific situations

The wider CEE and SEE region is differently exposed to misinformation and disinformation also due to the heterogeneous levels of media literacy and resilience against disinformation, as shown in the 2026 edition of the Media Literacy Index of the Open Society Institute – Sofia. What distinguishes the top-ranking countries from the rest is that they have much more media freedom than the others, high-quality education and the highest levels of trust among their citizens. The breakdown shows a very good performance by Latvia and Slovenia, which are in the second cluster, while countries such as Romania and Bulgaria are on the opposite side, reaching a ranking at the bottom of the fourth cluster. Hungary's scores in between taking a place in the third cluster.

Fig 1. Clusters of countries in Europe according to the Media Literacy Index



Source: Open Society Institute – Sofia

Challenges

Although in Bulgaria there are patterns of misinformation and disinformation concerning climate change that are similar to other countries, including countries in the CEE region, there is also one particular piece of misinformation that continues to shape energy efficiency measures supported with public funding.

In 2015, the government started a National Programme for Energy Efficiency for multi-family buildings, which provided 100% public funding for the renovation of multi-unit buildings and did not request any co-financing from the homeowners. Since then, the politicians, linked to all governments that followed, began to convince citizens that this “free” rehabilitation would last forever. In fact, this rehabilitation has included mainly building insulation measures, rarely a few others and never implemented a deep renovation. Because of frequent elections, especially since 2021, the opposition also started to stick to the same narrative of a “free renovation”. There was a similar proposal for 100% funding of rehabilitation in the National Recovery and Resilience Plan (NRRP). Somehow, the EC agreed with a “final” exemption for Bulgaria, and there was a huge interest from the citizens in the first stage of the project. The second stage included 20% own cofinancing from the owners and attracted 10 times fewer applications. Why? Apart from the lack of funding and financing schemes/instruments to support co-funding, a populist campaign took place. Politicians and experts were also involved. Their argument against co-funding schemes was based on the misleading claims that people would have to pay expensive renovation costs, which, as a result, diminished public support for more innovative funding schemes that could provide tailor-made support to households based on their financial and social status.

Eventually, this would have led to the renovation of more residential buildings with the same amount of public funding.

While some positive steps were made during the preparatory stage of the NRRP's project, the negative campaign against co-funding brought not only disorientation among owners but also a widespread hope for “free” renovation. The result is that the government, which resigned in December 2025, adopted a new national programme for energy efficiency with 100% funding with public money.

No financial instruments or incentives for co-financing have been created so far, except for one. The National Decarbonisation Fund was created by the government in the fall of 2025. It is supposed to be such a tool, but as of the beginning of 2026, details regarding the fund are unclear, including the start of its operations and where its resources would come from.

As a result, the plans to implement renovation programmes only with public funding limit the capacity for achieving the needed renovation in Bulgaria and put the 2030 national goal for renovation of the housing stock in question.

Recommendations

Recommendations for Bulgarian stakeholders

Bulgarian institutions should implement only funding programmes that include not less than 40% of own-cofinancing (excluding only households that live in energy poverty).

- Changes in the respective legislation should be made to recognise homeowners' associations as legal entities with a full range of rights and obligations, including the right to open and manage their own bank accounts;
- The information system for the households that live in energy and transport poverty should be designed and implemented quickly. It should work with minimum burden on the people and should use all databases of the respective state and municipal institutions digitally and via direct exchange of data;
- Financial instruments and schemes for the support of homeowners and their associations should be developed and put in place. Such instruments should be open not only to EU money, but also to private funding and funding from the international financial institutions;
- The process of monitoring buildings' performance after the renovations should be improved and prolonged;
- Any involvement of political parties that claim they are pro-European in negative campaigns against the co-financing of energy efficiency measures should be stopped.

Recommendations for EU stakeholders

EC should keep the pressure on Bulgaria to quit with 100% public funding for energy efficiency programmes and measures, both with EU and national funding. Moreover, the Commission should put such a requirement as a condition for funding under the next financial framework.

Hungary

Challenges

Awareness and knowledge about climate issues, and especially environmental economics, have always been very low across all levels of society. Over the past 15 years, this situation has even substantially worsened. The government has spent billions of euros on spreading misinformation and disinformation on several key environmental issues. This includes ignoring the environmental impact of heavily subsidised fossil fuel-generated energy, as well as its impact on the climate. Civil society organisations, including the environmental movement, have suffered serious setbacks due to the [government's policies](#). The overwhelming majority of the media has been taken over by the government or confidants of the [governing party](#), Fidesz, and this part of the media has provided little credible information about climate issues and has often allocated space for climate-sceptic views and false solutions, often in order to justify political decisions. The same is true for almost all politicians as well as for a large part of the government staff. Myths about climate change and possible solutions are widespread.

Some concrete examples:

In 2011, the National Meeting of Environment and Nature Protection NGOs, representing nearly 600 organizations, democratically elected a representative for the National Economic and Social Council (NGTT). However, the government blocked this person from taking the seat at NGTT but appointed someone with no ties to these NGOs, little knowledge about environmental issues, and a tendency to subsequently only echo the views of the government – often contradicting the NGOs' positions. Despite repeated protests, this situation has not changed ever since.

In 2024, the government-sponsored [Megafon portal](#) posted a video, attaining more than 100,000 views, about climate change that practically contained only [disinformation](#) about the topic. The video accused Clean Air Action Group (CAAG) and other NGOs of grossly overstating the threats of climate change.

In 2023, the [Minister of Energy](#) celebrated Hungary's CO2 emission reduction and framed it as a result of the government's successful climate policy measures, while the phenomenon was due to low economic performance, high inflation, and mild weather conditions in the previous year.

Before 2011, CAAG appeared in very diverse media outlets, independently of their political affiliation. Since then, its coverage has been mostly limited to independent outlets, while government-aligned media typically misrepresent its positions. For example, CAAG published, in line with the Commission's recommendation, that it is necessary to scrap the subsidy on household energy prices and use the money thus saved to compensate those in need, and then the government media attacked CAAG by stating that CAAG proposes to put an additional burden on poor households.

Clean Air Action Group had regular meetings with the ministry staff on air quality issues. In December 2019, when CAAG attempted to schedule the next meeting, they were informed that meetings were postponed indefinitely, a decision later revealed by a ministry staff member to be a high-level political instruction.

These were not isolated cases. Many similar ones occurred with CAAG as well as other NGOs.

Opportunities

There is still a substantial civil environmental movement, and a growing momentum of independent media has gained significant public support in recent years. Independent experts and, mostly informally, certain government officials can help to raise awareness and provide reliable information.

There are already [good materials](#) on the methods to reduce energy consumption cheaply and quickly for awareness-raising, even if they cannot provide a full solution.

Recommendations

1. The European Commission and Western governments should provide substantial support to Hungarian environmental NGOs and independent media to enable them to counterbalance misinformation and disinformation, and to raise awareness about the necessity and benefits of implementing ETS2 and the related measures, as well as to inform the public about the methods to reduce energy consumption.
2. The EU must not finance the Hungarian government until it meets all the requirements to reduce corruption and misuse of public money, in line with the [recommendations of the European Parliament](#) in its resolution of 25 November 2025 on the “Existence of a clear risk of a serious breach by Hungary of the values on which the Union is founded”.

Latvia

Challenges

In late 2025, Latvia's political environment is increasingly shaped by a surge in populist rhetoric that not only challenges democratic norms but also undermines foundational social protections, including those related to gender-based violence. This socio-political shift creates a challenging backdrop for advancing progressive climate policies, as broader democratic backsliding can weaken institutional frameworks essential for effective climate governance.

A key development in Latvia's civil society landscape is the political push to reduce state funding for NGOs. Given that NGOs play a critical role in climate advocacy, environmental monitoring, and public engagement, funding cuts risk diminishing civil society's capacity to hold policymakers accountable and to support climate action at multiple governance levels.

Climate governance itself is a polarising issue in Latvia. The implementation of the EU's Emissions Trading System Phase 2 (ETS2), which extends carbon pricing to buildings and road transport, is widely perceived domestically as an undue economic burden. Political actors frequently frame ETS2 as an “unachievable task” and subordinate it to urgent national security concerns, primarily the persistent military threat from Russia that dominates the policy agenda. This geopolitical context complicates Latvia's ability to prioritise and operationalise EU climate directives effectively.

The Ministry of Climate and Energy has publicly emphasised its success in advocating for a delay in ETS2 implementation at the EU level, framing this delay as a protective measure against further increases in living costs amid high inflation and energy prices. While this reflects a pragmatic response to immediate socio-economic pressures, it also signals a cautious approach that risks delaying

Latvia's decarbonisation trajectory and integration into the EU's broader climate framework.

Simultaneously, Latvia's government has initiated reforms aimed at reducing bureaucratic burdens to enhance administrative efficiency and stimulate economic activity. However, this agenda has been co-opted by some political actors to justify weakening environmental safeguards, notably in Public Procurement regulations. These regulations have been progressively aligned with sustainable public spending principles and EU Green Deal objectives, integrating environmental criteria to drive green procurement. Dilution of these standards threatens to increase Latvia's environmental footprint by permitting procurement choices that are less sustainable, potentially undermining progress toward climate mitigation and circular economy goals. While streamlining bureaucracy is a legitimate policy objective, it must be balanced against the imperative to maintain robust environmental safeguards that drive systemic change.

These developments highlight a critical tension in Latvia's policy environment: the trade-off between short-term economic and administrative efficiencies and the long-term imperatives of climate resilience and sustainability. The convergence of populist politics, constrained civil society capacity, and geopolitical pressures creates a complex governance landscape that challenges Latvia's alignment with EU climate ambitions.

For climate policy experts, Latvia's current trajectory underscores the importance of integrating security considerations with climate policy frameworks, strengthening institutional capacities, and supporting civil society actors to sustain momentum on climate goals despite political headwinds. Continued engagement at both national and EU levels will be essential to navigate these complexities and safeguard Latvia's climate commitments.

Opportunities

Effectively communicating the specific challenges can enhance societal awareness and generate support for the climate transition.

Recommendations

a) Recommendations for Latvian stakeholders:

It is crucial for policymakers to strike a balance that maintains streamlined administrative processes without compromising environmental safeguards. Foster multi-stakeholder forums including government, NGOs, business, and security experts to balance climate ambitions with economic and security priorities, enhancing policy coherence and public trust.

There is an urgent need for communication on how ETS2 can help strengthen the well-being of people in Latvia and show examples of how the ETS2 revenues can benefit everyone and how ETS revenues already have been used to help achieve climate goals, as well as social and environmental goals.

b) Recommendations for EU Institutions:

Expand dedicated funding streams and technical assistance to help Latvia modernise infrastructure, improve energy efficiency, and transition to low-carbon technologies, reducing the perceived economic costs of climate policies.

Provide grants and capacity-building programs to Latvian NGOs working on climate advocacy, transparency, and environmental justice to counteract domestic funding cuts and bolster civic participation.

Facilitate cross-sectoral dialogue platforms linking security and climate policy experts to develop integrated strategies that address both national security and climate resilience, recognising their interdependence.

Support Latvia in maintaining robust environmental criteria within public procurement by offering an example, ensuring alignment with EU Green Deal objectives and preventing regulatory backsliding.

Poland

Challenges

Since the approval of ETS2 in 2023, the government of Poland has been actively working to revise this mechanism. The position of the government is that ETS2 can affect the prices of heating and transport fuels, which would negatively impact households and industry even despite the fact that this mechanism assumes the creation of the Social Climate Fund, which is to mitigate such effects on citizens. According to the Polish cabinet, countries should be given **3 more years** to gain time to prepare households and companies for the new regulations. It also postulates that ETS2 will be equipped with a system of limiting the growth of prices. The main concern is the potential negative effect on citizens and industry. That is why the Polish government portrayed as its great success the fact that the European Council tasked the European Commission with presenting the possible changes in the ETS2 in October 2025. It was celebrating the fact that it managed to gain the support of 19 states for establishing a mechanism limiting the growth of prices.

Another argument by Polish officials against ETS2 is that the main objective in the area of energy should

be to provide energy security for the country. In one of the interviews, one of the ministers expressed it directly: "For us, the energy transition is not a goal that is intended to achieve climate targets; energy security is **key**". This issue, of course, cannot be ignored in the face of war beyond the Eastern border of the country and an unstable, changing geopolitical reality.

The current ruling coalition also stresses that they defend Polish national interests in this area, in contrast to their predecessors, who were not negotiating the shape of ETS2 well enough and in such a way they want to convince the public who are those who really protect the interests of **Poles**. The President, on the other hand, who is associated with the previous government, claims that ETS2 would hit the poorest the most and that the position of the current cabinet is not strong **enough**. Politicians compete to be perceived as those who truly represent Polish interests, portraying ETS2 as something to resist.

ETS2 is criticised the most by politicians opposing the EU. One of them, who is a Member of the European Parliament, launched a **petition** for citizens with the demand to call off ETS2 and the Energy

Performance of Buildings Directive. According to the survey from December 2025 this political party has the support of around 12% of Polish voters. A similar political force with even more radical and far-right views is supported by 8% of [voters](#). This shows how populists skillfully use legitimate concerns of people to spread fear and to grow in strength.

At the end of 2025, Polish [media](#) started quoting anonymous sources in the Polish Ministry of Finance claiming that it was blocking the implementation of the Social Climate Fund because of the lack of funds for its own contribution. Poland is to receive more than 15 billion euro from the Fund, out of which 37,5% is to be spent on support to finance the replacement of heat sources or elimination of transport exclusion. The condition is the input of 25% of this sum, which is 3,8 billion euro from the Polish side. According to anonymous sources, the Ministry is not going to allocate funds for this purpose because of “lack of resources”. It claims that it might be a deliberate action to postpone the implementation of the Plan, which is already delayed. It was to be implemented from 2026 to 2032, and already its start was postponed till 2028.

All in all, public information about ETS2 and SCP in Poland can be characterised by the following features:

1. ETS2 costs are usually presented separately from SCP measures to minimise the positive possible impact and maximise negative possible impact.
2. ETS2 costs are usually presented as a high burden to the whole society or as a cause of the high rise in the prices of commonly used fuels. It is rarely put in relation to other causes of price change, of which one of the most important is the growing shortage of fuel supply to the world's economy.

ETS2 and SCP are not presented as an investment in the future, which will have to be less dependent on fossil fuels, especially when imported from outside Europe (like most of the crude oil or natural gas in Poland).

Romania

Challenges

The misinformation concerning climate change can have very different forms – from the direct denial of climate change to the apparent acceptance and manipulation of public opinion using this argument.

In Romania, during the communist time, the construction of several very harmful to the environment dams started. The construction of those dams was stopped after 1990, because of their high impact on the environment and nature but in the minds of some politicians this “valuable heritage” has to be finished. This fight has been going on for many years between the environmentalists and the lobby groups, which want to build hydroelectric power plants.

To achieve their goals, they now use the argument that the electricity from the hydroelectric power plants is green energy, which is depicted as with the carbon reduction policies.

It is a large campaign in the media and in many other channels, which accuse the environmentalists of being foreign agents who are against the energy independence of the country. The misinformation campaign tries to increase the importance of these

hydroelectric power stations, whose contribution is very low to the national energy system; for example the hydroelectric plant from Rastolita will have a 35 MW power, which is very low in comparison to the destruction of the ecosystem of the Rastolita river.

In Parliament, a law was voted on in 2023, which declared these hydroelectric power plant objects of a national interest. After the action on the court of several NGOs, the works were stopped, which resulted in attacks against the NGOs in the mass media. For example, in an [article](#), one MP accuses the Ministry of the Environment of not taking actions to finalise these hydroelectric power plants: “it is important that the state cannot be defended in these proceedings,” spreading the misinformation that the interest of the state is to finalise these objectives.

In addition to this example, there are numerous other cases where the argument for reducing carbon dioxide emissions is used by various political actors to support their political goals. For example the case of the Just Transition programme, which could be a good exercise to support the transition process and to support the vulnerable categories, and could be used during the implementation of SCP, probably will offer very little support in this case.

Opportunities

This misinformation creates the opportunity to debate the issue and deliver real information concerning the complexity of the situation. It is important to clarify that climate change requires a systemic change, which involves a reduction of energy use through complex measures like increasing energy efficiency and which must avoid the increase of energy production through measures that destroy the natural systems and reduce biodiversity.

Recommendations

It is very important to provide accurate, scientifically supported information and to combat misinformation, which is very dangerous because it creates confusion among the population. Misinformation usually starts with half-truths, which erode credibility and provide information that seems credible to the population but manipulates public opinion. The main recommendation may be that it is very important to increase the capacity of NGOs, journalists, and influential people to provide accurate information.

Slovenia

Challenges

The National Council invites a panel of climate change deniers.

A textbook example of various forms of disinformation was the public roundtable discussion “Agriculture is the guardian of the environment and nature” at the National Council of the Republic of Slovenia in September 2025. The event started well with a Freudian slip of Council president Marko Lotrič: “I welcome you to the National Council, the second chamber of Slovenian commerce ... em, parliament, sorry”. The panelists were more or less all known climate change deniers, none of them a climate scientist or meteorologist. Still, they self-confidently claimed (without any contradiction from the chair, other panelists, or the audience) that CO₂ is not a problematic GHG, that we can, in fact, expect cooling, or that Slovenian methane emissions do not contribute to global warming. This reversal of facts was only topped by President Lotrič’s highly deceiving framing of the event: “Decisions affecting

our food, nature, and environment must be based on facts and knowledge, not on prejudice or short-term ideologies”. Such events are still a rare exception in Slovenia, and there is a broad consensus about the drivers and impacts of climate change and the need to act. However, there are more and more examples of political actors strategically using disinformation to push their anti-climate political agenda.

Recommendations

Due to widespread misinformation, many people feel threatened by the green transition, however, they do not feel they are sufficiently supported. The SCF puts a strong focus on poor and vulnerable households. But, of course, nobody wants to be poor or vulnerable, and few people would say about themselves that they are. So, instead of putting these undesirable aspects into the focus, the communication of the SCP should talk about enhancing living standards for many people, thus, it should focus on positive communication.



2. ENERGY & TRANSPORT POVERTY

2nd Challenge: Energy and Transport Poverty

Short Description of the Challenge

In all CEE Member States, a substantial share of the population lives in energy poverty. This means that they already spend a disproportionate amount of their income on energy, and they also often struggle to heat their homes properly in winter and/or cool them sufficiently during the summer heat. Thus, the introduction of ETS2 and the resulting increase in energy prices would hit these households particularly severely. This problem cannot be solved by energy-efficiency investments only: with the introduction of ETS2, the price increase will affect them immediately, while the implementation of the necessary investments (e.g. substantially improving the energy efficiency of their homes) will take years or even decades.

As carbon prices are determined through demand and supply, they can be expected to exhibit **significant volatility**, with forecasts ranging from €48 to €340 per tCO₂ by 2030. This will make it difficult for all stakeholders (governments, businesses, citizens) to adjust to. Whereas the volume of financing for the national Social Climate Plans (SCPs) is set, it is the additional ETS2 revenue that will depend on the actual carbon prices. In fact, ETS2 revenues will be multiple times higher than the annual allocations of SCPs. This problem can be solved by direct payments to households (partly financed by the ETS2 revenues outside the SCPs), because they can be quickly adjusted in dependence on the energy price increase.

The term “transport poverty” refers to the lack of or limited access to transport, which adversely affects people, especially those living in rural areas, isolated small settlements and under disadvantaged circumstances.

In CEE, transport poverty is primarily a problem for rural residents in smaller settlements and low-income households due to poor access to public transport, low quality of services, and the lack of local jobs, schools, adequate medical services, etc. Thus, transport poverty can adversely affect people’s social and economic participation, limiting their access to education, employment opportunities, and health services.

The country-specific situations

Bulgaria

Challenges

The second draft of the Bulgarian SCP provides background information on the current state of energy and transport poverty, according to which over 35% of households are energy vulnerable, and over 56% of the population lives in conditions of transport vulnerability, measured by lack of access to public services, poor connectivity, or lack of alternatives to

private cars. Particularly strongly affected are rural and remote areas as well as low-income people, the elderly, and people with disabilities. In addition, thousands of micro-enterprises that consume large amounts of fossil fuels to carry out their activities are also at risk due to their lack of capacity to invest in low-carbon technologies or transform their business models in the short term.

The exact estimations provided in the draft are as follows:

Number of vulnerable households	963166 or 33.6% of all households
Number of households in energy poverty	897281 or 31.3% of all households
Number of vulnerable transport users	3619508 or 56.1% of the population
Number of transport-poor people	408940 or 14.3% of the population
Number of vulnerable micro enterprises	4300

Energy poverty

Based on the data in the SCP draft, according to Eurostat data for 2023, 20.7% of Bulgarian households were unable to adequately heat their homes, compared to an EU average of 10.6%. During the same period, nearly 21% of households' disposable income was spent on energy costs. According to data from a study on income and living conditions by the National Statistical Institute (NSI) in 2023, 30% of the population of Bulgaria is at risk of poverty and social exclusion, 18% will be living in severe material and social deprivation, and 19% of people will have difficulty paying certain expenses on time, including current expenses for electricity, water, and heating. The definitions adopted for the Bulgarian SCP show that in 2024, 897281 households are energy poor.

A total of 53817 households use coal, natural gas, and liquid fuels for heating and will be affected by the ETS2. Of these, 37240 live in multi-family residential buildings, as follows:

- 28316 households use natural gas;
- 386 households use liquid fuels;
- 8538 use coal;

The SCP draft also points out that, in addition, a total of 119702 households with below-median incomes will be directly affected by the expansion of the emissions trading system, as they use coal, natural gas, and liquid fuels. This brings the total number of vulnerable households in the country to 1016983, which represents 35.5% of all households. After adjusting to avoid double-counting in the two criteria of the definition, the final number of vulnerable households is 963166, accounting for 33.6% of households.

In addition, a total of 247346 energy-poor households in multi-family residential buildings use wood and electricity. At the same time, in search of alternative and affordable sources of heating, a large proportion of low-income people, including the energy poor, resort to the burning low-quality fuels (which releases harmful pollutants into the indoor and outdoor environment), inefficient heating systems

(older, less efficient heating systems consume more energy and emit more emissions), and unregulated waste incineration.

According to data from the Long-Term National Strategy for Supporting the Renovation of the National Building Stock of Residential and Non-Residential Buildings, by 2050, 1365898 residential buildings in Bulgaria will be inhabited year-round, of which 66865 are multi-family residential buildings/blocks. The strategy identifies a milestone target for the renovation of the residential building stock by 2030 – a total of 19026656 square meters. At the same time, according to the data in the strategy, the share of buildings with the worst energy performance (classes E, F, and G) is high – over 90%. This indicator is also high, but at relatively lower levels, for solid buildings – 74.3%.

Transport poverty

According to the SCP draft, the transport sector in Bulgaria is highly carbon-intensive – in 2022, it was responsible for 42% of NOx emissions and 30% of carbon monoxide emissions, with its share of final energy consumption increasing from 22.5% in 2000 to 35.2% in 2022. Road transport consumes 96% of the sector's fuel, and the country remains at one of the lowest places in the EU in terms of the share of electric vehicles (0.39% of the vehicle fleet as of April 2024). The aging car fleet, with an average age of over 20 years, contributes to high maintenance costs, increased emissions, and low mobility reliability. These systemic characteristics of the sector are most pronounced in rural, mountainous, and peripheral areas, where limited mobility leads to significant transport vulnerability.

In rural areas, 31700 people travel more than an hour daily to their workplace, and 48% of households have a private car, which significantly limits mobility. A significant part of the third-class road network (over 60%) is in poor condition, which hinders movement and access to services. Poor transport connectivity leads to higher transport costs, reduced economic productivity, and difficult access to education, healthcare, and the labor market.

Public transport is underdeveloped in peripheral municipalities, leading to transport poverty – a situation in which households lack the financial or infrastructural means to travel adequately. Transport costs account for an average of 7.4% of total household expenditure, and the introduction of the ETS2 will increase the relative burden on low-income groups. The most affected are households below the poverty line and those in municipalities without effective public transport alternatives, which will bear a disproportionate effect of increased fuel prices.

The lack or inadequacy of public transport leads to transport poverty – a situation in which households do not have the financial or infrastructural means to travel adequately. This limits access to education, healthcare, the labour market, and social services, and increases the risk of social isolation.

The introduction of ETS2 further increases the vulnerability of low-income households, as increased fuel and transport costs affect them disproportionately, especially in municipalities without effective public alternatives. The most affected are individuals and families in settlements with no or limited access to public transport, often below the poverty line or with incomes below the national median.

Transport poverty is defined as a situation in which households do not have the financial or infrastructural means to travel adequately. This vulnerability is exacerbated by the introduction of the ETS2, which is expected to lead to increased fuel and transport costs, disproportionately affecting low-income households, especially in municipalities with limited public transport networks and high dependence on private vehicles.

The existing challenges are structural and multi-layered:

- The lack of public transport leads to the isolation of entire communities, especially in rural and peripheral areas;
- Low-income households that do not own a car are practically cut off from basic services;
- The excessive burden of transport costs on the family budget often forces households to choose between vital needs;
- Rising fuel prices and the effects of ETS2 create additional pressure on these groups.

Recommendations

While data on energy poverty is reported to be largely available, precise information on transport poverty seems to be missing. In fact, government authorities admit the lack of reliable data and often report information gaps that cannot be bridged from recent data collection campaigns directed at municipalities. Thus, a special effort should be directed towards meeting these challenges, which will also allow for the provision of targeted support for the households that are most in need.

The measures aiming at improving energy efficiency of the residential and reducing energy poverty are meant to be administered entirely by public authorities, which, based on previous experience, is less likely to lead to renovations of good quality and to prevent corruption risks. Instead, measures should be foreseen that involve other stakeholders, including owners' associations, which are expected to increase their capacity in managing and overseeing the use of public funds. What is more, the involvement of credit institutions by providing loans at low interest rates to eligible households could additionally increase the transparency of the processes of public procurement and improve the control over the construction works.

Hungary

Challenges

About one million households, 14-18% of all Hungarian households, cannot heat their homes to a degree that enables the well-being of the inhabitants. At the same time, only a fraction of these households is eligible for social heating or home renovation support, which often are insufficient to provide adequate comfort during the whole heating season. Those heating with firewood are particularly vulnerable.

During the last 15 years, the government's taxation and subsidy policy predominantly favoured the rich and the higher middle class. They had the best opportunities to receive public funding for renovating their home, often without energy efficiency criteria, while poor households had practically no chance to get such subsidies. At the same time, energy price caps are universal, providing generous support even to the richest. Thus, the current allocation of subsidies is a missed opportunity both to support the poorest and to incentivize energy-efficiency improvements.

There are no signs that the government intends to change this policy.

Research on transport poverty has been [extremely inadequate](#). According to the European Energy Poverty Index 2019, Hungary ranked worst among the 28 Member States as far as [transport poverty](#) is concerned.

Many of the public transport vehicles are obsolete, and most roads and tracks badly need renovation. For these reasons, public transport availability has declined significantly in less frequented parts of the country.

During the last decades, Hungary has become more and more car-dependent, and this tendency is continuing. Road construction has been a priority. Car factories have received enormous public subsidies. At the same time, public transport and railways have not received sufficient funding even for proper maintenance and replacement of obsolete vehicles and renewal of tracks. Only areas with dense populations are provided with adequate public transport. In recent decades, intensive urban sprawl has created large new areas that cannot be economically provided with the usual public transport system.

Opportunities

Hungary has the economic conditions to start a wide renovation program.

Overall, the public transport system in Hungary is quite extensive and frequent in (and partly also around) cities. The new tariff system introduced in 2024 made public transport financially affordable for most citizens. According to the report "[The state of national cycling strategies in Europe \(2024\)](#)" by the European Cyclists' Federation, Hungary (16%) is the second EU country with the highest proportion of people choosing bicycles for transport, only behind the Netherlands (28%).

Hungary has one of the best public transport systems in Europe as far as network extension and operational frequency is concerned. Within the EU, [public transport is the most popular](#) in Austria and Hungary. In rural regions, the number of regular cyclists has [traditionally been high](#).

Hungary has had decades of experience in the redistribution of resources from the rich to the poor, including a very positive experience with examples of implementing [direct payments](#). There is also [valuable international experience](#) in this area, from which Hungary could benefit. CAAG has already elaborated a concrete proposal for a subsidy reform in the [transport sector](#).

Recommendations

1. A [system of direct payments](#) must be implemented. Part of the ETS2 revenues (besides the Social Climate Fund) should be used for this purpose.
2. The energy efficiency support schemes for households must be enhanced. Home renovation support schemes must have strict energy-efficiency criteria.
3. The conditions for cycling must be improved.
4. Obsolete public transport vehicles must be replaced with modern ones, and railway tracks must be renovated. Redesigning schedules in rural areas, where small communities are dispersed, is essential to enhance accessibility and mobility.
5. All environmentally and socially harmful or inefficient subsidies must be identified and removed without delay. The resulting savings must then be used for direct payments and other measures aimed at reducing energy and transport poverty. Among others, the government should discontinue its support for further road construction and must not provide subsidies for car production and related industries.
6. In areas where traditional public transport cannot be provided with the required frequency, transport-on-demand services must be implemented.
7. Measures should be implemented to halt urban sprawl.

Latvia

Challenges

The Social Climate Plan (SCP) presents a broad set of measures designed to mitigate the social impacts of the ETS2. While the plan aims to support vulnerable households during this period of change, the reality of the limited financial scope of the plan poses a significant challenge to its effectiveness.

Current funding levels are insufficient to extend meaningful assistance beyond the lowest income groups, leaving many households without the necessary support to cope with rising energy costs and transport expenses.

Fig 2. Energy poverty in Latvia, % of the total number of households in a specific area



Source: [Latvia's Social Climate Plan](#)

Consequently, while the SCP lays out a vital framework for addressing these issues, its limited financial reach risks excluding a significant portion of the population that is increasingly vulnerable. Without expanded funding and targeted policy measures, the plan may fall short of its goal to ensure a just and inclusive transition for all Latvian households.

Recommendations

To overcome these challenges, it is crucial to explore additional funding sources and design interventions that address the needs of a broader number of people, thereby preventing a rise in social and energy-related disparities across the country.

Poland

Challenges

Energy poverty

According to the statistical data of the Polish state, energy poverty affects around 1.5 million households, which is approximately 12% of the Polish [population](#). Around [1.1 million](#) people in Poland declare that their homes are underheated because of financial or technical [reasons](#). This problem is especially severe in the countryside and in small towns where many inhabitants live in big, old houses which are not

heated properly or the construction of which does not preserve warmth. Old houses and flats often have leaky windows and walls, which is one of the reasons for high heating bills. Many people in Poland still use coal or wood as means to warm up their homes. In many cases, income and pensions are low compared to the growing prices of energy.

The levels of energy poverty are diverse in Poland according to the regions. It is higher in the areas where there are more old buildings and where unemployment is [higher](#).

Transportation exclusion

One of the recent reports on transport exclusion in Poland indicates the fact that this phenomenon affects **10 million Poles**, which is around 25% of the population. In the countryside, it is even deeper and concerns 50% of inhabitants. The problem started growing as a result of the liquidation of many bus and train transport connections in the 1990s because they had been found unprofitable. Many individuals and households, especially in rural areas, are either forced to rely on their private cars or to limit the number of destinations they travel to, which also worsens their chances of gaining desirable education and **work**. The most vulnerable groups are seniors and youth, and also members of large families, in which even having a car cannot guarantee mobility for everyone.

According to the **UNICEF report** from the end of 2024, transport exclusion affects 14% of children and teenagers aged 12 to 19 years old in Poland. Among surveyed teenagers, 21% declared that they would have chosen a different school if there was a better option of commuting.

Opportunities

The Polish government is planning to allocate 37.5% from 15,44 billion euro in 2026-2032 from the Social and Climate Fund to direct support for people at risk of poverty – the so-called protective component.

Through the program “Clean Air” the authorities are planning to spend 2,38 billion euro offering subsidies for comprehensive thermal modernisation of buildings and replacement of the old and inefficient heat source, and to finance energy investments in local communities through the program Energy Communities with a budget of 71,27 million euro.

For several years, the authorities have been trying to compensate for the lost bus and train connections in the 1990s, opening new connections and obliging local authorities to provide new transport solutions for local communities.

The phenomenon of transport exclusion has been on the radar of various NGOs and analytical institutions for years, which keep providing new recommendations to handle the problem.

Romania

Challenges

In the SCP it is mentioned that Romania's energy mix includes a 70% dependence on fossil fuels: oil (35.7%), natural gas (25.2%), and coal (8.5%). The energy sector is responsible for approximately 70% of national greenhouse gas (GHG) emissions, according to the National GHG Emissions Inventory – INEGES 2024.

According to the analysis of the effects of the ETS2, when buildings/energy is considered: at a carbon price of EUR 60/tCO₂, vulnerability increases from 5.9% to 9.8% of households (8.1% of the population).

It is also noted that, in practice, most households and individuals identified as vulnerable to energy poverty and particularly vulnerable to the introduction of ETS2 were already vulnerable before the introduction of ETS2.

When transport is concerned: overall vulnerability remains stable at around 6.9% of households, with high risks in rural areas with limited access to public transport.

According to the analysis, transport vulnerability should not worsen after the introduction of ETS2;

modeled values show that 6.9% of households and 10% of individuals are vulnerable before the introduction of ETS2, the same value for a CO2 price of EUR 60/tCO₂.

Opportunities

The analysis shows that a large part of the population is vulnerable even before the introduction of ETS2, so that the measures provided for in the SCP can offer an excellent opportunity to groups that are already vulnerable and will become vulnerable after the introduction of ETS2.

Recommendations

Taking advantage of the opportunities offered by SCP requires structural measures that reduce the vulnerability of large groups.

It is important to launch projects that genuinely target vulnerable groups in order to avoid a situation where wealthy groups gain access to resources intended for vulnerable groups because the latter are unable to access the available resources.

Slovenia

Challenges The background analyses for the Slovenian SCP have summarised the data on energy and transport vulnerability and poverty. Particularly striking is the large number of vulnerable transport users. In Europe, Slovenians use, on average, the highest share of their available income on transport services.

Number of vulnerable households	145487 or 16.9% of households
Number of energy poor households	62000 or 7.2% of households
Number of vulnerable transport users	594520 or 28,0% of the population
Number of transport-poor people	84569 or 4,0% of the population

While the definitions and statistics of energy and transport poverty have significantly improved over the past couple of years, it remains a large challenge to identify the specific needs of vulnerable and poor households and to reach these households with specific support measures. Both reaching out to the right households and formulating eligibility criteria for public tenders have been identified as challenges also by the Slovenian EcoFund, which is the implementing body for several measures addressing energy poverty.

Moreover, many significant structural (and long-term) factors affect energy and transport poverty and cannot be dealt with by small investment measures. Such structural factors include the intertwined issue of expensive housing in city centers, cheaper housing in the periphery of cities like Ljubljana and Maribor, and the resulting dependency on commuting to work. Moreover, many people do not have access to efficient public transport and therefore depend on their car.

Recommendations

The Slovenian network of energy consultants that are already involved in implementing measures for energy-poor households is a good practice to be copied and expanded both within Slovenia and in other CEE countries. This countrywide network will be further strengthened in the context of the Slovenian SCP.

Vulnerability is much more widespread than the extreme cases of energy and transport poverty. By including measures under the SCP that have a wider group of beneficiaries, there is a potential to increase the public acceptability of ETS2 + SCF. The funds needed for such broader measures will likely go beyond the volume of the SCP. Therefore, it will be necessary to use the much larger national revenues from the ETS2.





3. ECONOMICAL BARRIERS: HARMFUL AND UNFAIR SUBSIDIES

3rd Challenge: Misuse and Ineffective Use of Funds

Short Description of the Challenge

Environmentally harmful, climate-damaging subsidies are abundant in CEE countries. Among others, in some countries, household energy is directly subsidised. To add insult to injury, these subsidies are overwhelmingly *absorbed by the rich* at the expense of the poor. If these subsidies remain in place, or even worse, still increase, then, since the total amount of emissions in the EU is capped, other countries might bear a larger share of the burden than anticipated. Moreover, CEE countries still have binding emissions reduction targets for the sectors covered by the Effort Sharing Regulation, and if they do not reach them, they will face fines or will have to purchase emission reduction certificates from other overachieving EU member states.

Although the *SCF Regulation* prescribes that the principle of additionality must be respected in the use of the SCF (i.e., SCF funding must not be used to substitute national funding), the Commission has not provided an updated methodology to identify a violation of the additionality principle. There is a chance that the principle of additionality will not be respected in the use of ETS2 revenues, either. A substantial part of the national SCFs and other ETS2 revenues might be hijacked by influential business groups.

There is also a danger that the subsidies from ETS2 revenues will be poorly designed, causing environmental damage and/or increasing social disparities.

The country-specific situations

Bulgaria

Challenges

The “free renovation” scheme for residential buildings, which was mentioned above, works like this: the government instructs municipalities to select buildings for rehabilitation. Owners and/or their associations of multi-unit residential buildings prepare the initial documents for including their building in the list of buildings for renovation and submit them to the respective municipalities. The municipalities select the construction companies. The government transfers funds to the Ministry of Regional Development and Public Works (later on to the Bulgarian Bank for Development), which further transfers it to the selected municipalities. They choose the residential buildings for renovation on a first-come, first-served basis and pay the companies after completion of the projects. Owners and/or

their associations are barely included in this process and have no say in the selection of the construction companies selected to do the renovations. Owners and/or their associations are also not involved in the monitoring of the construction works and since co-financing is not required, they have to be satisfied with the quality of the “free” renovation works. What is more, the long-term practice of no assessment on the financial and economic status of the households living in the multi-unit residential buildings selected for renovation leads to the situation when 100% public funding is applied to buildings, in which a considerable share of the households could not be considered energy poor by any standards. Thus, the public support for renovation of the housing stock so far could be regarded as an unfair subsidy that applied the one-size-fits-all principle regardless of the economic and social status of the beneficiaries.

Recommendations

The latest amendments in the SCP foresee differentiated financial support for energy efficiency renovations based on the assessment of households' social and economic background. Based on this, the support measures will cover all costs for vulnerable and low-income households, while the others will be eligible for up to 40% of the renovation costs. This important shift will enable more multi-unit

residential buildings to be renovated with the same public funding, increasing both fairness and impact. This approach has not been applied so far, and this might lead to criticism on behalf of homeowners who could refer to the full support in previous years. Therefore, extra efforts will be needed to prove the viability of this concept and keep it at an increasing pace in the final version of the SCP.

Hungary

Challenges

Environmentally harmful subsidies in Hungary are widespread, funded mostly by the domestic budgets, although the [role of EU funding](#) is not negligible either. Examples include subsidies for [car factories](#), battery factories, and intensive agriculture. Many new roads have been built based on [false cost-benefit analyses](#). Corporate car users enjoy tax loopholes that incentivise excessive fuel use. Some direct subsidies, though not officially labelled as fossil fuel support, still drive up fossil fuel use (for instance, Hungary has spent heavily on mostly unused stadiums, built to suit the Prime Minister's preferences, which unnecessarily increase energy demand). Hungary spent nearly [€10 billion](#) on household gas and electricity subsidies in 2023-2024, with no income targeting.

Environmentally harmful subsidies foster not only CO2 emissions but also other forms of pollution.

It has also occurred a number of times that EU funding was not additional but replaced national funding. The European Commission does not properly control the implementation of the additionality principle, and the Hungarian government abuses this lack of control.

There are extremely influential business circles with close connections to the government, and they have already hijacked an enormous amount of public money, including EU money. These groups will certainly use their utmost to get hold of a sizable chunk of the new "free money" for purposes that would not serve society the best.

[Corruption is systemic](#), i.e. it stems from the government.

Several subsidies introduced in the name of climate neutrality were demonstrably a poor use of public money. A striking example was the subsidy for electric cars, since only better-off households could take advantage of it, who often bought it as a second or third car and not in order to replace an internal combustion car.

Opportunities

There have already been important studies demonstrating the extent of environmentally harmful subsidies and the possibilities of reducing them. Government officials and many experts are aware of these studies. Due to the huge and still growing state budget deficit, the government must reduce subsidies, and reducing harmful subsidies would be a perfect alternative to cutting public services (health, education, public transport, etc.). Moreover, there are no technical, social or economic obstacles to immediately removing energy subsidies (price caps) to households (with appropriate compensation); only political will is needed.

The Commission has the power to enforce the implementation of the additionality principle. Only political will is needed to act.

There is growing awareness among society about the colossal corruption supported by the government. Investigative journalists and other experts have a profound knowledge of the issue, and they have made many concrete proposals to improve the situation. There is also a strong pressure from EU institutions and several national governments on the Hungarian government to take measures against corruption and other misuse of public money.

Recommendations

1. An updated inventory of environmentally harmful subsidies must be completed, and most of these subsidies must be removed by 2028.
2. As already mentioned above, a direct payments system must be introduced to compensate households and public institutions to neutralise the burdens due to the subsidy removal and to avoid social backlash.
3. The European Commission should strictly control the obligation of the member states to maintain the existing national expenditure in the public sectors that receive EU funding. (It should also be defined whether the existing funding should be maintained in real terms or as a percentage of the GDP.) In the event of non-compliance, compensatory measures shall be taken in the form of withholding EU funds or corrective financial measures.
4. The European Commission must assess whether the national government subsidised investments and/or measures that contradict the aims of EU funding, and if this occurs, must require repayment of the EU funding concerned.
5. The fact that direct payments to citizens are the best method to prevent corruption and misuse of public money should be used as another argument for implementing such a scheme.
6. Revenues from the ETS2, which are not used for the SCF, should also be partly used for direct payments, because the SCF regulation permits only temporary direct income support, and it must not exceed 37.5 % of the total SCF national expenditure.
7. The European Commission must take the strictest measures to enforce the provisions of the [Financial Regulation](#).

Poland

Challenges

Just as in other countries, the scale and form of support of the state for large state energy companies remain controversial as such entities strive to preserve their own position instead of promoting prosumer-based energy systems or other solutions, which would diminish their share in the market.

Experts and activists criticise the project of the update of the Polish National Energy and Climate Plan till 2030 with the perspective to 2040, arguing that it will slow down the transformation and will be more costly for individual recipients. Compared to the previous proposals, the plan contains more coal, nuclear power and biomass and less wind and photovoltaics. Gas is to play a transitional role for the next 15 years. Experts indicate possible involvement of lobbyists in irrational policy [choices](#).

It is estimated that from 2009 to 2025 Polish governments invested more than [590](#) million euro in the first nuclear project in Poland in Lubiatowo, which is still in the phase of planning and design. Due to this investment, precious coastal forest, including the NATURE 2000 area, is being cut, although there is [still no construction permit](#). A lot of money was spent to sustain a company dedicated to the construction and PR companies spreading propaganda materials, convincing people that nuclear energy is cheap, poses no threat and comparing radiation from a nuclear power plant to that from a [banana](#). The

estimated costs of this project, as well as Small Modular Reactor (SMR) projects in Poland, grow each year and attain dozens of billions of euro. Many experts, including the authors of the World Nuclear Industry Status Report, argue that Poland would make much better use of this money by investing in renewables and [energy efficiency](#).

In recent years, several scandals erupted in Poland because it turned out that in some programs, created to support climate policies, there were frauds on a massive scale. In the program Clean Air, which was to grant subsidies for comprehensive thermal modernisation of the buildings and replacement of old and inefficient heat sources, [6000](#) applications turned out to contain some type of fraud. Many contractors overcharged for services and materials, carried out investments without consulting homeowners or forced them to grant powers of attorney. In many cases, the owners of the buildings were not aware of what was contained in the application, or the company was not able to prove the work it had done. Because of these abuses, the program was halted from December 2024 till March 2025 till some legal and organisational changes were introduced to prevent further misuse of the fund, such as a list of recommended contractors or an obligation of energy audit on the [spot](#).

Another scandal connected with misuse of funds broke out in August 2025 concerning the National Reconstruction Plan (KPO). Almost 41.39% from

60 billion euro in the program was to be spent on “climate goals”. Meanwhile, it turned out that many beneficiaries of the program were companies from the hospitality industry, like restaurants, hotels and catering and were spent on company yachts, saunas, coffee machines, solariums, furniture replacement or the purchase of a virtual **shooting range**. As a result, the verification of the contracts for funding was ordered, and several people lost their positions in state **institutions**.

The **report of the Polish Highest Chamber of Control**, published in 2023, revealed that only 1% of the funds from the ETS1 mechanism in Poland was spent according to the requirements of the ETS Directive (not less than 50% should be spent on energy transition). Although the funds from Polish SCP will probably be spent properly, the rest, over 60% of ETS2 revenues collected by the national budget, might be spent regardless of ecological criteria.

The main anti-ecologic subsidy in Poland is paid to uneconomical hard coal mining companies. Most of the companies are state-owned (or with high state share in their ownership), and for years they have had economic losses. The state as an owner secured their stable operation with over **7 billion PLN in 2024, and 9 billion PLN in 2025**. These figures do not show the real amount of subsidies to coal mining in Poland, as some are paid directly to miners, their families or the business surrounding the mining. Some argue that this is due to climate policy and taxes put on emissions, but even without them, the hard coal

mined in Poland is one of the most expensive in the world, about 940 PLN/tonne (about 220 euro/tonne).

Another source of challenge is the huge development of road infrastructure due to subsidies in the form of European and national funding in the last 25 years. This development was much higher than the development of railways and other public transport, and it might even be argued that it resulted in the cancellation of some public transport services in the country. This has given Polish society a very strong price signal that the car is one of the cheapest ways to travel. This signal was strengthened with the high availability of cheap used cars imported from Western European countries, which were promoting advanced transport policies in their cities (low-emission zones), while Poland did not have any additional taxes on the registration and use of old cars. This results in a situation where most of the society uses cars, and the price of fuel is a very sensitive topic for any political and non-political discussions.

Opportunities

Tighter control over funds from the EU.

After these scandals, the government is aware that fraud cases can affect the political situation and the rating of the parties in the upcoming elections, which should motivate it to secure funding programs better.

Romania

Challenges

In Romania, a problem which has to be mentioned is that in many cases, the support for energy efficiency measures and consequently for carbon reduction measures hardly really supports the vulnerable groups. Most of the measures are applied by project calls, and the vulnerable categories are not able to access these projects.

In the building sector, the calls for heat pumps or photovoltaic systems were allocated by a “first-come, first-served” system and after the opening of the call in a few minutes, the funds run out, so it is clear that the people who accessed these funds must have the technical capability to be among the first persons who access the system. These people obviously are not from the vulnerable categories.

In the transport sector, the actual proposed tax policy will increase the taxes for old cars, and the electric cars will have reduced taxes, which is very good from the point of view of carbon emissions reduction, but will limit the ability of the vulnerable categories to improve their mobility. Some measures in the SCP aim to correct this burden for the vulnerable categories.

In situations where various funding programs aimed at contributing to the transition to a low-carbon society, such as the Just Transition program, there is a struggle to achieve their objectives, mainly due to administrative barriers standing between the program's initial objective and its final implementation.

Opportunities

SCP offers an excellent opportunity to learn from the past and draw conclusions about why well-intentioned programs to support society's just transition to a resilient, low-carbon society have failed to achieve their ultimate goals.

Recommendations

The institutional framework has to be re-evaluated and adapted to the right implementation of the SCP.

Slovenia

Challenges

When introducing new subsidies, there is always a risk of abuse and supporting households that do not need support. And indeed, there is a widespread fear among Slovenian public officers of supporting "too many" (i.e. also households with lower incomes but relatively large wealth, that can afford climate action without public support). However, this often prevents new subsidies altogether or leads to programs that are overly restrictive and require lots of bureaucracy, which in effect means that many who do need support do not receive any. There appears to be a trade-off between supporting some who do not need support and not supporting many who actually need it.

Another subsidy that counteracts the aims of ETS2 and SCP in Slovenia is the existing system of commuter allowances. As untaxed benefits, commuter allowances are widely used by employers to boost otherwise low wages. Employees see these allowances as an integral part of their wages, and they are especially important for households with low incomes. As commuter allowances are not limited to public transport and are mostly paid out for car commuting, they are environmentally harmful. While they counteract the aims of ETS2 and SCP, they will not be easy to abolish. A stepwise approach will be needed.

Another challenge in Slovenia is to ensure the additionality of measures – especially in the programming of funds earmarked for climate action. The parallel programming of the Slovenian Climate Fund and the national SCP clearly showed that they were seen in combination, and some measures that would have been financed by the existing Climate fund will now be financed by the SCF. This leaves questions about the extent to which the SCF triggered additional social climate measures. As such, there is, of course, nothing wrong with bundling social climate measures under the SCP. But this has to happen with a proportionate upscaling of the SCP, e.g. by increasing Slovenia's own contribution to it. As the revenues from ETS2 are expected to be much larger than the budget of the SCP, there clearly is fiscal space for increasing its volume.

Recommendations

In order to avoid the environmental and social challenges associated with cash transfers and general energy price subsidies, vouchers for low-carbon heating and transport services and products are a potential alternative. Such vouchers are easy to use and give beneficiaries the flexibility to adapt the support to their respective needs. By defining clear eligibility criteria and limiting the scope to a well-defined set of services and products, the risk of abuse can be minimised.



4. ADMINISTRATIVE & WORKFORCE CAPACITY GAPS

4th Challenge: Administrative and Workforce Capacity Gaps

Short Description of the Challenge

In CEE countries, there is a lack of administrative capacity to effectively utilise and absorb public funds intended for investments. This problem is particularly pronounced in rural areas.

There is a serious lack of skilled labour force to renovate buildings. Strong new housing construction

and renovation demand in several Western European countries has attracted the skilled labour force from CEE countries. Moreover, in some countries, governments greatly subsidise investments, which are much less important than the renovation of buildings, and this also drains away skilled labour from renovation works.

The country-specific situations

Bulgaria

Challenges

Recent studies show that nearly 47% of all municipalities in the country have not implemented any projects for energy renovation of residential buildings under the previous programmes. If this situation persists, there is a risk that the measures and investments envisaged under the SCP will deprive vulnerable groups in such municipalities of support, which will lead to additional territorial imbalances in socio-economic terms and will inevitably increase inequality. One of the reasons these municipalities have not participated in such programmes is the lack of administrative capacity for managing such initiatives with EU and/or national funding. Municipalities, especially the smaller ones, continue to face administrative capacity burdens resulting from the overwhelming number of procedures that have to be implemented by a limited number of employees. Many of these employees also lack the needed expertise to collect, summarize and provide reliable local data, which also negatively impacts the collection of basic data for the needs of policy making at the central level.

A large amount of public funding has been allocated to investments which are harmful to the environment

and highly questionable from an economic perspective. For example, 767 million euro state aid are allocated for new nuclear units in Kozloduy NPP, coal mining and a state TPP within is cross-subsidised within the frame of Bulgarian Energy Holding, and there is politically-driven indebtedness of the state gas company due to lack of payments from the Sofia District Heating company.

Recommendations

The general, systematic problem of Bulgaria's governing system is its high-level centralisation. In other words, the government has the right to decide, implement and control almost every act, whether on central, regional or local (with some exemptions) level. The second level of governance (regions) has no rights in doing regional level policies and implementing them. In addition, they have insufficient staff (both in quality and number) in the offices. A huge number of municipalities (the third level) are small, depopulated, and with no resources for efficient self-governance. This problem needs a sharp change: creation of fewer regions with rights to produce and implement regionally-based policies. This may also include elected regional councils. As for the municipalities, there should also be changes

that would lead to fewer but stronger municipalities. A precise division between rights and obligations in the creation of policies, their implementation, monitoring and control should also be introduced for the three levels of governance.

Since such a huge reform is hard to implement in a short time, a working group for decentralisation of the governance should be set up. It should start with an analysis of the potential for decentralised governance of EU funding during the next multiannual financial framework (2028-2034).

Hungary

Challenges

Hungary does not have a sufficient skilled labour force for the renovation of buildings on a mass scale. The quality of the existing labour force working on renovation is often low: according to a survey, in 2024 [the average damage caused by unprofessional work in the construction and renovation of homes](#) was HUF 814,791 (about 2000 euro). Many skilled workers left the country to work in Western Europe. Many others are working on investments subsidised by the government that should not have been started at all: stadiums empty most of the time, grossly underused motorways, luxury hotels, etc. Training and retraining of workers have been rather neglected. Due to the high (27%) VAT rate, individuals are incentivised to avoid the formal documentation of renovations (i.e. undocumented, invoice-free work has often lower costs than subsidised and correctly invoiced and taxed work), thus making administrative criteria in home renovations problematic.

According to [a new report by the European Commission](#), Hungary ranks worst among the assessed 22 Member States concerning the administrative burdens related to the use of EU funds.

Opportunities

Hungary has a workforce that might be redirected to renovate the homes of those most in need in large numbers. Despite certain deterioration in recent years, the education system still has great potential. By appropriate regrouping of public funds, substantial resources can be redirected for the renovation of buildings.

Recommendations

1. No more public money should be spent on environmentally harmful investments or investments that are not urgent and less important than the renovation of buildings.
2. The money and labour force thus saved must be redirected to these renovations.
3. A robust program of training and retraining must be started.
4. The other measures recommended by the [Equilibrium Institute](#) must be implemented.
5. The administrative burdens must be reduced, taking into account the best practices in other member states.

Poland

Challenges

In 2025, the Institute for Sustainable Development conducted research examining the development of renewables in more than 100 communes in Poland, including villages, small towns and big cities. In its report, the Institute showed how communes prepare several types of planning documents; some communes are obliged to obtain certain types, others are not. Even despite the legal obligation to have a specific planning document, between 20% and even 50% of municipalities do not have them and are not preparing selected [documents](#). Many of those documents are not up to date, and put together, they create a mess. The documents are often hard to

find on the websites of communes, and as a result it is difficult to find the needed information both for administration and for citizens.

The report also indicated that in 60% of the documents analysed, their content met all legal requirements, whilst in 40% of them, possible deviations from these requirements were found. The majority of them didn't go through an environmental impact assessment.

One of the elements of the research was also a survey conducted among commune officers. What is also quite telling is that 7% of them could not indicate the document of their commune supporting energy transformation, which shows a lack of

confidence in the real impact of strategic documents on commune's practices. Their replies also revealed that local communities don't really participate in influencing or creating local energy policy unless it affects them personally.

Respondents pointed out the barriers they saw for conducting energy transformation; the main ones enumerated were: lack of finances in a commune – 75%, lack of funding from the EU or other sources – 52%, complicated legal procedures – 40%, lack of suitable legal solutions – 29%, lack of trained staff – 28%, a lack of public support – 20%.

The International Renewable Energy Agency (IRENA) also points out that the number of workers needed in the renewable sector, which is now 212,000, will probably quadruple by 2050. Meanwhile, there is a shortage not only of photovoltaic installers and wind technicians, but also of specialists in energy management and system integration. The experts stress out the need to create special education paths

for future specialists, as the education might not keep up with the economic needs in the upcoming [decades](#) and also to make it easier for the specialists from abroad to participate in the Polish sector of renewables.

Many renewable energy installation companies and building (including building insulation) companies are currently employing workers of non-Polish origin (eg, Ukrainian), especially for less complicated tasks.

Opportunities

The market has a certain opportunity for self-regulation: an increase in demand for certain specialists will increase the number of people who will decide to take this career path.

More experience with renewables and concrete legal solutions will make the lawmakers adjust to the reality.

Romania

Challenges

In Romania, the environmentally friendly renovation of buildings has accelerated thanks to European regulations, but the aging building stock and the lack of post-construction inspections are hindering the process. Buildings account for about 40% of the country's final energy consumption.

For the efficient implementation of the energy saving measures concerning the energy efficient renovation of the buildings, it is necessary to have a large number of skilled labour force. Unfortunately, this large number of skilled workers is not available. Romania is facing a major migration phenomenon, ranking first in the European Union in terms of the number of emigrants. Reports indicate that there were over 3.1 million Romanians in EU member states at the beginning of 2024 and a total of approximately 4.58 million globally, with an increasing trend of departure that accentuates the demographic crisis in the country. This explains the lack of a skilled labour force, which can participate in the renovation of the buildings.

The main problems concerning the renovation of the buildings:

- Poor monitoring: There is a gap between planned energy performance and actual performance after renovation.

- High costs: Although deep renovations can reduce energy bills by more than 60%, the initial cost remains a barrier for many private owners.
- Policy fragmentation: The lack of coordination between local and central authorities hinders the rapid implementation of projects.

Opportunities

It is an opportunity to start energy-friendly renovations of the buildings, especially in the rural areas where many people start the renovation of the old houses, but they need advice and consultancy to adequately realise the renovation of the houses, so the authorities have an excellent opportunity to offer consultancy for the interested people.

Recommendations

Start with the education of the new generation of skilled workers in realization of energy efficient buildings. The reform in the education system offers a chance to train young people in order to realise energy-efficient renovation of the buildings.

Slovenia

Challenges

Slovenia shares several of the challenges of CEE countries that are facing a lack of workforce needed to implement the green transformation. One bottleneck exists already at the very beginning of the chain that implements public support programmes. There does not seem to be sufficient staff to administer the funds available for the green transformation. The Slovenian public eco fund EkoSklad, the institution

that currently implements various household energy efficiency programmes, also with a focus on energy poor households, has been understaffed for several years. Similarly, the Ministry of Environment, Climate and Energy administers funds from European cohesion policy, the Recovery and Resilience Facility, the Modernisation Fund, the national Climate fund and now also the SCP. The number of staff working on these resources has not grown proportionally with the volume and number of funds.



5. BEHAVIORAL / HIDDEN-ECONOMY RESPONSES

5th Challenge: Undesirable Behavioural Responses

Short Description of the Challenge

There is a considerable expectation that the hidden economy – such as illegal logging, the use of illegal fuels or fuel smuggling – will increase due to ETS2.

Increasing the price of heating with fossil fuels (gas, electricity, district heating) could lead to more frequent burning of biomass and thus to an increased demand for firewood. This may have a catastrophic effect on rural ecosystems: not only the ecosystems themselves will be put at risk, but their carbon-absorption capacity will be diminished too, if the harvested biomass is not replaced – a likely outcome, given that regeneration usually takes many years, if not decades. Moreover, wood-burning exacerbates air pollution.

The increase in residential [burning of waste](#) is also a danger, causing even more climate-damaging emissions and air pollutants than in the case of burning fossil fuels. Although residential waste burning is illegal, it is widely practised in CEE. As a result of ETS2, the price of transport fuel is expected to gradually (or might even abruptly) increase. However, since fuel taxes vary widely between EU member states, higher fuel prices will tempt vehicle owners, even more than today, to refuel in member states where fuel is cheapest. Fuel tourism will certainly hit member states bordering non-EU countries more severely, since the latter fall outside the scope of ETS2.

The country-specific situations

Bulgaria

Challenges

Being at the external border of the European Union, Bulgaria is prone to fuel tourism like other member states with similar geographical location. What is more, [roughly 50% of country's total land border length](#) is shared with non-EU member states (Serbia and North Macedonia to the West and Türkiye to the South). Along this external EU border there are 11 border crossing control checkpoints that located along major motorways facilitating an easier transport access.

The war in the Middle East in the first half of 2026 exemplified the potential for fuel tourism particularly in the border regions due to the increasing [fuel price differences compared to neighboring countries](#) such as North Macedonia and Türkiye. These price differences also result from the heterogeneous approach to tackle the surge in fuel prices – e.g. [prices in North Macedonia](#) include reduced VAT rate,

lowered from 18% to 10% by a government decision, as well as the reduced excise duties on fuels.

Another challenge, linked to the increase in energy prices, is linked to the behavior of vulnerable households that traditionally are more likely to resort to illegal burning of waste or other hazardous materials. This is among the main reasons for poor air quality during winter months especially in low altitude areas surrounded by mountains during prolonged periods of little or no wind. In this regard, despite the overall improvement recorded in the last two decades, Bulgaria is among the [worst performing countries in the EU](#) when the impact of air pollution on human health is considered (highest rate of premature deaths attributable to exposure to fine particulate matter (PM_{2.5})).

To address this challenge, EU funding is used for households to replace old wood-burning stoves with modern heating systems such as air conditioners.

Between 2014 and 2020 alone, EU funding in the amount of 65 million euro was spent for this replacement in 22,000 households. In 2021-2027, 21 cities with poor air quality records are expected to receive grant funding within the EU-funded [‘Environment’ programme](#). A specific funding scheme, which was planned for 2024 but started in practice with a delay of more than one year, earmarked more than 300 million euro for the free replacement of polluting wood- and coal-burning heating appliances with new air conditioners, heat pumps, and pellet stoves in 77,000 households.

Against this drop, [media articles](#) reported challenges that show that lessons were not learnt from similar funding schemes on the past. Firstly, it remains to be seen how the control and monitoring will be carried out, for example whether households continue to use the appliances that the respective municipality provided free of charge rather than selling them – cases that were reported informally within previous funding programs.

Another serious challenge is the rise in air conditioner prices (a price is set, but a different one is charged at the time of purchase), which is often driven precisely by increased demand. Another problem is the overlap among contractors who have won public tenders – there were cases where a contractor declines a contract from one municipality in favor of a larger contract in another, according to the National Association of Municipalities in the Republic of Bulgaria.

There are also concerns whether the appliances provided actually reach people who truly need this type of assistance. In fact, a key requirement for participation in this scheme is that applicants must provide proof of tax payments and that the property must be owned by the applicants, which means that a large number of Roma families might turn out not eligible and thus practically excluded from the program.

Worth mentioning is that direct payment schemes that are meant to compensate for higher prices have to be carefully structured and implemented. If not properly designed and disbursed, they can bear the risk of being used for [exercising political influence](#) in the context of elections particularly in small municipalities with high concentration of economically disadvantaged and marginalized communities.

Recommendations

Continuous oversight and monitoring is to be provided in order to prevent misuse of national and EU funding for energy efficiency measures at a household level without turning these efforts into bureaucratic burden to recipients of public support.

If direct payment schemes are applied, they should include clear eligibility criteria as well as predictable and unified disbursement periods. They should be implemented also in a way that limits and possibly exclude the chances for any administrative abuse on behalf of local administrative units.

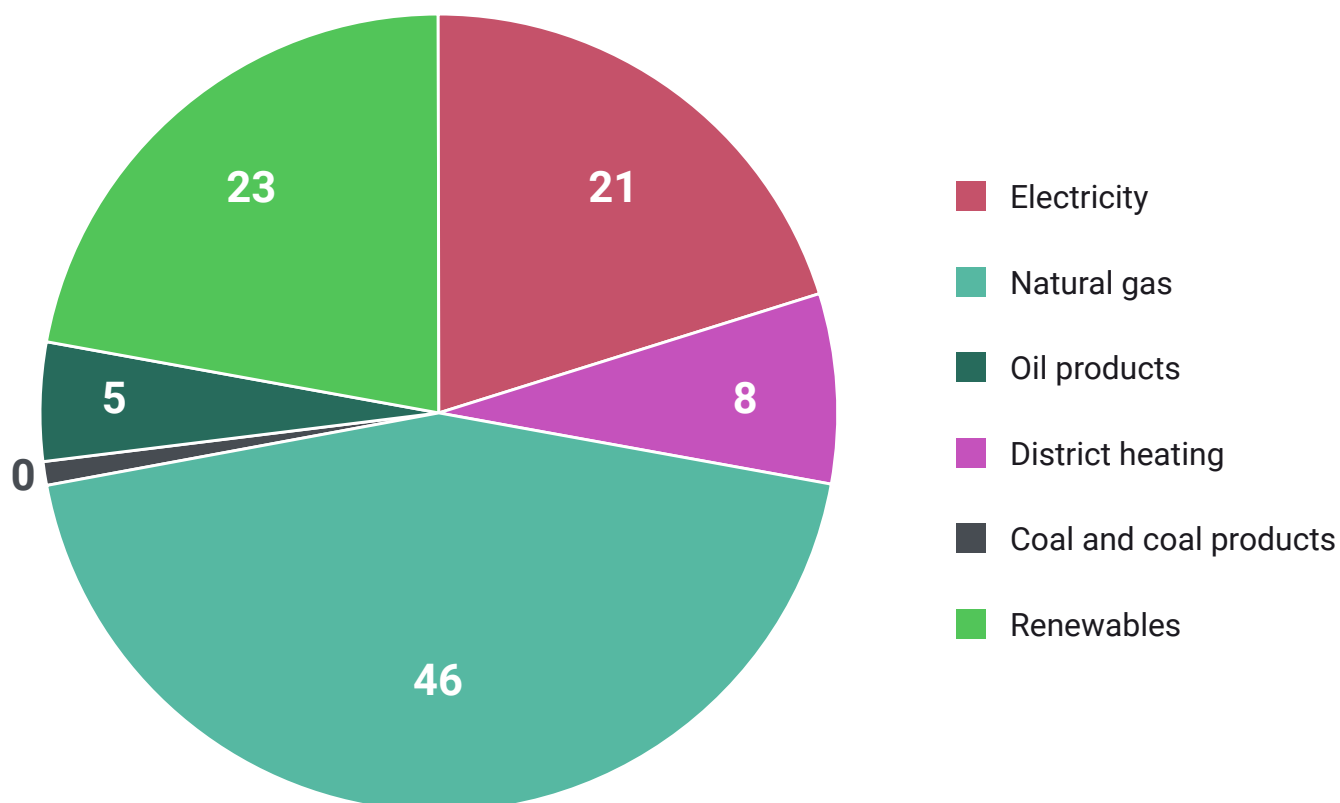


Hungary

Challenges

Due to the energy crisis, the proportion of people using wood for heating has increased dramatically in Hungary in recent years. In 2020, only 15% of Hungarian households heated primarily with wood, in 2022, 37% of Hungarian households did so. Unfortunately, the overwhelming majority of those burning wood are unaware of how to burn wood efficiently and how to reduce their heating energy consumption by quickly implementable and relatively cheap methods.

Fig 3. Share of various types of sources in the final energy consumption of households in Hungary in 2022, percent



Source: Hungarian Energy and Public Utility Regulatory Authority, MEKH

A survey in 2017 demonstrated that about one-third of the Hungarian households burn waste [on a regular basis](#). Although, as far as we know, no similar surveys have been conducted afterwards, some conclusions can be drawn from practical experiences and air pollution data.

During the 2022 energy crisis, household waste burning has dramatically increased, which was also clearly reflected in the official air quality data. It seems that during the following years, residential waste burning has somewhat decreased due mainly to milder winters and possibly raised awareness about the harmful health effects of household waste burning.

In Hungary, the impact of ETS2 is likely to mirror that of a recent example. Namely, in November 2021, the Hungarian government introduced a price cap on petrol and diesel which lasted for a year. This measure [induced many serious problems](#), including a surge in [fuel tourism](#) and [fuel smuggling](#). Some regions near the border particularly suffered from increased road traffic.

Furthermore, even routine transborder traffic causes serious disadvantages: cars and trucks that fill up with cheaper fuel in Ukraine or Serbia – and then enter the EU – use EU infrastructure and pollute their environment, without adequately contributing to the maintenance of this infrastructure and paying

nothing to compensate for the environmental costs. This situation is particularly pronounced for trucks: if a large lorry fills its tank fully in Turkey, it can reach Spain without refuelling.

The increase in fuel prices for transport will certainly hit people in rural areas – where public transport is not sufficiently available – harder than those in cities.

Opportunities

Several easily understandable awareness-raising materials exist that demonstrate how to burn wood properly and efficiently and how to reduce household energy consumption by quickly implementable and [relatively cheap methods](#). CAAG has made concrete recommendations to the national government and local governments on methods to reduce household waste burning.

As far as transport fuels are concerned, the directive introducing ETS2 also provides a useful leeway for member states: they can practically avoid being included in the ETS2 if they introduce a carbon tax of a certain magnitude. Naturally, just putting a tax on fuels directly would lead to the same undesirable results as the implementation of ETS2. Therefore, the carbon tax should be levied in the framework of a distance-based electronic toll for all motor vehicles on all roads. This would be easy to accomplish as Hungary has already implemented a distance and pollution-based road toll for trucks on many of its roads, and the [revised EU directive](#) on vehicle charging makes it mandatory for member states to [vary these tolls](#) in accordance with the CO2 emission of the vehicle from 2024.

Technically and financially, it would not pose any problem to extend such a toll system to all roads and all motor vehicles. (The newest developments in Lithuania can serve as an example.) Moreover, the official fuel consumption of each motor vehicle is known, so the number of kilometres travelled should be multiplied by this number and a constant

expressing the CO2 emission produced by each litre of petrol and diesel burnt.

The revenues from the increased toll could be used to [compensate households](#). Such a reform would be advantageous from environmental, economic and social aspects, and it could be implemented in a way that would financially [benefit the overwhelming majority of the households](#) in Hungary, for example, according to calculations by CAAG.

Recommendations

An effective and wide-scale awareness-raising campaign must be implemented on how to reduce household energy consumption by quickly implementable and relatively cheap methods to [reduce heating](#) and [cooling costs](#). The funding for such a campaign can be financed from the savings generated by discontinuing government-financed disinformation.

CAAG's proposals to eliminate household waste burning must be implemented by the [national government and local governments](#).

Support schemes for households to improve energy efficiency must be enhanced.

New solutions, such as transport on demand, should be implemented to lower the fossil fuel dependency of people living in rural areas.

An electronic toll should be implemented for all motor vehicles on all roads. The toll should depend on the distance driven, the emission of CO2 and other pollutants, the mass (or axle weight) of the vehicle and the location of the road (e.g. city or rural area).

[Citizens must be compensated](#) for the price increase due to the road toll.

Latvia

Challenges

In Latvia, the [energy production sector](#) relies partially on natural gas for heat generation, particularly in larger urban centers such as the capital, Riga, where major district heating plants are concentrated. Due to the scale and infrastructure of these large plants, an increase in gas prices is unlikely to significantly alter consumer heating habits in the capital, as residents largely depend on established district heating systems with limited alternatives. However, the situation in smaller cities and towns is expected to differ. In these areas, district heating systems tend to be smaller and more flexible, making them more responsive to fluctuations in fuel costs.

As gas prices rise, smaller district heating installations are likely to increase their use of biomass as an alternative energy source. This shift is driven by the relative cost-effectiveness and local availability of biomass fuels, such as wood chips and pellets.

While this transition to biomass energy can contribute to reducing dependence on fossil fuels and support local energy resilience, it also raises important environmental considerations. An increased demand for biomass could exert significant pressure on Latvia's natural ecosystems, particularly forests, which are the primary source of biomass. Unsustainable harvesting practices or overexploitation of forest resources may lead to biodiversity loss, soil degradation, and negative impacts on carbon sequestration capacity. Therefore,

while biomass use offers a promising pathway for energy diversification and cost management in smaller communities, it must be carefully managed through sustainable forestry practices and regulatory oversight to balance energy needs with environmental protection.

Opportunities

Broaden the scope of energy efficiency beyond renovating.

Diversify alternative energy collection and storing approaches.

Open public debate on what is efficient use of resources, what is necessary, what can be gained using less resources.

Recommendations

Municipalities should actively promote incentives to encourage the switch to district heating, such as subsidies for connections and infrastructure upgrades, while raising awareness of its economic and environmental benefits. At the same time, strict regulations must ensure biomass used in heating systems is sustainably sourced to prevent environmental harm and support long-term resource viability. Additionally, clear communication about diverse alternative energy technologies—like solar thermal, heat pumps, and energy storage—can empower communities to adopt sustainable solutions and contribute to a resilient, low-carbon energy future.

Poland

Challenges

The experts estimate that the price of gasoline, gas and coal can considerably grow in connection with the introduction of the ETS2 system. It might hit the hardest poor households, which warm homes up with gas or coal, and drivers of combustion engine cars. It is expected to also raise the prices of transportation and production in many branches of the [economy](#).

Because of changes in the law concerning prosumers a few years ago, the investments in renewables by individuals slowed down. Some households were tempted to install gas instead of heat pumps because of the lower price of that energy source at

that moment. Experts, however, convince us that the situation will reverse in 2027 with the introduction of new prices for gas. Then such consumers will again be forced to change the [source of energy](#).

A drastic rise in prices may lead to illegal activities by citizens who won't be able to afford the higher prices or won't be willing to spend more money on heating and transportation. People might be tempted to burn toxic and illegal items like trash (furniture, tires...) instead of wood or coal.

The smuggling activities, such as smuggling fuel through the Eastern border, might also increase. This phenomenon was at its peak in the first half

of the previous decade in Poland, and thanks to the introduction of new regulations, it was *limited*. However, the upcoming changes in energy prices and demands on the black market might motivate people to solutions breaking the law.

The increase in prices might, on the one hand, be a push for the producers of food to cut the costs of its production, which will result in further deterioration of its quality. On the other

hand, the increase of the prices of food might lead many, especially low-income consumers, to buy food products which are cheaper but of poor quality. That

phenomenon would result in deterioration of the health of large groups of people and, in the long run, affect the health system.

Opportunities

The right usage of mitigation funds might make the population and the company less sensitive to the planned changes.

Increased awareness among citizens and industry might stimulate the preparation for the upcoming changes.

Romania

Challenges

The increase in energy and natural gas prices has had direct and significant consequences on illegal logging, particularly in Romania, acting as a catalyst for increased demand for firewood and, implicitly, unauthorized logging.

The main consequences identified are:

The explosion of illegal logging: As firewood became more expensive (in some cases, the price doubled), illegal logging activities increased in intensity, as a direct response to the rising cost of conventional energy sources.

Blocking the legal market and stimulating the black market: gGovernment interventions, such as capping the price of firewood at 400 lei/m³, have led to the blocking of legal trade, as the production/exploitation price was often higher. This dysfunction encouraged the population to resort to wood from illegal logging.

Deforestation in protected areas: iIncreased demand has put immense pressure on virgin forests and protected areas (including in the Carpathians), leading to biodiversity loss and ecosystem destruction. Increased risk for activists and foresters: aAgainst a backdrop of rising prices and demand, the timber mafia has become more aggressive, increasing the number of threats and acts of violence against those who try to protect the forests.

Huge economic losses: illegal logging, intensified by the energy crisis, costs Romania billions of euros annually, with the state losing significant revenues, while timber thieves take advantage of low damage assessment rates compared to the real market price.

There is a lack of regulation of inefficient wood-fired heating systems, and the wood is used for heating especially in rural regions.

It is an important air pollution caused by the burning of cheap biomass and waste in small wood-fired stoves, which is also a major problem in Romania, especially during the cold season.

The energy poverty problem is exacerbated by the country's geographical features because there is a low chance to use wind energy because of weak winds.

Solar energy is increasingly being used by so-called prosumers, who are supported by national programs, and now the government is preparing better regulations for prosumers in order to increase storage capacity.

Recommendations

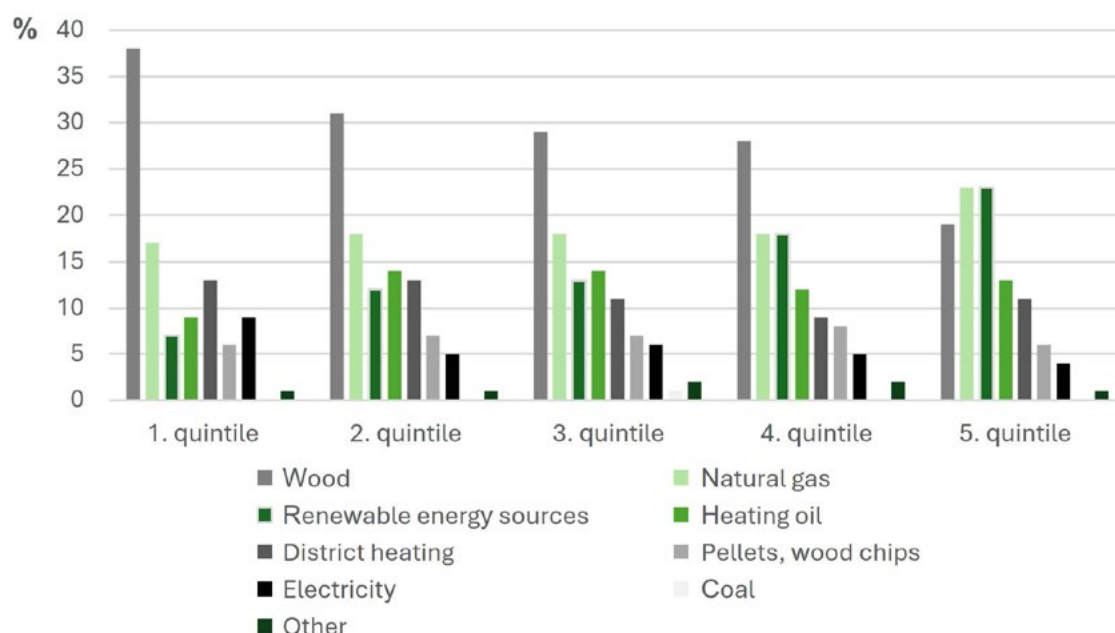
Promoting various alternative energy technologies, such as solar thermal energy, heat pumps, and energy storage, at the community level and providing functional models and good examples, as well as technical and financial support, can encourage communities to adopt sustainable solutions and contribute to a resilient, low-carbon energy future.

Challenges

Air pollution due to the burning of cheap biomass and waste in small wood-burning stoves is a large problem also in Slovenia, which is amplified by the country's Alpine topography and weak winds. Moreover, the large forest cover and the dispersed forest ownership are structural factors that make it very difficult to convince (especially rural) households to switch their heating system. Cautious attempts to regulate at least the new installation of inefficient small wood-burning stoves have faced fierce opposition and a political campaign under the

slogan "We don't give our wood!". This campaign was also a good example of disinformation (see the chapter above), as nobody even suggested taking away wood as a heating fuel, only to regulate stoves better, especially in densely populated areas. While wood is already the dominating heating fuel in the lowest income quintile, about a quarter of households in this income bracket still depend on fossil fuels for heating. Hence, solving the dual problem of air pollution from inefficient biomass burning and CO₂ emissions from fossil fuels is a large challenge, especially for low-income households.

Fig 4. Share of households (%) by primary source of energy for home heating and income quintile in Slovenia in 2022



Source: Slovenian SCP draft

Recommendations

The expansion of programmes to switch heating systems towards heat pumps has strong benefits for both air quality and climate change mitigation. From a social perspective, it is important to embed such measures in a more comprehensive support program in order to avoid a lock-in of energy-poor

households in potentially expensive electricity-based heating. Such programmes could include the energy renovation of the apartments of energy poor households and - if there is no alternative - also the temporary subsidy of electricity consumption for heating purposes.



RECOMMENDATIONS

Common Recommendations for the Six CEE countries

Combating misinformation and disinformation

On national level:

1. Robust multi-stakeholder forums must be established, including representatives of government, NGOs, business, and security and information security experts, to balance climate ambitions with economic and security priorities, thereby enhancing policy coherence and public trust.
2. Adequate funding must be provided for research and communication to demonstrate how ETS2 can contribute to people's well-being, provide examples on the size of ETS2 revenues as well as examples of how ETS2 revenues can benefit everyone, and show how ETS revenues have already been used to help achieve climate, social, and environmental goals.

On EU level:

3. Substantial support must be provided to independent media and environmental NGOs to enable them to counter misinformation and disinformation, and to raise awareness of the necessity and benefits of implementing ETS2 and the related measures, as well as to inform the public about the methods to manage energy consumption efficiently.
4. Cross-sectoral dialogue platforms must be facilitated to help link security/information security and climate policy experts to develop integrated strategies that address both national security and climate resilience, recognising their interdependence.
5. The EU must not finance governments until they meet all requirements to reduce corruption and misuse of public money, in line with the recommendations of the Commission's Rule of Law Reports and taking into account the proposals of civil society organisations.

Reducing energy poverty

On national level:

1. A system of direct payments should be implemented on national level by the governments. Part of the ETS2 revenues (besides the Social Climate Fund) should also be used for this purpose. Direct payments to households should be considered as a way to increase public acceptability of higher CO2 prices. Such schemes should preferably include differentiation by income and/or social situation.
2. All environmentally and socially harmful or inefficient subsidies must be identified and removed within a short period based on binding commitments with the EC.

3. The resulting savings must then be used for direct payments and other measures aimed at reducing energy and transport poverty. Among others, governments should discontinue their support for further expansion of the road infrastructure especially in countries with motorway and road network density that already exceeds the EU/ CEE average figures. Similarly, the provision of subsidies for car production and related industries should be reconsidered. Funding should be prioritized for maintenance and development of public transport, railways, and improving the conditions for non-motorised transport modes. The energy efficiency support schemes for households must be enhanced. Home renovation support schemes must have strict energy-efficiency criteria.

4. Projects must be launched that reach vulnerable groups to increase their capacity to access the available funds. Adequate measures should be implemented to avoid situations where wealthy groups access funds that were intended for vulnerable groups.
 5. Obsolete public transport vehicles must be replaced with modern ones, and railway tracks must be renovated. Redesigning schedules in rural areas, where small communities are dispersed, is essential to enhance accessibility and mobility.
 6. In areas where traditional public transport cannot be provided with the required frequency, transport-on-demand services must be implemented.
 7. Measures should be implemented to limit urban sprawl. At the same time, measures should be implemented to keep people living in the depopulated and remote areas and support those who move from overpopulated to the remote depopulated areas.
- On EU level:
8. The disbursement of EU funding must be bound to the implementation of the country-specific recommendations by the member states.
 9. EU funding must be provided only to those member states that create a detailed inventory of environmentally harmful subsidies, design a plan to remove them, and implement this plan within the next four years. The plan must include adequate compensation to citizens and public institutions.

Combating the Misuse and Ineffective Use of Funds

On national level:

1. An updated inventory of environmentally harmful subsidies must be completed by the governments of member states, and most of these subsidies must be removed by 2028.
2. As already mentioned above, a direct payments system must be introduced to compensate households and public institutions to neutralise the burdens due to the subsidy removal and to avoid social backlash.
3. The fact that direct payments to citizens are the best method to prevent corruption and misuse of public money should be used as another argument for implementing such a scheme whenever it is feasible.
4. Revenues from the ETS2, which are not used for the SCF, should also be partly used for direct payments, because the SCF regulation permits only temporary direct income support, and it must not exceed 37,5 % of the total SCF national expenditure.
5. In order to avoid the environmental and social challenges associated with cash transfers and general energy price subsidies, vouchers for low-carbon heating and transport services and products are a potential alternative. Such

vouchers are easy to use and give beneficiaries the flexibility to adapt the support to their respective needs. By applying clear eligibility criteria and limiting the scope to a well-defined set of services and products, the risk of abuse can be minimised.

On EU level:

6. The European Commission should strictly control the obligation of the member states to maintain the existing national expenditure in the public sectors that receive EU funding. (It should also be defined whether the existing funding should be maintained in real terms or as a percentage of the GDP.) In the event of non-compliance, compensatory measures shall be taken in the form of withholding EU funds or corrective financial measures.
7. The European Commission must assess whether the national government subsidised investments and/or measures that contradict the aims of EU funding, and if this occurs, must require repayment of the EU funding concerned.
8. The European Commission must take the strictest measures to enforce the provisions of the [Financial Regulation](#).

Eliminating Administrative and Workforce Capacity Gaps

On national level:

1. No more public money should be spent on environmentally harmful investments or investments that are not urgent and less important than the renovation of buildings.
2. The money and labour force thus saved must be redirected to these renovations.
3. A robust program of training and retraining of the labour force must be started in order to mitigate the problem of the lack of skilled labour for the renovation of buildings.

On EU level:

4. The European Commission must provide much more effective assistance for capacity building.
5. The EU's administrative requirements must be substantially simplified without compromising the EU's climate, environmental and social goals.

Preventing Undesirable Behavioural Responses

On national level:

1. An effective and wide-scale awareness-raising campaign must be implemented on how to reduce household energy consumption by quickly implementable and relatively cheap methods to reduce heating and cooling costs.
2. Strict and effective measures must be implemented to end household waste burning.
3. Support schemes for households to improve energy efficiency must be enhanced.
4. The expansion of programmes to switch heating systems towards heat pumps has strong benefits for both air quality and climate change mitigation. From a social perspective, it is important to embed such measures in a more comprehensive support program in order to avoid a lock-in of energy-poor households in potentially expensive electricity-based heating. Such programmes could include the energy renovation of energy-poor households and – if there is no alternative – also the temporary subsidy of electricity consumption for heating purposes.

5. New solutions, such as transport on demand, should be implemented to lower the fossil fuel dependency of people living in remote rural areas.
6. An electronic toll should be implemented for all motor vehicles on all roads. The toll should depend on the distance driven, the emission of CO₂ and other pollutants, the mass (or axle weight) of the vehicle and the location of the road (e.g. city or rural area).
7. Citizens must be compensated by direct payments for the price increase due to the road toll, preferably with differentiation by income and/or social situation.

On EU level:

8. The European Commission must foster better coordination among member states in exchanging information and providing assistance regarding best practice solutions to prevent undesirable behavioural responses to the implementation of ETS2.

Conclusions

As demonstrated above, all of the challenges can be overcome with appropriate planning and political will. This is not only possible but an absolute necessity. Namely, by far the biggest challenge is climate change and some of its most severe implications – economic losses caused by weather- and climate-related extreme events; premature deaths due to air pollution, especially at high rate in some CEE countries, the loss of biodiversity, all of which are due mainly to the fact that prices do not reflect the costs, especially the environmental costs

PROJECT PARTNERS

Green Liberty from **Latvia**

Clean Air Action Group from **Hungary**

Economic Policy Institute from **Bulgaria**

Institute for Sustainable Development Foundation from **Poland**

The Slovenian Foundation for Sustainable Development from **Slovenia**

Focus Eco Center from **Romania**

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