



EU Emissions Trading System

Auction Revenue Use

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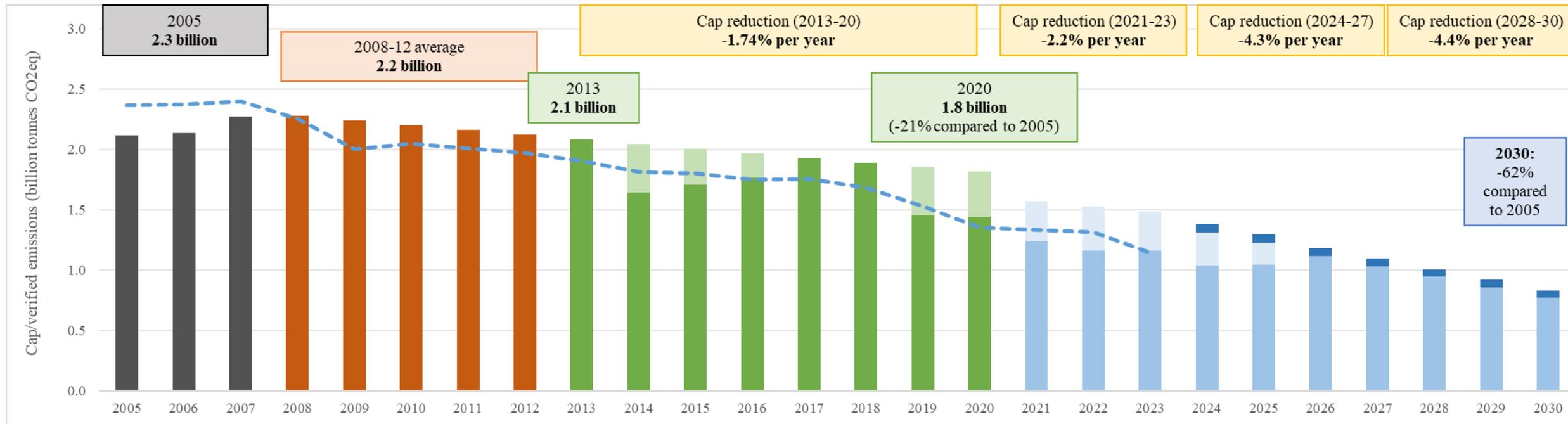
Unit B.1: ETS Policy Coordination and International Carbon Markets

Overview

- The overall framework
- Member States revenues
- Modernisation Fund
- Innovation Fund
- ETS2 and Social Climate Fund

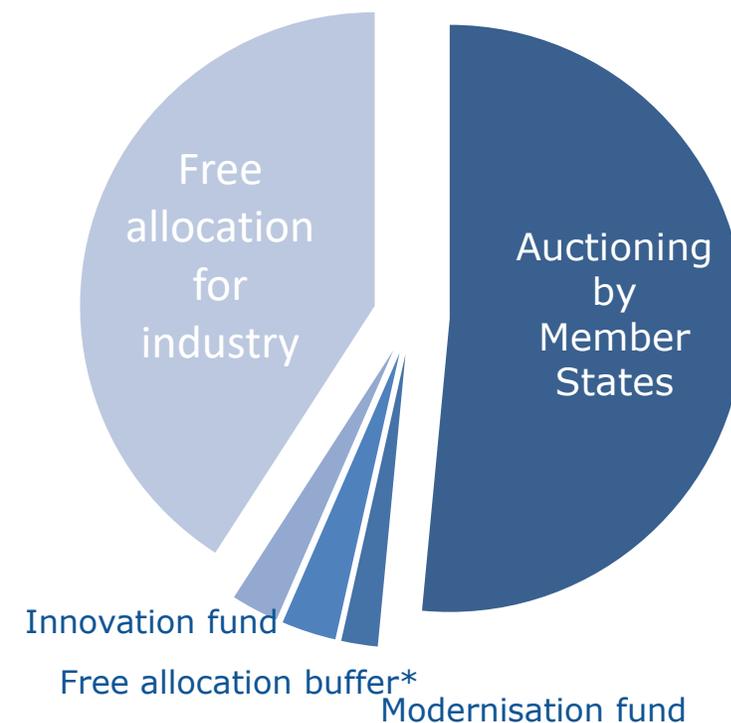
Start from the cap

- The cap is absolute and therefore:
 - determines supply (i.e. auction volume)
 - and creates scarcity



The general framework

- Auctioning was introduced in 2013
- Today, the auctioning share is 57% of the cap
- Since 2013, over EUR 240 billion has been raised
- The large majority of auction revenues goes to the Member States. Split:
 - 90 % in shares based on the verified emissions when the system started;
 - 10 % amongst certain Member States for the purposes of solidarity, growth and interconnections within the Union
- In 2024, a total of EUR 38.8 billion was raised. Member States received EUR 24 billion in auction revenues
- Minor shares go to European funds: the Innovation Fund and the Modernisation Fund



Rules applicable to Member State revenues

- Until June 2023: **50%** of revenues **should** be spent for the purposes in Art. 10(3)
- After June 2023: **100%** of revenues **shall** be spent for the purposes in Art. 10(3)
- Possibility to channel the revenues via the **general budget**
- List of purposes included in Article 10(3) of the ETS Directive, e.g. **RES, energy efficiency, transport**
- In 2023, several **new purposes** have been added to the list (i.a. related to restoration, soil sequestration, carbon removals, etc...) broadening the scope
- Member States to take into account the need to continue scaling up **international climate finance**
- Taking into account national circumstances, the Member States must endeavour to ensure the **visibility** of the source of the funding of actions or projects
- Member States **report every year** to the Commission on how revenues were spent

Article 10(3) list

Clean technologies in energy and industry:

- to develop renewable energies, grids for electricity transmission, including the production of electricity from renewables self-consumers and renewable energy communities
- to improve energy efficiency, district heating systems and insulation, to support efficient and renewable heating and cooling systems, or to support the deep and staged deep renovation of buildings
- to finance research and development in energy efficiency and clean technologies in the sectors covered by the Directive

Adaptation and biodiversity:

- to avoid deforestation and restoration of peatland, forests and other land-based ecosystems or marine-based ecosystems, for afforestation and reforestation
- for forestry and soil sequestration in the Union

Article 10(3) list

Support to industrial emissions reductions and removals:

- the environmentally safe capture and geological storage of CO₂ and carbon removal methods
- to address any residual risk of carbon leakage in the sectors covered by CBAM in accordance with State aid rules

Transport:

- shift to forms of transport which contribute significantly to the decarbonisation of the sector, including passenger (rail, road, maritime and aviation) transport and sustainable alternative fuels

Administrative expenses of the management of the EU ETS

Article 10(3) list

Social support:

- to provide financial support to address social aspects in lower- and middle-income households
- to finance national climate dividend schemes with a proven positive environmental impact
- to promote skill formation and reallocation of labour to contribute to a just transition and to invest in upskilling and reskilling of workers potentially affected by the transition, including workers in maritime transport
- to finance climate actions in vulnerable third countries, including the adaptation to the impacts of climate change

ETS2 selected purposes

Use of revenues for the purposes in Article 10(3), giving priority to activities that can contribute to addressing social aspects of the ETS, or for one or more of the following:

- **Heating and cooling:** for the decarbonisation of heating and cooling of buildings or to the reduction of the energy needs of buildings, as well as measures to provide financial support for low-income households in worst-performing buildings
- **Transport:** for the uptake of zero-emission vehicles or to provide financial support for the deployment of fully interoperable refuelling and recharging infrastructure for zero-emission vehicles, or measures to encourage a shift to public transport and improve multimodality, or to provide financial support in order to address social aspects concerning low- and middle-income transport users
- **To finance their Social Climate Plan**
- **Compensation:** to provide financial compensation to the final consumers of fuels in cases where it has not been possible to avoid double counting of emissions or where allowances have been surrendered for emissions not covered by the ETS2

Reporting and spending approaches

- Member States need to report annually on their revenue use by 31 July pursuant to Article 19(2) of the Governance Regulation
- Empowerment to set templates for reporting – established in Commission Implementing Regulation (EU) 2020/1208 of 7 August 2020
- Three main approaches to spending:
 - Ad hoc decisions on concrete projects
 - Dedicated Funds
 - No earmarking: revenues to general budget, reporting of projects with ‘equivalent financial value’

Dedicated funds help keep track spending on the right purposes → more important with the obligation to spend 100% auction revenues in the list of Article 10(3)

In which sectors spend Member States their auction revenues?

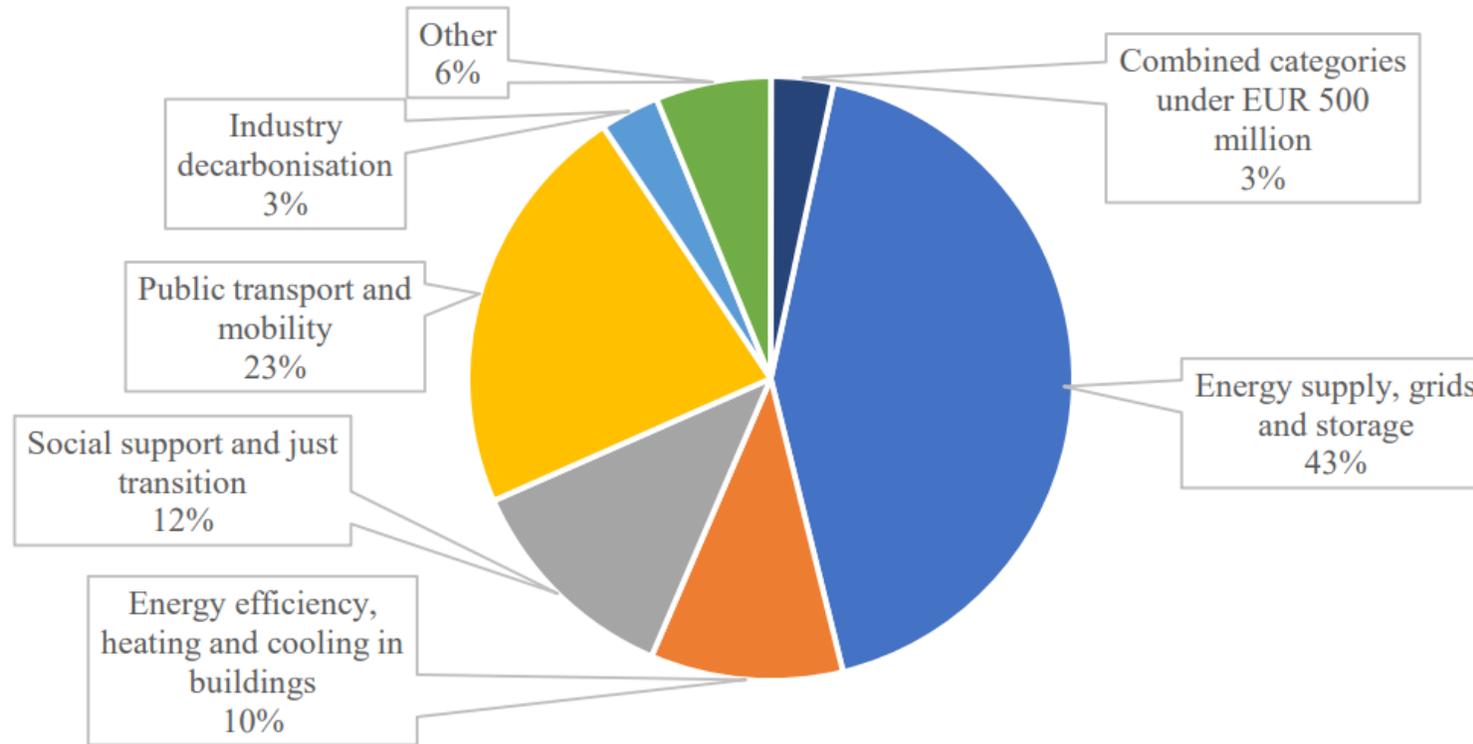


Figure 8. Split of the EUR 22.2 billion of the 2023 ETS auction revenue reported as disbursed, per category. Combined categories under EUR 500 million include (in EUR million) road transport (309), adaptation (155), international purposes and international climate finance (110), LULUCF, agriculture and land-based removals (59), administrative expenses (54), waste management (29), maritime transport (17), aviation (13) and permanent removals (3).

Figure 1. Auctioning revenues and reported usage, (Billion EUR), 2013-2023, scope EU-27

Billion EUR

35

30

25

20

15

10

5

0

2013

2014

2015

2016

2017

2018

2019

2020

2021

2022

2023

- Total revenues
- Aid for electricity-intensive industries for indirect carbon costs
- Comitted or not yet allocated, disbursed and reported
- Climate change and energy purposes (unspecified)
- International purposes and climate finance (e.g. climate actions in vulnerable third countries)
- Domestic use:
- Climate change and energy purposes, of which:
 - Other sectors (Adaptation, road transport, LULUCF, administrative expenses, waste management)
 - Social support and just transition
 - Public transport and mobility
 - Energy efficiency, heating and cooling in buildings
 - Energy supply, grids and storage

Methodological break in 2023: data from previous year are not fully comparable.

EU ETS Phase 3: 2013-2020

EU ETS Phase 4: 2021-2030

Innovation Fund

ETS-funded vehicle for **innovation and breakthrough technologies** in the ETS sectors

- Fixed pool of allowances, distributed via calls for proposals
- ~ €12 billion in EU funding awarded to projects so far
- ~ 200 projects awarded projects across EEA countries
- ETS revision: **size increase** to about 530 million allowances (with possible further increase from free allocation conditionality) ~**EUR 40bn** (with EUR 75 carbon price).
 - Maintains the focus on **innovative** technologies with stronger reference to upscaling; Introduction of **medium-sized** projects and **stronger attention to geographical balance**
 - Extends the support to **low carbon innovation in aviation, maritime, road transport and building sectors**; special attention to **CBAM** sectors
 - New instrument: competitive bidding (auctions) (fixed premia or (carbon) contracts for difference)

Modernisation Fund

Solidarity mechanism:

- Investments to **modernise energy systems in lower-income Member States.**
- Percentage of the cap, allocated to eligible Member States according to a key, focus on priority investments.
- 13 beneficiaries currently: Bulgaria, Croatia, Czechia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and as of 2024 Greece, Slovenia and Portugal
- ETS revision: bigger budget plus increased share for priority investments **~EUR 56 bn** (with EUR 75 carbon price). Different restriction rules on natural gas investments and from 2025, compliance with do-no-significant-harm principle

ETS2 and the Social Climate Fund

- Will mobilise **EUR 86.7 billion** over **2026-2032** period
- EUR 65 billion from the Fund + 25% national contributions from Member States
- Based on auctioning of 50 million EU ETS allowances in 2026 (frontloading) & ETS2 auctioning as of 2027
- Rest of ETS2 revenues: MS to co-finance SCF or for the ETS1 purposes and remainder to be spent in accordance with ETS1-rules (prioritizing social spending)



Support vulnerable households, transport users & micro-enterprises concerning impact of ETS2



Support investments in energy efficiency & renovation of buildings, clean heating & cooling



Finance zero- & low-emission mobility & transport, including public transport



Provide temporary direct income support

Thank you



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