CAN-Europe Position Paper
Best use of auctioning revenues from the EU Emissions Trading Scheme
July 2012

Introduction

Estimates of the total value of revenues from the auctioning of emissions allowances under the third phase of the EU's Emission Trading Scheme (ETS) (2013- 2020) vary according to the carbon price forecast. With the current low price of carbon on the EU ETS (less than €7/tonne in May 2012), income for the next trading period is estimated to be around €10 billion annually[1]. Previous estimates based on a higher carbon price went up to a total income for the 27 EU Member States of up to €21 billion annually by 2020[2]. In both cases it represents a significant amount of money that could be invested in sustainable green growth, which could support economic reform and investment in Europe, as well as fulfilling part of the commitment made by the EU to provide new and additional funding for climate action in developing countries. All these benefits could be achieved using auctioning revenues without any negative impact on the national budgets, while ensuring the "polluter pays" principle is upheld.

The environmental, economic and human costs of climate change are caused mainly by the present and historical greenhouse gas emissions of industrialized countries, including the EU Member States. The EU as a major contributor to the problem has a responsibility to assist developing countries in addressing the impacts now and for future damage. Acknowledging this historic responsibility, the EU Emissions Trading Scheme Directive[3] states that at least 50% of the revenues from the ETS should be invested in actions tackling climate change, both internationally and within the European Union. CAN Europe has consistently called for the revenues to be fully (100%) recycled into climate action[4]. This reasoning is based on the "polluter pays"

---

[1] CAN Europe own analysis

[2] European Commission staff working paper: Analysis of options beyond 20% GHG emission reductions: Member State results, January 2012 http://ec.europa.eu/clima/news/articles/news_2012013002_en.htm

[3] "Member States shall determine the use of revenues generated from the auctioning of allowances. At least 50 % of the revenues generated from the auctioning of allowances (...) should be used for one or more of the following: to reduce greenhouse gases; to develop renewable energies, and other technologies contributing to the transition to a low-carbon economy; measures to avoid deforestation and increase afforestation and reforestation; forestry sequestration; capture and geological storage; a shift to low-emission and public forms of transport; research in energy efficiency and clean technologies; improvements in energy efficiency and insulation; to cover administrative expenses of the management of the European scheme." Emissions Trading Scheme Directive, Article 3 Directive 2009/29/EC:

[4] On the eve of the adoption of the 2008 Climate and Energy package, CAN-Europe stated: "*The Council should therefore follow the European Parliament's proposal to earmark 100% of the Emissions Trading Scheme (ETS) auctioning revenues for climate related purposes. Half of*

principle, which is part of the Treaty on the functioning of the European Union. Also the European Parliament has supported binding allocation of EU ETS auctioning revenues for climate action.

The following sections outline CAN Europe's position on using auctioning revenues for international and domestic climate finance, as well as CAN-E's position on the transparency of these revenues. **CAN Europe recommends using half of the auctioning revenues for international climate finance, and the other half for domestic climate finance.**

International Climate Finance

- Member States should allocate 50% of total ETS revenues for international climate finance and direct an increasing share of this to the Green Climate Fund.

- By 2020, preferably all of the ETS revenues meant for international action (i.e. 50% of total revenues) are directed to the Green Climate Fund (complemented by additional pledges from Member States regular budgets).

- To this end, the EU should consider an automatic mechanism that sets aside a certain proportion (increasing to 50% by 2020) of total auctionable permits to feed into the Green Climate Fund directly (similar to the NER300 instrument), before distributing permits to Members States for national auctioning. CAN Europe recommends that money from the Green Climate Fund addresses in particular the needs of the most vulnerable countries to enable their transformation to low-carbon development pathways as well as to allow them to adapt their societies to a changing climate and deal with the unavoidable impacts.

- There should be a balance of funds allocated to programmes, policies and actions addressing mitigation and adaption, as well as reducing deforestation (which has elements of both mitigation and adaptation). Experience has shown so far that adaptation projects are not as attractive for private investors as mitigation measures, since investment returns are lower; thus, interest from the private sector as an investment area is almost non-existent. Therefore sufficient public funding needs to be made available for adaptation.

- Mitigation efforts should cover the dissemination of technologies and capacity building in developing countries, which opens new markets and business opportunities for European industry. Other important areas would include support for the UNFCCC´s REDD

---

the revenues should be used for adaptation, mitigation and forest protection activities in developing countries".

program tackling deforestation and forest degradation.

Climate finance in EU member states

- Member states should reinvest 50% of auctioning revenues on sound climate and energy policies and projects in Europe.

- All reinvested funds in Europe will serve to leverage private investments thus widening the impact and benefits of this financial source, promoting investments and green growth.

- Recommended areas for domestic climate finance:

    - Energy efficiency programs in private and public buildings, households, businesses and industrial sites
    - Renewable energy projects (deployment)
    - Research, development and demonstration of renewable energy, energy efficiency technologies and innovation in others sectors such as transport, agriculture and the replacement of f-gases
    - Energy efficiency measures and renewables integration in transport
    - Measures and policies to promote public transport and non-motorized mobility
    - Decentralized electricity storage
    - Measures to promote low-carbon practices in agriculture and livestock

- CAN-E doesn't support the use of auctioning revenues to co-finance fossil fuel based power plants, such as CCS-ready power plants and high efficiency coal plants.

- At European level, there are a number of initiatives that would help to reduce GHG emissions while maintaining European industrial competitiveness and creating a large number of jobs. However, those initiatives are currently lacking significant and constant sources of financing. Auctioning revenues could feed into those programs and funds. These initiatives include, among others, programs like the *European Energy Efficiency fund (EEE-F)*[5] and the future national *Energy Efficiency Financial Facilities*[6] to support projects aiming at reducing energy use and the Strategic Energy Technology Plan (SET-Plan)[7] to support research, development and deployment of Renewable Energy technologies.

- National financing programs should be designed in ways that complement the use of existing EU funds and financial mechanisms (e.g. cohesion and structural funds). They should be used especially

[5] http://ec.europa.eu/energy/eepr/eeef/eeef_en.htm
[6] Foreseen in the forthcoming Energy Efficiency directive (2012)
[7] http://ec.europa.eu/energy/technology/set_plan/set_plan_en.htm

on actions that are currently not well supported by the EU budget.

Czech Republic	It uses revenues from Kyoto Protocol carbon credits (AAUs) and supports building insulation and replacement of boilers to make use of renewables
Germany	The "German Special Energy and Climate Fund" allocates 100% of the ETS revenues for both international and domestic climate finance. It provides transparency since the scope is well defined, and it provides certainty on the funds available every year. An efficiency house scheme, with funds channelled through KfW is part of the fund.

Table 1. Good examples of national investment schemes

Transparency and flexibility

- The specific areas and climate-related projects on which the revenues raised from ETS auctioning would be spent should be decided at national level (with the exception of very concrete proposals with high EU-added value)[8]. It is important that those national decisions are transparently and efficiently allocated.

- One possibility for increasing transparency and avoiding overlap on funding activities would be the creation of dedicated national funds to earmark the ETS-revenues for climate-change related actions.

- Dedicated national funds, like the German *Special Energy and Climate Fund*[9] would provide a clear message about of the government's level of commitment to fighting climate change, which would in turn provide certainty and predictability to investors. In order to provide such investment certainty, a minimum annual budget would need to be fixed.

- It is very important that the Member States report annually on the use of ETS revenues in a harmonized manner, as outlined in the European Commission's proposed Mechanism for Monitoring and Reporting Regulation[10].

[8] An example is the NER-300 program, designed for the financing of CCS and renewable energy projects making use of revenues from 300 million allowances from the new entrants reserve (http://ec.europa.eu/clima/policies/lowcarbon/ner300/index_en.htm). Note that CAN Europe would support a similar program only if the eligible technologies are those based on renewables and energy efficiency solutions.

[9] Germany is already implementing a dedicated instrument to streamline all ETS-revenues. The mechanism, the *Special Energy and Climate Fund*, makes use of 100% of the revenues (much higher than the ETS Directive provision of 50%) to finance climate-related actions.

[10] COM/2011/0789 final - 2011/0372 (COD)