Use of Revenues from Emissions Trading

An emissions trading system (ETS) is a market-based instrument that can be used to reduce greenhouse gas (GHG) emissions. The government determines a limit (cap) on total emissions in one or more sectors of the economy and issues allowances according to this limit. Companies in these sectors need to hold one allowance for every tonne of emissions they release. They may receive these allowances for free from the government or buy them in auctions organized by the government. Auctioning allowances in ETSs generates revenues that can be used for various purposes.

Auctioning allowances generates significant revenues...

Auctioning generates public revenues that governments can invest in different ways, including to address the economic impacts that the ETS can have on disadvantaged groups, fund additional climate action, fund other policy priorities, or reduce budget deficits.

Most ETSS already do, or intend to, auction a share of their allowances, and many plan to increase that share over time. The amount of revenues raised depends on the number of auctioned allowances and the carbon price. By the end of 2022, ETS jurisdictions had cumulatively raised more than USD 224 billion through auctioning, since 2008.

**Financial Assistance to Disadvantaged Groups**

Governments can support low-income households or vulnerable communities to counter rising energy costs and to facilitate the transition to a low-carbon economy.

**Fund Climate Action**

Governments can invest in adaptation, renewable or other low-carbon technologies, energy efficiency, clean transport infrastructure, waste management, and forestry.

**Contribution to the Public Budget**

Governments can use ETS auction revenues to reduce taxes, finance other policy priorities, or to reduce budget deficits.

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**Total Auction Revenues**

- Over USD 224 billion in raised revenues since 2008
- Over USD 63 billion in raised revenues in 2022

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**Total Auction Revenues**

- ETS (USD 40,816 million)
- Republic of Korea (USD 245.4 million)
- California (USD 4,027 million)
- Massachusetts, Nova Scotia and Switzerland (USD 205.8 million)
- Québec (USD 1,028 million)
- New Zealand (USD 1,288 million)
- China (USD 7,561 million)
- Germany (USD 6,743 million)
- Austria (USD 4,164 million)
- EU ETS (USD 4,164 million)
- RGGI (USD 1,194 million)
- Australia (USD 1,244 million)
- Japan (USD 1,284 million)
- Korean Pilot (USD 1.28 million)
- Switzerland (USD 1.28 million)

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**Over USD 224 billion in raised revenues since 2008**

**Over USD 63 billion in raised revenues in 2022**
...that can be used in different ways.

Governments can invest auction revenues in different ways, either to address the economic impacts that the ETS can have on disadvantaged groups, fund additional climate action (usually in sectors not covered by the ETS), fund other policy priorities, or reduce budget deficits.

Auctioning in an ETS — a snapshot of three systems

**RGGI – AN ETS THAT AUCTIONS ALMOST 100% OF ITS ALLOWANCES**

The fact that the Regional Greenhouse Gas Initiative (RGGI) generates revenues, which are reinvested into the community, has helped build support for the program. From 2008-2021, RGGI states spent 78% (USD 3.6 billion) of their auction revenues on energy efficiency, clean and renewable energy, GHG abatement, and direct bill assistance by returning money to consumers as a rebate on their energy bills. These investments have stimulated the local economy and created jobs through developing low-carbon technology, promoting energy efficiency programs, and increasing the use of renewable energy.

**EU ETS – A FOCUS ON CLIMATE FUNDING**

In the European Union (EU), each member state decides how to use their auction revenues, but at least 50% should go towards climate action. Of the total revenues generated between 2013 and 2021, an estimated 75% was used for climate and energy related purposes. A share of the allowances is auctioned to supply the Modernisation and Innovation funds.

The Innovation Fund was established to support innovation in low-carbon technologies across member states. The overall size of the Innovation Fund is 530 million ETS allowances.
The Modernisation Fund is fed with revenues from the auctioning of 2% of the total allowances for 2021-2030 under the EU ETS. The fund supports investments in ten lower-income EU Member States to achieve climate neutrality, including low-carbon technology innovation, modernization of energy systems, and energy efficiency.

With the introduction of a separate ETS for sectors not covered by the existing EU ETS, a Social Climate Fund will be put in place to address any social impacts from the new system. This fund will finance temporary, direct income support for vulnerable households and support measures to reduce emissions in road transport and buildings.

CALIFORNIA AND QUÉBEC – JOINT AUCTIONS UNDER INDIVIDUAL ADMINISTRATIONS

In 2014, California and Québec linked their systems and began to run joint auctions. The revenues are reinvested separately. **QUÉBEC:** Québec’s revenues go to the Electrification and Climate Change Fund, which supports the implementation of mitigation and adaptation measures contained in the 2030 Green Economy Plan and include energy efficiency, electrification, and public transport.

**CALIFORNIA:** Most of California’s revenues go to the Greenhouse Gas Reduction Fund, of which at least 35% must benefit low-income households or communities. As of May 2022, USD 11.4 billion has been invested in over 560,000 projects, with expected GHG reductions of 79 MtCO₂e. Over USD 5.4 billion has reached disadvantaged and low-income communities. Investor-owned electric utilities and natural gas suppliers are allocated allowances, a portion of which must be consigned to auction. Auction revenues must be used for ratepayer benefit and for GHG emissions reductions.