

USE OF REVENUES FROM EMISSIONS TRADING

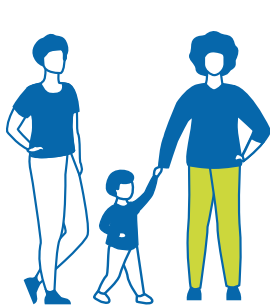
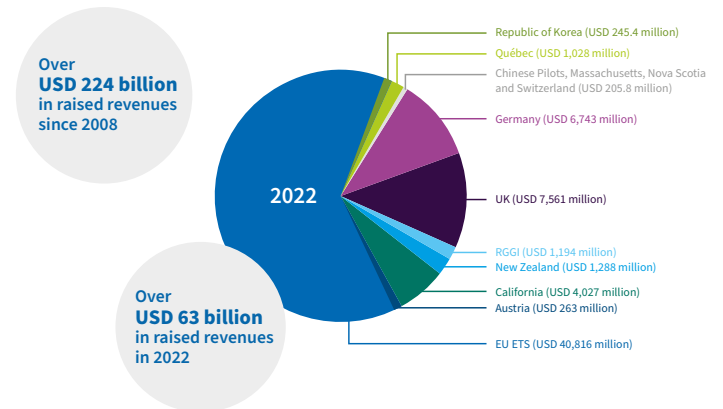
An emissions trading system (ETS) is a market-based instrument that can be used to reduce greenhouse gas (GHG) emissions. The government determines a limit (cap) on total emissions in one or more sectors of the economy and issues allowances according to this limit. Companies in these sectors need to 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.

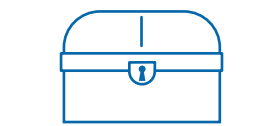
Most ETSS already do, or intend to, auction a share of their allowances, and many plan to increase that share over time. The amount of revenues raised depends on the number of auctioned allowances and the carbon price. By the end of 2022, ETS jurisdictions had cumulatively raised more than USD 224 billion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

TOTAL AUCTION REVENUES

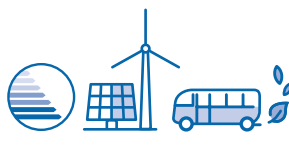


FINANCIAL ASSISTANCE TO DISADVANTAGED GROUPS

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



AUCTION REVENUES CAN BE USED IN DIFFERENT WAYS:



FUND CLIMATE ACTION

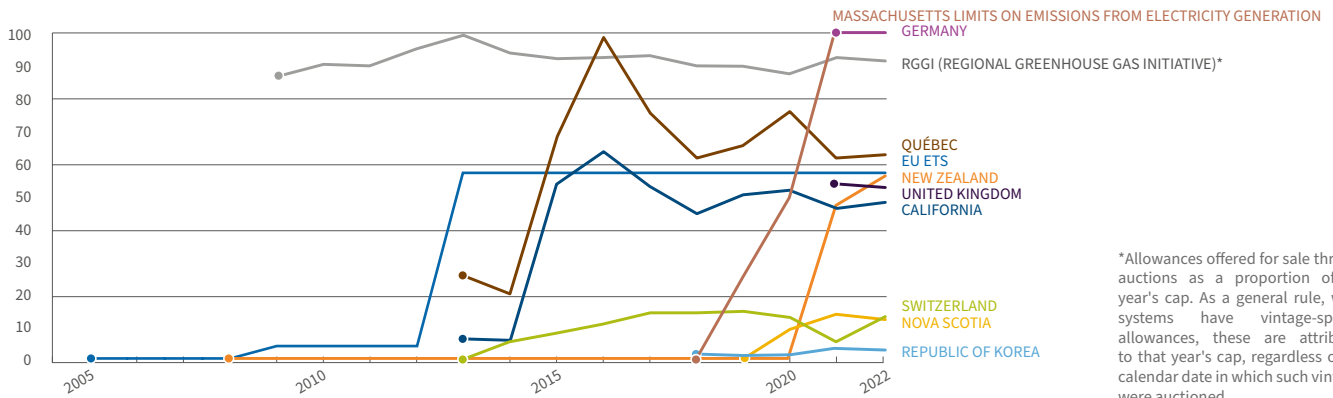
Governments can invest in adaptation, renewable or other low-carbon technologies, energy efficiency, clean transport infrastructure, waste management, and forestry.



CONTRIBUTION TO THE PUBLIC BUDGET

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

PERCENTAGE OF ALLOWANCES THAT ARE AUCTIONED IN ETSs OVER TIME*



*Allowances offered for sale through auctions as a proportion of the year's cap. As a general rule, when systems have vintage-specific allowances, these are attributed to that year's cap, regardless of the calendar date in which such vintages were auctioned.

...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.

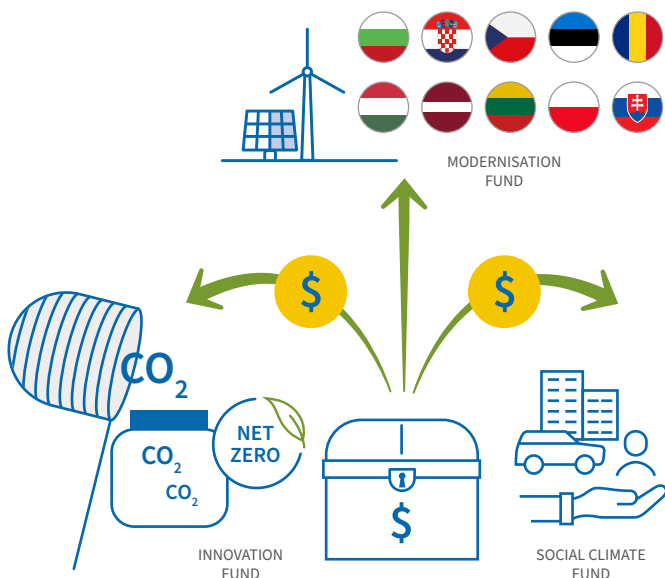
Auctioning in an ETS — a snapshot of three systems

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.



EMISSIONS TRADING CAN MOBILIZE INVESTMENT AND CREATE NEW JOBS



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.

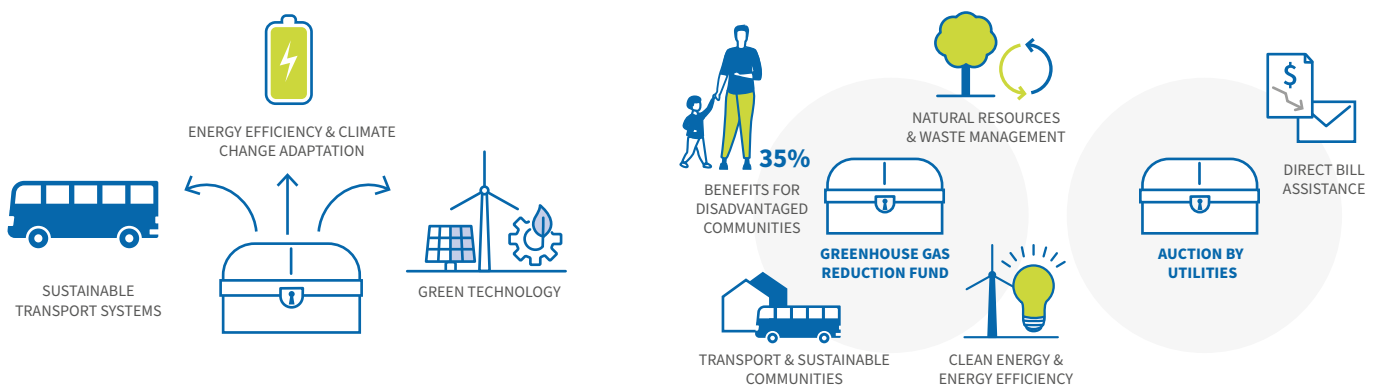
With the introduction of a separate ETS for sectors not covered by the existing EU ETS, a Social Climate Fund will be put in place to address any social impacts from the new system. This fund will finance temporary, direct income support for vulnerable households and support measures to reduce emissions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



SOURCES AND DISCLAIMERS: Figures from the European Commission, ICAP Status Report, Québec Ministry for the Environment and the Fight against Climate Change, California Air Resources Board, RGGI, EEX, ICE. US dollars were converted at the annual average exchange rates published by the Bank of Canada and <https://www.oanda.com>. For the Québec cap-and-trade system, joint auctions involve currency conversion for part of the proceeds. The rate and transaction fees on the date of conversion can affect the amount deposited to the Electrification and Climate Change Fund. As a result, the product of the number of allowances sold and the settlement price may slightly differ from the actual amount deposited. For the California cap-and-trade system, the estimated percentage of auctioned allowances and total auction revenues account for state-owned allowances only. The estimated percentage of auctioned allowances for the California and Québec cap-and-trade systems are calculated based on the vintage year, not by the year when allowances were or would be actually auctioned.

ABOUT THE INTERNATIONAL CARBON ACTION PARTNERSHIP: ICAP is an international forum for all levels of governments focusing on best practices in emissions trading. Its work centers on three main pillars: technical dialogue, knowledge sharing, and capacity building. For more information, see the [ICAP website](#) and its [ETS Map](#) and [Allowance Price Explorer](#) or follow us on [Twitter \(X\) @ICAPSecretariat](#) and [LinkedIn](#) (International Carbon Action Partnership).