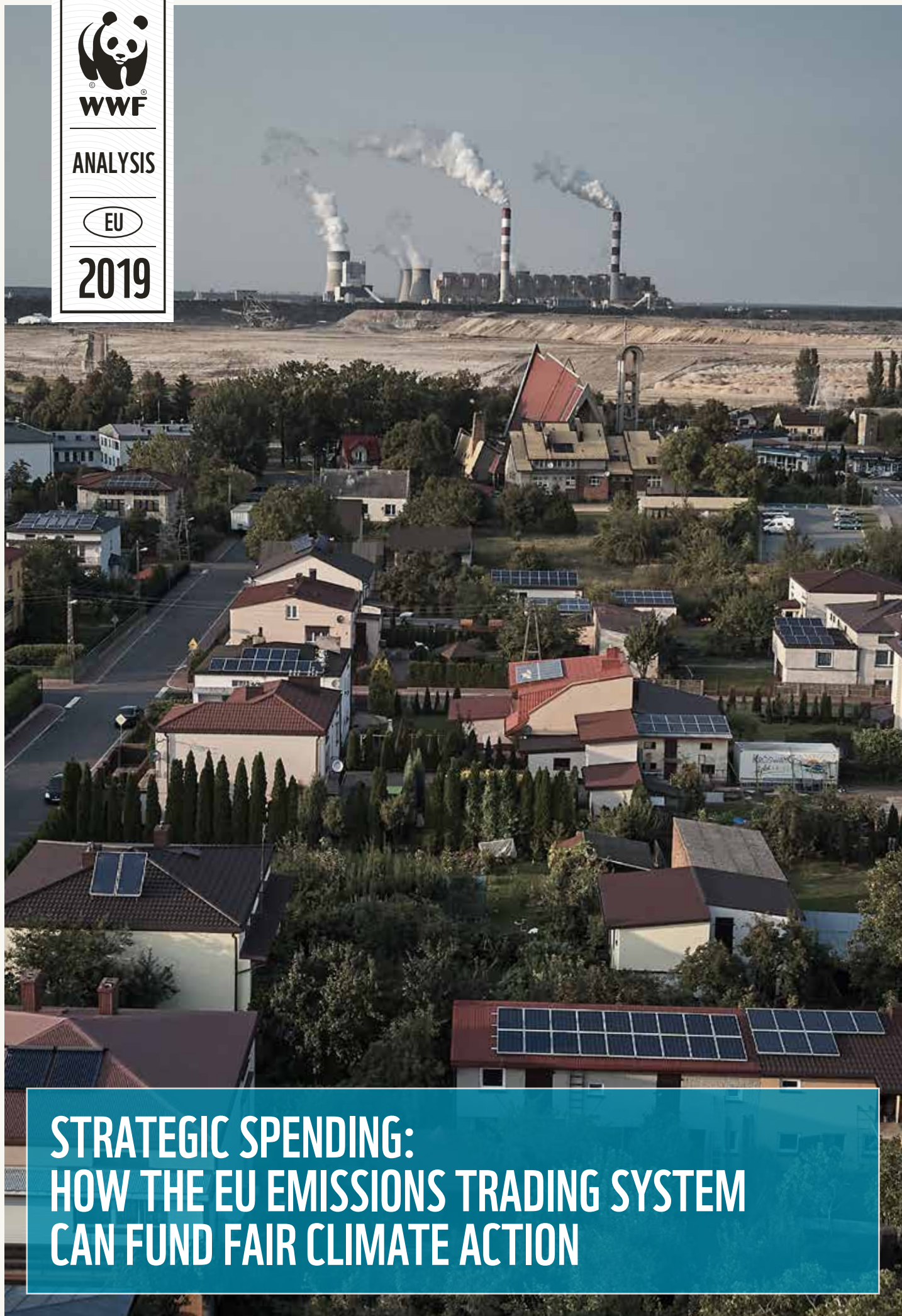




ANALYSIS

EU

2019



# STRATEGIC SPENDING: HOW THE EU EMISSIONS TRADING SYSTEM CAN FUND FAIR CLIMATE ACTION

# INTRODUCTION

The European Commission says that **€175 to €290 billion more** per year is needed to reach net zero emissions by 2050<sup>1</sup>.

Revenues from the EU's carbon market, the Emissions Trading System (ETS) could help. Yet it currently does not deliver as much money for climate action as it could:

■ **Not all ETS revenues are spent on climate action** - only 67% per Member State on average in 2018, meaning €9.3 billion rather than the full €13.9 billion.

**= €4.6 billion more could have been spent on climate action in 2018.**

■ At least 5% of funds spent on climate action (€480 million) were used in ways that are **counterproductive** to climate action and a just transition - for example, to potentially unsustainable biomass projects. This is a conservative estimate; the real figures are probably higher.

**= €480 million more could have been spent on climate action in 2018.**

■ Free emissions allowances mean Member States **miss out on around €11 billion** which could be spent on a climate neutrality, while polluters fail to feel the carbon price - and also receive huge fossil fuel subsidies.

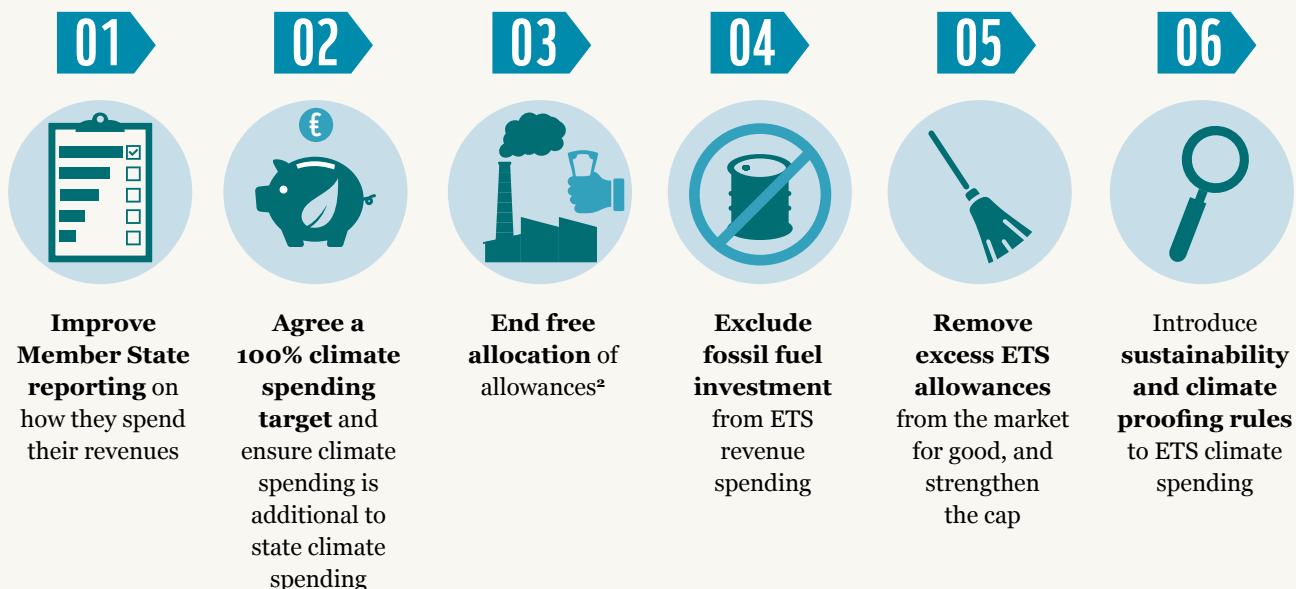
**= €11 billion more could have been spent on climate action in 2018.**

Altogether, this shows that **at least €16 billion extra a year could have gone to climate action over the last three years if the EU ETS worked properly**. Since the carbon price is rising, this would be even more over the coming years.

To allow the ETS to deliver a just transition to net zero carbon, WWF recommends six steps:

AT LEAST  
**€16  
BILLION**  
EXTRA A YEAR  
COULD HAVE GONE TO  
CLIMATE ACTION OVER THE  
LAST THREE YEARS

## ETS FOR CLIMATE: THE SIX STEPS



<sup>1</sup> European Commission, "A Clean Planet for All", p. 16.

<sup>2</sup> If free allocation is not ended, the thresholds for receiving free allowances should be tightened to reflect best techniques and encourage innovation. When deciding which sectors should receive free allowances, EU energy and environment goals must be taken into account.

# THE WORLD'S BIGGEST CARBON MARKET

The EU Emissions Trading System (ETS) was set up to fight climate change. It aims to do so by making greenhouse gas emitters - such as coal power plants - buy 'emissions allowances', giving them a financial incentive to reduce that pollution. The revenues from these emissions allowances go to the Member States.

## A RANGE OF REVENUES

Between 2016 and 2018, EU Member States generated over €23 billion from the auctioning of allowances.

## HOW THEY SPEND IT

The ETS rules suggest that Member States should spend at least 50% of their revenues on climate action. Reported spending on climate is over this, but it has fallen as auction revenues have grown, from 85% in 2013-15 to just 67% on average in 2018. If Member States had spent 100% last year, €4.6 billion more would have gone on climate action.

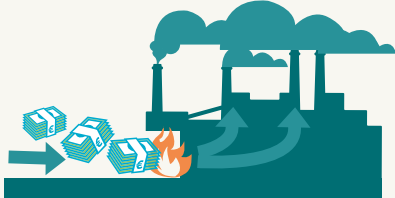
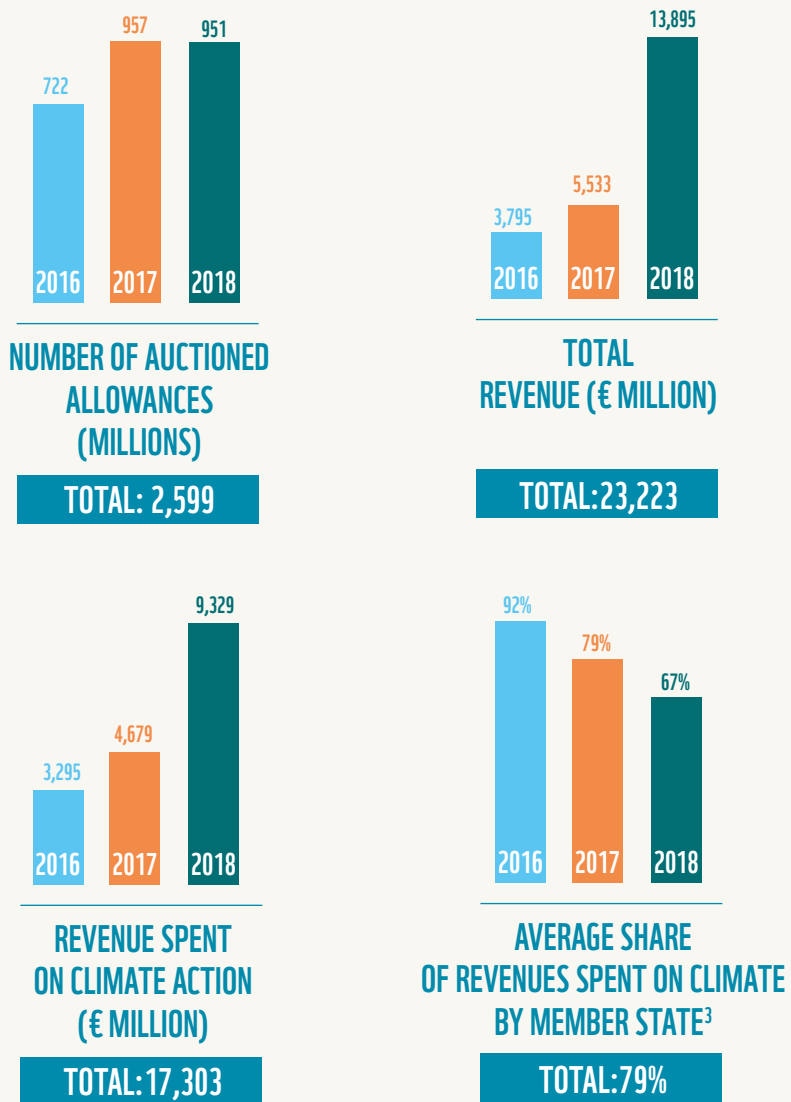
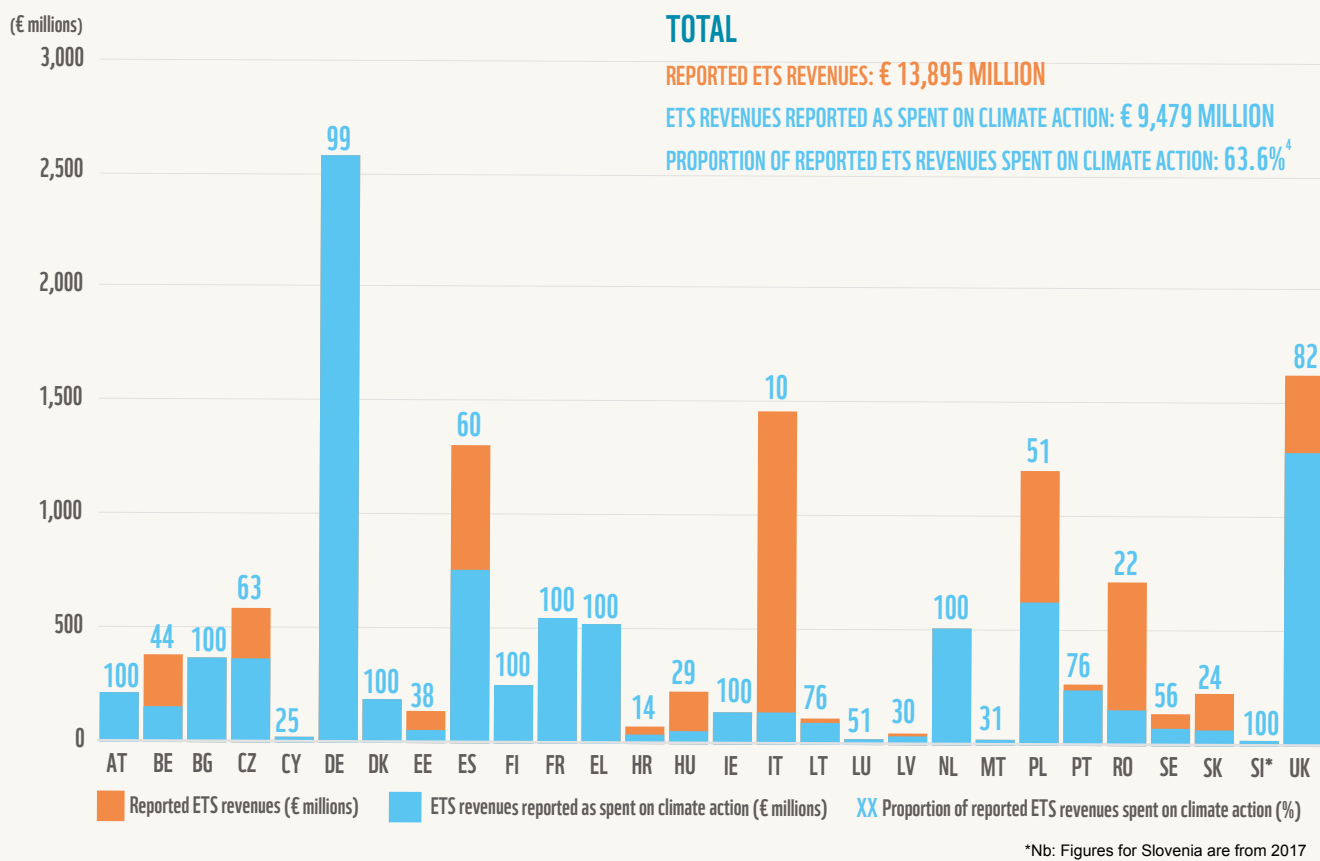


FIGURE 1: ETS REVENUES SPENT ON CLIMATE PER YEAR IN EU (2016-2018)



<sup>3</sup> 2018 Slovenian data was based on 2017 data.

**FIGURE 2: ETS REVENUES SPENT ON CLIMATE IN EU MEMBER STATES (2018)**



ETS revenue impact on greenhouse gas reduction is multiplied when it is spent on a just climate transition. It is also logical to help those who are least able to bear the costs of adapting to and mitigating climate change through redistributive actions, such as energy efficiency. This contributes to a just climate transition.

## REPORTING WRIGGLE-ROOM

Member States report that they spend their ETS money in a variety of ways for the climate. However, this may not have been additional to what they would have done anyway. And it must be noted that since Member State reporting is not always perfect, the analysis can not provide full transparency on how the revenues were spent.

What's more, not all 'climate' spending is consistent with a just, clean and sustainable transition. WWF estimates that a minimum of 5% of climate spending from 2016-2018 - around €480 million - went towards activities which actually harm the climate, such as potentially unsustainable biomass plants. This is a very conservative estimate: non-transparent and inconsistent Member State reporting on how they spend ETS revenues means it is likely to be far higher.

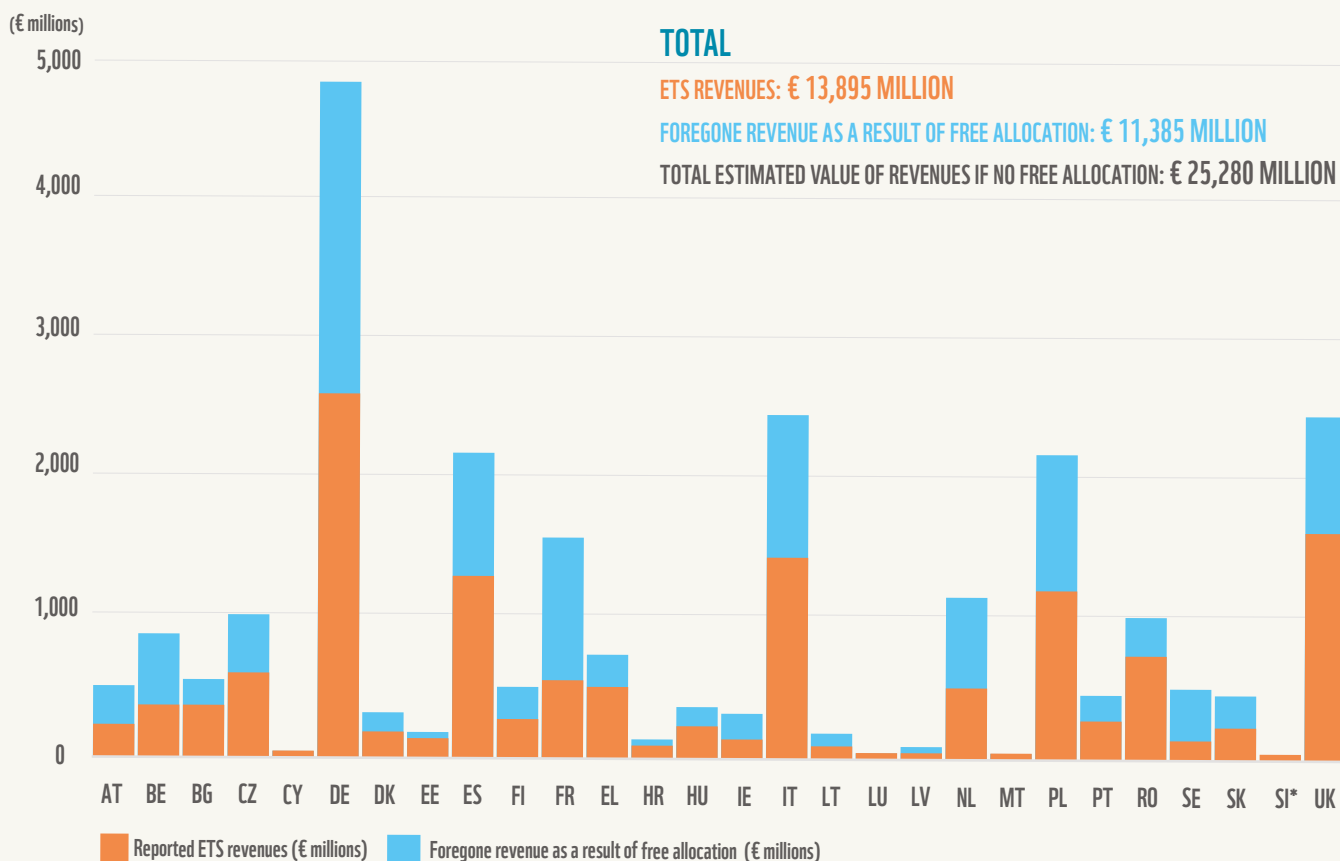
Both Poland and Hungary, for example, spend millions of ETS Euros on activities counter-productive to a just transition. Poland spent €13.5 million from 2016-2018 on actions including replacing coal-fired boilers with gas ones and building a biogas plant in Lowicz. Over the same time period, Hungary spent €4.6 million on replacing gas boilers. Yet at the same time both countries have been asking for more EU funding for their just transition in return for the support for the EU 2050 goal.

<sup>4</sup> Percentage as an average percentage of spending per member state, not an overall percentage of ETS revenues spent on climate action across all member states

## MISSING MONEY

What's more, Member States annually lose billions of Euros in revenue through the free allocation of emissions allowances. This means polluters are polluting for free, allowances are cheaper than they should be, and revenues which could be used on climate action are lower than they should be.

FIGURE 3: ETS REVENUE AND FOREGONE REVENUE FOR 2018



\*Nb: Figures for Slovenia are from 2017

## WHAT'S NEXT

In March 2018, a revised ETS Directive was adopted, and changes will come into force from 2021 which should increase the carbon price and therefore ETS revenues. They are expected to grow to an estimated €20 billion a year by 2020 and be worth over €200 billion from 2021 to 2030.

However, as this paper shows, even more is possible - and it is crucial to use every means we have to fight climate change in a socially fair way.

Getting the ETS right means we can reduce carbon emissions quicker and also finance more climate action. So it makes sense to review the ETS as soon as possible, alongside the update of the EU's 2030 climate plan in 2020.

We have a unique political opportunity to reform the ETS so it can provide strategic and cost-effective support for a just, clean and sustainable energy transition. The EU must seize it.

WWF is one of the world's largest independent conservation organisations, with over five million supporters and a global network active in more than 100 countries. WWF's mission is to stop the degradation of the planet's natural environment and to build a future in which humans live in harmony with nature, by conserving the world's biological diversity, ensuring that the use of renewable natural resources is sustainable and promoting the reduction of pollution and wasteful consumption.

The WWF European Policy Office contributes to the achievement of WWF's global mission by leading the WWF network to shape EU policies impacting the European and global environment.

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Front cover photograph © ClientEarth

Layout: JQ&ROS Visual Communications

Published in December 2019 by WWF – World Wide Fund For Nature (formerly World Wildlife Fund), Brussels, Belgium. Any reproduction in full or in part must mention the title and credit the above-mentioned publisher as the copyright owner.



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