



Considerations for ETS2 revenue spending



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The EU must close annual investment gaps of at least €137 billion for the building sector and minimum €147 billion for the domestic transport sector to meet their 2030 targets. ETS2 revenues can play a pivotal role in closing this gap.

ETS2 is expected to generate significant revenue, projected to be between €342 billion and €570 billion between 2027 and 2032, depending on the carbon price. However, its success hinges partly on how its revenues are used to offset its impacts, by redistributing to those most affected and funding clean, affordable alternatives to fossil fuels.

The total revenue is distributed through several channels. Up to €65 billion is allocated directly to the Social Climate Fund (SCF), later distributed to member states according to GDP, population, and energy poverty. Another €21.6 billion is allocated to member states, which they can use towards SCF co-financing as they need to co-finance at least 25% of their SCF projects. The largest share - estimated between €209 billion to €448 billion, depending on the carbon price - is returned to member states for 'climate and energy-related activities', with less constrained guidelines on how it should be targeted, and more discretion allowed over its spending.

Figure 11. Distribution of ETS2 auction revenues



Source: T&E, WWF and CMW

Funding for climate activities

As a result of the latest ETS revision, after the SCF contribution, 100% of revenues allocated to member states must be spent on 'climate and energy-related activities' as specified in Article 10(3) of the ETS directive, giving priority to social aspects (Article 30d(6)).

This includes measures intended to contribute to:

- Decarbonising buildings: reduce heating and cooling emissions and energy needs, including the integration of renewable energies and related measures, as well as financial support for low-income households in worst-performing buildings.
- Accelerating zero-emission mobility: support the uptake of electric vehicles, and provide financial support for the deployment of recharging infrastructure.
- Promoting public transport: encourage a shift to public transport and improve multimodality, with financial support to address social aspects concerning low- and middle-income transport users.
- Financing their Social Climate Plan (SCP): support measures outlined in national SCP.
- Preventing double counting: Providing financial compensation to final consumers of fuels in cases where double counting of emissions cannot be avoided.

However, while member states are free to decide what constitutes climate action, previous investigations have uncovered that historically much of ETS revenue was allocated to non-additional spending and used to account for already existing spending, or even to finance fossil fuel investment. According to findings by WWF, between 2013 and 2021, only 71.9% of the €88.5 billion in ETS revenue was reported as being spent on climate action – a figure that itself is misleading as analysis suggests that at least €12.4 billion of this so-called climate spending went toward activities that were either unhelpful or even counterproductive in climate terms.

This reduces the share of ETS revenue spent on genuine climate action to just 57.8%. Poland has the highest volume of ETS revenue not allocated to climate action – exceeding

€6.5 billion, with Italy following closely behind. Moreover, member state reporting is riddled with inconsistencies, opaque classifications, and in many cases a lack of transparency. Countries such as Austria and the Netherlands reported zero climate spending in some years, citing national budgetary rules that prevent earmarking. Others, like France, ambiguously transferred ETS revenues into their general budgets labelled as “climate action” without justification. These misallocations contradict EU climate objectives and risk locking in high-carbon energy systems.

With the introduction of ETS2, citizens, unlike industry, won't receive free EUAs, meaning that the full cost of carbon pricing will be passed on to them. If member states continue to invest their ETS revenues in high-carbon energy systems, they risk entrenching dependence on pollutant and increasingly expensive energy sources. This not only delays the transition to clean alternatives but also imposes disproportionate financial burdens on citizens as carbon prices increase – particularly in lower-income member states. Without enforceable earmarking and clearer rules on eligible climate spending, the transformative potential of ETS revenues remains at risk.

Investment in cleaner alternatives and income support

Structural measures aiming for long-term change must go hand in hand with temporary relief and protection for vulnerable consumers. A mix of direct transfers and targeted investments can reduce energy and transport inequality, but income support must be targeted within reasonable resource efficiency and accompanied by transformative investments to address the root cause of energy poverty: reliance on fossil fuels.

Targeted direct payments provide immediate relief from the impact of carbon pricing by protecting households' purchasing power and can help to maintain public support for the transition. If delivered visibly and regularly, they help maintain public trust that revenues are being returned to citizens rather than absorbed into general budgets. Importantly, as these payments are not linked to fossil fuel use, they don't weaken the carbon price signal.

There is no one-size-fits-all approach; member states have the flexibility to design payment schemes that suit their national context. Some may opt for income-based

targeting, while others may use geographic or demographic criteria, or combine universal payments with progressive taxation. What matters is that support reaches those who need it most, in a way that is visible, fair, and administratively feasible. Well-designed, socially targeted direct payments are not a substitute for structural investment but rather a necessary pillar of a just transition.

EU legislation offers multiple avenues to support targeted payments for those most impacted by energy poverty. The SCF allows up to 37.5% of its envelope to be used for temporary direct income support, yet its capped size limits its impact, especially if prices rise unexpectedly. Therefore, ETS2 revenues outside the SCF – allocated directly to member states – become a critical funding source. The ETS Directive already encourages prioritising uses that address the social aspects of emissions trading, including specific provisions for financial support to address social aspects concerning low- and middle-income users.

Climate social benefit

With the EU facing a €240 billion annual investment gap to decarbonise buildings and transport, ETS2 revenues offer a crucial opportunity to fill this deficit while delivering real improvements in people’s daily lives – warmer homes, cleaner air, and lower energy bills.

When used strategically, these revenues can go beyond easing the cost of carbon pricing and help drive long-term social and economic progress. Today, many households face energy poverty: in 2024, 9% of EU households are unable to keep their home adequately warm, with the share exceeding 15% in Greece, Bulgaria, Lithuania, Spain and Portugal. By targeting energy and transport poverty, particularly among vulnerable groups, the transition is not only low-carbon but also socially beneficial.

Investments in energy efficiency, public transport, and renewables also deliver major health gains by cutting air pollution, which still causes hundreds of thousands of premature deaths in the EU every year. They also strengthen Europe’s energy security by cutting dependence on imported fossil fuels, protecting citizens from price shock, and strengthening Europe’s sovereignty. Well-directed investment can support local job creation, improve competitiveness, and strengthen regional development. The construction sector alone makes up more than 10% of EU GDP and is dominated by SMEs,

meaning that large-scale energy renovations can unleash significant business opportunities and create thousands of future-proof green jobs. Similarly, accelerating EV uptake in road transport could sustain current automotive jobs and production levels in Europe while also creating new opportunities. T&E found 100,000 new jobs could be created in the battery supply chain and 120,000 in charging infrastructure by 2035. Studies conclude that the EU could generate more than one trillion euros in socio-economic benefits by 2030, if it invests in a more ambitious transition pathway.

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