

ETS2 Policy Brief:

Misconceptions about Climate Dividend Schemes as basis for direct income support

Purpose

Member States recently asked the European Commission some simple questions about the interpretation of 'climate dividend schemes' mentioned in the new ETS legislation. This brief is meant to create the clarity the Commission has not yet provided. We consider this important given current political concerns on ETS2 implementation, in particular timeframe, price volatility, public support, cost of living pressures, and the implications for the National Social Climate Plans due in June 2025. Citizens' Climate Europe supports legislators who aim to implement fair and effective carbon pricing policies.

Summary

Member States are free to use ETS revenue for direct per capita refunds to citizens to implement ETS2 in a socially just way for the benefit of their own citizens, the climate, and the success of carbon pricing policy.



Revised ETS Legislation

Even before the publication of the Fit for 55 proposals many expressed their worry about the social impact of the extension of ETS. Compensation would be needed for the increase in fuel prices. At the presentation for Parliament Commissioner Timmermans reacted to this worry and did [*'insist on one point: Member States would also have the possibility to give direct income support to citizens'*](#)¹.

Parliament was not satisfied with the limited options, and the ENVI committee amended the legislation with an additional subparagraph on direct income support: '*National climate dividend schemes with a proven positive environmental impact*' are a permissible use of ETS revenues according to the [ETS directive EU 2003/87, Art. 10\(3\)\(hb\)](#)².

Parliament's ECON committee had previously clarified the meaning of climate dividend as [*'a direct per capita refund of any additional revenues generated through carbon pricing'*](#)³.

Arguments about interpretation and responsibility

[*Some scholars suggested*](#)⁴ that '*positive environmental impact*' in the legislation could be a requirement of the refund and not a property of the whole climate dividend scheme. Parliament's description of 'climate dividend' above shows that the carbon pricing is inseparable from the refund.

¹ <https://acs.europarl.connectedviews.eu/embed/meeting/?refid=20210714-1700-COMMITTEE-ENVI>

² <https://eur-lex.europa.eu/eli/dir/2003/87/2024-03-01/eng>

³ https://www.europarl.europa.eu/doceo/document/A-9-2022-0157_EN.pdf

⁴ https://stiftung-umweltenergierecht.de/wp-content/uploads/2024/01/Stiftung_Umweltenergierecht_WueStudien_33_Europaeische_CO2-Bepreisung_und_Klimageld.pdf

That this combination has a positive environmental impact was concluded in countless studies including the [Commissions' impact assessment](#)⁵.

Some suggested the refund would need to be distributed in the form of vouchers. During the negotiations both the [Council and Parliament rejected voucher schemes that would closely tie spending to environmental benefits](#)⁶. The co-legislators clearly intended the amendment not to require vouchers.

Some scholars suggested the wording article 10.3(hb) could be intended by the legislator as a special case of article 10.3(ha) '*to provide financial support to address social aspects in lower- and middle-income households*'. Article 10.3(hb) is from a separate amendment and such a relationship does not exist.

Some think the Social Climate Fund sufficiently addresses the impact on cost of living of ETS2. The legislator clearly anticipates the use of auction revenue for compensation outside the SCF as evidenced by article 10.3(ha) and 10.3(hb).

Some scholars suggested that the European Commission should create clarity about the intent of the legislation. Because the amendment originates from the European Parliament, the Commission is not the right entity to clarify the intent. The amendment was actually opposed by the Commission.

Unlike for the Social Climate Fund, the Commission does not need to give permission in advance for the use of ETS revenue. Instead, Member States are responsible for complying with the ETS legislation and have to report after the fact on how they have complied. DG CLIMA's role is limited to verifying this compliance. In particular, there is no legal basis for comments on what policy within the legislation is socially not '*fair*' with the intent to limit Member States' options. The Treaties clearly secure the right of Member States '[to define the fundamental principles of their social security systems](#)'⁷.

We hope and expect that the Commission will not discourage member states from using ETS revenue to finance new and existing climate dividend schemes. We are convinced this will support the successful implementation of ETS2.

Conclusion

Climate dividend schemes are the proven [carbon pricing policy that is most supported by economic experts](#)⁸. Member states are free to implement them within current ETS legislation. Existing implementation examples such as the Klimabonus in Austria, though politically challenged, demonstrate how a climate dividend can address some of the concerns about complexity and social fairness expressed by other Member States.

We encourage Member States to study climate dividends. We trust them to use all existing legislation to implement ETS2 in a socially just way for the benefit of their own citizens, the climate, and the success of carbon pricing policy.

⁵ https://eur-lex.europa.eu/resource.html?uri=cellar:749e04bb-f8c5-11ea-991b-01aa75ed71a1.0001.02/DOC_1&format=PDF

⁶ <https://doi.org/10.1080/13501763.2024.2374330>

⁷ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A12016E%2FTXT&qid=1737104087097>

⁸ <https://www.econstatement.org/>