

# Carbon pricing and the social acceptability of climate policies

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# Overview

- Carbon markets and carbon prices around the world (LIFE DICET)
- Distribution effects and social acceptability of carbon pricing
- Emissions Trading System (ETS) revenues: an endogenous solution?
- Earmarking revenues? An international comparison
- Final remarks

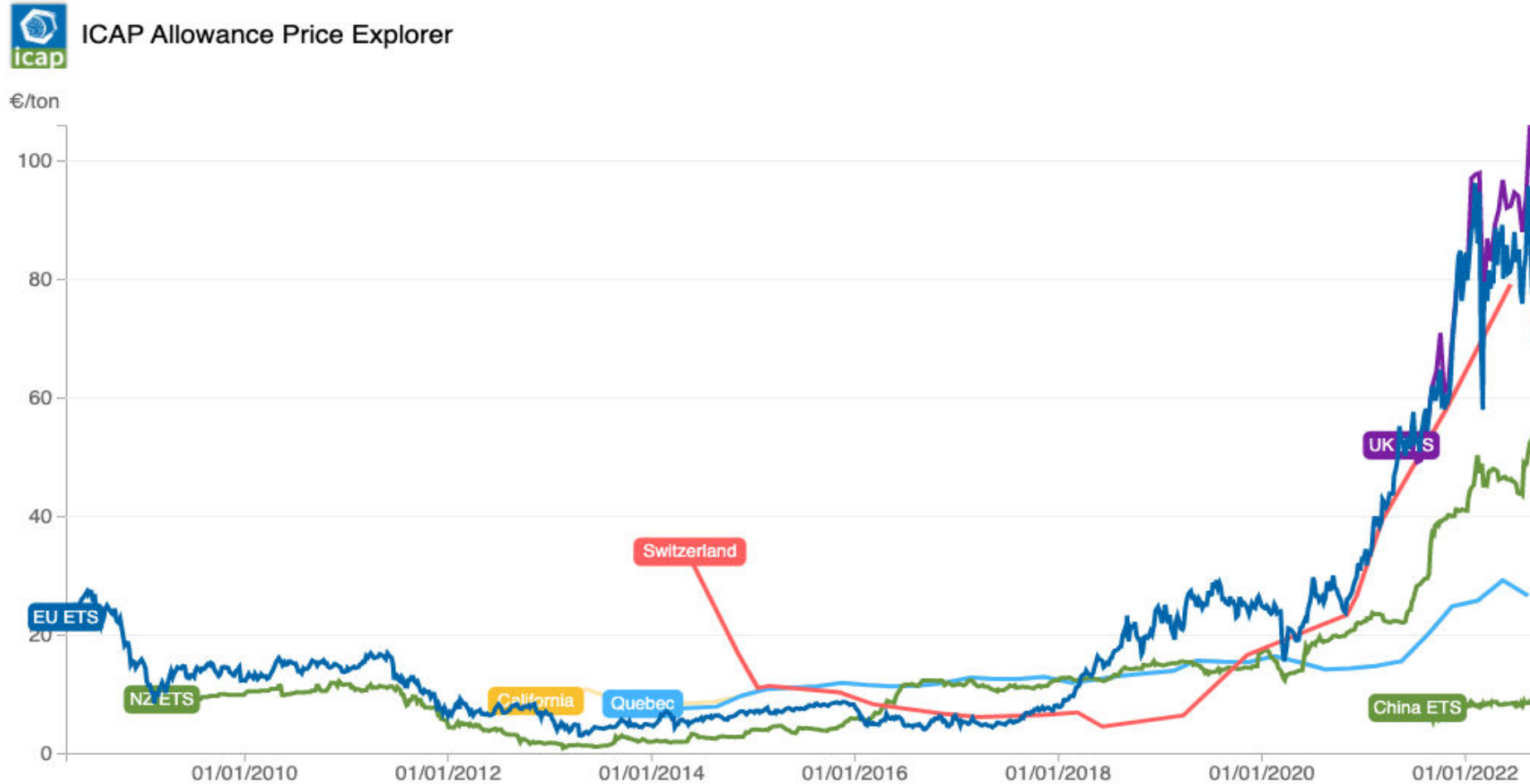


# Carbon markets around the world

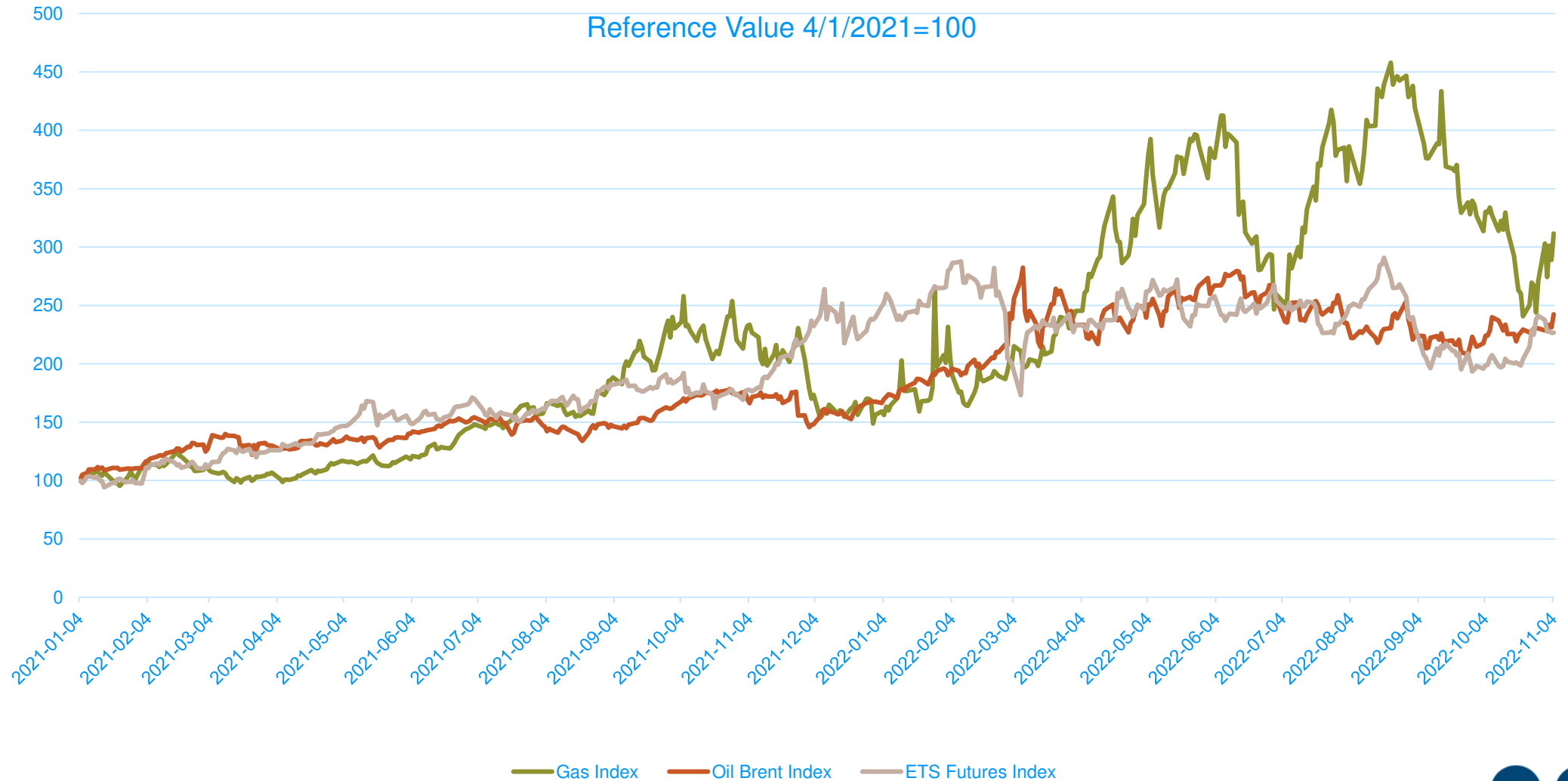
## LIFE DICET: Deepening International Cooperation on Emissions Trading



# Price trends on the main carbon markets



# Gas, oil and carbon price trends 2021-22

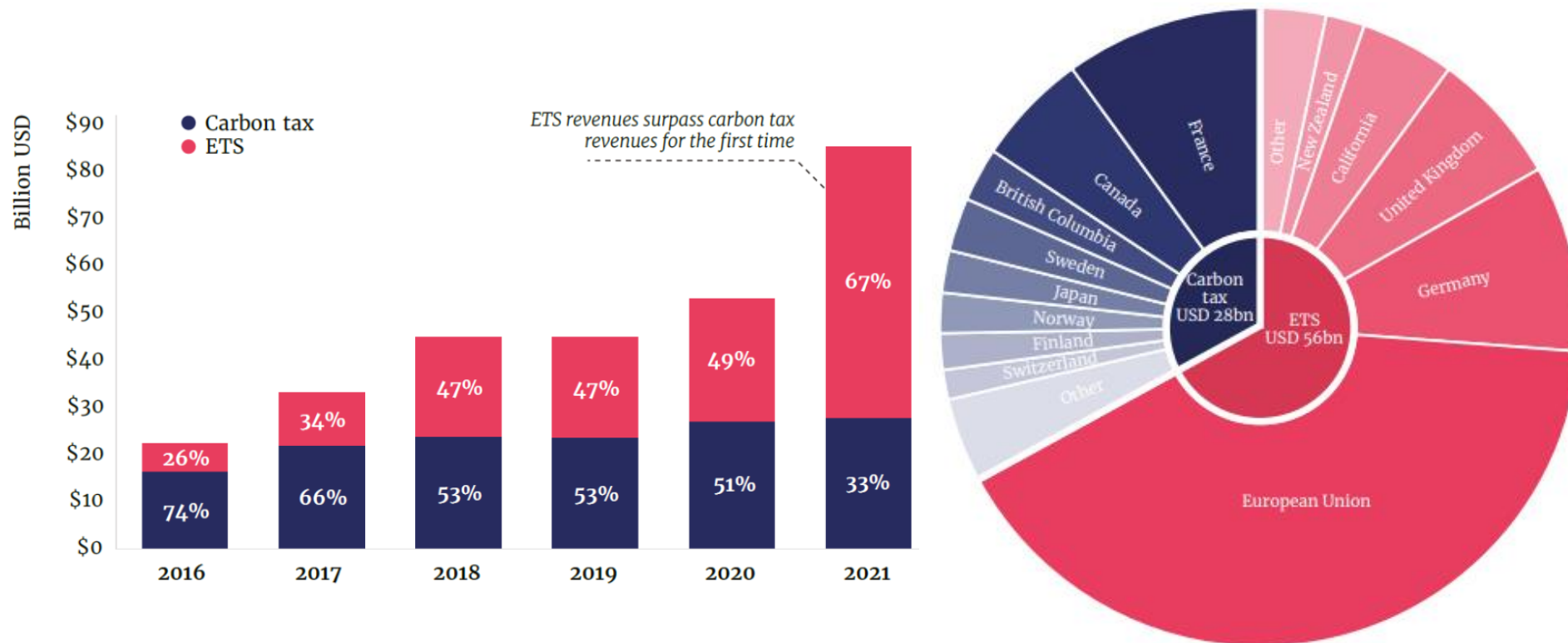


# Distribution effects of carbon pricing

- Likely regressive effects since poor households:
    - spend larger income share on energy- and carbon-intensive goods
    - face higher financial constraints to adopt low-carbon and energy-saving technologies
    - more likely to suffer job losses in energy- and carbon-intensive sectors
  - Social acceptability of higher prices
    - Is there a max price level? How high is it?
    - How can we increase acceptability?
    - Acceptability of the policy depends on the size and use of carbon pricing revenues (e.g. Carattini et al., 2017)
- What's the size of carbon pricing revenues?
- How have they been used?



# Carbon revenues on the rise: \$84 bln in 2021 (inc. \$56 bln from ETSs)



Source: State and Trends of Carbon Pricing, World Bank (2022)

[www.eui.eu](http://www.eui.eu)



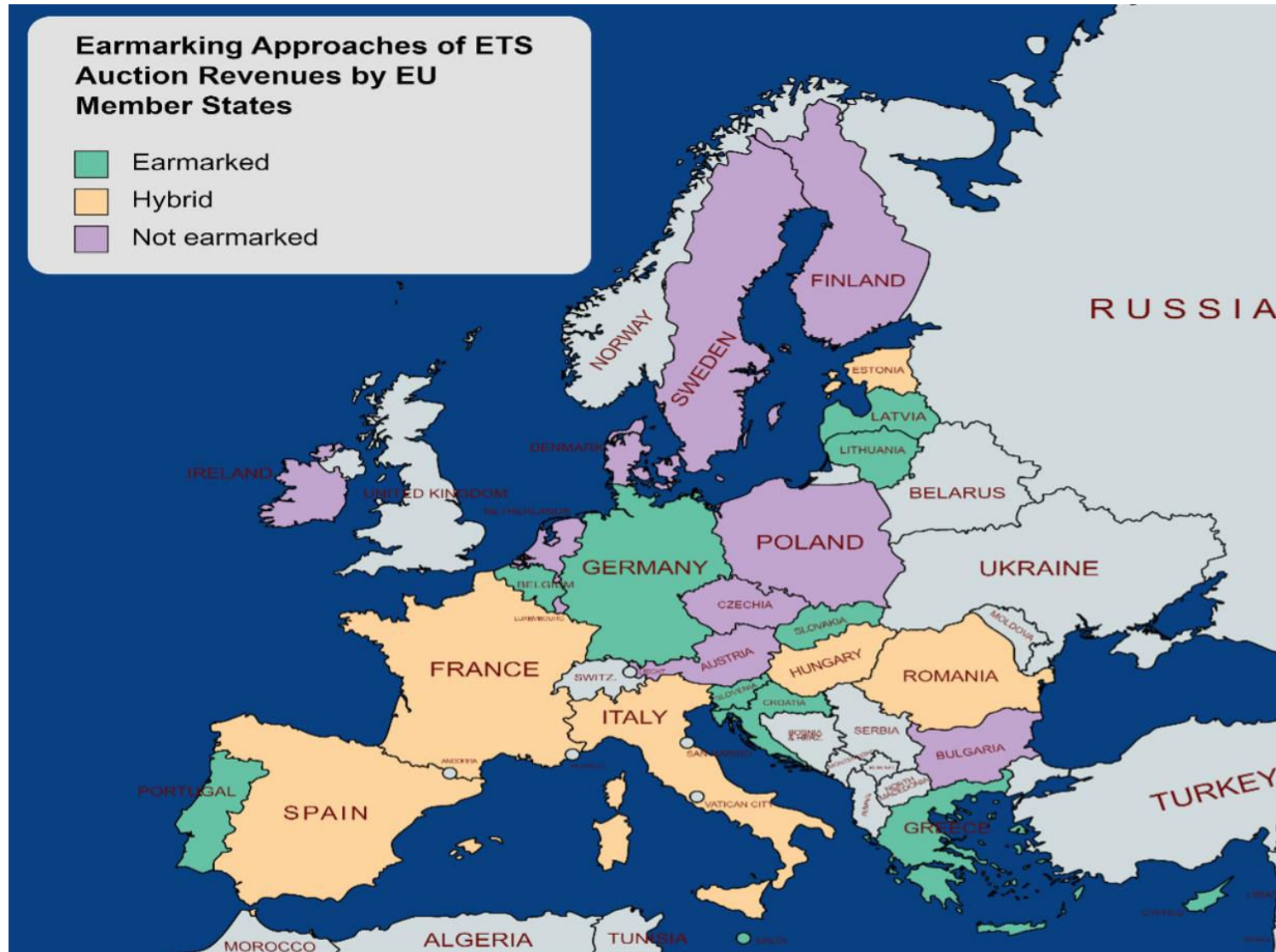
# Size and use of EU ETS revenues

- What's the expected amount of EU ETS revenues?
  - Fuest and Pisani-Ferry (2020): 800-1,500 bln € by 2050 NB: EU's coronavirus aid package: 750 bln € (390 bln € transfers)
  - Social Climate Fund: expected 144.4 bln € 2025-32
  - Modernisation Fund: 20-25 bln € in 2021-2030
- How have ETS revenues being used so far?
  - in 2020 72% of the ETS revenues were actually devoted to climate and energy goals (EC, 2021)
  - Earmarked and/or go to general budget





# Earmarking EU ETS revenues by country



# Concluding remarks

- Carbon pricing is key but will it lead to a just transition?
- Theoretically yes: ETS revenues as possible endogenous solution
- In theory, theory and practice are the same. In practice they aren't...
- In practice, we may need:
  - Earmarking
  - Improve communication strategy
  - Anticipate Social Climate Fund (Cornillie et al., 2021)
- CBAM revenues to developing countries to get them on board
- ETS and CBAM revenues recycling to gain social acceptability of climate policies both within and across countries



# Related references

- Borghesi S., Ferrari A., (2022) [Social impact of Emissions Trading Systems: auction revenues and social expenditures in a changing world](#), Policy Brief 2022/54 EUI-FSR, Florence
- CPLC (2016) [What are the options for using carbon pricing revenues?](#)
- Guidehouse (2022) [Using carbon pricing revenues for social compensation](#)
- Lee-Ann Steenkamp (2021), [A classification framework for carbon tax revenue use](#), Climate Policy, 21:7
- Partnership for Market Readiness (2019) [Using Carbon Revenues](#)
- World Bank (2022) [State and Trends of Carbon Pricing 2022](#),



# Thank you for your attention!

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