



## **European CO<sub>2</sub> emission trading system**

We have audited the Netherlands' implementation of the trading scheme introduced in the EU to reduce the emission of the greenhouse gas, carbon dioxide. Under the scheme, power stations, manufacturers and other companies that emit large volumes of CO<sub>2</sub> may do so only if their emissions are covered by emission allowances. The allowances can be traded and companies that successfully reduce their CO<sub>2</sub> emissions can sell their surplus allowances to other participants. This is a potentially useful instrument to reduce CO<sub>2</sub> emissions because actual emissions can never be greater than the overall emissions cap. But the scheme's success stands or falls on (a) the overall emissions cap set by the government (if the cap is too high, there will be no incentive for companies to reduce their emissions), and (b) the reliability of the CO<sub>2</sub> emission data kept by the participants (companies may be tempted to understate their CO<sub>2</sub> emissions).

We considered whether the Dutch government's implementation of the European emissions trading scheme was helping to achieve the goals of the Kyoto Protocol. Pursuant to the Protocol, the Netherlands must reduce its annual CO<sub>2</sub> emissions by 6% in 2008-2012 in comparison with 1990.

### **Conclusions**

Although the Netherlands has implemented the European CO<sub>2</sub> emissions trading scheme correctly, the government gave more thought to the interests and competitiveness of the participating companies than to the Dutch Kyoto target when it set the CO<sub>2</sub> emissions cap and allocated emission allowances to the participants. As a result, the Netherlands has failed to maximise the effectiveness of the CO<sub>2</sub> emissions trading scheme. The allocation of CO<sub>2</sub> emission allowances, moreover, was not transparent. It was based in part on information that was not available to the public, or even to the Court of Audit.

The overall emissions cap that the government had initially proposed for the period 2008-2012 would have placed few restrictions on the increase in Dutch CO<sub>2</sub> emissions and the Netherlands would have run a not insignificant risk of missing its Kyoto target. This risk was reduced when the European Commission decided that the Netherlands should lower its emissions cap by 5%.

The introduction of the European emissions trading scheme has made the Netherlands' sustainable energy policy less effective as a means to reduce CO<sub>2</sub> emissions. The policy instruments include the Grant Scheme for the Environmental Quality of Electricity Production (MEP), which provides grants to producers of green electricity, and the Energy Investment Deduction Scheme (EIA). The government should have analysed the costs and benefits of the national policy instruments after introduction of the CO<sub>2</sub> emissions trading scheme in 2005. It has not yet done so.

There is currently no reason to presume that data from Dutch companies on their CO<sub>2</sub> emissions are not sufficiently reliable. Parts of the monitoring, supervision and verification system, however, are open to improvement.

**Recommendations**

When discussing changes in the emissions trading scheme in Brussels, the government should press for greater harmonisation in how the member states set their emissions caps and for a simpler and more transparent allocation method; more emission allowances, for example, could be auctioned.

The government should also re-analyse the costs and benefits of each instrument in the sustainable energy policy and reconsider its use accordingly.

**Response of the ministers**

The Minister of Housing, Spatial Planning and the Environment and the Minister of Economic Affairs said they welcomed the timing of our audit. They noted that the emissions trading scheme was a new instrument that had been introduced at very short notice. The ministers share many of our conclusions but do not accept all our recommendations.

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