



Emissions trading to limit climate change: Does it work? An EUROSAI WGEA Cooperative Audit

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Structure of the presentation

- Cooperative audit timeline, scope and methodology
- Main findings:
 - effectiveness of EU ETS
 - implementation of CDM/JI projects
 - functioning of ETS
- Lessons learned to audit institutions
- Concluding remarks



Findings are preliminary

- Final report to be issued by December 2012



Introduction

- Cooperative project between the SAIs of Denmark, Finland, Latvia, Lithuania, Norway, Poland and Sweden
- Based on reports from the participating SAIs
- Coordinated by Norway and Denmark
- Reviewed by Estonia



Scope of the audit

- Covering the period 2008-2012, i.e. the second phase of the EU ETS/the first Kyoto commitment period

Objectives:

- Effectiveness of the EU ETS in reducing national emissions or fostering technology development
- Functioning of the EU ETS as to registry operation, monitoring and reporting of emissions
- Implementation and administration of CDM (Clean Development Mechanism) and JI (Joint Implementation) programmes



Main findings – effectiveness of EU ETS

- Strong indications that the Kyoto emission limitation targets are likely to be met by the end of 2012
- For the participating Nordic countries, ETS allowance prices have been low giving little incentive for producers to invest in cleaner technology
- For Latvia, Lithuania and Poland, emissions have grown at a slower pace than economic growth. However, it has not been possible to measure whether this can be attributed to the effectiveness of the ETS



Main findings – effectiveness of EU ETS

- Most governments have not used their discretion to auction 10 % of allowances or to have restrictions on the operators' use of revenues from selling allowances. Both are leading to less government control over the system's effectiveness



Main findings – implementation of CDM/JI

- Slow approval and implementation/verification has been the main challenges leading to performance under expectations
- Important causes for not realising the full potential of CDM/JI projects are:
 - Slow administrative procedures
 - Lack of proper risk management in buyer countries
 - Lack of information to potential host companies



Main findings – functioning of EU ETS

- The EU ETS has been complicated to implement, but the system is in place and working
- Security of the registries has been challenged by fraudsters. National initiatives were taken and the recent centralization of the registry is expected to strengthen security further



Main findings – functioning of EU ETS

- Major fraud cases were related to VAT, not to the trading of allowances in the EU ETS. Major concerns have been addressed, e.g. IT security
 - Reverse charge VAT in the countries having had VAT fraud cases has reduced the risk of fraud
 - A long term solution is still outstanding



Lessons learned to audit institutions

- The project has contributed to initiation of new audits, as well as dissemination of new and completed audits
- Flexible framework with audit questions around the three themes
- Valuable learning project with respect to other countries methods and findings
- Cooperation assisted in introduction to a complex topic
- Effectiveness audits are recommended in order to identify system weaknesses
- Cooperative audits take time and resources, Norway and Denmark took the responsibility for coordinating the audit and prepare a first draft of the joint report



Concluding remarks

- The project has highlighted problems with effectiveness and fraud
- Some problems are individual for the countries, but may have effects beyond borders (VAT fraud is an example)
- Cooperation around this key topic was valuable and contributed to learning, dissemination and stronger findings



**Thank you to all participants
It was a worthwhile experience**