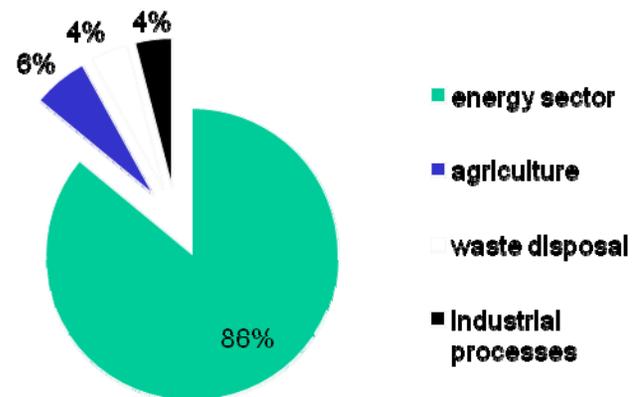
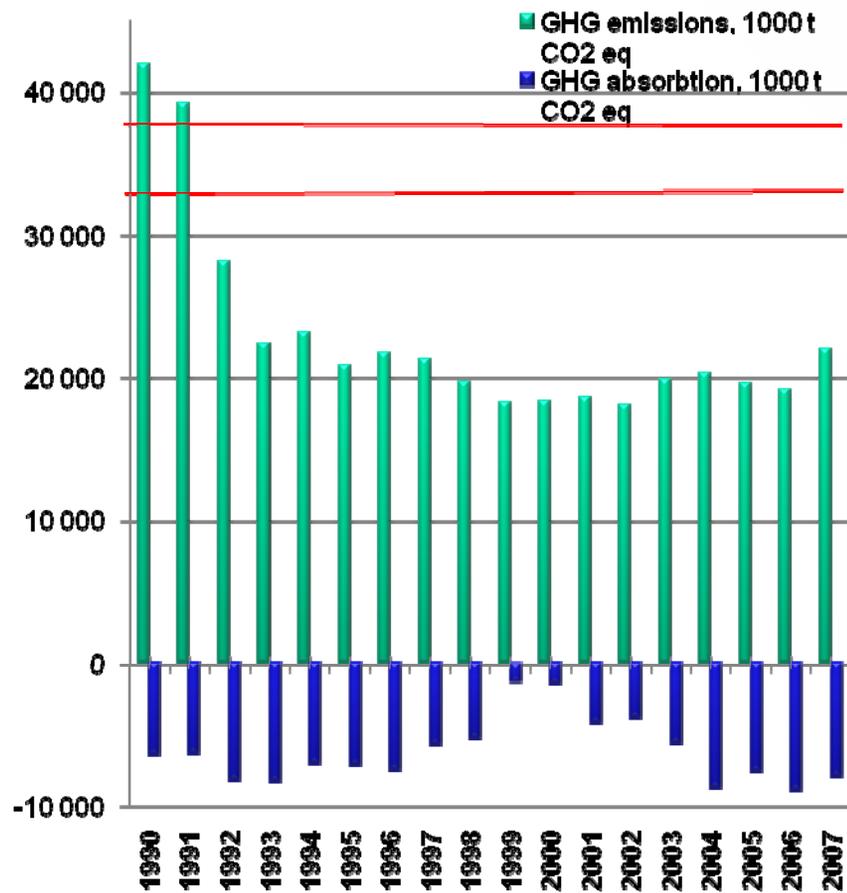


State's efforts of reducing GHG emissions – the role of EU Emissions Trading

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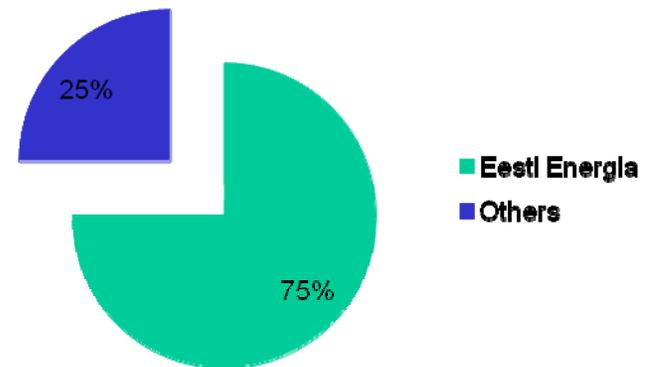
GHG emissions in Estonia



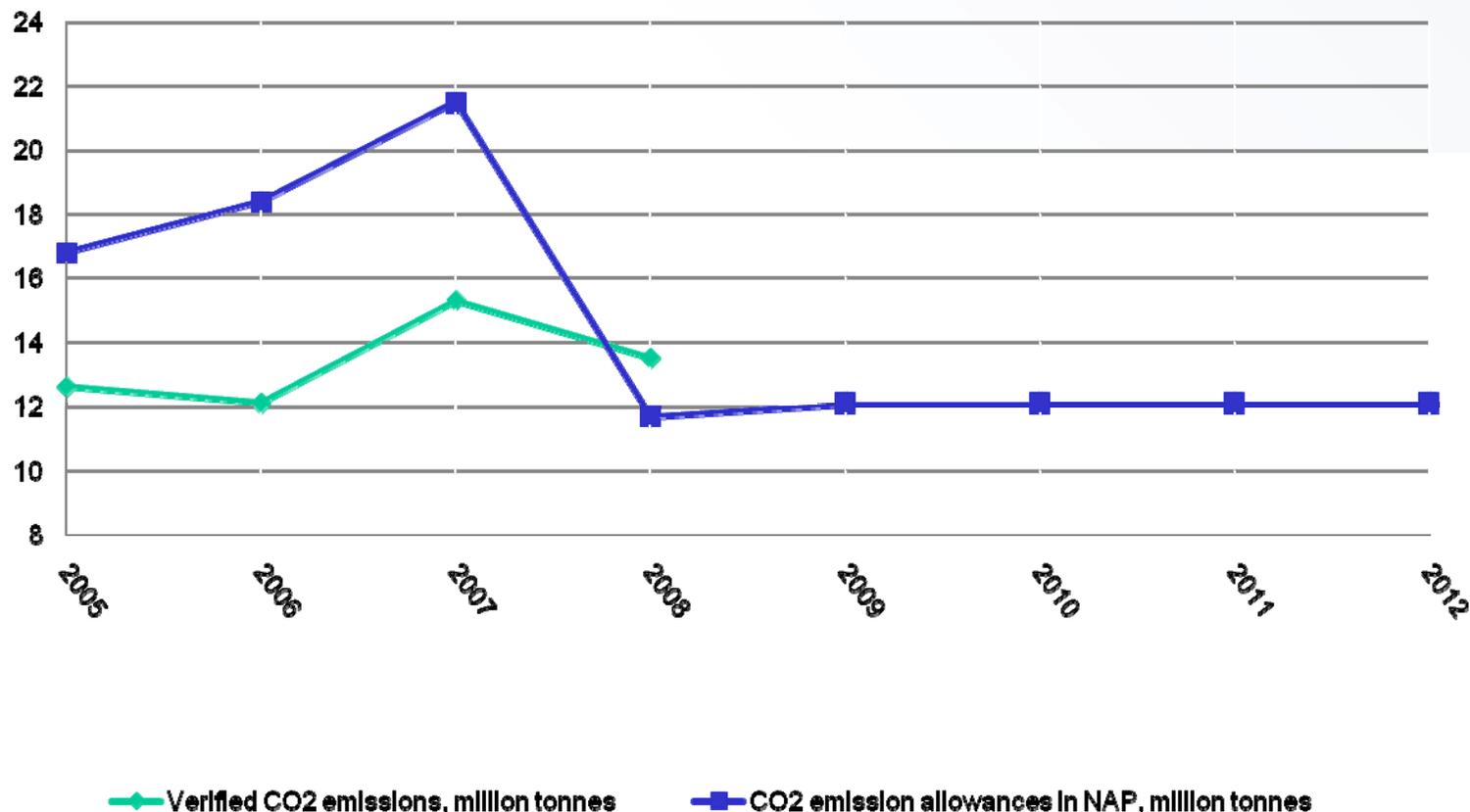
EU ETS plays an important role in Estonia

- Majority of industrial enterprises are included into EU ETS (50 installations accounting for 64% of Estonia's total GHG emissions);
- Competitiveness of carbon-intensive electricity production will be affected by 2 developments:
 - Full liberalisation of EU electricity market from 2013;
 - Auctioning of EU trading allowances from 2013.
- European Commission's allowance allocation practice forces for further GHG reduction despite big emission cuts as compared to 1990.

Division of trading allowances in NAP



Allocation of emission allowances as approved by the European Commission



Audit scope and criteria

- Has the state used the EU's Emissions Trading Scheme as a measure for reduction of emissions?
- Criteria:
 - The state has proceeded from the goal of reduction of carbon intensity while deciding the national emission ceiling.
 - The principles of preparation of national allocation plan direct companies towards emission reductions;
 - The reports of companies participating in the trading system undergo verification.
 - Verification guarantees the truthfulness of information on the GHG emissions emitted and thus, traded by the companies.

Main audit findings: drafting the National Allocation Plan (NAP) and use of trading benefits

- EU Emissions Trading has not brought about reduction in GHG emissions due to the following:
 - The MoE drafted the two national allocation plans based on economic interests of companies and failed to take into account the need to reduce GHG emissions;
 - The money obtained from the sales of allowances was not used for investments into environmental technologies.

Main audit findings: verification of emissions

- The MoE has failed to guarantee that companies could sell only adequately verified allowances:
 - Requirements in trading licences do not allow sufficient control;
 - Deficiencies in the actual verification process:
 - MoE's emission verifiers are not competent;
 - Verifiers rarely do on-site checks and fail to control the actual emissions of the companies.

Methodology for supporting findings about NAP-s

- Requirements of EU Emissions Trading directive compared to:
 - protocols of the working-committee responsible for compiling the NAP;
 - NAPs (2005-2007 and 2008-2012) and explanatory memorandums of the NAP (version sent to the EC with the draft of the NAP)
- Comparison of the allocated allowances with the actual verified emissions (for each company within the trading system);
- Analysis of EC decision not to approve the draft of Estonia's NAP 2008-2012 and the letters exchanged between EC and MoE after that.
- Analysis of court materials: Estonia vs European Commission (Judgment of the European Court of First Instance case T-263/07 *appeal is pending*)

Methodology for identifying investments of the participants in the trading system

- Questionnaire to the companies participating in the trading system :
 - If and how did companies participate in the process of drafting the NAP?
 - Did the companies sell allowances in the 1st trading period?
 - How did they use the money obtained from the sales of allowances?
 - How does the EU emission trading scheme affect companies' actions?
- Analysis of annual reports of Eesti Energia – information on the sales of allowances, dividend profits and how they were used.

Methodology for analysing the verification of emissions

- Document analysis:
 - Trading licences of companies participating in the EU emissions trading;
 - CO₂ emission reports submitted by companies to the MoE;
 - Verification reports and decisions of the MoE and Environmental Information Board (of the MoE) – years 2006-2008.
- Questionnaire to the verifiers:
 - How much training have they gotten, how do they evaluate their knowledge in the field?
 - What kind of information they ask from the companies and what do they check?
 - Do they perform on-site checks?
- Analysis of verification systems in other EU Member States (based on information from EEA reports).

Lessons learnt

- Difficult to come up with suggestions regarding the trading system, because the system will change from 2013 onward and rules are still unclear. As regards NAPs, findings were clearly only *ex post*;
- European Commission is not always right!
- Questionnaires were good support to our findings (some answers were surprisingly honest, good input from the opinions of the participants in the trading system);

Thank you!

Full report in English will be available at:

www.riigikontroll.ee

www.environmental-auditing.org