Der Rechnungshof

Implementation of the Austrian Climate Strategy on the Federal Level and Austrian Emissions Trading Scheme

Coordinated Audit of Air and Ozone Layer Protection and Implementation of Related International Agreements

Contents

Introduction

1.1 In autumn 2007 the Austrian Court of Audit (ACA) audited the implementation of the Austrian Climate Strategy on the federal level and the Austrian Emission Trading Scheme (ETS). Main audit objectives were to investigate, whether the obligations of the Kyoto Protocol can be fulfilled and whether the specifications and targets of the Austrian Climate Strategies and the ETS were realistic. The contribution of the ETS to reaching the Kyoto targets by allocating certificates was to be evaluated.

1.2 The ACA emphasizes the fact, that the reduction of greenhouse gas emissions is not only a duty laid down in international agreements, but according to the current state of knowledge is essential to prevent or at least mitigate the disastrous consequences of climate change. Climate change is not a future scenario, but is a fact already taking effect on Austria as living space, business location and target of international tourism.

Implementation of the Climate Strategy

2.1 Austria committed itself to reduce its greenhouse gas emissions by 13 % compared to the base year 1990. If the reduction commitment is not achieved, the Kyoto Protocol provides sanctions. Within the European Union non-compliance with the target can lead to an infringement procedure.

In 2002 the Federal Government decided the "Austrian Strategy to reach the Kyoto Target" (Climate Strategy). Since this turned out to be insufficient for reaching the Kyoto target, in 2007 the Council of Ministers decided the "Adaptation of the Austrian Climate Strategy to reach the Kyoto Target 2008 – 2012". Emission reductions were assigned to several sectors:

Table 1: Greenhouse Gas Emissions (million tons CO_2 equivalents) in Sectors, Target Values of Climate Strategies – Actual Values

	Actual 1990	Actual 2000	Target Climate Strategy 2002	Actual 2006	Target Climate Strategy 2007
Housing	15.1	13.7	10.5	14.2	11.9
Energy production	13.8	12.4	12.4	15.5	13.0
Waste management	3.7	2.7	3.7	2.2	2.1
Traffic	12.7	18.1	16.3	23.2	18.9
Industry	22.1	23.4	20.8	25.3	23.3
Fluorinated gases	1.6	1.3	1.8	1.5	1.4
Miscellaneous	1.0	1.1	0.7	1.3	0.9
Agriculture	9.2	8.4	4.4	7.9	7.1
LULUCF					- 0.7
Total	79.2	81.1	70.6	91.1	77.8
Contribution JI/CDM					- 9.0
Kyoto target					68.8

Important sectors or the scopes for the implementation of the Climate Strategy are within the competence of the laender. Despite their assistance, greenhouse gas emissions rose from 2002 to 2006. No consensus could be reached so far between the Federal Government and the laender on the adaptation of the Climate Strategy 2007.

2.2 The ACA states, that the measures laid down in the Climate Strategy 2002 and taken by all authorities were not sufficient to achieve a trend reversal of emissions. Especially the development of housing, traffic and industrial plants not covered by the ETS raise doubts as to the achievement of the Kyoto target. From the point of view of the ACA an increased involvement of the provinces would be key for the implementation and success of the Austrian Climate Strategy.

Greenhouse Gas Emissions in Austria

3.1 In 2006 greenhouse gas emissions attributed to Austria reached 91.1 million t CO_2 equivalents. Regarding the reduction target of 68.8 million t there was a discrepancy of 22.3 million t (32.4 %).

The sector housing deviated from the target by 2.3 million t. A substantial reduction of heating demand can only be achieved by an accelerated thermal renovation of existing buildings. From a total of 2.63 billion EUR of housing subsidies only 0.35 billion EUR were applied for the reduction of heating demand by thermal renovation.

The Climate Strategy assigned a reduction target of 2.5 million t to industrial plants not covered by the ETS, which represents a reduction by 40 %.

The sector traffic not only showed the highest increase of emissions from 1990 to 2006 (83 %), its share in total emissions also rose from 16 to 26 %. The discrepancy to the target value of the Climate Strategy was 4.4 million t. The measures taken by the Federal Government up to now such as the admixing of fuels produced from biomass, the increase of the tax on mineral oil in 2007 and the forthcoming graded tax on the initial registration of cars and motorbikes depending on emissions will show effect, albeit only marginal in some parts.

3.2 The ACA considers that the Kyoto target is unlikely to be achieved regarding the currently sluggish implementation of measures laid down in the Austrian Climate Strategy. In the relevant sectors there was no evidence of a significant emission reduction. Therefore the ACA doubts the Kyoto target achievement. Quantitatively effective measures with relevant impacts in the short- or long-term were not provided.

Even when making use of flexible mechanisms to the maximum allowable extent there is an urgent need of action for inland measures to be taken. Efficient measures have to be taken in the sectors more quickly and intensely and an enhancement of flexible mechanisms has to be provided for compensation.

Funding

4.1 The Kyoto Protocol stipulates, that national measures contribute with a significant share to the emission reduction, and that flexible mechanisms only support the target achievement. In addition to the JI/CDM-programme already being carried out only 11 million t CO_2 equivalents more (2.2 million t per year) can be covered by

flexible mechanisms according to international agreements, which would require an estimated amount of 275 million EUR. But even the funding provided for the current programme for flexible mechanisms is insufficient to reach the objective of buying 45 million t CO_2 equivalents in the period 2008 – 2012.

34.5 million t CO_2 equivalents (6.9 million t per year) remain, which have to be reduced by national measures.

The Austrian environmental support scheme, which is focussing on trade and industry, was extensively aligned with projects reducing greenhouse gas emissions. The emission reduction initiated by the scheme accounted for approx. 4 million t CO_2 equivalents since 2002. Because of the limited funding of the scheme project proposals submitted and not yet decided represented twice the annual funding.

4.2 From the point of view of the ACA flexible mechanisms are no alternative to reducing greenhouse gas emissions by national measures, but represent a measure effective only in the short-term to prevent sanctions. National emission reductions can be achieved by relatively inexpensive regulatory and fiscal policies or by extensively funding new and costly environmental technologies. The costs for national measures cannot not be quantified by the ACA from today's prospect. At the time of the audit the costs per t CO_2 equivalent in the Austrian environmental support scheme were significantly lower than those for flexible mechanisms. Regarding the efforts necessary to reach the Kyoto target the ACA recommends providing appropriate funding of the existing support scheme.

Emissions Trading Scheme (ETS) in Austria

5.1 An essential instrument to reduce greenhouse gas emissions is the trading with emission allowances (EA). In October 2003 the European Commission released the Emission Allowance Trading Directive. It forms the statutory framework concerning EA, plants and gases to be included, the allocation of EA to the plants, the registration of EA, emission monitoring and sanctions. In some areas such as the auctioning of EA, the allocation process or the reserve for new ETS participants the directive allowed diversity in interpretation for the national implementation.

5.2 The ACA recommends the Austrian Federal Government to aspire to a reduction of the wide scope of interpretation of the directive at EU level to eliminate any distortion of competition.

Characteristics of the Austrian ETS

6.1 In the first period (2005 to 2007) 197 plants were included in the Austrian ETS. From 33 million EA annually distributed (average 2005 – 2007) 38 % were allocated to plants of the energy sector and 62 % to plants of the industry sector. Generally speaking the allocated EA corresponded to the CO2 emissions. But while industrial plants received a surplus of EA, the plants of the energy sector received less EA than they would have needed to cover their emissions. The relative amount of CO_2 emissions of the specific plants differed significantly. In 2006 the biggest plant emitted approx. 13 % of the total emissions, while all plants with emissions of less than 10.000 t CO_2 per year (about one third of all plants included in the ETS) emitted less than 1 % thereof. In Austria the ETS covered about 42 % of the total CO_2 emissions.

6.2 The ACA considers the coverage of 42 % of the Austrian CO_2 emissions by the ETS positive. To extend the effect of the system, the ACA recommends the inclusion of other relevant emitters such as air traffic or chemical industry. Also the inclusion of other gases beside CO_2 (e.g. N_2O) should be considered. In terms of an efficient use of resources the ACA appreciates the exemption of plants with insignificant emissions aspired by the European Union. For these small plants not any longer covered by - and for plants generally not included in - the ETS, alternative control measures should be taken.

National Allocation Plans – First Period 2005 – 2007 (NAP 1)

7.1 In the first period all EA were allocated free of charge, no EA were auctioned. The allocation of the EA to every single plant was carried out by using a complex model in which historic CO_2 emissions, branch specific growth rates, sectional reduction contributions and the plant specific reduction potential were considered.

In the first period the EU member states altogether allocated a surplus of 171 million EA compared to the demand to cover actual emissions. In Austria there was almost a match of allocated EA and emissions regarding both sectors – industry and energy production - together. The emissions caused by energy production were covered by allocated EA by little less than 90 %, the emissions of the industry sector were significantly lower than the EA allocated for the sector.

As a result of the excess supply on the European level the price for one EA fell from over 20 down to 0,07 EUR in October 2007. There was no incentive for plant operators to reduce emissions. The low prize for EA caused little additional costs for those plant operators forced to buy EA. There was no incentive to reduce emissions.

7.2 The ACA honours the efforts of the Austrian Federal Ministry of Environment to organize the allocation process in an objective and transparent manner. In its opinion the emission reduction potential of every specific plant was weighted too little in the first period. To achieve an allocation as appropriate as possible different states of art of the plants should increasingly be considered ("benchmarking").

From the point of view of the ACA the presetting of the European Commission for the preparation of the national allocation plans were insufficient in the first period. This resulted in comparable plants getting different amounts of EA free of charge in different countries. Actual effects of market distortion nevertheless were negligible according to the excess supply of EA in the first period.

National Allocation Plans – Second Period 2008 – 2012 (NAP 2)

8.1 The original allocation plan for the second period delivered to the European Commission by Austria provided an overall allocation of 32.8 million EA per year. The European Commission rejected the plan and demanded a reduction to annually 30.7 million EA, 1.3 % of which will be auctioned. In the allocation process the sort of fuel applied for energy production was increasingly considered. For the plants of the energy production sector a benchmarking approach was chosen.

To consider new ETS participants (plants opening during the period) a fixed reserve of 1 % of the total amount of EA was created. In case that this reserve is insufficient a unit assigned for this purpose will buy the needed EA and will provide them to the new ETS participant free of charge (flexible reserve). In the third period the equivalent amount of EA will be allocated free of charge to the assigned unit in return from the reserve for this period.

8.2 The ACA expects that especially the energy production sector will be forced to buy a significant amount of EA on the market, as allocated EA were reduced by 20 %. The reduction in allocation corresponded to the approach chosen also in other Member States of the EU (e.g. Germany).

The ACA supports the increased weighting of output specific parameters in the allocation process. The flexible reserve constitutes an anticipation of the following ETS period with the effect that an EA quantity additionally reduced will be available related to the general decrease from one period to the next. The ACA states that the flexible reserve might cause a significant financial disadvantage for plant operators in the third period.

Emission Monitoring

9.1 Every emission report had to be checked by an independent certified auditor prior to submission to the Federal Ministry of Environment. The Ministry optionally checked the report in case of well-founded doubt. To evaluate the system a random sample of the reports from 2005 and 2006 was checked by the Austrian Environmental Agency. The quality of reports significantly improved from 2005 to 2006, the share of reports with well founded doubt and the extent of necessary report modifications significantly decreased.

9.2 The check of the emission reports considerably improved monitoring methods and contributed to the reliability of the emission reports.

Costs of the ETS

10.1 For the ETS costs incur for the allocation process, for the authorization and monitoring of emissions, for the installation and operation of the emission trading registry and for the contacts to the European Commission. Including the allocation for the second period costs of approx. 1.95 million EUR incurred for Austria at the federal level from 2004 to 2007.

Unlike in other European countries Austrian plant operators bore the costs for the emission trading registry by paying user fees. The plant operators also paid for the emission monitoring and for the verification of the emission reports.

10.2. For the ACA the bearing of costs by the plant operators represented an implementation of the polluter pays principle.

Benefits and Target Achievement

11.1 The main objectives of the ETS are establishing of a quantitative upper limit for greenhouse gas emissions and making a contribution to the achievement of the national Kyoto target.

11.2 The ACA states that the Austrian ETS was successfully established. The objective to reduce emissions was not achieved in the first period because of the oversupply of EA available on the market. The adaptation of the Austrian Climate Strategy 2007 set targets for the sectors energy production and industry, which approximately correspond to the emissions in 1990. The allocation of the second period therefore complies with the objective of emission stabilization. But even this shortage makes the sector targets of the Climate Strategy unlikely to be achieved, as emissions from industrial plants not covered by the ETS are rising significantly.