NATIONAL AUDIT OFFICE OF THE REPUBLIC OF LITHUANIA

PUBLIC AUDIT REPORT

THE SCHEME FOR ALLOCATION, USE AND TRADING OF GREENHOUSE GAS EMISSION ALLOWANCES

6 August 2012, No. VA-P-20-9-11
Vilnius

SUMMARY

Audit started 7 November 2011
Audit completed 6 August 2012

Full audit report in Lithuanian is available on the website
of the National Audit Office: www.vkontrole.lt

The National Audit Office of the Republic of Lithuania has been taking part in an international audit of the scheme for greenhouse gas (GHG) emission allowance trading, which is carried out together with the supreme audit institutions of Denmark, Latvia, Poland, Norway, and Finland. The objective of the audit is to examine the efficiency of the emission trading scheme targeted at emission reduction and the efficiency of clean development and joint implementation projects, and to analyse the functioning of the GHG Registry.

The audit was conducted pursuant to the agreement signed in January 2012 by the supreme audit institutions taking part in the audit.

Audit conclusions:

1. In 2010 Lithuania reduced its annual GHG emissions by 56.9 per cent as compared to the base amount in 1990, which shows that the country meets the obligations provided for in the UN Framework Convention on Climate Change and Kyoto Protocol.

2. Lithuania has been meeting the target specified in the National Sustainable Development Strategy to ensure that GHG emissions increase at least twice slower than the growth of the national gross domestic product (GDP) (over the period 2005–2010 GDP grew by 27.2 per cent, meanwhile GHG emissions decreased by 10.1 per cent). Nevertheless, Lithuania needs to invest in GHG emission mitigation measures, although possibilities of the state and operators are limited.

3. Lithuania’s National Allocation Plan for GHG Emission Allowances and reduction of emission allowances granted to the country in every period lead to reduction of GHG emissions by operators.

4. Over the period 2008–2011, 31.3 million allowances were allocated to operators; however, the operators did not use all allowances and today there is 7.4 million surplus of allowances because of decrease in the country's GDP, increased electricity import, and due to the fact that GHG emissions did not increase to the planned extent.

5. There have been cases when the funds received by operators from the sale of allowances were used to implement measures which are not directly related to GHG emission reduction as well as cases of failure to report on the use of the funds in a timely manner and to provide accurate data in the reports. Regional environmental protection departments have been exercising insufficient control of the use of funds to be able to prevent such case.

6. The Ministry of Environment had planned to receive about LTL 450 million of income over the period 2010–2011 and about LTL 298 million in 2012. However, the amount received to the Special Climate Change Programme from 2011 to 20 July 2012 was approximately LTL 252 million, of which LTL 0.2 million was used by the end of 2011. These funds were supposed to be used for GHG emission reduction projects. However, the implementation of these projects has been postponed for a later period as a result of the failure to receive planned income and delayed project preparation.

7. Observing Decision No 280/2004/EC of the European Parliament and of the Council and implementing the decisions taken under the Framework Convention on Climate Change and Kyoto Protocol as well as in national conferences, Lithuania submits annual national GHG inventory reports to the European Commission and to the Secretariat of the UN Framework Convention on Climate Change. The instruments applied by the Ministry of Environment failed to ensure that recurring inaccuracies in the annual national GHG emission inventory reports are removed in due time, therefore on 21 December 2011 the Compliance Committee of the Kyoto Protocol imposed a

restriction for Lithuania on participating in the implementation of flexible mechanisms and on part of the functions of Lithuania's National GHG Registry, which resulted in a number of negative consequences:

7.1. operators were not able to trade in emission allowances and Kyoto units with foreign countries from 21 December 2011 until 20 June 2012;

7.2. From 21 December 2011 until the lifting of the restrictions, the Republic of Lithuania may not trade in assigned amount units and thus might not be able to receive funds to the Special Climate Change Programme.

8. At present the balance of the joint implementation project reserve is about 13.2 per cent and the share of unused assigned amount units and units for joint implementation projects accounts for about 27.7 per cent, but companies lack additional information on the joint implementation reserve, possibilities to develop such projects and on saleable pollution reduction units.

Recommendations:

With a view to achieve the main objective of the GHG emission trading scheme and joint implementation projects – to reduce GHG emissions – we recommend:

To the Ministry of Environment of the Republic of Lithuania:

1. To amend the secondary legislation on the implementation of the Law on Financial Instruments for Climate Change Management related to the use of operators' funds received for transferred emission allowances and to the observance of the procedure for reporting on allocation and use of Kyoto units:

1.1. to strengthen surveillance and control of the use of funds intended for the implementation of GHG emission reduction measures;

1.2. to provide for ways of registering balances which were not used in the previous year and including these balances into annual reports.

2. To take measures enabling to allocate and use funds of the Special Climate Change Programme in a more efficient manner.

3. To revise the procedure for reporting on GHG emissions and to strengthen institutional capacities in order to prevent any complications in relation to registering and reporting on GHG emissions.

4. To take measures ensuring that in future more companies receive information about possibilities to develop joint implementation projects and, upon approval of the EU legislation on the development of joint implementation projects over the period 2013–2020, to assess the need to

encourage development of joint implementation projects in Lithuania, and, if necessary, to ensure that information related to joint implementation projects is published not only on the websites of the Ministry of Environment and its subordinate institutions but also on those of the Ministry of Energy, Ministry of Transport, Ministry of Economy, and Ministry of Agriculture, which, together with the Ministry of Environment, have been authorised to administer such projects.