European Commission

2014

Annual Activity Report

DG CLIMATE ACTION

Foreword

In its 5th report published in 2014, the United Nations Intergovernmental Panel on Climate Change (IPCC) confirmed clearly that the planet is warming and that the basic causes are the use of fossil fuels and the disappearance of forests.

There is an increasing awareness that climate action is required at several levels, both to mitigate climate change by cutting emissions and to adapt to it by increasing resilience. On the basis of scientific evidence, world leaders have agreed to limit global average surface temperature rise to below 2°C (3.6°F) above pre-industrial levels to prevent the most severe impacts of climate change or dangerous human interference with the climate system.

The impacts of climate change are already being felt, also in Europe. The period from 2004-2013 was the warmest decade on record in Europe. Global near-surface average annual temperature was 0.75 - 0.81 °C warmer than the pre-industrial average. Many other changes significant for Europe have been observed across the climate system, including warming oceans, rising sea level, and shrinking snow cover, ice sheets, sea ice and glaciers.

The EU has acknowledged climate change as one of the major societal and ethical challenges of the 21st century. The need for urgent action is reflected clearly in the decisions by the EU Council to cut unilaterally greenhouse gases by 20% compared to 1990, to meet 20% of energy needs from renewable sources and to reach a 20% reduction in primary energy use compared with projected levels. The EU's share of global emissions is falling as Europe reduces its own emissions and as those from other parts of the world, especially the major emerging economies, continue to grow.

The 2030 climate and energy framework adopted by the Council at the end of October 2014 sets forth new targets for 2030: an ambitious domestic greenhouse reduction target of at least 40 % compared to 1990, an EU-wide binding target for renewable energy of at least 27% and an indicative energy efficiency target of at least 27% compared to business-as-usual. The 2030 climate and energy framework is in line with the low carbon pathway towards the objective of reducing EU's greenhouse gas emissions by 80-95% by 2050 compared to 1990.

The world is currently preparing for a comprehensive climate agreement in Paris, in December 2015. Europe has a convincing story to tell to the world and in particular to the emerging economies. Since 1990 the EU reduced its greenhouse gas emissions by almost 20 %, while its economic growth was 45%; this decoupling led to the creation of new business opportunities and new jobs and made the energy system of the EU more secure and affordable.

The year 2015 is an important milestone. The world should deliver a new, comprehensive climate agreement and the EU should consolidate its policies towards a low-carbon economy.

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INTRODUCTION

The DG in brief

DG CLIMA's mission is to lead the international negotiations in the areas of climate change mitigation and adaptation and the protection of the ozone layer; to develop and implement EU legislation to meet the 2020 key headline targets and beyond, including robust monitoring, reporting and verification systems; to contribute to the transition towards a low-carbon economy while ensuring a proper adaptation to the consequences of climate change; and the mainstreaming of climate action into other EU policies.

DG CLIMA is a small operational DG, created in February 2010, with at the end of 2014 143 posts and 34 external staff. It benefits together with DG Environment from the services of a Shared Resources Directorate (SRD).

The DG deploys three main tools to achieve its two general objectives, being the halting of global warming below 2°C and the recovery of the ozone layer. The main instrument is the crafting of policies, the monitoring of their implementation and enforcement of the comprehensive legislative climate acquis. The second tool is the European Emissions Trading System (EU ETS). Finally, since 2014, the DG has responsibility for the climate sub-programme of the LIFE programme, amounting to € 865M overall in 2014-20.

As such, DG CLIMA has evolved from a pure policy-making DG to a DG that combines policy making as its primary activity with some spending. In terms of staffing, close to 90 % of staff is active in policy making.

The DG manages in-house the EU ETS (Emission Trading System), the flagship market-based instrument encompassing over 12.000 emitters in power generation and energy-intensive industries, as well as airlines in 31 countries. It is the world's largest company-level cap-and-trade system for trading in allowances to emit greenhouse gases (GHG's). It covers today around 45 % of total EU GHG emissions. It also contains assets backing an EU carbon market currently worth around 40 billion Euros per year. The high compliance rate of 99 % of verified emissions under the EU ETS is an outstanding achievement for climate legislation. Implementation of phase 3 proceeds successfully, in terms of auctioning of allowances, and provision of free allocations to industry to avoid delocalisation of industrial sectors due to the carbon leakage phenomenon. The IT system where allowances are held is under continuous risk of fraudulent cyber-attacks. Despite many efforts deployed in cooperation with other DGs, the system remains critical and vulnerable in the fast-evolving virtual IT environment.

The management of the new climate sub-programme of LIFE has been delegated to the Executive Agency EASME[1] (grants amounting to € 46 M of commitment appropriations in 2014) and to the EIB[2] (two financial instruments amounting to € 35 M of commitment

[1] Executive Agency for Small and Medium Enterprises

[2] European Investment Bank in Luxemburg

appropriations).

Due to its limited size, the DG is compelled in order to complete its knowledge base to call upon internal expertise provided e.g. by DG ESTAT, DG JRC, the European Environment Agency in Copenhagen[3], and also to have recourse to external consultants and experts appointed through the prescribed procurement procedures.

The year in brief

2014 was an important and successful year for DG CLIMA. It reached its cruising speed, which enabled it to focus on the realisation of its objectives. The following major events marked 2014:

- the agreement on the 2030 'climate and energy policy framework ' reached in the October 2014 Council setting forward an ambitious and binding domestic greenhouse gas reduction target of at least 40 % for 2030;
- the outcome of the UNFCC summit in Lima (COP 20 in Peru), a step forward in the process towards a global climate deal to be reached in Paris in 2015;
- the report on the implementation of Europe 2020 Strategy showing that the EU is making headway towards its target of 20 % reduction in green-house gas emissions by 2020;
- the award of €1 billion to 19 innovative low carbon technology projects under the second call of the NER300 funding programme;
- the first calls for proposals for action grants and for operating grants plus the launching of two new financial instruments under the new climate action sub-programme of LIFE 2014-20.
- the implementation of a large number of measures needed to ensure the functioning and strengthening of the EU ETS for phase 3 (2013-2020).
- the doubling of the % of climate mainstreaming in the EU budget up to 12,5 %

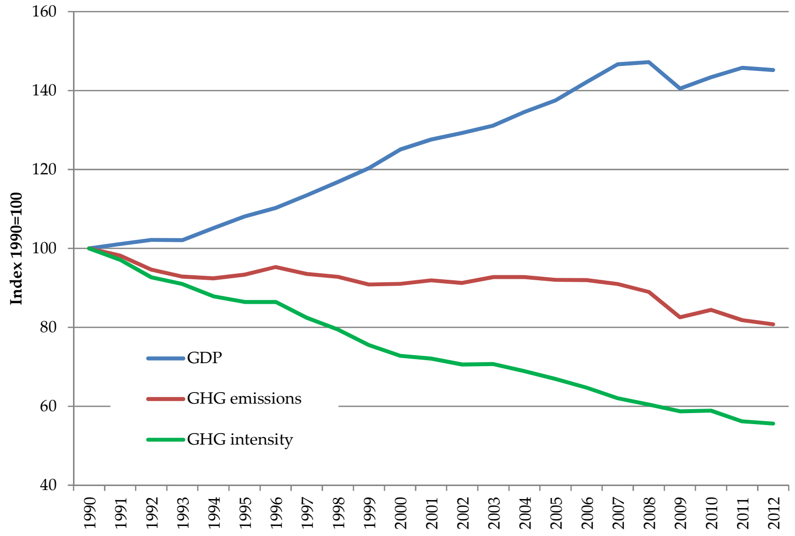
[3] Support from the European Environment Agency in Copenhagen. In 2014, the EEA continued to provide important technical support to the implementation of legislative reporting requirements related to GHG inventories, projections, cars and vans, fluorinated gases and ozone depleting substances. The EEA also played a key role in contributing to ex-post policy evaluation and monitoring of progress towards energy and climate targets, including close cooperation on publications. On the implementation of the Effort Sharing Decision the EEA contributed to the preparations for the reviews in 2015-2016. The EEA also continued the development of the Climate-ADAPT platform and supported the Commission in the implementation of some elements of the EU Adaptation Strategy.

EXECUTIVE SUMMARY

This Annual Activity Report (AAR) is a management report of the Director-General of DG CLIMA to the College of Commissioners. The AAR is the main instrument of management accountability within the Commission and constitutes the basis on which the Commission takes its responsibility for the management of resources by reference to the objectives set in the management plan and the efficiency and effectiveness of internal control systems, including an overall assessment of the costs and benefits of controls.

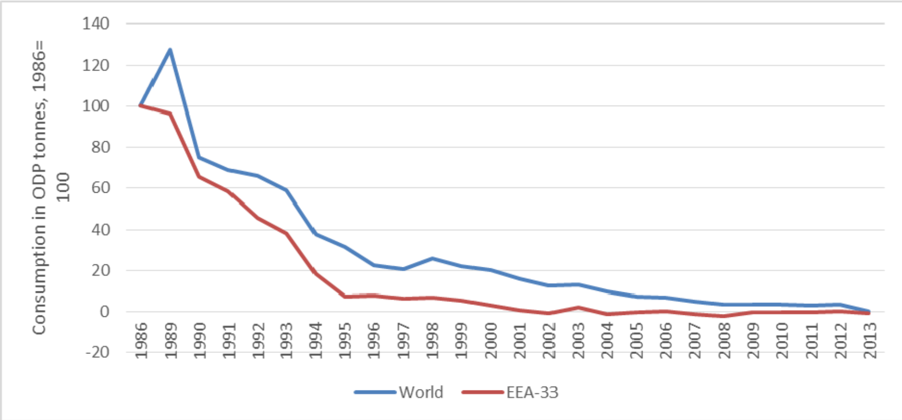
Key Performance Indicators (5 most relevant)

Result/Impact indicator (description)	Trend	Target (or milestones)	Latest known results as per Annual Activity Report
Ultimate impact	☺ ☺	Transition(shift) to a low carbon and climate resilient economy in the EU 20% reduction of greenhouse gas (GHG) emissions by 2020 (headline target EU 2020 strategy)	Decoupling of GHG emissions and economic growth proven Minus 16,9 % in 2011 Minus 18 % in 2012 Minus 19 % in 2013

Most relevant KPI 1: Reduction of GHG emissions (EU 28) Source: EEA, ECFIN, Eurostat	☺	**Evolution of GDP (in real terms), GHG emissions and emission intensity (i.e. ratio of greenhouse gas emissions to GDP): Index (1990 = 100)**  Source: EEA, DG ECFIN (Ameco database), Eurostat Target: minus 20 % of greenhouse gas emissions by 2020 compared to 1990 Conclusion: Thanks to the DG's legislative work in relation to both the EU Emission Trading System and the non-ETS sectors, considerable progress has been made. The EU is well on track and will even overachieve the target of minus 20 % GHG emissions by 2020, since a reduction of minus 19 % compared to 1990 was already reached in 2013. Emissions decreased further by 1.8% in 2013 compared to 2012. A decrease by 19 % while the economy grew by 45 % over that same period, is clear evidence of the decoupling of GHG emissions and economic growth.

<table>
<tr>
<td>Most relevant KPI 2:

Consumption of ozone depleting substances (or ODS) (HCFCs = hydrochlorofluorocarbons and methyl-bromide)
(EU 28)
Source: EEA, UNEP Ozone secretariat</td>
<td>☺</td>
<td colspan="2">UNEP defines "Calculated levels of Consumption" as "production plus imports minus exports of controlled substances. However, any export of controlled substances to non-Parties is not be subtracted in calculating the consumption level of the exporting Party (paragraph (c) of Article 3)". This explains the negative figures.
Consumption of controlled ozone-depleting substances in the EEA-33 and worldwide (ODP tonnes)



Source: European Environment Agency, 2014 based on UNEP Ozone Secretariat data

PS: EEA-33 is 28 European Union Member States together with Iceland, Liechtenstein, Norway, Switzerland and Turkey

Target: Phasing out of all ODS. Ban on both types of ODS (hydrochlorofluorocarbons or HCFC's and methyl-bromide) by 2020

Conclusion: Thanks to its legislation (Regulations on ozone depleting substances or ODS) the EU has achieved a negative consumption (= sum of production plus import minus export) of ODS. End of 2014 the EU has imposed a ban for methyl bromide, one of the 2 main ODS.</td>
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<td>Most relevant KPI 3:
Proportion of climate related spending (mainstreaming) in the EU budget)

Source: DG BUDG reporting on Budget 2014</td>
<td>😐</td>
<td>2020: at least 20 %</td>
<td>2013: 6 to 7% (indicative)
2014: 12,5 %

<u>CLIMATE contribution in final EU budget 2014</u>

Grand Total : 17326,6

Total EU Budget (Commission – Section III): 138991,5

% Climate Change / EU Budget: 12,5%</td>
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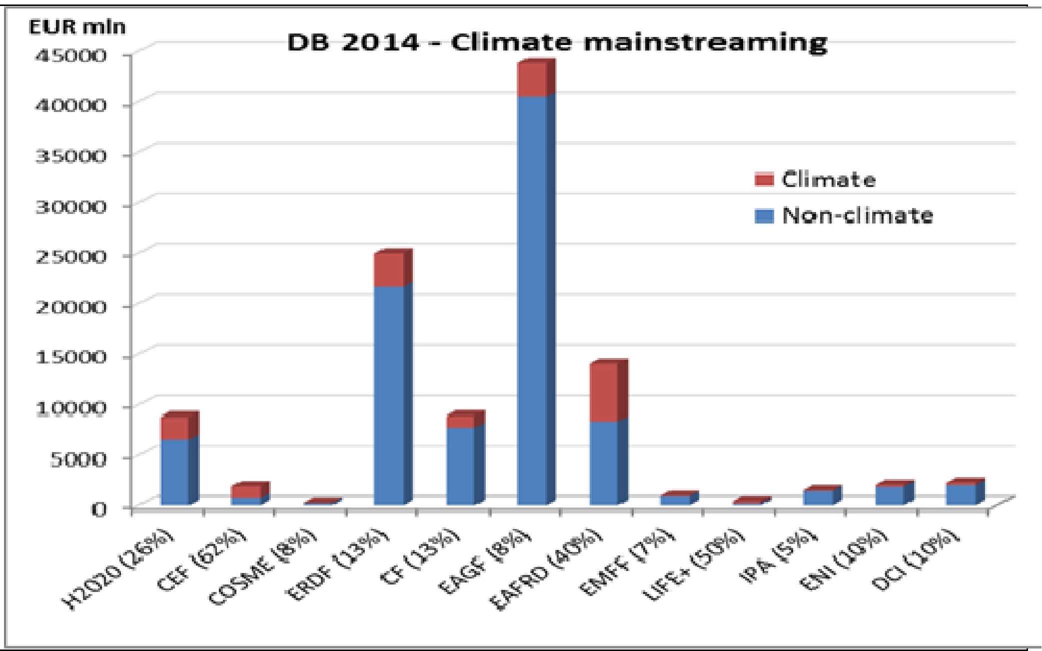
<tr><td rowspan="2"></td><td></td><td colspan="2">
</td></tr>
<tr><td></td><td colspan="2">Conclusion: The 20% climate mainstreaming target is a common commitment from the Commission when the MFF 2014-2020 was proposed/adopted. DG CLIMA/DG BUDG closely monitor the progress made:
1) Programming: The Commission's tracking methodology has been set up as part of the annual budgetary procedure, in accordance with a methodology developed by the Commission. The climate share indicated in the programme statements of the distinct financial programmes is accounted for and added up to an estimated amount for the whole draft budget compiled by DG BUDG. It allows progress towards the 20% objective under the MFF 2014-2020 to be assessed. Based on early review of these programme statements from other DG's it seems that the Commission is well on track.
2) The (at first glance) lower share of 12,5 % in 2014 is caused by the fact that various climate relevant instruments are not fully implemented and can therefore not be counted against the climate expenditures. For instance, the greening measures of the Common Agricultural Policy will only be fully implemented in 2015 and tracked as climate expenditure for the first time as of 2016.
3) The mid-term review/evaluation of the Multi-annual Financial Framework in 2017 might lead to further adjustments in terms of methodology/targets for the 2nd period of the MFF 2018-2020
Conclusion: Once EU instruments are fully implemented according to the new legal framework, the overall share of climate mainstreaming in the EU budget is expected to be well above 20%.</td></tr>
<tr><td>Most relevant KPI 4:
Number of MS having adopted/implemented a climate adaptation strategy or plan
Source: CLIMA-Adapt IT tool (EEA report)</td><td>😐</td><td>Target:

2017: all 28 MS have adopted a plan/strategy
2020: effective implementation</td><td>Current situation:

End 2011: 10
End 2012: 13
End 2013: 16
End 2014: 19

Austria, Belgium, Denmark, Finland, France, Germany, Hungary, Netherlands, Malta, Poland, Portugal, Spain, United Kingdom, Sweden, Ireland, Lithuania, Luxemburg, Romania, Slovakia</td></tr>
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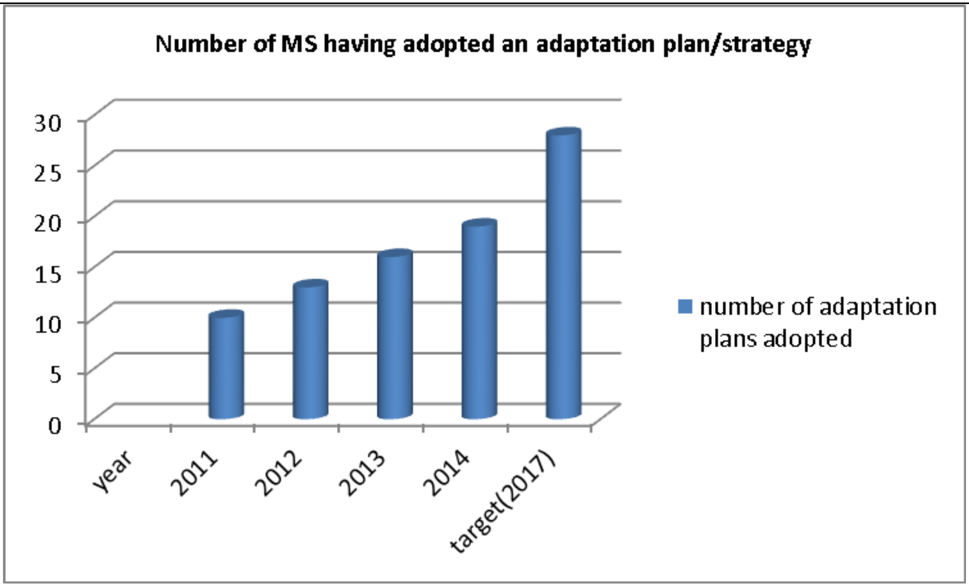
<td colspan="2">

Conclusion:
End 2014, 19 Member States have developed a national adaptation strategy, which is 4 MS more than when the Adaptation Strategy was adopted less than two years ago. DG CLIMA is monitoring progress closely:
•Guidelines were prepared by the Commission as part of the EU Adaptation Strategy package in 2013;
•Adaptation strategies and action plans are identified as priority areas for funding under the LIFE programme;
•Workshops are being organised by DG CLIMA in the 9 MS that do not have a plan/strategy yet. With the exception of Greece, these 9 MS are preparing such a plan/strategy;
•Together with the European Environmental Agency in Copenhagen, DG CLIMA developed an "adaptation preparedness scoreboard", identifying key indicators for measuring MS' level of readiness, discussed with the MS in the Working Group on Adaptation under the Climate Change Committee;
•In 2017, the Commission will assess – on the basis of this preparedness scoreboard and the national reports under the Monitoring Mechanism Regulation, the state of play, in relation to both the adoption of the plans (target date 2017) as well as the implementation (part of the review process).</td>
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<td>Most relevant KPI 5:
Residual error rate (RER) for ABB Activity 34 02
Source: internal assessment</td>
<td>☺</td>
<td>Target:
As low as possible but at least below 2 %</td>
<td>Current situation –end of 2014

Amount at risk – Residual Error Rate (RER):

The final amount at risk, calculated as explained in part 2, is €0.049 million compared to the total payments under ABB activity 34 02 amounting to € 34,161 million. The residual error rate is 0.144%, which is below the materiality threshold of 2%.</td>
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		Clarification: For the first time DG CLIMA selected the RER as a KPI in in its management plan 2014. This choice is justified by the fact that in 2014 DG CLIMA started managing the climate part of the programme LIFE (compared to previously when it was only spending a limited budget on procurement activities). As the implementation of the LIFE programme is now shared between DG ENV (75%) and DG CLIMA (25%), and for the major part jointly delegated to the Executive Agency EASME, it is clear that DG CLIMA will henceforth report on the RER as from AAR 2014 till the completion of the LIFE programme. However, programme management being a new activity for DG CLIMA and as no past data directly related to DG CLIMA are available, the DG has largely recourse to the statistics of the previous LIFE + programme managed by DG ENV. This is further justified by the fact that there is a common control environment for the grant expenditure of ENV and CLIMA. Only a small part of CLIMA's 2014 expenditure related to grants, and controls on the rest of the budget are considered adequate, so the RER percentage of 0,144 remains far below the materiality threshold of 2 % and so does not require any reservation.

Policy highlights of the year (executive summary of part 1)

DG CLIMA's prime objective is that Europe contributes to the global objectives of limiting emissions of carbon dioxide (CO2) and phasing out of ozone-depleting substances through a major shift towards a highly energy-efficient, low-carbon and climate-resilient economy in the EU, via the following three main tools:

1) **Continuous policy making and monitoring its implementation inside the EU and influencing other major players in leading by example**

Long in the lead of international efforts to tackle climate change, the European Union is the first region to have passed binding legislation in this respect. According to the statistics provided by Eurostat and the EEA, the EU is well on track to deliver on its **Europe 2020 Strategy** and its 20/20/20 headline targets, i.e. to cut greenhouse gases by 20% (30% if the conditions are right) compared to 1990, to meet 20% of energy needs from renewable sources such as wind and solar, and to reach a 20% reduction in primary energy use compared with projected levels. In 2013 a decrease of 19 % of GHG emissions was recorded so the EU is very likely going to over-achieve the target in 2020.

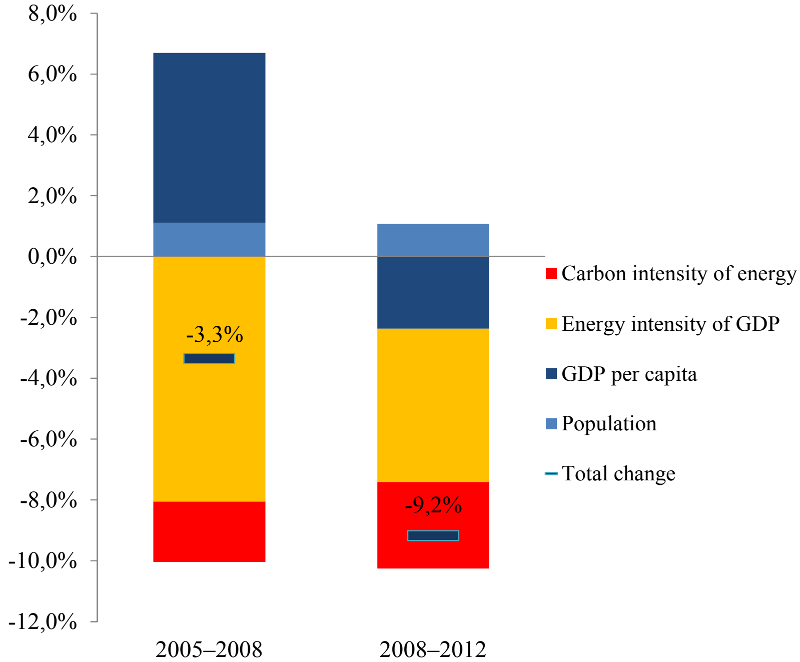
The **agreement on a 2030 climate and energy framework** adopted by European Council on 23/24 October 2014 sets forth new targets for 2030: an ambitious and binding 40% domestic greenhouse gas reduction target compared to 1990 as the most cost-effective milestone in the path towards a low-carbon, climate-resilient and resource-efficient green economy in the EU, a renewables target of at least 27%, and an indicative target to increase resource efficiency by at least 27%.

According to the latest progress report[4], EU greenhouse gas emissions in 2013

[4] The Kyoto and EU 2020 Progress Report is an annual report from the Commission to the European Parliament and the Council. It is based on the data reported by Member States under the Monitoring Mechanism Regulation. The Report provides information about the progress made by the European Union and its Member States towards

(excluding Land Use, Land-Use Change and Forestry and including international aviation) fell by 1.8% compared to 2012, halving the EU's 'emission intensity' (i.e. the volume of emissions generated for each euro of GDP), which end 2013 was 19 % below 1990 levels even as the economy grew by 45 % over that same period, evidencing the decoupling of GHG emissions and economic growth. In 2012, total greenhouse gas emissions per capita were at the level of 9 tonnes CO2-eq and had decreased by 24% compared to 14 tonnes CO2-eq per capita in 1990. The EU is very likely going to **over-achieve the relevant headline target** in 2020.

Aggregate decomposition of the change in total CO_2 emissions from fossil fuel combustion in the EU for the 2005-2008 and 2008-2012 periods. (Source:EEA)



So the EU's share of global emissions is falling as Europe reduces its own emissions while those from other parts of the world, especially the major emerging economies, continue to grow. Policies are working effectively and have played a key role in reaching this interim result. **The EU is well on track** towards meeting its targets domestically for cutting greenhouse gas emissions both under its own headline target in the Europe 2020 Strategy and under the Kyoto Protocol's second commitment period (2013-2020). Latest projections show that total emissions in 2020 will be 21 % below the 1990 level.

A range of **new legislative initiatives** were proposed to and/or adopted by the Legislative Authority in 2014:

In order to mitigate emissions arising from indirect land use change related to biofuel production, the Commission proposed a number of amendments to the Renewable

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their greenhouse gas emissions targets.

Energy and Fuel Quality Directives ('the **ILUC proposal'**). The proposed text is currently being discussed within the European Institutions.

Member States have begun the reporting, under legislation adopted in 2013[5], on their current and future **LULUCF** (Land use, Land Use Change and Forestry) actions to limit or reduce emissions and maintain or increase removals in that sector.

While both supply and production of fluorinated greenhouse gases (so-called **F-gases**) continued a downward trend in 2011-2013, the use of F-gases declined by 1.4 % in 2013. A new Regulation on the management of the EU's Fluorinated-gas emissions was adopted[6] that will result in a cut of two thirds by 2030 compared to current levels, entailing a total cumulative saving estimated at 1.5 Gt CO_2 eq. until 2030, and 5 Gt CO_2 eq. until 2050, compared to a business-as-usual scenario[7]. The legislation should also improve prospects for a future global agreement to phase down the use of F-gases under the Montreal Protocol on the protection of the ozone layer. In relation the latter, a zero 'net' consumption of ozone depleting gases (ODS) has already been achieved, but a full ban of transactions is targeted by 2020.

To address the growing surplus of emission allowances in the EU emissions trading system since 2009, which weakened the carbon price, a double initiative was taken. The Commission first proposed to postpone (**'back-load'**) the auctioning of 900 million allowances from the early years of phase 3 of the EU ETS till 2019-20. This 'back-loading' initiative was adopted by amending the Auctioning Regulation[8]. Secondly, a proposal for the creation of a **market stability reserve** to be established at the beginning of the fourth trading period in 2021 was adopted in January 2014 by the Commission[9]. The proposed reserve will complement the existing rules[10]. The legislative proposal needs

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[5] Decision 529/2013/EU of the European Parliament and of the Council of 21 May 2013 on accounting rules on greenhouse gas emissions and removals resulting from activities relating to land use, land-use change and forestry and on information concerning actions relating to those activities

[6] Regulation (EU) No 517/2014 of the European Parliament and of the Council of 16 April 2014 on fluorinated greenhouse gases and repealing Regulation (EC) No 842/2006

[7] HFC's or hydrofluorocarbons are the most common F-gases, a substitute for Ozone Depleting Substances but a potent GHG. The new legislation also bans the use of F-gases in some new equipment such as household fridges, where viable and more climate-friendly alternatives are available

[8] Commission Regulation (EU) No 176/2014 of 25 February 2014 amending Regulation (EU) No 1031/2010 in particular to determine the volumes of greenhouse gas emission allowances to be auctioned in 2013-20, adopted following an amendment of the ETS Directive approved by the European Parliament and the Council in December 2013.

[9] Proposal COM(2014)20 for a Decision of the European Parliament and of the Council concerning the establishment and operation of a market stability reserve for the Union greenhouse gas emission trading scheme and amending Directive 2003/87/EC.

[10] Allowances will be placed in the market stability reserve – i.e. deducted from future auction volumes – according to the "total number of allowances in circulation". The flow of allowances into and out of the reserve would occur on the basis of an automatic, fully rule-based process. This should provide a

approval by the European Parliament and the Council to become law.

A list of industrial sectors and subsectors which are deemed to be exposed to a significant **risk of carbon leakage**, for the period 2015 to 2019, was adopted[11]. These sectors receive a higher share of free allowances because they face competition from industries in third countries which are not subject to comparable greenhouse gas emissions restrictions. The procedure to ensure that each of the approximately 11.000 industrial installations covered by the EU ETS receive the correct amount of allowances every year.

In the **transport sector**, the EU has adopted binding CO2 targets for passenger cars[12] securing the 95g CO2/km 2021 target for cars and 147g CO2/km for vans and a strategy to reduce fuel consumption and curb CO2 emissions from trucks, buses and coaches[13]. Emissions from new cars decreased to 126,7 grams/km in 2013, two years ahead of the deadline which proves that the legislation is bearing fruit[14].

A political agreement was reached on a Regulation which would establish an EU-wide system for the monitoring, reporting and verification of CO2 emissions from **large ships** starting in 2018. It endeavours to curb GHG emissions from the maritime transport industry, requiring owners of large ships using EU ports to monitor and report as of 2018 on the ships' annual carbon dioxide (CO2) emissions. The draft Regulation is under consideration by the Parliament and the Council[15].

In the **aviation sector**, the International Civil Aviation Organization (ICAO) Assembly agreed in autumn 2013 to develop a global market-based measure to tackle aviation emissions, to be implemented from 2020. The discussions on the design of this measure started in ICAO in 2014. The Commission is actively participating in these negotiations. Pending the possible adoption of international rules, the Council and European

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lasting solution to address the imbalance between supply and demand that requires a structural reform of the EU ETS

[11] Commission Decision 2014/746/EU of 27 October 2014 determining, pursuant to Directive 2003/87/EC of the European Parliament and of the Council, a list of sectors and subsectors which are deemed to be exposed to a significant risk of carbon leakage, for the period 2015 to 2019

[12] Regulation (EU) No 333/2014 of the European Parliament and of the Council of 11 March 2014 amending Regulation (EC) No 443/2009 to define the modalities for reaching the 2020 target to reduce CO 2 emissions from new passenger cars

[13] Regulation (EU) No 253/2014 of the European Parliament and of the Council of 26 February 2014 amending Regulation (EU) No 510/2011 to define the modalities for reaching the 2020 target to reduce CO 2 emissions from new light commercial vehicles

[14] The Commission has also approved six eco-innovations which reduce CO2 emissions.

[15] The proposed EU-wide system is also designed to contribute to discussions at the global level. The Commission is committed to work with its partners to encourage these developments in the International Maritime Organization (IMO).

Parliament in March 2014 limited the coverage of the EU ETS to flights within the European Economic Area for the period from 2013 to 2016.

Building on the momentum created by the UN Climate Summit in New York in September 2014, with the EU in the forefront of climate diplomacy, further progress was made at the **UNFCCC** (United Nations Framework Convention on Climate Change) **summit in Lima (Peru)** in December 2014**,** to forge convergence towards a fair, ambitious and legally- binding climate deal to be agreed in 2015 at the COP (Conference of the Parties) 21 in Paris, an agreement that should enter into force in 2020. The LIMA conference agreed on two deliverables, the Lima Call for Climate Action and the draft elements of the text for the 2015 Agreement.

Adapting to climate change has reached the political agenda in most European countries. At the end of 2014, already 19 Member States had adopted a climate adaptation plan or strategy, which is good progress. Extreme weather events and EU policies were the most common reasons for addressing adaptation. More than 100 European cities signed up to the Mayors Adapt — the Covenant of Mayors Initiative on **Climate Change Adaptation** set up by the Commission to spur cities to take action to adapt to climate change locally. Cities are major centers of population and infrastructure and particularly vulnerable to extreme weather events and the adverse effects of climate change.

2) Implementation of the climate action part of the financial programme LIFE 2014-20

The **LIFE** programme is the EU's **dedicated funding instrument** for the environment and climate action. The general objective of LIFE is to contribute to the implementation, updating and development of EU environmental and climate policy and legislation by co-financing projects with European added value and as such **contributing to the EU's 2020 Strategy** and the achievement of 20/20/20 climate and energy targets.

The 'climate action' part of the new LIFE programme 2014-20, representing only 0,08 % of the overall EU budget, supports climate mitigation, adaptation and governance and information goals. Due to its very limited size, LIFE is considered to be a demonstration and facilitating budget instrument, that through replication of technologies and promotion of good practices and leverage of private financing can stimulate the design of innovative technologies and action plans to combat climate change.

In budget terms, all **preparatory steps** necessary for implementing the LIFE climate action sub-programme were taken. The late adoption of the LIFE Regulation and the subsequent Multi-Annual Work programme for 2014-17, followed by the time-consuming externalisation and delegation processes - major efficiency gaining and simplification measures rolled out during 2014 - have slightly delayed the implementation of the programme but it will be on track as of 2015.

Delegation agreements were signed for two financial instruments (the Natural Capital Finance Facility (NCFF) and the Private Finance for Energy Efficiency (PF4EE) with the

European Investment Bank (**EIB**) for an overall amount of € 110 M of climate budget for 2014-2020 followed by the first payments amounting to € 9,325 M at the very end of December 2014[16]. These 'financial instruments' (loan and guarantee funds, equity) should leverage private funds guaranteed by public money.

Furthermore, a Memorandum of Understanding was signed with the Executive Agency for Small and Medium-sized Enterprises (**EASME**) to implement 70 % of the operational budget of the LIFE climate programme encompassing different types of grants, amounting to € 46,260M in 2014[17]. A call for proposals for action grants was published in June 2014, selection and evaluation of the applications started in November 2014 and the grant agreements will be signed by mid-2015. The first projects selected under the new LIFE programme are scheduled to start in 2015 and only very few projects are expected to be finished by 2017, so it is premature to assess its (EU) added value today. Therefore the objectives for 2017 will be only partially achieved by 2020. The targets for 2020 will need to be adjusted on the basis of the mid-term evaluation of the programme, scheduled for 2017.

3) Climate mainstreaming into the EU Budget and off-budget funds like the NER 300

The 'at least **20% climate mainstreaming'** commitment in the EU multi-annual financial framework 2014-20 will triple the current indicative share of 6 to 7 % and could yield as much as €180 billion in climate spending in all major EU policy areas over the seven-year period. In 2014, the overall mainstreaming of climate action into the EU budget reached 12,5% or € 17 652,6 M on a total EU budget of € 139 108,5 M, already a doubling compared to 2013, so its implementation is on schedule. [18]

The **NER 300** (New Entrants Reserve) programme is a demonstration programme providing financial support to highly innovative renewable energy and carbon capture and storage (CCS) demonstration projects. In 2014, the Commission awarded €1 billion of off-budget funding to 19 clean energy projects to fight climate change under the second call of the NER 300 funding programme. The lion's share went to renewables. The funding stems from revenues resulting from the sale of the second tranche of 100 million allowances and unused funds from the first call.

Preliminary results of (final draft) evaluation reports 2014

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[16] The NCFF will provide innovative financing approaches for projects promoting the preservation of natural capital to address adaptation aspects, while the PF4EE will provide loans for energy-efficiency investments for municipalities, companies or buildings.

[17] To compare, under the former LIFE + programme, in 2013 the Commission contributed about €34.6 million to 29 projects directly tackling climate change.

[18] The system for tracking climate expenditure is based on the so-called "Rio markers" which were developed and convened in the OECD (0%, 40 % or 100 % climate related expenditure).

- Regulations of CO2 emissions from 'cars and vans'

The evaluation concludes that the Regulations are fit for purpose but it suggests making the following improvements:

1) to improve the ex-ante assessment of costs associated with the Regulations in order not to overestimate them

2), in order to better reflect real-world emissions, the way emissions tests are made should be changed (e.g. via the development and inclusion of the World harmonised Light Transport test Procedure).

3) the regulatory metric system should be shifted from a focus on tailpipe CO2 emissions only towards a more comprehensive system that would also include emissions during fuel production, manufacturing and end-of-life

- The carbon capture and storage (CCS) Directive

The evaluation was carried out at an early stage of the implementation process and practical experience was limited for a number of provisions of the CCS Directive. Based on the available evidence, the CCS Directive is considered as fit-for-purpose and as putting the necessary regulatory framework in place for safe CO2 capture, transport and storage while allowing the Member States sufficient flexibility in the implementation of the CCS Directive.

Key conclusions on resource management and internal control effectiveness (executive summary on part 2 and 3)

In accordance with the governance statement of the European Commission, DG CLIMA conducts its operations in compliance with the applicable laws and regulations, with high professional and ethical standards.

The Commission has adopted a set of internal control standards, based on international good practice, that support the achievement of policy and operational objectives. As required by the Financial Regulation, the Director-General has put in place the organisational structure and the internal control systems necessary for the achievement of the policy and control objectives, in accordance with the standards and having due regard to the risks associated with the environment in which the DG operates.

DG CLIMA has assessed the effectiveness of its key internal control systems during the reporting year and has concluded that the internal control standards are effectively implemented. Furthermore, DG CLIMA has taken measures to further improve the efficiency of its internal control systems in the areas reported on in Part 3.

In addition, DG CLIMA has systematically examined the available control results and indicators, as well as the observations and recommendations issued by internal auditors and the European Court of Auditors. These elements have been assessed to determine their impact on the management's assurance as regards the achievement of control objectives. Please read Part 2 for further details.

In conclusion, management has reasonable assurance that, overall, the DG's internal control system is effective; suitable controls are in place and are working as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented.

The Reservation on reputational grounds related to remaining significant security weakness identified in the Union Registry for the Emissions Trading System (EU ETS) issued in the AAR 2010, 2011, 2012, and 2013 is repeated in the AAR 2014. Though considerable progress has been made in rolling out mitigating measures, assurance that the current security measures could successfully prevent a future attack cannot reasonably be provided, and lifting of the reservation would be conditional on such assurance.

In 2014 DG CLIMA has delegated management of part of its share of the LIFE programme to the Executive Agency for SMEs (EASME). The staff allocations made under the externalisation decision present significant challenges to both DG CLIMA and EASME. While project management for LIFE grants is assured by EASME, the DG retains overall political responsibility for the programme and will also implement part of the budget (e.g. relating to Financial Instruments) itself. This is a new activity for the DG which it must manage with very limited staff numbers. Options to address the perceived shortage of staff managing the LIFE programme in the Executive Agency EASME are currently being analysed and discussed with corporate services.

However, despite the reservation noted above, the DG's internal control system is considered overall effective, so that the Director-General can still provide reasonable assurance in his Declaration.

Information to the Commissioner

The main elements of this report and assurance declaration, including the reservation(s) envisaged, have been brought to the attention of Commissioner Miguel Arias CAÑETE responsible for Climate Action and Energy, on 18 March 2015.

1. POLICY ACHIEVEMENTS

1.1 Achievement of general and specific policy objectives

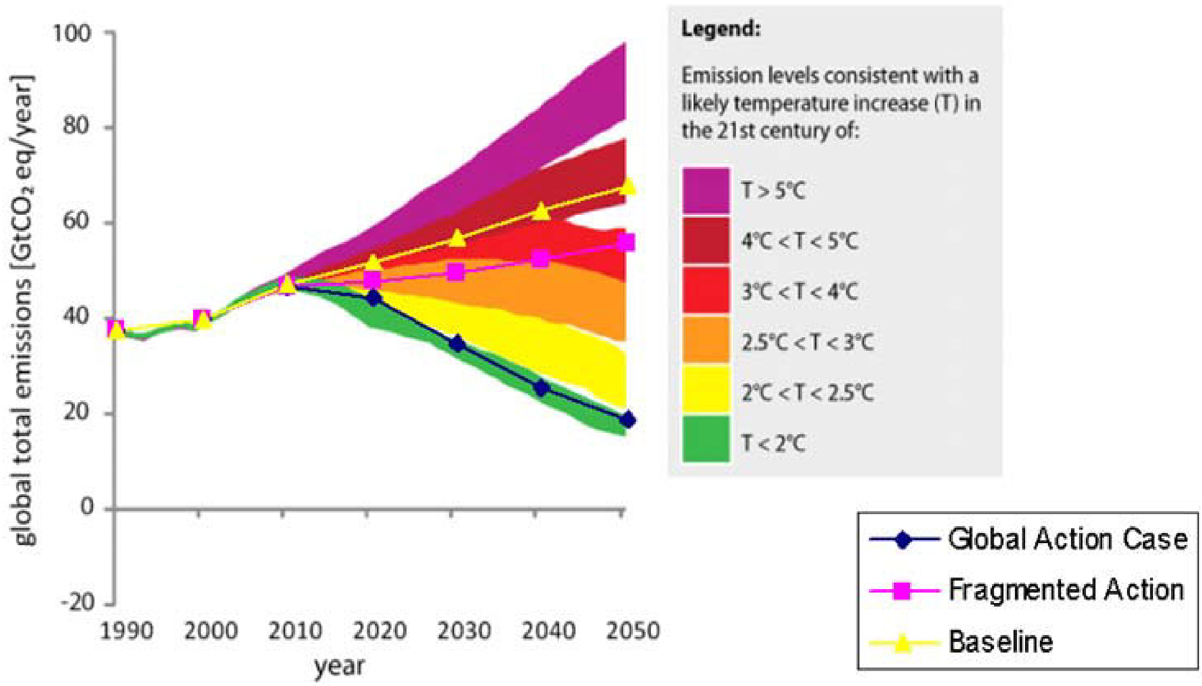
1.1.1 Achievement of general objectives

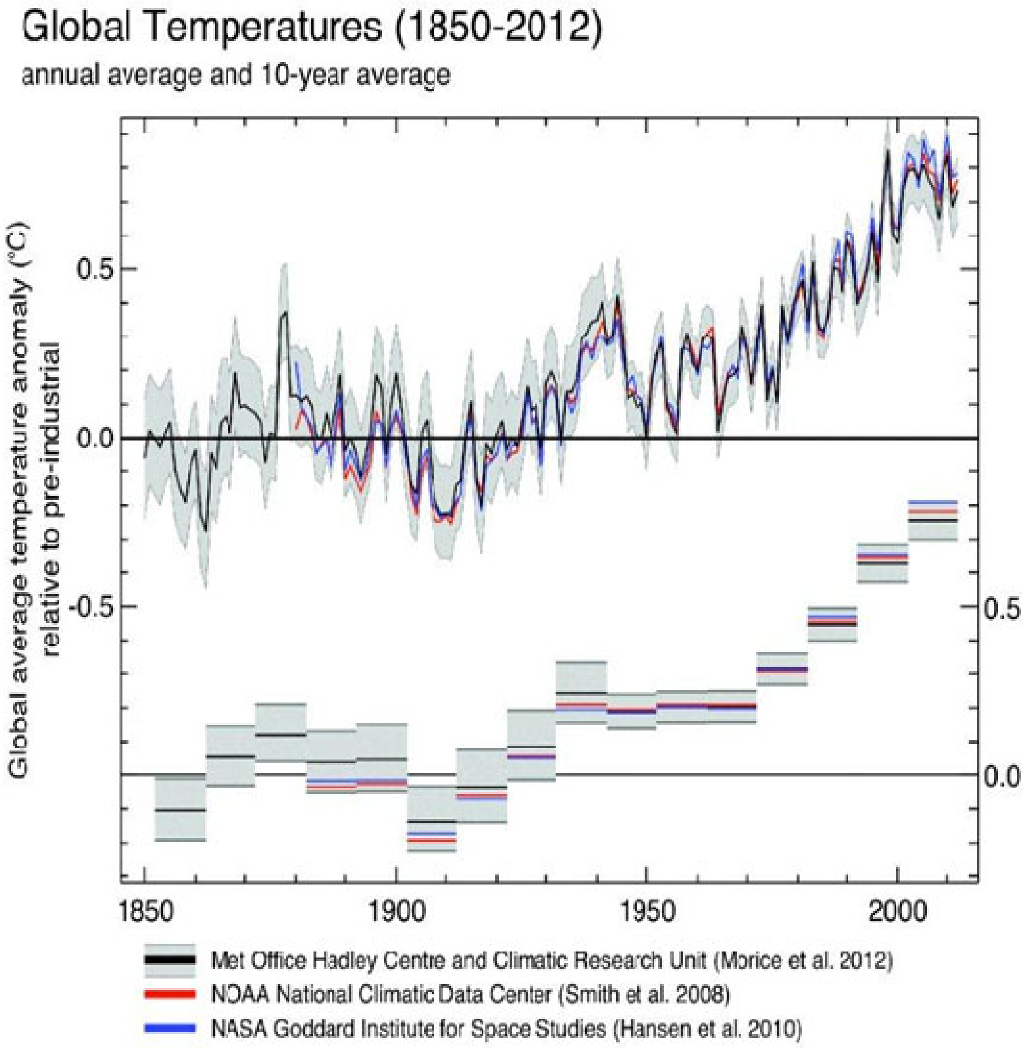
The two general objectives, indeed challenges, of DG CLIMA of 'contributing to halting global warming' and 'to the protection and recovery of the ozone layer' are obviously of a global, cross-continental nature and cannot be addressed by the EU alone. The EU can only contribute to world-wide solutions and influence the efforts of others. However, in addition to undertaking its share of the necessary effort and to leading by example, the European Union’s experience can also serve as valuable learning-by-doing for other countries, as their climate policies are put in place and their economies develop.

Policy area 34: [general objective 01]

Though much progress is made in the EU in terms of reducing greenhouse gas emissions such as carbon dioxide and methane – the main cause of global warming – the achievement of the objective to keep global temperature increase below 2°C - that is considered by scientists as the tipping point for transition to another climate 'state' - is not on track as temperature increase is accelerating

General objective 1: Contribute to halting global warming by pursuing an ambitious climate action agreement at international level while preparing for t shift towards a low carbon economy (mitigation) and promote climate-resilience (adaptation) in the EU in l with the 2020 climate and energy headline targets an the EU Adaptation Strategy objectives.		☒Spending programme ☒ Non-spending
This general objective encompasses all general objectives of the LIFE programme		
Impact indicator 1: **Global (land and ocean) average surface temperature increase** compared to pre-industrial levels (Source: IPCC Assessment Report 5 or Intergovernmental Panel on Climate Change report 2014)		
Baseline (1880)	Milestones/Current situation	Target
	End 2012	2100
-	Temperature rise of about 0.85°C since 1880 and accelerating	Temperature increase stabilised below 2 °C Risk: With no action taken there is a 62% chance that by 2081-2100 the temperature could be more than 4 °C higher





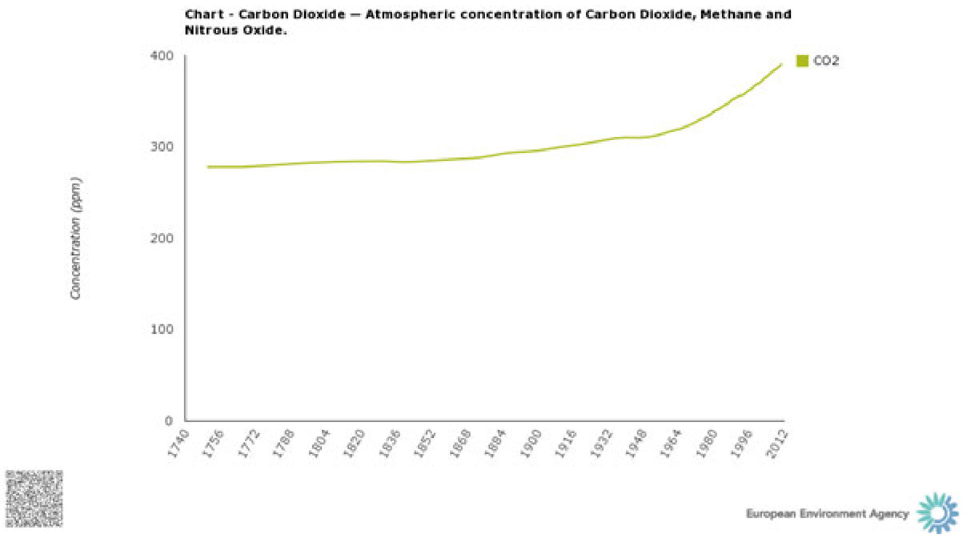
Global temperature is rising (Source: EEA/IPCC):

The European Commission welcomes the robust scientific evidence on climate change compiled by the Intergovernmental Panel on Climate Change (IPCC) in its Fifth Assessment Report. Warming of the climate system is unequivocal. The atmosphere and oceans have warmed, the amounts of snow and ice have diminished, and the sea level has risen. Between 1990 and 2010, the rate of change (rise) in global average temperature has been close to 0.2°C per decade. The globally averaged combined land and ocean surface temperature data as calculated by a linear trend show a warming of 0.85°C during the period 1880 to 2012.

The global average concentrations of various greenhouse gases in the atmosphere continue to increase as well.

Impact indicator 2: **Atmospheric greenhouse-gas concentrations**- (source: EEA – CSI 013 – February 2014)	
Milestones/Current situation	Target
End 2012	2050
The value for global atmospheric concentration of carbon dioxide in 2012 is 392.64 ppm.	- 50%

The concentration in 2011 of the six greenhouse gases (GHG) included in the Kyoto Protocol has reached 446 ppm CO2 equivalent, an increase of 168 ppm (around +60%) compared to pre-industrial levels. The concentration of CO2, the most important greenhouse gas, reached a level of 391 ppm by 2011, and further increased to 393 ppm in 2012. This is an increase of approximately 115 ppm (around +40%) compared to pre-industrial levels.



Policy area 34: [general objective 02]

Through EU legislation that is more stringent in phasing out the use of ozone depleting substances than the global Montreal Protocol – which groups developed and developing countries - the EU supports the protection of the ozone layer. Thanks to the political determination, a UN Study issued in September 2014 could state that the ozone layer show signs of thickening again after years of depletion

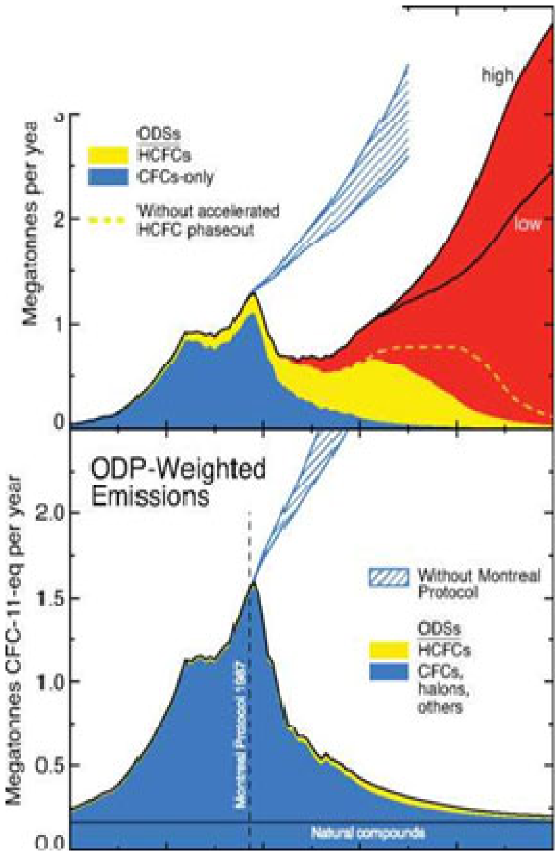
General objective 2 : Support to the recovery of the ozone layer to protect human life from harmful UV radiations		☒Spending programme ☒ Non-spending	
Impact indicator: % Reduction in Global Consumption and Production of ozone depleting substances (ODS) such as HCFC's or hydrochlorofluorocarbons compared to 1989 (source: Source: UNEP, ozone secretariat,)			
Baseline (1989)- Start implementation of the Montreal Protocol	Milestones/current situation		Target
	Current situation (2012)	2015	2020/30
-	Reduction by some 98%	90 % phasing out (overachieved)	Developed and developing Countries (parties to the Montreal Protocol) are scheduled to phase-out HCFCs in 2020 and 2030, respectively.

The EU **ozone**[19] **related legislation** (Regulations) is clearly harvesting results. The net production and consumption of ODS in the EEA member countries has decreased significantly since the signing of the Montreal Protocol in 1987, to practically zero now.

Globally, the implementation of the Montreal Protocol by the 197 Parties to the Protocol has led to a significant decrease in the atmospheric burden of ozone-depleting substances (ODS). Whereas in 1987 production of controlled ozone-depleting substances exceeded 1.8 million ODP-tons annually, by the end of 2012 it had been reduced to some 42,000 ODP-tons.

Many of the ODS are also potent greenhouse gases, like their substitutes, the Fluorinated gases, but as ODS are governed through the Montreal Protocol, they are not separately regulated under the UNFCCC. Their phasing out has also avoided global greenhouse gas emissions..

[19] Ozone forms a layer in the stratosphere, thinnest in the tropics and denser towards the poles The



amount of ozone above a point on the earth's surface is measured in Dobson units (DU) – it is typically ~260 DU near the tropics and higher elsewhere, though there are large seasonal fluctuations.

1.1.2 Achievement of specific objectives

ABB activity 34 02: [specific objective 01]

Specific objective 1: To improve development, implementation and enforcement of the climate acquis and catalyse & promote integration and mainstreaming of climate change mitigation actions.		☒ Spending programme LIFE ☒ Non-spending
Result indicator: Reduction of EU-28 greenhouse gas emissions including aviation compared to 1990 levels (EEA and Commission reports of 24 October 2013 – CSI 010/011)		
Baseline year (2010)	Milestone/Current situation 2013	Target (2020: EU headline indicator)
Adoption of the Europe 2020 Strategy in 2010	- 19 %	-20% (EU 2020 strategy and the 20/20/20 headline indicators)
Result indicator: Compliance rate with the emission cap under the EU ETS (EU Transaction Log public website)		
Baseline (2013)	Milestone/Current situation 2014	Target (2020) (EU ETS Directive)
In phase 3 (2013-2020), the EU ETS Directive contains a single EU-wide cap on emission allowances.	99% of the installations that submitted their verified emissions on time were in compliance.	100% compliance to meet the target of - 21% below 2005 verified emission level
Result indicator: Reduction of EU-28 greenhouse gas emissions from non-ETS sectors[20] compared to 2005		
Baseline year (2013)	Milestone/Current situation 2014	Target (2020) (Effort Sharing Decision)
National targets agreed for the years 2013-2020	No official data available yet. First annual compliance check of 2013 emissions by MS in	- 10 %

[20] Non-ETS sectors = transport (except aviation and international maritime shipping), buildings, agriculture and waste

<table>
<tr><td></td><td colspan="2">2015</td><td></td></tr>
<tr><td colspan="4">Result indicator: Average CO2 emissions from new cars (source: EEA report - Monitoring CO2 emissions from passenger cars and vans in 2013')</td></tr>
<tr><td rowspan="2">Baseline year (2012)</td><td colspan="2">Milestone/Current situation</td><td rowspan="2">Target (2020)
(CO2 and Cars Regulation)</td></tr>
<tr><td>2013</td><td>2015</td></tr>
<tr><td>132,2 grams/km</td><td>126,7 g /km (overachieved)</td><td>130 g/km</td><td>95 g /km</td></tr>
<tr><td colspan="4">Result indicator: Reduction of emissions of fluorinated gases in the EU (mainly Hydro fluorocarbons or HFC's, up to 23.000 times more powerful greenhouse gases than CO2 (Source: EEA report) compared to 2006</td></tr>
<tr><td>Baseline year (2010)</td><td colspan="2">Milestone/Current situation</td><td>Target (2030)
(F-gases Regulation)</td></tr>
<tr><td>-</td><td colspan="2">Regulation adopted in 2014
F-gas emissions are now to be stabilised at 2010 levels due to legislation from 2006.</td><td>Reduce emissions of F-gas emissions to a third of 2010 levels.
By 2030 emissions (outside agriculture) should be reduced by 72-73% compared to 1990 or 60% compared to 2005</td></tr>
</table>

The EU-28 is well on track towards meeting headline indicator of -20 % GHG emissions by 2020 and is over-achieving the Kyoto target.

According to EEA analysis of Member States' own projections, the EU is likely to cut greenhouse gas emissions by at least 21 % of 1990 levels by 2020, surpassing its 20 % target. Emissions fell by 1.3 % between 2011 and 2012, and again by 1,8 % between 2012 and 2013, largely due to reductions in transport and industry and a growing proportion of renewable energy. With 14 % of final energy consumption generated by renewable sources in 2012, the EU is also ahead of the planned trajectory to hit 20 % renewable energy by 2020. Likewise, the EU's energy consumption is also falling faster than would be necessary to meet the 2020 energy efficiency target. Europe is on track towards its 2020 targets. Changes in GDP, for example growth or recession, can account for up to one third of the change in total greenhouse gas emissions since 1990. Even against the backdrop of economic recession in recent years, policies are working and have played a key role in reaching this interim result. But there is no room for complacency. The analyses also highlight countries and sectors where progress has been slower than planned. The picture at Member State level is more mixed compared to that at overall EU level. Nine countries were making good progress in pursuing the three linked policy objectives - greenhouse gas emissions reduction, renewable energy and energy efficiency - while no Member State was underperforming in all areas. However, three Member States are at risk of missing their individual targets for 2013 under the Effort Sharing Decision and projected greenhouse gas emissions for six Member States indicate that they will not achieve their 2020 targets through domestic policies. Furthermore, projections from Member States show little or no emissions cuts in the agriculture sector.

Since 2013 auctioning is the default method of allocating allowances within the EU ETS. Auction revenues accrue to Member States. The EU ETS Directive stipulates that at least half of the revenues from the auctioning of allowances should be used to combat climate change in the EU or other countries. Most countries have used these investments in fields like energy efficiency, renewables or sustainable transport.

Compliance rate with EU ETS close to 100 %

The EU ETS covers more than 12 000 power plants and manufacturing installations in the 28 EU member states, including Norway, Iceland and Liechtenstein. From 2012 it also covers emissions from airlines flying between airports in these countries and to closely connected areas.

Companies' level of compliance with the EU ETS rules was again high in 2014. Less than 1% of the participating installations did not surrender allowances covering all their 2013 emissions by the deadline of 30 April 2014. These installations are typically small and together account for less than 1% of emissions covered by the EU ETS. The high compliance rate of 99 % of verified emissions under the EU ETS is a remarkable achievement for environmental legislation. It is the best indicator of the effectiveness of the EU ETS sanctioning regime, in, particular of the fine that applies in case of non-surrender.

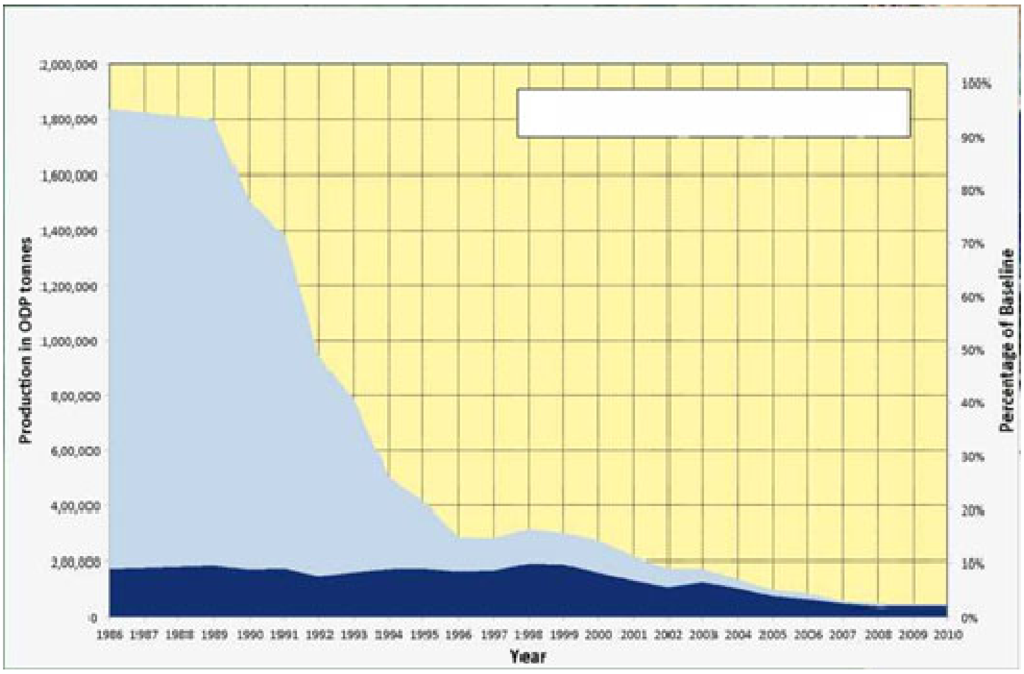
Clear progress made in reduction of Fluorinated gases (F-gases) through legislation

Fluorinated gases (F-gases) covered by the UNFCCC's Kyoto Protocol are a family of powerful greenhouse gases with a warming effect on the atmosphere up to 23,000 times stronger than carbon dioxide. F-gases currently make up approximately 2 % of the EU's overall greenhouse gas emissions. This proportion has increased as F-gas emissions have grown by almost 60 % since 1990. These F-gases typically have very long lifetimes in the atmosphere and high global warming potentials. Fluorinated gases encompass hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride (SF6). The majority of F-gases supplied to the EU market are intended for use in refrigeration and air-conditioning equipment. Emissions take place mainly due to leakage during the use phase or due to failure to fully recover the F-gases at the end of the product/equipment lifetime. The use of F-gases for these purposes, and in particular in insulation foams, has been declining thanks to EU legislation.

While PFC and SF6 emissions have been reduced to a significant degree, a major rise is observed for HFC emissions which have tripled since 1990.The EEA report shows the use of F-gases (also known as 'net supply'), declined by 1.4 % in 2013. This was the third consecutive year of decline, according to the data reported by companies. Production of F- gases in the EU also fell in 2013, reversing a trend of increasing production in recent years. However, there was a 12 % increase in imports of these chemicals and a 2 % increase in exports.

In 2014, the European Commission has allocated quotas to existing companies and new entrants allowing them to sell hydrofluorocarbons (HFCs) in the EU in 2015. This is the first step of a gradual reduction of these quotas to end up at only 21% of today's sales by 2030, as mandated by a new EU Regulation on fluorinated gases (F-gases) that will enter into force in January 2015. In this way emissions of these gases to the atmosphere will be reduced by two-thirds.

Reduction achieved by some 98% compared to baseline cap (1989)
Light blue= Non-Article 5 Parties (Developed Countries)
Dark blue =Article 5 Parties (Developing Countries)



Source: UNEP

CO2 emissions from cars and vans; from trucks, coaches and buses are in decline

The average passenger car sold in the EU in 2013 emitted 126.7 grams of carbon dioxide per passenger kilometre (g CO2/km), already below the legal target of 130 g CO2/km to be fully reached by 2015. Similarly, the average van sold must have emissions below 175 g CO2/km by 2017, but levels were already at 173.3 g CO2/km last year, according to the updated data from manufacturers and Member States.

There were 11.8 million new cars and 1.2 million new vans registered in the EU in 2013. While both fleets overall are making progress in reducing emission levels, the picture is more mixed when manufacturers are considered individually. Passenger cars and vans (light commercial vehicles) account for some three quarters of road transport carbon dioxide (CO_2) emissions. Building on its 2007 strategy[21], the EU has adopted binding CO_2 targets for passenger cars of 95g/km[22], applicable to 95 % of the new car fleet in 2020, and of 147g/km for vans[23]. The average car sold in the EU is now over 20 % more efficient than a decade ago, which is clearly good news.

Trucks, buses and coaches produce about a quarter of CO_2 emissions from road transport in the EU and some 5 % of the EU's total greenhouse gas emissions. The Commission has therefore set out a strategy to reduce fuel consumption and CO_2 emissions from these heavy-duty vehicles (HDVs) over the coming years ([24])..

The strategy focuses on short-term action to certify report and monitor HDV emissions, which is an essential first step towards reducing them. The Commission has also developed a computer simulation tool, VECTO, to estimate CO_2 emissions from new vehicles.

ABB activity 34 02: [specific objective 02]

Specific objective 2: To promote the REFIT agenda in preparing/implementing climate legislation **- To ensure that climate policy is evaluated according to the Commission standards** **- To draft high quality impact assessments following extensive consultation of stakeholders ,** **-To promote correct transposition, and aim for effective and uniform implementation and enforcement of climate action legislation (directives and regulations)**		☒ Spending programme LIFE ☒ Non-spending
Indicator: Number of complaints still open in CHAP 12 months after their registration (CHAP database)		
Baseline (2013)	Milestone /Current situation (end 2014)	Target (November 2016 – internal objective)
2/3 of open complaints	Less than 1/3 of open complaints is reached	<1/3 of open complaints
Indicator: Number of non-communication cases still open in NIF 12 months after their creation (NIF database)		

[21] Results of the review of the Community Strategy to reduce CO2 emissions from passenger cars and light-commercial vehicles (COM(2007) 19)

[22] Regulation (EU) No 333/2014 of the European Parliament and of the Council of 11 March 2014 amending Regulation (EC) No 443/2009 to define the modalities for reaching the 2020 target to reduce CO2 emissions from new passenger cars

[23] Regulation (EU) No 253/2014 of the European Parliament and of the Council of 26 February 2014 amending Regulation (EU) No 510/2011 to define the modalities for reaching the 2020 target to reduce CO 2 emissions from new light commercial vehicles

([24]) Commission communication — Strategy for reducing heavy-duty vehicles' fuel consumption and CO_2 emissions (COM(2014) 285).

Baseline (2013)	Milestone /Current situation (end 2014)	Target (November 2016 – internal objective)
2/3 of open cases	Only 4 open non-communication cases but all 4 outside the benchmark	<1/3 of open cases
Indicator : Number of non-conformity cases still open in NIF 3 years after their creation in EU Pilot (EU Pilot database)		
Baseline (2013)	Milestone /Current situation	Target (November 2016 – internal objective))
N/A	No such cases	<1/3 of open cases
Indicator: Capacity building evaluation function: Evaluations of legislative instruments to enhance the evidence base for any future policy (EIMS database, evaluation programme)		
Baseline (2013)	Milestone/Current situation (2014)	Target (2016 – internal objective))
N/A	2 Evaluations in final draft status, none completed (CO2 cars and vans, Carbon capture and storage)	5 Evaluations completed

By the end of 2014, DG CLIMA had **well progressed** in its efforts to:

- promote the REFIT agenda in preparing/implementing climate legislation and ensure that climate policy is evaluated according to the Commission standards, thanks to the then on-going evaluations of the CCS Directive and the Cars and Vans Regulations (thereby reaching the milestone for 2014) as well as the preparation for the evaluations of the ETS Directive, Fuel Quality Directive and Effort Sharing Decision to be kicked off in 2015 (thereby making sure that the DG will achieve the target for 2016);

- promote correct transposition and aim for effective and uniform implementation and enforcement of climate action legislation, thanks to a continued active management of pre-infringement and infringement cases (although not all concerned milestones could be reached, the DG is on track to achieve its targets for 2016).

ABB activity 34 02: [specific objective 03]

Specific objective 3: To secure investment for climate related issues (mitigation) (LIFE and NER 300)	☒Spending programme LIFE

Result indicator: Leverage of climate related private sector investments compared to EU investment through the **financial instrument PF4EE** of the LIFE programme defined as the total of investments made by supported beneficiaries divided by the Union financial contribution (source: report EIB)			
Baseline year (2013)	Current situation	Milestone	Target (2020) (Multi-annual Work programme LIFE 2014-17)
	2014	2017	
No: new programme	Delegation agreement signed with the EIB in December 2014, no financial agreements signed yet	3-5 x	8 x

Result indicator: Leverage of climate related private investments compared to the EU grant for renewable energy and carbon capture/storage projects through the 2nd call for the off-budget Fund **NER 300** (New Entrants Reserve), 100 million allowances to be monetised by April 2014 (source: report EIB)	
Baseline year (2012) first call	Current situation
200 mio allowances monetised € 1.2 billion to 23 renewable energy projects estimated to have leveraged additional funding of over €2 billion from private sources.	Target met since remaining 100 mio allowances monetised 19 projects funded for € 1 bn NER 300 Funds leveraging 0,9 bn of private funds while a double leverage was aimed for

Result indicator: Innovation rate as an eligibility requirement for the renewable energy and carbon capture and storage projects under the 2nd call of the off-budget Fund **NER 300** (New Entrants Reserve) (source: report EIB)	
Baseline year (2012) first call	Target = current situation
Over 75%	84% of the awards went to highly innovative or even potentially game changing projects overshooting the target of 80 %(success!)

Main financial outputs in 2014	
Description	**Number of outputs**
Procurement LIFE: Contracts (studies) service contracts)	27
Projects (action grants and	0

capacity building)	Call for proposals published and being evaluated. Estimate of 15 grants to be concluded mid-2015
financial instrument: PF4EE	0 Delegation agreement with EIB signed in December 2014 , no financial agreements signed yet
Main policy outputs in 2014	
Description of adopted proposals	
Strategy for Reducing Heavy Duty Vehicles CO2 emissions	
Consultative Communication on Light Duty Vehicles CO2 emissions beyond 2020	
Proposal for a 2030 Energy and Climate Framework	
1st Commission Report on implementation of Carbon Capture and Storage (CCS)	
Amendment of Commission Regulation on auctioning pursuant to the ETS Directive	
Amendment of Commission Regulation on monitoring and reporting of greenhouse gas emissions pursuant to ETS Directive	
Report on the Functioning of the European Carbon Market in 2013	
Commission Implementing Decision amending the Award Decision under the first call for proposals of the NER300 funding programme	
Commission Implementing Decision: Award Decision under the second call for proposals of the NER300 funding programme	
Commission Decision on the new carbon leakage list 2015-2019	
Description of files pending in the co-decision process	
Amendment of EU ETS aviation emissions directive	
Proposal for ILUC (Indirect Land Use and Land use Change)	
Implementing measure for Article 7a of the Fuel Quality Directive	
EP and Council Decision on EU ETS structural measure creating a market stability reserve	

Start of the implementation of the PF4EE Financial Instrument in December 2014

The Private Finance for Energy Efficiency (PF4EE) financial instrument under the LIFE programme aims to increase private financing for investments in energy efficiency projects. The Commission has committed €80 million for 2014-17 anticipating an 8-fold leverage effect. The management of the PF4EE is entrusted to the European Investment Bank (EIB).

The PF4EE will support Member States in making progress in view of the EU's agreed targets on energy efficiency. It will combine lending from the EIB to financial intermediaries with protection provided by the LIFE budget against losses associated with making loans for energy efficiency projects. The financial instrument will help intermediary banks in Member States to develop and offer specific loan programmes for energy efficiency projects. These loan programs will be aligned with the National Energy Efficiency Action Plans. The PF4EE will also provide technical assistance aiming at increasing the technical capacity of the financial intermediaries to develop specific loans for energy efficiency.

The target final recipients for the PF4EE could include Small and Medium-sized Enterprises and private individuals (e.g. house or hotel owners), small municipalities or other public sector bodies undertaking small energy efficiency investments, capable of using energy savings to repay up-front borrowing. The size of the energy efficiency loans to be provided to the final beneficiaries could range between €40,000 up to €5 million and be higher in exceptional cases. No further reporting or data are available yet.

2nd call of the NER 300 investment fund successfully awarded

The Commission decided to award the second wave of NER 300 ([25]) projects in July 2014, as planned, granting €1 billion funding to 19 climate action projects[26]. The funding comes from revenues resulting from the sale of 100 million of emission allowances in the EU emissions trading system for the EU 10 new MS. The co-financed projects cover a wide range of technologies − bioenergy, concentrated solar power, geothermal power, photovoltaics, wind power, ocean energy, smart grids and, for the first time, a carbon capture and storage (CCS) project. The selected demo projects will increase the annual EU renewable energy production by almost 8 terawatt hours (TWh) corresponding to the combined annual electricity consumption of Cyprus and Malta. The CCS project will capture 1.8 million tonnes of CO_2 per year, equivalent to taking over a million cars off the roads.

A doubling of the leverage as aimed for could not be achieved in the second call but nevertheless an additional funding of €0.9 billion from private resources was leveraged. The lower leverage compared to the first call is due to the economic crisis and to the high public funding needed for the first CCS project under NER 300; €300 million funding to the CCS project has leveraged only €40 million private funding.

([25]) This off-budget funding programme is called NER 300 since it is funded from the sale of 300 million emission allowances from the new entrants’ reserve (NER) set up for the third phase of the EU emissions trading system.

[26] The very first NER 300 project, the Italian bioenergy project "BEST", entered into operation end 2013. The project is awarded with a NER 300 funding of 28 million euro and should produce 1,4 TWh renewable energy in the first 5 years of operation. It concerns the design, construction and operation of an integrated biofuels demonstration plant in Crescentino, Italy. The project envisages second generation technology conversion of lignocellulose biomass from selected energy crops into ethanol.

ABB activity 34 02: [specific objective 04]

<table>
<tr><td colspan="2">Specific objective 4: To improve development, implementation and enforcement of EU law and catalyse & promote integration and mainstreaming on climate adaptation</td><td>☒ Spending programme LIFE
☒ Non-spending</td></tr>
<tr><td colspan="3">Result indicator: Number of Member States that have adopted an adaptation strategy (Source: Commission & EEA: CLIMA-Adapt database, 'Survey on National adaptation policy processes in European countries – Oct 2014</td></tr>
<tr><td rowspan="2">Baseline : 2013 (adoption of the Adaptation Strategy)</td><td>Current situation/
Milestone</td><td rowspan="2">Target
2017 (see EU Adaptation Strategy - Communication)</td></tr>
<tr><td>2014</td></tr>
<tr><td>Adoption of the Adaptation Strategy by 16 Member States</td><td>19 MS having adopted an adaptation strategy</td><td>All 28 Member States should have adopted an adaptation strategy (otherwise a legislative proposal could be considered at EU level if level of preparedness deemed inappropriate)</td></tr>
</table>

As a follow-up to the EU Adaptation Strategy, already 19 adaptation plans/strategies have been adopted by Member States

Climate change is expected to affect Europe with increased floods, droughts, heat waves, rising sea levels and other widespread environmental changes, such as changing species distribution and crop growing seasons. The Commission encourages Member States to adopt comprehensive adaptation strategies and is developing an adaptation preparedness scoreboard[27]. The Commission also supports financially adaptation projects, in particular through the new LIFE Climate action sub-programme.

At the end of 2014, 19 countries had adopted an adaptation plan/strategy, ranging from countries with a fully developed National Adaptation Strategy to those that have just a relatively small section on adaptation within a climate change strategy. This is already 4 more than in 2013, when the adaptation strategy was adopted. The 19 countries are: Austria, Belgium, Denmark, Finland, France, Germany, Hungary, Netherlands, Malta, Poland, Portugal, Spain, United Kingdom, Sweden, Ireland, Lithuania, Luxemburg, Romania, Slovakia. By 2017 all 28 Member States need to have a plan.

However, concrete action is still at an early stage in many European countries. So far 13

[27] In response to a survey run by the EEA, almost all countries stated that extreme weather events have triggered adaptation responses. The second most cited reason for developing national adaptation policies was European Union policy integrating climate change adaptation, followed by damage costs and scientific research. Most countries identified barriers to taking adaptation measures, such as a lack of resources (time, money or technologies), uncertainties about the extent of future climate change, and 'unclear responsibilities'.

EEA countries are already implementing adaptation policies[28].

The new 'Mayors adapt' action, a community building initiative, is a success story

In March 2014, the European Commission launched **Mayors Adapt** — the Covenant of Mayors Initiative on Climate Change Adaptation ([29])— encouraging cities to take action to adapt to climate change. Mayors Adapt aims at increasing the support for local activities, providing a platform for greater engagement and networking by cities[30], and raising public awareness about adaptation and the measures that are needed. Cities signing up to the initiative commit to contributing to the overall aim of the EU adaptation strategy and creating a more climate-resilient Europe. This means developing local adaptation strategies, and/or integrating adaptation to climate change into relevant existing plans. More than 100 European cities have currently joined the initiative.

ABB activity 34 02: [specific objective 05]

Specific objective 5: To secure investment for climate related issues - adaptation (LIFE)	☒Spending programme LIFE		
Result indicator: Leverage of climate related investments through the financial instrument NCFF in the LIFE programme defined as the total of investments made by supported beneficiaries divided by the Union financial contribution (source: ex ante evaluation n, in the future EIB Report)			
Baseline year (2013)	Current situation	Milestone	Target (2020)
	2014	2017	
No: new programme	Delegation agreement with EIB signed in December 2014. No financial agreements signed yet.	2x	Up to 4 x

[28] Providing information was the most commonly-mentioned type of adaptation policy instrument, while water management was the most commonly prioritised sector. Several countries have already put in place schemes to monitor, evaluate or report on their progress, while more than half are planning or working on such a scheme, the survey shows.

([29]) http://mayors-adapt.eu

[30] As major centres of population and infrastructure, cities are particularly vulnerable to extreme weather events and the effects of climate change, and thus play a key role in implementing measures to mitigate and adapt to a changing climate

Result indicator: Degree of mainstreaming of climate change priorities into other Community EU financial instruments (source: Commission assessment via the 'Rio markers')		
Baseline: 2013	Milestone/Current situation 2014	Target: 2020 (end of legal basis LIFE)
In the current MFF an indicative 6-7% could be identified as climate-related spending. (Source: Budget 2014/15)	12,5 % - on track	At least 20% climate mainstreaming achieved in the EU budget in the next MFF 2014-2020.

Main financial outputs in 2014	
description	**Number of outputs**
Service contracts and studies	10
Projects (action grants and capacity building)	0 in 2014 Call for proposals published and being evaluated Number: estimate of 16 grants to be signed mid-2015
financial instrument: Natural Capital Financing Facility (NCFF)	0 in 2014 Delegation agreement with EIB signed in December 2014 , no financial agreements signed yet

Start of the implementation of the financial instrument NCFF in December 2014

A second new financing instrument for projects promoting the preservation of natural capital, including adaptation to climate change, was launched in 2014.

The EIB was entrusted with the management of the Natural Capital Financing Facility (NCFF). The NCFF will provide loans and investments in funds to support projects which promote the preservation of natural capital, including adaptation to climate change, in the Member States. The EIB will contribute a total budget for the Investment Facility of €100 – 125 million for 2014-2017. The European Commission will contribute €50 million as a guarantee for the investments, and €10 million for a support facility. Beneficiary companies and financial intermediaries will provide significant additional financing.

The main aim of the NCFF is to demonstrate that natural capital projects can generate revenues or save costs, whilst delivering on biodiversity and climate adaptation objectives. Currently there are clear barriers to the uptake of many natural capital projects, including lack of experience, long investment and project payback periods, and uncertainties about target markets, revenue streams and profit margins.

The NCFF is to establish a pipeline of replicable, bankable projects that will serve as a "proof of concept" and that will demonstrate to potential investors the attractiveness of such projects. Eligible projects will address payments for ecosystem services, green infrastructure, biodiversity offsets and investments for innovative pro-biodiversity and adaptation businesses. The final recipients for NCFF are public or private entities, including public authorities, land owners and businesses. The size of NCFF projects will typically be between €5 and €15 million.

In addition to the Investment Facility, the NCFF also includes a support facility for project preparation and implementation for investments eligible under the NCFF. A first payment amounting to € 3,250 M was made in December 2014. No further reporting or data are available yet.

Mainstreaming of at least 20% of EU Budget allocated to climate action by 2020. 12,5% of mainstreaming was reached in 2014 compared to an indicative 6/7 % in 2013 and it will increase considerably in 2015/16

The EU has agreed that at least 20 % of its budget for 2014–20 — as much as €180 billion — should be spent on climate change-related projects and policies. This is on top of climate finance from individual EU Member States. Actions to reduce emissions and to adapt to the impacts of climate change will be integrated into all major EU spending programmes, in particular cohesion policy, energy, transport, research and innovation and the common agricultural policy. This mainstreamed budget marks a major step forward in transforming Europe into a clean and competitive low-carbon economy and helping developing countries adapt to the impacts of climate change.

A particular effort is made to mainstream climate action into the European Structural and Investment Funds. The concerned funds include the European Regional Development Fund (ERDF), European Social Fund (ESF), Cohesion Fund (CF), European Agricultural Fund for Rural Development (EAFRD), and the European Maritime and Fisheries Fund (EMFF). These funds constitute about 43% of the budget of the Union in the period 2014-2020 and it is estimated that they will contribute more than € 110 billion in support for climate change objectives, to which should be added the co-financing from Member States. Another example is the development funds. At least 20% of the EU external budget is devoted to supporting low carbon action and climate resilient development and the EU aims to provide EUR 14bn of public climate finance to support partner countries outside the EU. This will be grant money and it will be additional to the funding provided by individual EU Member States. In addition, strong focus will be kept on integrating climate change into all cooperation projects and programmes.

The system for tracking climate expenditure is based on the so-called "Rio markers" which were developed and convened in the OECD (0%, 40% or 100% climate related expenditure). To facilitate the accounting, at aggregate level, a requirement has been integrated in the Programme Statement (2014-20) of each financial instrument by DG BUDG. A bottom-up data collection process will be set up involving Member States, Commission policy DGs, and DG BUDG, with DG CLIMA in a consultative role. For shared management, guidance documents are being drafted and shared with the Member States. The 12,5 % achieved in 2014 was about twice the indicative share of 2013.

ABB activity 34 02: [specific objective 06]

Specific objective 6: Better climate governance and information at all levels **- To broaden stakeholder involvement, including civil society, NGO's and local actors, in policy consultation and implementation** **- To promote awareness raising and knowledge on sustainable development** **- To support communication, management, and dissemination of information in the field of climate action + knowledge sharing** **- To promote the development and dissemination of best practices and policy approaches**	☒ Spending programme LIFE ☒ Non-spending

Result indicator: Awareness / knowledge of EU citizens about climate issues and the opportunities of moving to a low-carbon economy (Source: Euro-barometer survey)		
Baseline (2011)	Milestone/Current situation (March 2014: Eurobarometer survey)	Target 2020 – end of LIFE programme
In June 2011, 68% of the citizens polled considered climate change a very serious problem (up from 64% in 2009)	In 2014, 69 % of the citizens polled considered climate change a 'very serious' problem (up from 64% in 2009 to 68 % in 2011)	To be further defined but status-quo or increase in the share of citizens considering climate change as a very serious problem

Main financial outputs in 2014	
Description	**Number of outputs**
Operating grants to climate NGO's under the form of multi-annual partnership agreements together with annual agreements fixing the annual work plan	0 in 2014 Number of grant agreements to be signed: estimate of 6 by mid-2015
Service contracts	8
Projects (action grants and capacity building)	0 in 2014 Call for proposals published and being evaluated in 2014. Estimated number of 4/ grants to be signed by mid-2015

Eurobarometer on climate change

A Eurobarometer survey on climate change [31], carried out end 2013 but published in March 2014, showed that a clear majority of Europeans are concerned about climate change and support action across the EU.

The key findings of the report were:

- 90 % of Europeans see climate change as a serious problem — 69 % as a 'very serious' problem and 21 % as a 'fairly serious' problem;
- 80 % of respondents agree that fighting climate change and using energy more efficiently can boost the economy and create jobs;
- the vast majority of Europeans support national action on improving energy efficiency (92 %) and on increasing the use of renewable energy (90 %) by 2030;
- 70 % agree that reducing fossil fuel imports could bring economic benefits;
- 50 % of Europeans say they have taken some kind of action to fight climate change in the past 6 months, slightly down from 53 % in 2011 — however, when prompted with a list of specific actions they might have taken, and with no timescale specified, the proportion rises to 89 %, up from 85 % in 2011.

More and more DG CLIMA is using web and social media to raise awareness of and build understanding, acceptance and support for climate action in line with policy priorities, to create a more positive image of climate action and contribute to the positive image of the EU in general with positive results ([32])

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[31] full Eurobarometer report: http://ec.europa.eu/clima/citizens/support/docs/report_2014_en.pdf

[32] EU CLIMATE ACTION WEB SITE - 2014:

- Visits last 3 months: +39,80%
- Unique visitors last 3 months: +45,02%
- Page views last 3 months: +30,64%
- Visits last 12 months: +9,20%
- Users from all over the world.

- EU CLIMATE ACTION SOCIAL MEDIA- 2014:

The EU Climate Action Facebook and Twitter accounts continue to grow currently reaching more than 76.000 + 7.665 (doubled in 1 year !) followers – without campaign and without paid promotion. The level of engagement is proportionally high (compared with other EC accounts) and each daily post has an average reach of 20.000 people. The social media channels aim to connect in a credible way with a growing group of followers about the DG's current affairs and to drive traffic to DG CLIMA's website where policies are explained in more detail. The social media channels also increase interaction with users and between community members (replies to comments and questions, engaging members to participate) and ensure further use and spread of new web and audio-visual material produced.

ABB activity 34 02: [specific objective 07]

Specific objective 7: To pursue ambitious climate action policies at international level in order to achieve the long-term objective of stabilising greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system.		☒ Spending programme LIFE ☒ Non-spending
Result indicator: Comprehensive global legally binding framework to reduce global greenhouse gas emissions (Source: UNFCCC)		
Baseline (2012)	Milestone/Current situation (2014) Lima (Peru)	Target (global deal in 2015 in Paris; decision taken at the Doha Summit in Qatar in December 2012)
The Doha summit December 2012 paved the way for a new global climate agreement to be adopted in 2015 and enables a second period of the Kyoto Protocol to start on 1 January 2013. (Source: Commission press release IP/12/1342 of 08 December 2012	Step forward in the process. Lima calls for action: a draft negotiating text" of the 2015 by May 2015; agreement on the information required to communicate Intended Nationally Determined Contributions (INDCs); reaffirmation of the Warsaw timetable for INDCs; cracks in outdated interpretation and understanding of responsibilities	By 2015 an agreement within UNFCCC on an ambitious and comprehensive legally-binding framework applying no later than 2020
Result indicator: Global CO2 emissions compared to 1990 (source: JRC report)		
Baseline (2011)	Milestone/Current situation 2013	Target (2050)
Increase of 45 % by 2010 and again by 3% in 2011 to a new record of 34 billion tonnes. The concentration of CO2, the most important greenhouse gas, reached a level of 386 ppm by 2009, and further increased	Increase in 2013 to the new record of 35.3 billion tons (Gt) CO_2 or a 2% increase compared to 2012	50% reduction

to 389 ppm in 2010. This is an increase of approximately 110 ppm (around +39%) compared to pre-industrial levels.			
Result indicator: Increased up-take of robust market based measures in third countries.			
Baseline (2013)	Current situation	Milestones	Target 2020
	2014	2016	
Cooperation with third countries on the development of domestic carbon markets, and the promotion of the links between EU ETS with other carbon trading systems.	Signature of an agreement between the EU and the Swiss Confederation on the linking of their greenhouse gas Emissions Trading Systems resumed Cooperation agreements signed with 2/3 partner countries	Increased international dialogue and technical cooperation on development of domestic market based schemes with 4-5 active cooperation programmes with strategic partners.	Several domestic market schemes set up with comparable standards. Readiness for possible linking arrangements in view of creating an international carbon market.

Outcome of LIMA UNFCCC summit December 2014: Negotiations are well on track towards a global deal in Paris in December 2015

The climate conference in Lima is considered as a step forward on the road to a global climate deal in Paris in 2015. Once again, the EU played a leading role. The conference agreed on two deliverables, the Lima Call for Climate Action and the draft elements text for the 2015 Agreement.

The Lima Call requires all countries to describe their proposed emissions reduction targets in a clear, transparent and understandable way. This will enable quantification of the proposed contributions (Intended National Determined Contributions or INDC's). In order to assess whether these are fair and ambitious and whether the collective effort puts us on track to keep global warming below the 2 degrees centigrade, the UNFCCC secretariat will publish the contributions and prepare a synthesis report.

Uptake of market based measures supported by the EU partnerships around the globe is progressing

In 2014, a €5 million, 3 year co-operation agreement was initiated and launched with China to support the development of emissions trading in the country. A similar €3.5 million project under the "Partnership instrument" with South Korea was also agreed in

2014 and it is due to start in 2015. In addition, a project was established to support development of a sectoral market mechanism in Tunisia, with the aim of reducing emissions from the cement sector.

Linking negotiations with Switzerland restarted in the second half of 2014 after having been suspended due to the result of a Swiss referendum. The aim now with the negotiations is to be in a position to initial the linking agreement in 2015.

The Commission continued to take an active role in multilateral activities supporting the creation of carbon markets, in particular through being a major funder of and participant in the World Bank's Partnership for Market Readiness (PMR) and also the International Carbon Action Partnership (ICAP). The PMR aims to fund projects in emerging economies and developing countries related to the creation of infrastructure for carbon pricing mechanisms. ICAP focuses on training and capacity building for future practitioners of emissions trading from both the public and private sectors.

Despite EU legislation and similar initiatives word-wide, global CO2 emissions increase to new all-time record, but the growth is slowing down

Global carbon dioxide (CO_2) emissions from fossil fuel use and cement production increased in 2013 to the new record of 35.3 billion tons (Gt) CO_2, which is 0.7 Gt higher than the previous year's record. This moderate increase of 2% in 2013 compared to 2012 is a continuation of the previous year's trend and confirms the slowdown in the annual growth in emissions. These annual increases are about half the annual increase in emissions of 3.8% that was the average over the previous ten years. This slowdown, which began in 2012, signals a further decoupling of global emissions and economic growth, which reflects mainly the lower emissions growth rate of China. China, the USA and the EU remain the top-3 emitters of CO2, accounting for respectively 29%, 15% and 11% of the world's total. After years of a steady decline, the CO2 emissions of the United States grew by 2.5% in 2013, whereas in the EU emissions continued to decrease, by 1.4% in 2013[33].

ABB activity 34 02: [specific objective 08]

Specific objective 8: To increase the Union's effectiveness in addressing global climate challenges with neighbourhood and (pre) accession countries		☒ Spending programme LIFE ☒ Non-spending
Result Indicator: Status of negotiations on environmental chapter with Candidate Countries (Commission report)		
Baseline (2013)	Milestone/Current situation	Target
Candidate:		Alignment with EU

[33] Annual report 'Trends in global CO2 emissions', released by PBL Netherlands Environmental Assessment Agency and the JRC. The report is based on recent results from the joint JRC/PBL Emissions Database for Global Atmospheric Research (EDGAR)

<table>
<tr><td>- underway: 1 (Turkey)
-not yet open: 3 (fYRoM, Montenegro, Serbia)</td><td>Potential candidates: 2 (Albania, Kosovo, Bosnia and Herzegovina) talks ongoing</td><td>environment legislation by candidate and potential candidate countries</td></tr>
<tr><td colspan="3">Result Indicator: Degree of convergence of European Neighbourhood (EN) countries with EU environment policy and standards</td></tr>
<tr><td>Baseline (2013)</td><td colspan="2">Current situation/Target</td></tr>
<tr><td>At regional level, the Eastern Partnership (EaP) is tackling 'environment and climate change' as a priority area. Under the Union for the Mediterranean a number of capacity building measures are being supported that use the European model as the example to follow.</td><td colspan="2">Progress towards the adoption of EU standards and norms for environmental protection by countries neighbouring the EU and other partner countries. : progress at different level has been marked in Southern Mediterranean countries, with Morocco, Tunisia making the most efforts and expressing interest in association to EU policies (namely Morocco's request to join EU ETS). Further progress has also been noted in Jordan, and to a certain degree in Egypt. Countries efforts were further supported through enhanced regional cooperation, in view of more ambitious climate action before and after COP21 in Paris.</td></tr>
<tr><td colspan="3">Financial outputs 2014</td></tr>
<tr><td>description</td><td>Indicator</td><td>target</td></tr>
<tr><td>Payment of obligatory and voluntary regular contributions to the Multilateral Climate Agreements to which the EU is a party (UNFCCC, ITL, Kyoto protocol, Vienna convention and Montreal protocol)</td><td>Number of financial contributions: 5</td><td>All 5 paid in the 1st Q 2014</td></tr>
<tr><td colspan="3">Policy outputs 2014</td></tr>
<tr><td>description</td><td colspan="2">Status</td></tr>
<tr><td>Ratification package of the Doha Amendment to the Kyoto Protocol.</td><td colspan="2">In co-decision</td></tr>
</table>

ABB activity 34 02: [specific objective 09 - general objective 02]

<table>
<tr><td colspan="4">Relevant general objective: Support the recovery of the ozone layer to protect human life from harmful UV radiations</td></tr>
<tr><td colspan="2">Specific objective : To successfully implement the EU legislation going beyond the Montreal protocol protecting the ozone layer</td><td colspan="2">☒ Spending programme LIFE
☒ Non-spending</td></tr>
<tr><td colspan="4">Result indicator: EU consumption of controlled Ozone Depleting Substances (hydrochlorofluorocarbons or HCFCs + methyl bromide)[34] under and beyond the Montreal Protocol (Source: EEA report - 'Ozone depleting substances 2013')</td></tr>
<tr><td rowspan="2">Baseline
(2010)</td><td colspan="2">Milestone</td><td rowspan="2">Target
(2040)</td></tr>
<tr><td>Current situation end 2014</td><td>2020</td></tr>
<tr><td>Zero consumption (= production plus import minus export) achieved since 2010 for both ODS substances</td><td>On 31 Dec 2014 two significant bans entered into force:

- a ban to import & export methyl bromide for quarantine and pre-shipment uses.

- a ban to use any HCFC for maintenance of existing refrigeration and air-conditioning equipment, including the servicing of ships

The annual reported quantities for year 2013 were:

- methyl bromide - imports: 2750 t, exports: 2440 t

- HCFC's - imports: 3475 t, production: 114 910 t; exports: 8610 t

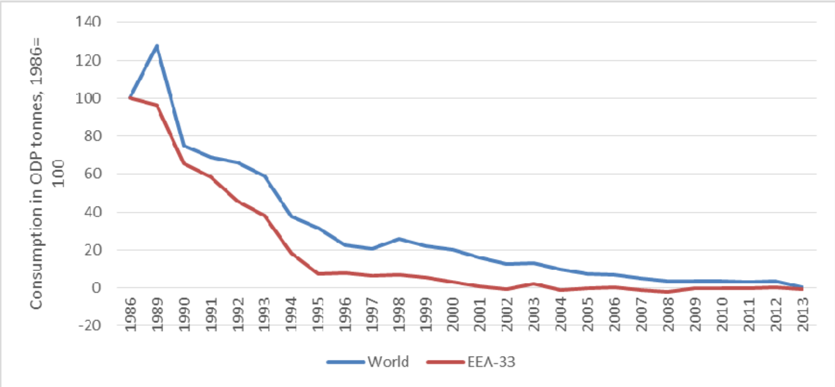
Critical uses of ozone-depleting substances e.g. feedstock uses, process agent uses, essential laboratory uses are still allowed.</td><td>ban on all imports and exports of HCFC's

ban on all production of HCFC's</td><td>ban on all critical uses</td></tr>
</table>

[34] excludes a range of uses such as critical uses (in the EU only uses of halon for fire-fighting), feedstock uses, process agent uses and essential uses (in the EU only uses in laboratories)

	The import and export of ODS is subject to licensing. Over 350 companies are registered in the ODS Licensing System and apply for licences. In 2014 the Commission issued over 2000 ODS licences. Conclusion: target achieved for methyl bromide		

Consumption of controlled ozone-depleting substances in the EEA-33 and worldwide (ODP tonnes)



Source: European Environment Agency, 2014 based on UNEP Ozone Secretariat data

PS: EEA-33 is 28 European Union Member States together with Iceland, Liechtenstein, Norway, Switzerland and Turkey

Thanks to its stringent legislation, Europe is successfully phasing out known ozone layer-harming chemicals

Chemicals which damage the ozone layer continue to be phased out in the European Union, according to the latest data from the EEA. Thanks to the EU ODS Regulation[35], which is more stringent than the rules of the Protocol and covers additional substances, the net consumption[36] of ODS has been achieved.

Overall, the trade and use of substances with a high ODP is shrinking as they are gradually replaced with less harmful substances, the report shows. Between 2012 and 2013 the production, export and destruction of these substances continued their long-term declining trend, both in ODP terms and metric tonnes. Imports have also declined since 2006, although they have stabilised in recent years and increased slightly between 2012 and 2013.

[35] Regulation (EC) No 1005/2009 of the European Parliament and of the Council of 16 September 2009 on substances that deplete the ozone layer

[36] consumption = production plus import minus export

Risk assessment

As regards the implementation of the climate action sub-programme of the LIFE programme, DG CLIMA has implemented the necessary corrective actions to mitigate identified risks in this area and how these could influence progress in achieving the programmes objectives.

Conclusion

As evidenced above, climate action policy in the EU, managed by DG CLIMA, is generally on track to meet its (multi-annual) objectives (or is even overachieving its objectives in some areas like the -20 %reduction of GHG emissions by 2020) and has achieved the annual performance indicators or outputs and milestones in the reporting year.

The implementation of the climate action sub-programme of the LIFE programme managed by DG CLIMA has faced a slight delay and so has not fully achieved the annual performance indicators or milestones in the reporting year 2014 yet but is now on course to meet its multiannual objectives. The slight gap in implementation is due to the late adoption of the legal basis, of the multi-annual financial work-programme 2014-17 and of the annual financial work-programme 2014, aggravated by the time-consuming but unavoidable process of delegation of the grants part to EASME and the delegation of the 2 financial instruments to the EIB. However, by mid- 2015, the grants resulting from the 2014 calls for proposals will be signed, as well as the first financial agreements with intermediaries under the financial instruments.

1.2 Examples of EU-added value and results/impacts of projects or programme financed

No examples of the new LIFE programme are available yet as the calls for proposals are currently being evaluated. An action grant from the former LIFE + programme in relation to farm-based climate action can certainly been considered as a success story of an intervention at EU level.

Example 1: LIFE + programme success story

AgriClimateChange – Combating climate change through farming: application of a common evaluation system in the 4 largest agricultural economies of the EU

This project demonstrated

Effectiveness and EU added value: It was a cross-border/trans-national project implemented in Spain, Italy, France and Germany. Quantifiable evidence showed how an average reduction of 10% in GHG emissions and 10% in energy consumption is achievable at single farm level!

Efficiency: Better value for money was provided as evidence and data could be collected and pooled during the project's trials from no less than 128 action plans under a single coordinator. This data collection would not have been possible except at a much higher cost if it had to be done by the individual MS and to be compiled afterwards.

Synergy: A management and measuring tool (ACCT) was created to measure farm-based climate action that is promoted now as a standard and will be further deployed. Quantifiable monitoring systems are just one part of the ACCT, which also helps farmers to identify their most cost-effective options for avoiding emissions by producing renewable energy at farm-level, a tool which can also audit carbon sequestration from cover crops, agroforestry, crop rotations, and reuse of residues and help adapting farms to new weather-related challenges.

Implementation period: 01-Sep-2010 to 31-Dec-2013
Total budget: €1 589 000
LIFE contribution: €794 000
Project number**:** LIFE09 ENV/ES/000441

Example 2: Delegation of Financial Instruments to the European Investment Bank (EIB)

A delegation agreement was signed with the European Investment Bank (EIB) on 5 December 2014 for the management of a financial instrument - the Private Finance for Energy Efficiency (PF4EE). The objective of using such a financial instrument is to make energy efficiency (EE) lending a more sustainable activity across Europe, to encourage private commercial banks and other Financial Institutions to address the energy efficiency sector as a distinct market segment, and to increase lending for EE in response to priorities identified by Member States' National Energy Efficiency Action Plans. EU added value derives from the development of an instrument that targets a major policy challenge that can be replicated across the EU, ensuring a broad geographical coverage. In particular, EU added value derives from:

1) The capacity to mobilise the power of private sector financial institutions and capital markets to achieve scale and credibility in the EE market,

2) The scale of investment flows activated by an EU wide financial instrument, which is likely to be greater than from several individual instruments developed in parallel in MS,

3) A shift towards debt finance for EE, using the private sector to reduce grant dependency across MS,

4) The help a risk-sharing component offers to overcome concerns from FIs about the potential risk in lending to EE projects, and

5) Expert advice, which will help the FIs to enter the market and to develop project pipelines and acquire experience of the factors important in project appraisal.

The estimated leverage (i.e. the value of the loan portfolio compared to the cost of the EC contribution) is 6. Taking into account the possible contribution of final recipients to project costs, the leverage of total investment to the costs of the EC provision could be up to 8 depending on the expected average project size of the loan portfolio and requirements for final recipient contributions.

1.3 Specific efforts to improve 'economy' and 'efficiency' of spending and non-spending activities

According to the Financial Regulation (art 30), the principle of economy requires that the resources used by the institution in the pursuit of its activities shall be made available in due time, in appropriate quantity and quality, and at the best price. The principle of efficiency concerns the best relationship between resources employed and results achieved.

The respect of these principles is continuously pursued through the implementation of internal procedures. These procedures ensure that activities are executed in an efficient way and according to the principle of economy.

DG CLIMA is continuously fine-tuning its internal arrangements in order to improve the efficiency and economy of its operations. The following initiatives show how these principles are implemented in DG CLIMA:

Example 1: Delegation of the Climate action sub-programme of LIFE to the executive Agency EASME

In 2014 DG CLIMA became responsible for the management of the Climate Action sub-programme[37] of the new "Programme for the Environment and Climate Action (LIFE)" for 2014-2020. This was a new and additional core activity for DG CLIMA as the DG had not managed any LIFE grants before. In 2014, in accordance with the Commission's commitment to simplify the management of the new financial programmes 2014-2020, around 70% of the share of the Member States in the Climate Action sub-programme of LIFE, earmarked for operating and action grants, was delegated to EASME, the Executive Agency for Small and Medium-Sized Enterprises. The remaining 30 % is used for financial instruments managed by the European Investment Bank, EIB.

This allows the Commission to focus on its policy-making role while EASME can focus on financial programme management and in doing so can also identify synergies between LIFE, climate action policies, and the other programmes that it manages, to identify efficiency gains and simplification opportunities.

Example 2: Centralisation of conformity-checking of national transposition measures for Directives

In the process of the conformity-checking of national measures notified by the Member States for the transposition of the four flagship Directives of DG CLIMA[38], the support cell CLIMA.003 assisted and substituted widely the operational units by taking on board

[37] Regulation 1293/2013

[38] Fuel Quality Directive, Carbon Capture and Storage Directive, EU ETS and EU ETS and aviation Directives

this new role. It took on a coordination role in managing the outsourcing of conformity studies to two different consultancy firms, steering their work and translating the validated conclusions of the studies into EU Pilot letters addressed to the Member States. The positive effect of this centralisation was that the concerned operational units in DG Climate Action could focus on their policy-making roles.

Example 3: Centralisation of the evaluation function

Each DG must have a central evaluation function to liaise with SG in the framework of the REFIT (Regulatory Fitness) programme and to provide advice to the operational units that carry out ex-post evaluations. This function has now been established centrally in the support cell 003. Apart from simplifying the evaluation process, it also pursues synergies between the various policies. A lot of activity occurred in the evaluation field in 2014: contribution to the preparation of the 2014 Commission's Communication on REFIT, evaluations of the Cars and Vans Regulations and of the Carbon Capture and Storage Directive, and drafting Terms of Reference for the evaluation of the ETS Directive, the Fuel Quality Directive and the Effort Sharing Decision.

2. MANAGEMENT OF RESOURCES

This section reports on the control results and other relevant elements that support the management assurance on the achievement of the internal control objectives[39]. It is structured in three separate sections: (1) the DG's assessment of its own activities for the management of its resources; (2) the assessment of the activities carried out by other entities to which the DG has entrusted budget implementation tasks; and (3) the assessment of the results of internal and external audits, including the implementation of audit recommendations.

2.1 Management of human and financial resources by DG CLIMA

This section reports on and assesses the elements identified by management that support the assurance on the achievement of the internal control objectives. Annex 5 outlines the main risks together with the control processes that aim to mitigate them and the indicators used to measure the performance of the control systems.

The budget of DG Climate Action is implemented through direct management and also indirect management (i.e. through financial instruments entrusted to the EIB). The 2014 commitment appropriations amount to EUR 119.2 million (of which EUR 46.3 million were delegated to EASME and 30 million to the EIB). The table below gives an overview of the budget implementation at 31/12/2014.

Financial overview DG CLIMA:

Expenditure (EUR)	2014 Commitment Appropriations	Committed 31/12/2014	2014 Payments Appropriations	2014 Payments authorised
LIFE & Completion LIFE	50,655,860	50,559,063	24,057,125	23,620,638
LIFE support expenditure	3,459,000	3,250,652	5,052,265	3,140,645
Multilateral Env. Agreements	775,030	775,030	775,030	775,030
Preparatory Actions	1,200,000	1,200,000	4,552,000	4,552,000
Cross Sub-delegation DEVCO	14,800,000	14,800,000	9,749,930	9,809,642
Cross Sub-delegation ELARG (IPA)	20,000	20,000	20,000	1,085
Administrative expenditure	2,051,505	2,051,505	2,633,765	2,073,125
Sub-total (before amounts delegated to Agency):	**72,981,395**	**72,676,250**	**46,840,115**	**43,972,170**
Delegated to Agency EASME	46,260,000	46,260,000	0	0
TOTAL	**119,241,395**	**118,936,250**	**46,840,115**	**43,972,165**

The consumption of commitment and payment appropriations is satisfactory with implementation rates of 99.7% and 93.9% respectively at year end.

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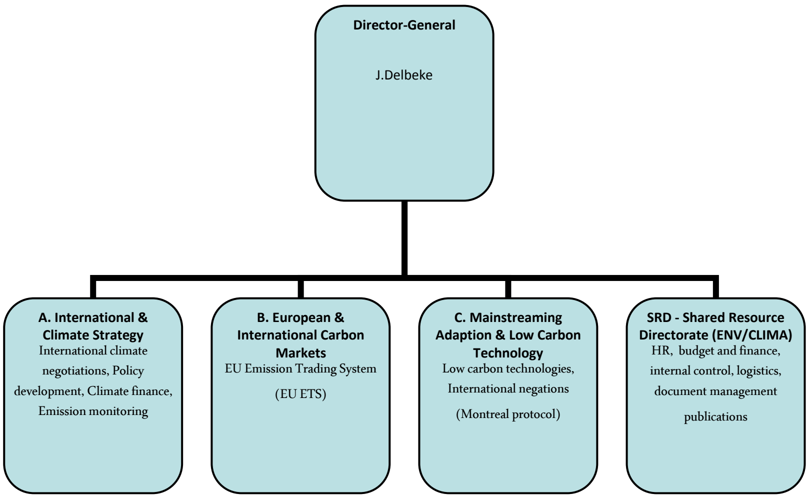
[39] Effectiveness, efficiency and economy of operations; reliability of reporting; safeguarding of assets and information; prevention, detection, correction and follow-up of fraud and irregularities; and adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments (FR Art 32).

OPERATIONAL STRUCTURE AND FINANCIAL CIRCUITS

At 31/12/2014, DG CLIMA had 186 staff members including external personnel[40]. The DG is structured around three Directorates, which receive various administrative and financial support services from the Shared Resource Directorate:

High-level organisation chart of DG CLIMA:



Overview financial circuits for payments authorised in 2014 (including sub delegations):

Financial circuit	Expenditure	EUR million
Partly centralised (ABB 3402)	LIFE+, Preparatory Actions, MEA (mainly procurement)	32,088,315
Centralised (ABB 3402)	Administrative expenditure	2,073,125
Co and cross sub-delegations to other DGs	Cross sub-delegations to DG DEVCO, DG ELARG	9,810,725
	Total	**43,972,165**

OF WHICH € 34,161,440 UNDER ABB ACTIVITY 34 02

MANAGEMENT PARTNERS: AGENCIES AND CROSS SUB-DELEGATIONS

DG CLIMA is managing a small number of actions under cross sub-delegation agreements granted by DG DEVCO (GPGC- Global Public and Goods Challenge). The GPGC is part of the EU's response to helping developing countries tackle increasing environmental and climate challenges and contribute to the achievement of the Millennium Development Goals on the environment. Through the GPGC, the EU has dedicated resources to help developing countries and partner organisations address environmental and natural resource and climate management issues.

[40] Including SRD staff, of which 75% is "attributed" to DG Environment and 25% to DG CLIMA

Control effectiveness as regards legality and regularity

DG Climate Action has set up internal control processes aimed at ensuring the adequate management of risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments concerned. The control objective is to ensure that the final amount at risk related to payments authorised in 2014 does not exceed 2% of the amount in ABB activity 34 02. As DG CLIMA was managing a very small number of grants under the former ENRTP and the new GPGC programmes of DG DEVCO in 2014, ex-post audits aiming at detection and correction of potential fraud, errors and irregularities are carried out only on request if there is suspicion of fraud or irregularity. No such risk cases were indicated in 2014. Nevertheless, we have used an error rate based on ex-post audits of LIFE+ grants managed by DG Environment (see analysis below).

The Standing Instructions[41] provide that the assessment by management should cover the DG's significant budget areas. Procurement and technical assistance under LIFE, and procurement under the cross sub-delegation with DG DEVCO amount to 83% of the budget. The remaining 17% of operational funds are grants channelled as project grants through the cross sub delegation with DG Development (DEVCO) and operating grants to NGOs through LIFE. As shown in the table below, the overall payments authorised and made in 2014 amount to 43,972,165 EUR . Apart from the action grants of € 4.2 million sub-delegated by DEVCO, € 3.3 million of operating grants to NGOs cross sub-delegated to DG Environment, and € 0.1 million related to preparatory actions and pilot projects, all payments were implemented through procurement.
A total amount of € 34,161,440 EUR was paid under ABB activity 34 02. The control strategies for procurement under ABB activity 34 02 are further explained in the Internal Control Templates in Annex 5.

Overview of payments authorised in 2014 under ABB Activity 34 02:

	Grants	**Procurement**	**Total Payments made in 2014**	**%**
Administrative expenditure		2,073,125	2,073,125	6%
LIFE & Completion LIFE CLIMA	3,301,905	20,318,733*	23,620,638	69
LIFE CLIMA support expenditure		3,140,646	3,140,646	9
Multilateral Clima. Agreements		775,031	775,031	2
Preparatory Actions & Pilot Projects	136,380	4,415,620	4,552,000	13
Externalisation to EASME	0	0	0	0%
TOTAL	**3,438,285**	**30,723,155**	**34,161,440**	**100%**

* €9.25 million out of the €20.3 million is related to financial instruments

ESTIMATION OF THE DETECTED ERROR RATE (DER), THE AMOUNT AT RISK, AND THE RESIDUAL ERROR RATE (RER)

In line with the AAR Standing Instructions, the detected error rate (DER), the amount at risk, and the residual error rate (RER) have been calculated as follows:

[41] ARES(2012)1240233

Calculation step	Result	Explanation
1. Detected error rate (DER): LIFE grants	1.45%	Error rate based on ex-post audits of grants of the **former** LIFE+ programme
2. Apply DER to amount paid to LIFE grants in 2014 - no recoveries issued in 2014 to be deducted Amount at risk LIFE grants ABB 34 02	€0.048m	Detected error rate of 1.45% applied to the total amount of LIFE grant payments authorised in 2014 for DG CLIMA (EUR 3.3 million)
3. Amount at risk related to other payments under ABB Activity 3402	€0.001m	a) Preparatory actions and pilot projects paid through grants (EUR 0.1 million). The amount at risk has been calculated using the same error rate as for LIFE grants (1.45%). Total Amount at risk: EUR 0.1 million * 1.45 % = EUR 0.001 million. b) Procurement: LIFE "other expenditure" (EUR 11.1 million), LIFE "support expenditure" (EUR €3.1 million), MEAs (EUR 0.8 million), and preparatory actions and pilot projects (EUR 4.4 million). The risk of payment-related errors is considered insignificant (see notes below). c) Financial Instruments (EUR 9.25 million): No operations signed with financial intermediaries and final recipients at the time of payment. The risk of payment-related errors is considered insignificant.
4. Final amount at risk for ABB Activity 3402	€0.049m	The final (net) amount at risk is EUR 0.049 million.
5. Residual error rate (RER) under AAB Activity 3402	**0.144%**	The final (net) amount at risk (**EUR 0.049 million**) divided by the total payments under ABB activity 34 02 in 2014 (EUR 34,161 million) gives a residual error rate of **0.144 %** which is under the materiality level of 2%

Notes to the calculation table:

1. The amount at risk for LIFE grants has been calculated by using the same detected error rate of 1,45% as the one derived by DG ENV from the results of ex-post audits on a randomly selected sample of 29 LIFE+ grants. This is justified because the control environment for LIFE grants managed by DG ENV and DG CLIMA is largely similar.
2. It should be noted that at DG CLIMA, the amount of operating grants for NGOs under a cross sub-delegation to DG ENV is not that significant (EUR 3.3 million).
3. a) The same detected error rate of 1.45% has been used to calculate the amount at risk for the preparatory actions and pilot projects paid through grants. This assumption

is particularly conservative as the risk on international organisations is very limited.

b) For procurement, the risk of payment-related errors is considered insignificant as 1) there is a limited number of pre-financings, and 2) technical reports preceding the payments have been approved; only some redrafting was sometimes required. The risk of errors related to the selection and award process is deemed to be low in the light of the existing ex-ante control systems:

1. There are thorough ex-ante controls of procurement-related transactions in DG CLIMA. In addition to the mandatory initiator/verifier controls of all payments and commitments, procurement specialists in the central financial unit systematically provide advice and support to the operating units in DG CLIMA.

2. Also, a specific procurement advisory committee (ENVAC) performs verifications of all contracts above EUR 500.000 plus a sample of contracts of lower value.

Therefore, reasonable assurance can be provided given: robust ex-ante controls performed in the financial circuit; quality advice by procurement experts to the desk officers and authorising officers in the operating units; independent and positive ENVAC verifications; no significant errors and weaknesses detected by the internal and external auditors; and no fraud cases or Ombudsman cases flagged.

c) For financial instruments, the risk of payment-related errors is considered insignificant in 2014, as payments were made in December 2014 from the Commission to the European Investment Bank (EIB) (3,25 million for NCFF and 6 million for PF4EE) when no operations with financial intermediaries and final recipients had been signed.

4. Based on the above, the **final amount at risk** in relation to payments authorised in 2014 under ABB activity 3402 (or € 34,161million) is **€ 0.049 million**.

5. The **residual error rate (RER)**, calculated by dividing the final amount at risk of €0.049 million by the total payments under ABB Activity 3402 in 2014 of €34.161 million, is **0.144%** which is under the materiality level of 2%. No reservation is necessary.

Following an audit from the internal audit capability on NGOs funding, an action plan was approved on 27 March 2014 that includes measures to improve the technical review and financial viability analysis of applicants as well as the financial review of final payments.

KEY CONTROL INDICATORS

The assessment by management is based on the results of key controls performed in 2014, notably ex-ante controls and controls during project implementation. The table below shows the most relevant quantitative control indicators for 2014 compared to 2013:

Key control indicators for 2014 and 2013:

1. Input indicators (resources devoted)	2014	2013
Ex-ante financial initiation (FTE)	2	2.5
Ex-ante financial verification (FTE)	1	1
Controls at ENVAC meetings and programming	0.5	0.5
SIAC (FTE)	1	1
2. Output indicators (controls during project implementation)	2014	2013
Procurement ex-ante: number of rejected/adjusted commitments	22 of 308 (7.1%)	48 of 306 (15.5%)
Procurement: number of procurement files reviewed by ENVAC	8	9
Procurement: number of negative opinions by ENVAC	0	0
Number of exceptions registered (ICS 8)	1	3
3. Other indicators	2014	2013
Number of payments exceeding legal delays	19/358 = 5.3%	41/579 = 7.1%
Number of European Ombudsman cases	0	0
Number of OLAF cases	0	0

Notes to the control indicators:

- *Ex-ante controls (procurement)*: The resources allocated to control have remained relatively stable in 2014 (a small decline in the FTE allocated to initiation). The number of rejected/adjusted commitments following the ex-ante verification decreased compared to 2013. The reviews performed by the ENVAC are highly important. The number of files reviewed was reduced to 8 in 2014 compared to 9 in 2013 and 18 in 2012, as DG CLIMA made more use of the Framework Contracts that it had concluded in 2011, 2012 and 2013 so that a significant number of commitments were made in respect of specific contracts under a framework contract. No negative ENVAC opinions were issued on CLIMA files. However, a number of procurement files were fine-tuned following on ENVAC's recommendations, while controls contributed to other, non-significant adjustments, for a number of files concerning both procurement and administrative budget expenditure (conferences, meetings, etc.).
- *Exception reporting:* The number of recorded exceptions (only 1 case) remains low. The analysis of the reported case does not point to any material weaknesses in the internal control system and has been addressed promptly by a mitigating action.
- *Payment delays:* The number of payments made by DG CLIMA remained at similar levels as in 2012 (2013 was an exceptional year with almost doubled payments at 579). In 2014, 5.3% of all DG CLIMA's payments were paid late as compared to the legal deadlines[42]. In monetary terms, late payments accounted for 6.1% of all payments, a significant improvement compared to 2013. The main reason for payment delays in DG CLIMA in 2014 was payments on grants to international organisations (DEVCO projects), which was primarily due to the lack of payment appropriations. The performance of the DG in terms of respecting the payment delays has improved further compared to previous years.

[42] (i.e. those automatically generated in ABAC, and those which were in force at the time of making the commitment and signing the grant agreement).

Control efficiency and cost-effectiveness

The principle of efficiency concerns the best relationship between resources employed and results achieved. The principle of economy requires that the resources used by the institution in the pursuit of its activities are made available in due time, in appropriate quantity and quality, and at the best price. This section outlines the indicators used to monitor the efficiency of the control systems, including an overall assessment of the costs and benefits of controls.

Procurement – Cost of Controls

	Cost of controls		
	FTE Officials		Total
	n	€	€
Procurement procedures	0.5	66,000	
Financial operations (ex-ante)	1.5	264,000	
Supervisory checks (ex-post)	1	132,000	
Subtotal before allocations	3.0		**396,000**
Overhead cost allocation (8.3%)	0.25	33,000	
Overall cost of controls	**3.25**		**429,000**

The number of FTEs associated with exercising controls has been established. The overall cost of controls consists of direct cost and allocated overhead cost obtained from the annual screening exercise of DG HR (8.3%). There are no units indirectly involved in the system of controls. The overall cost of controls for procurement amounts to € 429,000.

The efforts identified above to control procurement procedures over their whole lifecycle contributed towards achieving an estimated zero error rate in the procurement cycle in 2014. None of the CLIMA calls for tender were cancelled or abandoned. Alternative action was taken (through negotiated procedures and re-programming) for 1 contract that has been cancelled due to the bankruptcy of the contractor. There was no need for corrections to CLIMA calls.

Procurement – Benefits of Controls

		Benefits of controls			
		Prevented	Detected	Corrected	Total
		€	€	€	€
Procurement procedures				142,093	142,093
Financial operations (ex-ante)		942,045			942,045
Supervisory checks (ex-post)			341,103	434,488	775,591
Overall cost of controls		942,045	341,103	576,581	**1,859,729**

The costs of controls performed are matched against benefits derived during the ex-ante phase (as compared to the original management planning), where the full amount budgeted for financial actions in the management plan 2014 was not consumed, meaning that €942,000 following preventive ex ante controls became available for re-deployment in 2014. In addition, the supervisory/ex-post checks performed on payments during the running life of the contracts led to recovery orders of €5,859 and also to the issuing of credit notes for an amount of €335,244 (a total benefit of controls amounting to €341,103). Finally, there were corrections implemented in a contract due to the declared bankruptcy of the contractor (contract for a value of €142,093 has been cancelled), and correction of non-eligible expenditure prior to payments (which led to de-commitments of €434,488, where the amount has been re-used).

Grants - Direct Management (Costs of controls)

In order to estimate the cost of controls regarding grants under direct management, we have identified the costs associated with the exercise of controls in the central financial unit.

	Cost of controls					
	FTE Officials		FTE CA		Other (external) inputs	Total
	n	€	n	€	€	€
Stages 1 and 2 - Evaluation, selection						
Stage 3 - Monitoring and execution (fin circuits)	0.75	99,000				
Total ex-ante =						
Stage 4 - Ex-post controls and recoveries						
Total ex-post	-	-				
Subtotal before allocations		**99,000**				
Overhead cost allocation (8.3%)		8,217				
Total costs		**107,217**				**107,217**

Grants - Direct Management (Benefits of controls)

Both cost pools per above are matched against the benefits of controls which are derived mainly from recovery orders due to irregularities.

	Benefits of controls			
	Prevented	Detected	Corrected	Total
	€	€	€	€
Stages 1 and 2 - Evaluation, selection, contracting				
Stage 3 - Monitoring and execution (fin circuits)			457,510	457,510
Total ex-ante =				
Stage 4 - Ex-post controls and recoveries				
Total ex-post				
Total benefits =				**457,510**

Apart from the quantifiable benefits, the Commission avoided reputational costs and damages, it has not faced any legal action or complaints to the Ombudsman, while the controllers have made every effort to establish and implement the anti-fraud action programme in the DG.

Following a complaint lodged in August 2012 regarding theft of emission allowances, a contingent liability valued at 16.2 million was recorded in the final 2012 accounts. In the course of 2014, the Court ruled in favour of the Commission. Hover, since the complainant lodged an appeal, the contingent liability will be maintained in the 2014 accounts.

OVERALL CONCLUSION ON THE COSTS AND BENEFITS OF CONTROLS:

DG CLIMA quantified the costs of the resources and inputs required for carrying out the controls described in annex 5 and estimated so far as possible their benefits in terms of the amount of errors and irregularities prevented, detected and corrected by these controls.

Overall, during the reporting year, the controls carried out by DG CLIMA for the management of the budget appropriations were cost effective, as the estimated quantifiable benefits exceeded the cost by a ratio of 4 to 1.

In addition, there are a number of non-quantifiable benefits resulting from the controls operated during the programming phase, which aimed to ensure that the financed projects contributed to the achievement of the policy objectives, and from the deterrent effect of ex-post controls. Furthermore, DG CLIMA considers that the necessity of these controls is undeniable, as the totality of the appropriations would be at risk if they were not in place.

Fraud prevention and detection

DG CLIMA has developed its anti-fraud strategy as foreseen in the Commission's overall anti-fraud strategy[43]. The Anti-Fraud Strategy has been built around the following anti-fraud objectives: (i) Maintaining a high level of ethics and fraud awareness within the DG; (ii) Improving the physical security in the CLIMA premises and access to sensitive information; (iii) Ensuring security of ETS through enhanced IT security controls, improvement of risk identification and appropriate level of resources for combating fraud; (iv) Ensuring a secure outsourcing of ETS functions to external service providers (such as the auction monitoring); (v) Strengthening fraud detection in ex-ante and ex-post controls; and (vi) Ensuring an effective fraud-proofing of new legislation.

In coordination with OLAF, a specific anti-fraud training session was delivered in November 2014. All financial correspondents and coordinators have been trained. In addition, a policy on sensitive (non-classified) ETS-related information has been developed and associated training provided. Sensitive functions have been reviewed and annual reminder(s) on whistleblowing and a code of conduct (checklist) have been sent to all staff.

This anti-fraud strategy was audited by the Shared Internal Audit Service in 2014. The final report was published on 13 February 2015 with no critical or very important recommendations. The important recommendations will be taken on board in the revision of the anti-fraud strategy expected in 2015.

DG CLIMA will ensure the continued implementation of all objectives throughout 2015.

During the reporting year, DG Climate Action transmitted no cases to OLAF/IDOC for investigation.

In conclusion, the anti-fraud measures already in place – notably the controls performed through ex-ante and ex-post controls – did not identify any cases of fraud or potential fraud in 2014.

2.2 Budget implementation tasks entrusted to other services and entities

This section reports and assesses the elements that give assurance that internal control objectives have been achieved as regards budget implementation tasks carried out by other Commission services and entrusted entities distinct from the Commission.

For details, see the ICT in Annex 5.

Cross-sub-delegations

DG CLIMA has entrusted parts of its budget to other DGs through cross-delegations (DGs ESTAT, ENV, ENTR, EMPL, DIGIT). In all these cases, the DG's supervision

[43] COM(2011) 376 24.06.2011.

arrangements are based on a memorandum of understanding with delegated DGs and defined reporting obligations. All delegated AODs have given assurance in their reports on the correct use of funds.

DG	Commitments	Payments
ESTAT	1,100,000	-
DIGIT	205,473	205,473
ENV	10,540,000	6,551,905
EMPL	24,284	18,510
Total:	**11,869,757**	**6,570,620**

EXECUTIVE AGENCIES

As from 2014 DG CLIMA became responsible for the management of the Climate Action sub-programme[44] that established a new "Programme for the Environment and Climate Action (LIFE)" for 2014-2020. In 2014, DG Climate Action, in accordance with the Commission's commitment to simplify the management of future financial programmes 2014-2020 (including LIFE), agreed to externalise management of implementation to an existing Executive Agency. As a result thereof, around 70% of the Climate Action part of LIFE has been allocated to action grants (projects) to be managed by EASME, the Executive Agency for Small and Medium-Sized Enterprises. The remaining part of the budget is used for two financial instruments managed by the European Investment Bank, EIB.

In order to ensure close cooperation between the DG and EASME in the transition phase of the LIFE programmes, a memorandum of understanding was signed by both parties. Prior to the signature of the memorandum, the DG carried out an assessment of systems and procedures for internal control and risk management in the Agency, which confirmed their adequacy. Transition to the new arrangements is in progress and proceeding well.

DG Climate Action supervises the work externalised through regular reporting and ad hoc contacts with the Agency. Furthermore, DG Climate Action also plays a direct role in processes such as the definition of the annual work programme of the agency, in collaboration with other parent DGs or in the evaluation of some projects. The DG participates in the Agency's Steering Committee meetings and Task-Force-Meetings that

[44] Regulation 1293/2013

are held regularly. Furthermore the Agency produces and disseminates quarterly reports as foreseen in the Memorandum of Understanding.

CONCLUSION ON INDIRECT MANAGEMENT

For the 2014 reporting year, the cross-delegated Authorising Officers by Delegation have reported reasonable assurance on the delegated budget managed by them. They have not signalled any serious control issues.

NER 300

The NER 300 funding programme is not financed by the EU budget but by the monetisation of 300 million allowances of the New Entrants (= EU 10 MS) Reserve of the ETS Directive. DG CLIMA is responsible for the management of the programme, whereby the monetisation of allowances and management of revenues is carried out by the European Investment Bank (EIB). The Commission took a decision in July 2014 about the 2nd call of the NER 300 Fund with an expected leverage of private investment amounting to € 0,860 billion raised on top of the € 1 billion of investment credits from the selling of 100 billion of allowances. Grants were allocated to the 19 climate-friendly (renewables and Carbon Capture and Storage) projects.

2.3 Assessments of audit results and follow up of audit recommendations

This section reports on and assesses the observations and conclusions reported by auditors which could have a material impact on the achievement of the internal control objectives, and therefore on assurance, together with any management measures taken in response to the audit recommendations.

Below is a summary of the audit work done by the European Court of Auditors (ECA), the Internal Audit Service (IAS) and the Shared Internal Audit Capacity (SIAC). The audits performed in 2014 do not indicate any significant critical weaknesses in DG Climate Action internal control system.

ECA (EUROPEAN COURT OF AUDITORS)

Special report on 'The integrity and implementation of the EU ETS'

The Court of Auditors is conducting an audit of the EU ETS policy since December 2013. The audit focuses on phase II of the ETS and it targets both the Commission and a sample of 7 Member States.

The key questions relate to the appropriateness of the regulatory framework to protect the integrity of the EU ETS and the implementation of the policy in the Member States in phase II (2008-2012). The Statement of Preliminary Findings was issued in July 2014. The Court had observations about the market oversight, the perceived weaknesses in terms of supervision, the legal status of allowances, the know-your-customer checks for registry accounts, the assessment of the National Allocation Plans and the reporting. The draft report was released in January 2015 and followed by the adversarial procedure in February – March 2015. The final Special Report is planned to be issued before summer 2015.

DAS audit 2013

The audit carried out in relation to the financial statements of DG CLIMA (under the DAS 2013 exercise) led to one finding on the accounting for IT assets, specifically on lack of clarity in distinguishing between development and maintenance expenditures for new applications. This will be corrected in 2015. In the discharge report from the Court there is no specific mention of DG CLIMA.

Special Report on "How do the EU institutions and bodies calculate, reduce and offset their greenhouse gas emissions"

Together with DGs HR (lead DG), and BUDG, DG ENV, OIL and OIB, DG CLIMA was involved in this audit by the Court on the 'carbon footprint' of EU institutions, including the Commission. The special report issued in July 2014 addressed a number of 'sensitive' issues such as the (absence of) common policies to monitor and mitigate greenhouse emissions (quantified targets, reporting, accounting and offsetting of greenhouse gas emissions) and the use of environmental management tools (EMAS[45], green public procurement and green building standards) by the Institutions.

IAS (INTERNAL AUDIT SERVICE)

In January 2014, the IAS completed its audit focusing on *'the governance and management of the security of the EU ETS IT system".* It assessed the control system put in place by DG CLIMA in order to ensure that adequate measures have been identified and are implemented for the governance and security of the EU ETS IT system. The IAS audit report reinforced the conclusions of the preliminary risk assessment carried out in-house and issued 7 recommendations in its final report to DG CLIMA. The most significant recommendations relate to the Implementation of the ETS's security control, the IT project governance and organisational structure and the project quality management and test management.

The audit report confirmed that the set of security measures identified by DG CLIMA are reasonable, given the complexity and challenges facing the system. However, these measures had not yet been implemented to the full extent, which in turn means that the very high security-related risks are not mitigated yet to the level necessary and jointly envisaged with DG DIGIT.

In summary, a very detailed and comprehensive action plan was elaborated jointly with DG DIGIT and HR/DS. The implementation of this action plan was on track at the end of 2014 and a full implementation is expected by the end of 2015. The actual (residual) risk did not materialise in 2014.

[45] Eco-Management and Audit Scheme

SIAC (SHARED INTERNAL AUDIT CAPABILITY)

In 2013 the SIAC elaborated a 3-year audit plan based on an extensive risk assessment. This plan was updated in the beginning of 2014 with regard to new risks and specific requests of Director General.

In 2014 the Shared Internal Audit Capability (SIAC) carried out audit engagements covering the following processes: Information Technology (IT) Governance and Management, Anti-Fraud Strategy, and Payments (1^{st} and 2^{nd} follow-up). There were no critical recommendations issued by the SIAC.

The "very important" recommendations stemming from the IT Governance and Management audit related to: weaknesses in budgeting and cost management in the IT unit; lack of implementation of IT Security Plan in the DG; weaknesses in user access rights management and security issues resulting from hosting of the ETS Reporting Module in the local Data Room managed by the IT unit (this issue was duly resolved by DG CLIMA and DIGIT).

Action plans to address these very important recommendations have been requested, prepared and are being implemented.

As regards the Payments follow-up audit, all recommendations were considered as implemented. The recommendations issued in the previous years, i.e. Internal and External Communication, are being implemented. A follow-up audit is ongoing.

Consequently, the current state-of-play does not lead to assurance-related concerns. The SIAC expressed the opinion that, except for the very important findings stated above, the internal control system in place in DG Climate Action provided reasonable assurance regarding the achievement of the business objectives set up for the processes audited.

3. ASSESSMENT OF THE EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEMS

The Commission has adopted a set of internal control standards, based on international good practice, that aim to support the achievement of policy and operational objectives. In addition, as regards financial management, compliance with these standards is a compulsory requirement.

DG Climate Action has put in place the organisational structure and the internal control systems suitable for its policy and control objectives, in accordance with the standards and having due regard to the risks associated with the environment in which it operates.

Below is a summary of the actions taken to implement the four Internal Control Standards prioritised in 2014, resulting in a conclusion on their effectiveness.

ICS 5 – Objectives and Indicators

The new performance framework for financial programmes in the MFF 2014 – 2020 requires development of qualitative and measurable objectives, milestones, targets ad indicators to measure progress. Furthermore, DG Climate Action is continuously developing new and enhanced indicators in its internal management of resources. Key actions taken in 2014 have included the following:

- A performance framework was developed and embedded in the programme statement of the LIFE programme and for non-spending activities also in the Management Plan.

- Particular efforts have been made to improve further payment delays. The DG therefore introduced in 2014 a twice monthly "Financial Priorities Report" with indicators that provide the Authorising Officers a list of open invoices, with indication of those that are nearing the payment deadline.

Given the constant need to continuously monitor progress and to enhance the performance framework, the implementation of ICS 5 in 2014 is considered partially effective and is therefore carried forward to 2015.

ICS 6 – Risk Management

Risk management is an established process in DG Climate Action. Risk were managed according to plan. A risk review took place in the context of preparations and reviews of DG Climate Action's Management Plan 2015. Directorates were asked to review their existing risks in the light of mitigation plans put in place and to reflect on any new risks related to actions foreseen for 2014. By the end of 2014, DG Climate Action's risk register included 2 critical risks and 8 other risks catalogued as 'very important'.

Furthermore, DG Climate Action's management of risks is periodically discussed at the weekly directors meetings. This facilitates the need for any corrective actions or initiatives aimed at addressing specific problems and the process is supported by DG Climate Action's Risk Advisory Committee.

This standard was, however, carried forward from 2013 as a priority in the light of critical risks identified, primarily the functioning and security of EU Emissions Trading System (ETS) followed by a reservation on reputational, legal and financial grounds in the AAR 2013. The risk of insufficient capacity and delay regarding management and externalisation of the climate part of the new LIFE programme is another critical concern for DG Climate Action.

Key actions taken in 2014 have included the following:

- **EU ETS SECURITY**: The implementation of the preliminary 2011 action plan as a follow-up to the reservation is ongoing. Furthermore, a follow-up to the preliminary risk assessment conducted end 2013 – beginning 2014, in which further measures were flagged, is also ongoing. In 2014, a full risk assessment was conducted. DG Climate Action, in close cooperation with DG Digit and DG HR/DS is fully committed to implementing the identified mitigating measures in these plans.

  However, no reasonable assurance can be provided that the current security measures could successfully prevent a future attack. This security assurance would be a condition for lifting the reservation.

- **EXTERNALISATION/DELEGATION LIFE**: Externalisation of the climate part of the future LIFE programme presents certain risks. Although an analysis made prior to the externalisation confirmed the adequacy of the agency's control systems, there are ongoing concerns as to whether the agency will have sufficient capacity to manage the programme, and in this regard the very tight staffing provided under the original externalisation decision for the LIFE programme presents particular concerns.

  A working group ENV/CLIMA/EASME has drafted an options paper providing possible solutions to address the apparent shortage of staff managing the LIFE programme in EASME. This document is currently been discussed with corporate services.

The implementation of ICS 6 is considered effective despite the remaining significant security risk of a fraudulent cyber-attack to the EU Emissions Trading System (ETS). Additional security measures still need to be implemented in the course of 2015.

ICS 11 – DOCUMENT MANAGEMENT

DG CLIMA is conscious of the need to ensure effective document management systems and has therefore launched a series of actions to improve the knowledge and use of the various document management tools provided by the Secretary General.

Awareness actions and specialised training were given in the course of the year focused on ensuring a better of implementation of existing practices and preparing for future improvements and developments.

Key actions in 2014 have included the following:

ARES

- Refresher courses and coaching was provided to document managers at unit level to ensure knowledge of latest developments and of best practices;
- Information session and written material was provided to managers reminding them of the benefits of an efficient document management system;
- Hands-on training was available to staff to become more proficient users of ARES. Information sessions were organised and open to all on the new 'ARESLook' application for registering email.
- Units received regular reminders in relation to registration and filing of documents.

In total, 70 training sessions have been organised jointly for DGs Environment and CLIMA in 2014 and 452 staff attended the sessions.

PILOT PROJECT E-SIGNATAIRE

- To prepare for possible future moves towards electronic transmission and signature of documents, a pilot project has been set-up in the resources Directorate. A thorough and clear guidance document was written and circulated. Training was provided to all staff concerned.

  First results were positive but an evaluation will be conducted in 2015, when the practice will be extended.

IMPROVED ARCHIVING PROCEDURES

- Additional attention was given to archiving following the introduction of a new electronic archiving system. Guidance was issued to units and is being implemented. In some cases, units' filing systems were inspected and improvements made as a result.

HANDLING OF SENSITIVE INFORMATION

- Also, in view of the sensitivity of the information handled by staff working on EU ETS, awareness raising sessions have been organised to remind colleagues working on ETS about the new ETS sensitive information policy and physical security.

An information session dedicated to the requirements of the protection of intellectual property rights (IPR) was provided by DG JRC in the first half of 2014.

The implementation of ICS 11 in 2014 is considered partially effective. Specific efforts to align DG Climate Action's document management policy to new specific guidelines from the Secretary General are prioritized. The ICS 11 on document management is therefore carried forward as a priority standard in 2015.

ICS 14 – EVALUATION:

DG Climate Action is continuously monitoring and supporting the evaluation processes in order to ensure that ICS 14 is respected. Evaluations in the DG are performed in accordance with the guiding principles of the Commission's evaluation standards. New guidance and more requirements under REFIT call for high quality evaluations of expenditure programmes legislation and other non-spending activities. Therefore, evaluations of expenditure programmes, legislation and other non-spending activities are performed to assess the results, impacts and needs that these activities aim to achieve and satisfy. This is an ongoing process.

Key actions in 2014 have included the following:

- DG CLIMA further elaborated the evaluation function that was created in 2013 aiming for a more centralised coordination of policy evaluations. This was done by establishing a multi-annual evaluation programme, and by harmonisation of evaluation policy in view of improved quality and guidance issued by horizontal services, including an update of the mapping of the climate legislative 'acquis'.

- Staff involved in the evaluation process are made aware of the Commission's evaluation guidelines and standards including ICS 14 and encouraged to take part in the evaluation training courses centrally offered by SG

The implementation of ICS 14 is considered partially effective. In light of the new evaluation requirements, so as to match evaluations of expenditure programmes, legislation and other non-spending activities, and given the constant need to further improve and develop solid evaluation processes and tools, ICS 14 will remain a selected priority for 2015.

THE ANNUAL ASSESSMENT OF THE INTERNAL CONTROL STANDARDS:

The assessment of the sixteen standards did not identify any significant control weaknesses. While there is somehow scope for improvement in some areas, DG Climate action is confident that its internal control system as a whole – covering both financial and non-financial activities – is effective. It has the necessary procedures, staff skills and experience to identify and manage the main operational, financial and legal/regulatory risks.

This conclusion is based on a thorough review of all available information, in particular:

a) The annual assessment of the **Internal Control Standards**: The assessment of the sixteen internal control standards and related conclusions has been based on a management survey conducted every year. The assessment of the sixteen standards did not identify any significant control weaknesses but pointed out some areas where improvements can be made. Concerning "*mission and values*" (ICS 1-2), good awareness of ethical values has been evidenced in 2014. In addition, a stock-taking has been done on the implementation of the Anti-Fraud Strategy (AFS), AFS training has been completed in 2014, and the AFS' implementation will continue in 2015. As regards "human resources" (ICS 3-4), it should be noted that limited staff resources and future cuts is a concern for staff. Efforts were made in 2014 to optimise staff allocation and staff development.

However, given the environment of constant or reducing staff resources combined with heavy workloads, these efforts will have to continue in 2015. The survey also indicated the need for more and better targeted training. Concerning "operational structure" (ICS 7), the DG's operational structure effectively supports the decision making and delegation of power processes. In the domain of "*processes and procedures*" (ICS 8), main operational and financial procedures are well put in place. As regards "management supervision" (ICS 9), the usefulness of the financial and HR reports issued by the SRD has been noted as efficient supervision tools. On "document management" (ICS 11), negative reactions on the removal of assistants' posts have been noted due to the decrease of the efficiency of document handling. Replacement of permanent staff with contractual staff disrupts the continuation of document management due to the fact that new staff has to get acquainted with the Commission's e-tools and procedures. Concerning "information and financial reporting" (ICS 12-13), the focus will remain on both external and internal communication domains. In addition, various requests to update the intranet have been noted. This remains a priority for 2015 even though ICS 12 "Information and Communication" has not been selected as a priority standard. Finally, as regards the standards relating to "evaluation and audit" (ICS 14-16), some supplementary actions may be necessary to further raise staff's awareness of the internal control standards as well as to ensure the audit recommendations are followed up properly.

b) The annual declarations by the **Authorising Officers by Sub-delegation**: In this declaration, each AOS confirms that the transactions authorised by them in 2014 are legal and regular and that the corresponding funds have been used for their intended purpose and in accordance with the principle of sound financial management. The AOS declarations do not signal any significant weaknesses in the control system.

c) The reporting of **exceptions and non-compliance events (ICS 8):** The analysis of the one case reported in 2014 does not indicate any weaknesses in the internal control system. The procedures for reporting of exceptions and non-compliance events are still aligned with guidelines that DG BUDG updated in 2013.

d) Information obtained from the **SRD monitoring dashboards:** This tool has become an effective means of reinforcing senior management supervision (ICS 5 and 9). It is based on a set of control indicators covering, for example, budget implementation, payment delays, recovery orders, implementation of audit recommendations, etc. The monitoring results - which are discussed at Directorate level on a regular basis - do not indicate any significant weaknesses in the internal control system.

   Information obtained from the twice monthly "**Financial Priorities Report**": Particular efforts have been made to ensure that the DG maintains its generally good record on payment delays. For instance, for payments where there is no prior approval of reports, payment delays in DG CLIMA have generally been in line with or even better than the average of the Commission. To underpin and improve this good performance, the DG introduced in 2014 a twice monthly "**Financial Priorities Report**" that gives to each manager a listing of open invoices under his/her responsibility, with indication of those that are nearing the payment deadline. As a result of these and other efforts, the number of payments exceeding the deadlines has decreased from 7.94% in 2013 to 5,31 % on 31 December 2014. This improvement was achieved despite the negative influence of a shortage of payment appropriations that obliged the DG to suspend some payments towards the end of the year.

e) The DG's **risk register** (ICS 6): The Risk Advisory Committee is a permanent body and the risk management process has become a mature and well established process in DG CLIMA. The majority of participants in the management survey on the Internal Control Standards consider that risk management in DG Climate Action is effective.

   The risk review took place in the context of preparations of the 2015 DG CLIMA Management Plan. Directorates were asked to review their existing risks in light of mitigation plans put in place and to reflect on any new risks related to actions foreseen for 2015. By the end of 2014, DG Climate Action's risk register included 2 critical risks: the functioning and security of EU Emissions Trading System (ETS), (critical and cross-cutting risk shared with DG DIGIT and HR/DS), and the risk that externalisation of the climate part of the LIFE programme might cause delay or disruption in implementation.

f) **OLAF fraud cases**: There were no cases flagged to OLAF and no cases were referred to OLAF by the DG.

g) **The European Ombudsman**: DG Climate Action referred no cases to the Ombudsman.

h) **Review of sensitive functions**: The process in place to identify and manage sensitive functions is effective. Each year, the DG assesses whether any of its functions are sensitive, meaning that they present a risk of misuse for personal gain and so require special risk reduction measures. The review carried out in December 2014 confirmed that policy officers and middle and senior managers responsible for the ETS Registry as well as the Local Security Officers in ABAC should be defined as sensitive and thus be subject to mitigating measures after five years in the function. A review will be carried out in the course of 2015.

i) **ECA, IAS and SIAC audit reports**: see 2.3 above

   In **conclusion**, **the internal control standards are effectively implemented**. The results of the ICS management survey provide sufficient assurance in this respect. ICS 5 (objectives and indicators), ICS 11 (document management) and ICS 14 (evaluation function) remain, however, priority standards in 2015. The implementation of the audit recommendations will continue.

4. MANAGEMENT ASSURANCE

This section reviews the assessment of the elements reported in Parts 2 and 3 and draws conclusions supporting of the declaration of assurance and namely, whether it should be qualified with reservations.

4.1 Review of the elements supporting assurance

Concerning financial management (mainly procurement), the AOD's assurance relies - to a large extent - on the ex-ante verifications performed in 2014: namely the mandatory controls of all commitments and payments, the advice by procurement experts in the financial unit, and the reviews performed by the Environment and Climate Advisory Committee on procurement procedures (ENVAC). These controls effectively reduce to an acceptable level the risk of significant errors being undetected.

The number of "exceptions" and "non-compliance events" reported in 2014 remains very low.

In order to ensure close cooperation between the DG and the Executive Agency, EASME, a memorandum of understanding has been signed by both parties. Prior to the signature of the memorandum, the DG together with DG Environment carried out an assessment of systems and procedures for internal control and risk management which confirmed their adequacy.

Even on the tasks externalised to EASME, DG Climate Action plays a direct role such as in the definition of the annual work programme of the agency or in the evaluation of some projects. The DG also supervises the work externalised through regular reporting and ad hoc contacts with the Agency. Furthermore, DG Climate Action and the Agency have established permanent organisation links, the DG participates in the Agency's Steering Committee meetings, and it will receive quarterly reports produced by the Agency.

Transition to the new arrangements is in progress and proceeding well. However, the terms of the externalisation decision are not generous and mean that the staff situation will be very tight in both the Agency and the DG, particularly from 2015 onwards, which will require further review of the working methods.

Additional assurance is obtained from the annual declarations by the Authorising Officers by Sub-delegation, whereby they confirm that all financial transactions authorised by them in 2014 are legal and regular and in compliance with the principle of sound financial management.

Further assurance is received from the Authorising Officers in DG ESTAT, DG EMPL, DG ENV and DG ENTR regarding the crossed sub-delegations granted to them.

The audit work performed by the ECA and SIAC in 2014 did not identify any significant weaknesses in DG CLIMA's internal control system. Concerning the true and fair view of the accounting records and reporting, it should be noted that the audits performed by ECA and SIAC in 2014 in this field did not identify any material issues.

The awareness raising campaign on ethics and the implementation of the comprehensive antifraud strategy in DG CLIMA (reminder about the special code of conduct, identification of sensitive functions, handling of commercially sensitive information) provides further assurance to management that assets and sensitive data are safeguarded.

According to management's self-assessment, all 16 Internal Control Standards have been implemented effectively, except for ICS 5 (objectives and indicators), ICS 11 (document management) and ICS 14 (evaluation of activities) which are carried forward to 2015 as priority standards.

EU ETS SECURITY

Responding to the fact that the DG has included a **reservation** related to the security of the EU ETS Registry systems in its AARs from 2010 to 2013, the 'security statement' or preliminary risk assessment conducted jointly by DG CLIMA and DG DIGIT in January 2013 proposed five additional security measures to be implemented in 2013-14 to reduce the residual risk of cyber-attacks to an acceptable level. However, though significant progress was made, at the end of 2014 only 2 actions were partially completed, meaning that the very high security-related risks have not yet been mitigated to an acceptable level.

In 2014, the formal risk assessment of the security in the registry carried out jointly by DG CLIMA, DIGIT and HR-DS based on a formal methodology (CRAMM) delivered significant results. The conclusions were that very sensitive (but unclassified) and high value data are handled and that the exposure to cyber-attacks in the areas of hosting infrastructure, user authentication management and communication over networks is high and comparable to the banking sector/stock exchange. This risk assessment has been further completed by the analysis of existing security measures to identify gaps and recommend additional measures. In relation to the application security, new actions will also be taken, to complete those on network and infrastructure handled by DIGIT.

The IAS released its final audit report on the management of the security of EU ETS IT systems on 29 January 2014. It focussed on the IT security dimension of the management of the EU ETS, and assessed the control system put in place by DG CLIMA in order to ensure that adequate measures have been identified and are implemented for the governance of the EU ETS system (Union Registry and EU Transaction Log). Seven recommendations were issued notably in the areas of security controls, project governance, project quality management and test management, project management framework and security services. There is also a need to strengthen cooperation with DIGIT to ensure effective governance, adequate protection and integrity of the EU ETS systems. DG CLIMA has therefore developed an action plan comprising more than 40 actions. 90% were already completed by the end of 2014. Some face a minor delay because of the complexity but in general implementation is on track.

The IAS audit report reinforced the conclusions of the (preliminary) risk assessment carried out in-house.

In summary, the extension of the reservation on reputational, financial and legal grounds issued in the AAR of 2010, 2011, 2012 and 2013 is justified in the 2014 AAR, even though there were no further cyber-attacks that succeeded and hence the inherent reputational risk did not materialize in 2014, because:

1) The mitigating actions in the initial CLIMA/DIGIT security action plan elaborated in 2011 (after attacks against national registries) are not yet fully implemented

2) The fully-fledged risk assessment conducted in 2014 requires more measures in the updated security plan that will be implemented further in 2015 and probably 2016

3) The implementation of the action plan with DIGIT and HR/DS following the IAS audit on the IT security and governance, though well on track, needs to be further completed in 2015. These actions include the production of a roadmap incorporating additional security controls in the new secure hosting service

A lot of progress has already been made in implementing these actions towards the development of a secure IT environment for the EU ETS Registry and Transaction Log.

In conclusion, the information reported in Parts 2 and 3 derives from the results of management (self) assessment, reports of internal and external auditors, and other monitoring reports and assessments listed. These reports represent a systematic analysis of the evidence available. This approach provides sufficient guarantees as to the completeness and reliability of the information reported and results in a complete coverage of the budget delegated to the Director-General of DG CLIMA.

The Director General, in his capacity as Authorising Officer by Delegation, can sign the Declaration of Assurance albeit qualified by a reservation on legal/financial/reputational grounds related to remaining significant security weakness identified in the Union Registry of the EU Emissions Trading System).

4.2 Reservations and overall conclusion on assurance

Reservation 1

DG/service	DG CLIMA
Title of the reservation, including its scope	Reservation on reputational/legal/financial grounds related to remaining significant security weakness identified in the Union Registry of the EU Emissions Trading System (EU ETS)
Domain	Central direct management in collaboration with national authorities-Administration of the Union Registry and Union Transaction Log by the Commission
ABB activity and amount affected (="scope")	ABB Activity 34 02 : Climate Action at Union and international level
Reason for the reservation	Operational since January 2005, the registries system ensures the accurate accounting of allowances issued under the European Emissions Trading System (EU ETS). Since the migration in June 2012 of the national registries to a single Union Registry operated by the Commission, the Commission is now clearly more exposed to a reputational risk and legal/financial liabilities if new cyber-attacks would succeed. The EU ETS was identified as a critical system in the Management Plans of 2011, 2012, 2013, 2014 and 2015 of DG CLIMA in case of dysfunction of the system or security flaws. Following the organised cyber-attacks on some national registries in November 2010 till January 2011 and the related reported theft of allowances, a preliminary risk assessment was conducted. The ensuing action plan was elaborated jointly by DGs CLIMA, DIGIT and HR/DS, but all measures identified are not yet fully implemented. Moreover, as the security environment is evolving, the measures in the action plan are not fully adequate anymore to mitigate current risks and new threats. Hence an additional in-depth, full risk assessment was carried out in 2014

	identifying a number of additional measures. The absence of any security incidents spotted since 2012 does not mean that the current security protection is sufficient. No 'reasonable' assurance can be provided that the current security measures could successfully prevent a future attack. The IAS audit report on the governance and security of the EU ETS equally identified a number of weaknesses. These are being addressed by the dedicated action plan. Its implementation is generally on track. Conclusion: though the inherent critical reputational risk did not materialise in 2014 and did not turn into a reputational event, the past reservation will not be lifted but maintained in the AAR 2014.
Materiality criterion/criteria	The significance of the event was assessed against the following 3 criteria: - nature of the impact on reputation of the Commission vis-à-vis stakeholders to manage a market based instrument (medium-term negative stakeholder perception with limited impact on ability of the Commission (DG CLIMA) to meet key objectives), - breadth of awareness of the events (international and national press coverage, pro-active communication with the MS in full transparency by the Commission via the dedicated website 'EU Climate Action' , via a dedicated webpage to ETS on the Europa server and in the Climate Change Committee) - duration: a series of incidents started in November 2010 and continued in January 2011 led to a suspension of trading of allowances on the 'spot' market that accounts for less than 20% of the ETS. Another incident in a national registry occurred in October 2011.
Quantification of the impact (= actual exposure")	Reputational/legal/financial risk A Swiss cement company lodged a complaint against the Commission about theft of allowances. This led to the recording of a contingent liability amounting to € 16,2 mio in the accounts of DG CLIMA (annexes of this AAR). The General Court dismissed the application. Meanwhile, the complainant has lodged an appeal.
Impact on the assurance	The event falls within the scope of the declaration as it is an activity managed by CLIMA with high visibility and media coverage to which considerable human and financial resources have been allocated in the past and will be in the future. The EU ETS is a flagship instrument in achieving one of the headline targets of 2020: reduction of greenhouse gas emissions 20% compared to 1990. However it has no negative bearing on the statement of reasonable assurance and as such it does not invalidate the declaration of reasonable assurance by the Director General
Responsibility for the weakness	The Commission as central administrator has a key role in the functioning of the EU ETS in managing the Union registry and EU transaction log.
Responsibility for the corrective action	The responsibility for all corrective actions is shared between DG CLIMA, DIGIT and HR/DS. 3 different action plans are now being implemented: - The 'security statement' following the preliminary risk assessment issued jointly at end of January 2013 by DG CLIMA and DG DIGIT includes an action plan proposing 5 additional security measures to address 6 identified business risks, to be addressed jointly by DGs CLIMA and DIGIT. Implementation is ongoing. - A formal in-depth risk assessment was completed in 2014 identifying complementary security measures to reduce the risk to an acceptable level. - The action plan addressing the recommendations formulated by the IAS in its audit report of January 2014 on the IT security of the Registry is being implemented jointly by DGs CLIMA and DIGIT, completion by end 2015. The timely and successful rolling out of all these measures would provide reasonable assurance that the residual risk of any successful cyber-attack would be reduced to a low, acceptable level, as there is no such thing as zero risk.

The DG is implementing concomitantly several action plans. While significant progress has been made, a number of measures are still to be taken in the years 2015 and most likely 2016, including the roadmap for implementation of additional high security measures, which eventually should result in a containment of the critical security risk.

No assurance can currently be provided that the current security measures of the Union Registry/Transaction Log could successfully prevent a future attack. This security assurance is conditional to lifting the reservation in a future AAR after having assessed adequately the residual risk and implementation status of the action plans.

However, **despite the reputational reservation**, since

- this report gives a true and fair view and the data/information are reliable,
- the resources deployed were used for the intended purposes,
- the principles of sound and efficient financial management were observed,
- no significant issues regarding the legality and regularity of the underlying financial transactions were detected,
- assets and sensitive information are safeguarded,
- the DG's internal control system is considered overall effective,
- the annual assessment of cost effectiveness of controls led to a positive conclusion, as the quantifiable benefits of controls exceed costs by a ratio of 4 to 1

The Director General can still provide the **reasonable assurance** in his Declaration.

ABB 3402, 3401	**Payments made** (2014, €M)	**Error rate** %	**Amount at risk** (2014, €M)
1. Grants (LIFE & LIFE completion, pilot projects, preparatory actions)	3.4	1.45%	0.049
2. Procurement (LIFE, support, pilot projects, preparatory actions, financial instruments)	27.9	0%	0
3. Contributions (MEA)	0.8	0%	0
4. Administrative (3401)	2.1	0.15%	0.003
Overall:	**34.2**	**0.152%**	**0.052**

Total Amount at risk - Average Error Rate (AER):

The total amount at risk compared to the overall budget, calculated as explained in the table above, is €0.052 million compared to a total amount of payments for the whole budget of € 34,161 million as per Annex 3, Table 2. The average error rate is 0.152%, which is below the materiality threshold of 2%.

Average recoveries and corrections:

The average of recoveries and corrections at the time of payment is €0.58 million. This number is calculated by multiplying the average rate of recoveries and corrections (1.7%) with the total amount of payments subject to recoveries and corrections (€34.161 million).

In view of the control results and all other relevant information available, the AOD's best estimation of the risks relating to the legality and regularity for the expenditure authorised during the reporting year is between 0% and 2%, which implies an amount at risk of €0.049 million for the operational lines (3402) and €0.052 million if the total budget managed by DG Climate Action is accounted for (excl. cross sub-delegations received). The residual error rate has been calculated at 0.144%, which remains for 2014 below the 2% materiality error rate. Furthermore, the average error rate for the whole budget managed by DG Climate Action as per Annex 3, Table 2 is 0.152%.

The internal control systems implemented by DG CLIMA provide sufficient assurance that risks relating to the legality and regularity of the underlying transactions are adequately managed and also provide sufficient assurance with regard to the achievement of the other internal control objectives.

DECLARATION OF ASSURANCE

I, the undersigned, Jos Delbeke

Director-General of DG Climate Action

In my capacity as authorising officer by delegation

Declare that the information contained in this report gives a true and fair view[46]*.*

State that I have reasonable assurance that the resources assigned to the activities described in this report have been used for their intended purpose and in accordance with the principles of sound financial management, and that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions.

This reasonable assurance is based on my own judgement and on the information at my disposal, such as the results of the self-assessment, ex-post controls, the work of the internal audit capability, the observations of the Internal Audit Service and the lessons learnt from the reports of the Court of Auditors for years prior to the year of this declaration.

Confirm that I am not aware of anything not reported here which could harm the interests of the institution

However the following reservation should be noted: Reservation on reputational/legal/financial grounds related to remaining significant security weakness identified in the Union Registry for the Emissions Trading System (EU ETS)

Brussels, 31 March 2015

Signed

Jos DELBEKE

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[46] *True and fair in this context means a reliable, complete and correct view on the state of affairs in the service*