



# **2017**

# **Annual Activity Report**

**DG CLIMATE ACTION**

# Table of Contents

|  |           |
|--|-----------|
| FOREWORD   | 3         |
| <b>THE DG IN BRIEF</b>   | <b>4</b>  |
| <b>EXECUTIVE SUMMARY</b>   | <b>5</b>  |
| A) KEY RESULTS AND PROGRESS TOWARDS THE ACHIEVEMENT OF GENERAL AND SPECIFIC OBJECTIVES OF THE DG.....  | 6         |
| B) KEY PERFORMANCE INDICATORS (KPIs).....  | 10        |
| C) KEY CONCLUSIONS ON FINANCIAL MANAGEMENT AND INTERNAL CONTROL.....   | 15        |
| D) INFORMATION TO THE COMMISSIONER.....  | 15        |
| <b>1. KEY RESULTS AND PROGRESS TOWARDS THE ACHIEVEMENT OF GENERAL AND SPECIFIC OBJECTIVES OF THE DG</b>  | <b>16</b> |
| 1.1 ACHIEVEMENT OF GENERAL POLICY OBJECTIVE(S).....  | 16        |
| 1.2 ACHIEVEMENT OF SPECIFIC POLICY OBJECTIVES.....   | 20        |
| <b>2. ORGANISATIONAL MANAGEMENT AND INTERNAL CONTROL</b>   | <b>31</b> |
| 2.1 FINANCIAL MANAGEMENT AND INTERNAL CONTROL.....   | 31        |
| 2.1.1 CONTROL RESULTS.....   | 32        |
| 2.1.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS.....  | 47        |
| 2.1.3 ASSESSMENT OF THE EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEMS.....   | 49        |
| 2.1.4 CONCLUSIONS AS REGARDS ASSURANCE.....  | 53        |
| 2.1.5 DECLARATION OF ASSURANCE AND RESERVATIONS.....   | 55        |
| 2.2 OTHER ORGANISATIONAL MANAGEMENT DIMENSIONS.....  | 58        |
| 2.2.1 HUMAN RESOURCE MANAGEMENT.....   | 58        |
| 2.2.2 BETTER REGULATION (ONLY FOR DGs MANAGING REGULATORY ACQUIS).....   | 59        |
| 2.2.3 INFORMATION MANAGEMENT ASPECTS.....  | 59        |
| 2.2.4 EXTERNAL COMMUNICATION ACTIVITIES.....   | 60        |
| <b>ANNEXES</b>   | <b>61</b> |
| ANNEX 1: STATEMENT OF THE RESOURCES DIRECTOR.....  | 61        |
| ANNEX 2: REPORTING – HUMAN RESOURCES, BETTER REGULATION, INFORMATION MANAGEMENT AND EXTERNAL COMMUNICATION.....  | 62        |
| ANNEX 3: DRAFT ANNUAL ACCOUNTS AND FINANCIAL REPORTS.....  | 69        |
| ANNEX 4: MATERIALITY CRITERIA.....   | 70        |
| ANNEX 5: INTERNAL CONTROL TEMPLATE(S) FOR BUDGET IMPLEMENTATION (ICTS).....  | 71        |
| FINANCIAL INSTRUMENTS - INDIRECT MANAGEMENT.....   | 74        |
| ANNEX 6: IMPLEMENTATION THROUGH NATIONAL OR INTERNATIONAL PUBLIC-SECTOR BODIES AND BODIES GOVERNED BY PRIVATE LAW WITH A PUBLIC SECTOR MISSION - NOT APPLICABLE..... | 83        |
| ANNEX 7: EAMR OF THE UNION DELEGATIONS - NOT APPLICABLE.....   | 84        |
| ANNEX 8: DECENTRALISED AGENCIES - NOT APPLICABLE.....  | 85        |
| ANNEX 9: EVALUATIONS AND OTHER STUDIES FINALISED OR CANCELLED DURING THE YEAR.....   | 86        |
| ANNEX 10: SPECIFIC ANNEXES RELATED TO "FINANCIAL MANAGEMENT" - NOT APPLICABLE.....   | 87        |
| ANNEX 11: SPECIFIC ANNEXES RELATED TO "ASSESSMENT OF THE EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEMS" - NOT APPLICABLE   | 88        |
| ANNEX 12: PERFORMANCE TABLES.....  | 89        |

## FOREWORD

Dear reader

In 2017, the European Commission continued to deliver concrete actions at the domestic and the international fronts in compliance with the Paris Agreement to keep global warming to well below 2°C. DG CLIMA has led these efforts by ensuring that the key policy proposals to implement the EU 2030 climate and energy policy framework are well on track to be set. In close cooperation with DG MOVE, two mobility packages were presented: the "Clean Mobility Package" and "Europe's on the move" aiming at tackling the emissions from the transport sector. Moreover, a principle agreement was reached by the European Parliament and the Council on the post-2020 proposals submitted: the revision of the EU Emissions Trading System (ETS), the revision of the EU ETS for aviation, the Effort Sharing Regulation and the integration of Land Use Land Use Change and Forestry (LULUCF) in the EU's climate framework.

At the international level, 2017 witnessed the announcement by the US administration of its intention to withdraw from the Paris Agreement. However, this did not weaken the EU commitment, which more than ever, stressed the importance of leading the international action. The COP23 in Bonn marked a step forward in the process towards the implementation of the Paris Agreement and DG CLIMA took part in concrete bilateral and multilateral talks on behalf of the Commission in order to enhance cooperation with crucial partners as China and Canada. Equally the linking agreement between the EU Emissions Trading System (ETS) and the Swiss ETS was confirmed.

All these success stories as well as the action taken by DG CLIMA in the last 8 years could not have been achieved without the steering role of my predecessor, Jos Delbeke. His dedication and professionalism set the course of the EU ambitious climate policy and I want to publically express my gratitude to him.

The implementation of the Paris' agreement is a huge challenge. By taking the lead in global climate action, the EU has demonstrated that a united capacity is the only solution to a threat like global warming. The Commission will continue striving to move to a low-carbon economy and safeguard the lives of future generations.

In this respect, DG CLIMA has a crucial role to play and it will continue to deliver the policies that citizens expect and deserve. I look forward to working with you all in order to help to shape that future together.

Mauro Petriccione

Director-General of DG CLIMA

## THE DG IN BRIEF

DG Climate Action (DG CLIMA) is a relatively new Directorate-General. Its legitimacy is anchored in the Treaty on the Functioning of the European Union (TFEU – art. 191 and 192). Accordingly, the European Union should contribute to promote measures to deal with regional or worldwide environmental problems, and in particular combating climate change.

Thus, **the mission of DG CLIMA** is to lead the EU in international negotiations in the areas of climate change mitigation and adaptation and the protection of the ozone layer; to develop and monitor the implementation and enforcement of EU legislation to meet key climate targets in the Europe 2020 strategy and the 2030 climate and energy framework; to contribute to the transition towards a low-carbon economy in the EU while increasing resilience to the negative effects of climate change; and the mainstreaming (integration) of climate action into the EU budget and into other EU policies.

DG CLIMA was created in 2010 and it has currently **around 200 staff** in the establishment plan. Close to 85% of his staff are active in policy making. It is internally structured by policy areas in order to ensure that the main policies of the DG are developed efficiently. In October 2017, a new Unit was created (A.4 - Financial Resources and Planning) and several other units were reorganised as a result of the dismantlement of the Shared Resource Directorates (SRD), previously serving DG ENV and DG CLIMA.

On the 21<sup>st</sup> February 2018, the College of Commissioners decided to appoint Mauro Raffaele Petriccione as the new Director-General of DG CLIMA in substitution of Jos Delbeke. This change is effective as from the 16<sup>th</sup> March 2018.

As presented in the ten strategic political priorities of President Juncker, the DG's general objective is to contribute to achieving "**A resilient Energy Union with a forward-looking climate policy**", which should contribute to keep global warming well below 2°C and to the recovery of the ozone layer.

In particular, DG CLIMA is developing its mission in four different ways:

1. By **preparing new EU climate legislation**, monitoring the implementation of this legislation and ensuring its effective enforcement in Member States.
2. Through **the EU emissions trading system (EU ETS)**, hosted and managed in-house by the Commission on behalf of the Member States. It covers more than 40% of total EU greenhouse gas (GHG) emissions.
3. Through the climate action sub-programme of the **LIFE financial programme** 2014-2020, amounting to EUR 864 M overall. More than two thirds of this budget has been delegated to the Executive Agency for Small and Medium-sized Enterprises (EASME), which manages action grants (projects) and operating grants (to NGO's), and to the European Investment Bank (EIB), which manages two financial instruments: the Private Finance for Energy Efficiency (PF4EE) and the Natural Capital Financing Facility (NCFF). DG CLIMA equally delegated the management of an off-budget fund based on sales of ETS allocations, the NER 300 (New Entrants Reserve) programme, to the EIB.
4. The DG works with other DGs (REGIO, RTD, AGRI, DEVCO etc.) to implement the **20% climate mainstreaming** target in the EU Multiannual Financial Framework 2014-20, and, together with DG BUDG, monitors its achievement.

## EXECUTIVE SUMMARY

The Annual Activity Report is a management report of the Director-General of DG CLIMA to the College of Commissioners. Annual Activity Reports are the main instrument of management accountability within the Commission and constitute the basis on which the College takes political responsibility for the decisions it takes as well as for the coordinating, executive and management functions it exercises, as laid down in the Treaties<sup>1</sup>.

---

<sup>1</sup> Article 17(1) of the Treaty on European Union.

## a) Key results and progress towards the achievement of general and specific objectives of the DG.

Climate Change requires urgent action at the global level. Since the beginning of the Industrial Revolution, global temperature rose by 0,85°C and further increase is inevitable in a scenario with constant measures. In order to halt global warming well below 2° C as agreed at the UNFCCC<sup>2</sup> summit in Paris in 2015, the emissions should be cut further by 80-95 % in 2050 compared to 1990.

The United Nations has defined climate change as one of the Sustainable Development Goals (SDG) for 2030<sup>3</sup>. And the EU citizens are conscious of the need to take action against the risks associated to climate change. In the most recent Eurobarometer survey, about 92% of the EU population consider it a serious problem<sup>4</sup>.

The European Commission placed climate action as one of its main priorities and to this purpose established DG CLIMA as a dedicated Directorate General responsible for addressing the issue both domestically and internationally.

In 2017, as in previous years, DG CLIMA contributed to the achievement of 3 of the 10 key strategic objectives of Juncker Commission: first and foremost, the creation of "**A Resilient Energy Union with a forward looking climate policy**", secondly "A New Boost for Jobs, Growth and Investment", and finally "A Stronger Global Actor".

To achieve these objectives, the European Commission continued with the implementation of the 2030 **Climate and Energy Framework**. On the climate side, this is based on specific targets to be achieved at the national level by Member States, the reform of the EU ETS and the reinforcement of the international action by promoting a truly global initiative to tackle climate change.

### EU Domestic Action

The EU has set itself ambitious **targets for reducing greenhouse gas emissions by 2020 and 2030** aimed at supporting the transition towards a climate-resilient, resource-efficient and low-carbon economy in the EU:

- By 2020, the EU has committed to cut its greenhouse gas (GHG) emissions by 20%, compared to 1990 levels.
- By 2030, the EU has agreed to a binding target to reduce domestic greenhouse gas emissions by at least 40%, compared to 1990 levels. This will be achieved by a 43% emissions reduction in the sectors included in the EU emissions trading system (EU ETS) and a 30% cut in the non-ETS sectors, both compared to 2005 levels.

#### Progress towards EU targets

In 2016 EU reduced its CO<sub>2</sub> emissions by 0,7% compared to 2015. The reduction was driven by the ETS sectors that saw its emissions fall by 2,9%, while the non-ETS emission increased by 0,9%.

In 2016 the EU emissions were 23% lower than in 1990 and according to the latest projections, emissions will be 26% lower in 2020 than 1990.

---

<sup>3</sup> SDG 13: "Take urgent action to combat climate change and its impacts".

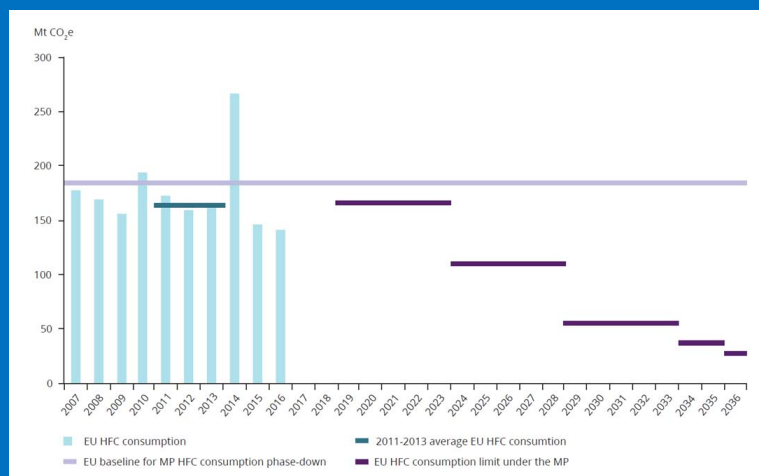
<sup>4</sup> Special Eurobarometer 459. Report on Climate Change from September 2017.

## EU added value policy: The EU's role model for international Action: Phasing down HFCs

The Montreal Protocol<sup>7</sup> was agreed in 1987 and entered into force in 1989. It was established to tackle **Ozone depleting substances (ODS), which were recognised as the first human threat to the global atmosphere**. Over its 30 years of existence it has succeeded in reducing almost all ODS by nearly 100% in developed countries. **The European Union effectively phased out these substances already in 2010, 10 years ahead of the deadline for developed countries**. Nevertheless, the EU action regarding the Protocol did not end and it has persistently worked to leverage its domestic ambition in its international action.

The 2016 '**Kigali amendment**' to the Montreal Protocol inspired by the EU is currently being ratified by EU member states. Its aim is to phase down the increasing use of hydrofluorocarbons (HFCs), greenhouse gases substituting for ODS with a global warming effect up to 15,000 times greater than that of carbon dioxide (CO<sub>2</sub>).

The EU decided to tackle the use of HFCs in its domestic legislation starting in 2015. This truly ambitious practice goes far beyond the current obligations under the Protocol, which foresees the beginning of the phasing down only in 2019. The results are already visible: **in 2016, HFC consumption in the EU was the lowest since reporting started in 2007** and was already 14% below the first target of the EU under the Montreal Protocol Kigali Amendment.



**Figure 1.** HFCs consumption at the EU and the phasing down according to the Montreal Protocol.  
**Source.** European Environment Agency. Report 20/2017

The more ambitious policy of the EU towards phasing out ODS and HFCs has been led by DG CLIMA, and it represents an EU added value policy with global implications in the fight against climate change and the depletion of the Ozone layer. These efforts were recognised in November 2017, when the EU received the 2017 Ozone Award for political leadership, for its role in the adoption of the Kigali Amendment to the Montreal Protocol.

The EU is well on track to achieve its climate targets for 2020. The EU is now putting in place the legislation to deliver on its 2030 targets.

In 2017, the Commission has delivered 2 key packages to the Parliament and the Council aiming at tackling the EU emissions in the transport sector for the post-2020 period: **the "Clean Mobility Package"** and **the "Europe's on the move package"**. The new legislative proposals in the packages will set new CO<sub>2</sub> emission targets for cars and vans, strengthen competitiveness and reduce fuel consumption costs.

Furthermore, 2017 marked a significant step forward regarding the post-2020 legislation. **A provisional agreement was reached by the Parliament and the Council on three major legislative initiatives presented by DG CLIMA in 2015 and 2016:** the revision of the EU emissions trading system (ETS), the Effort Sharing Regulation (ESR) and the integration of Land Use Land Use Change and Forestry (LULUCF) in the EU's climate framework. These legislative initiatives will constitute the cornerstone of EU action to achieve the commitments under the Paris Agreement and reduce greenhouse gas emissions by at least 40% by 2030.

In line with the objectives of the Better Regulation Agenda of the European Commission, in 2017 DG CLIMA has launched the **evaluation of the EU Adaptation Strategy**, which is expected to be completed in 2018. This evaluation will be crucial to ensure that the strategy is well suited to the EU needs for climate change adaptation and it will provide important information in view of a possible revision of the strategy.

The transition towards a low-carbon economy requires such a scale of investment that can only be achieved with the broad backing of public and private actors at all levels. DG CLIMA with DG BUDG are responsible for monitoring that at least 20% of EU expenditure is climate related for the period 2014-2020<sup>6</sup>. **In 2017, 19.3% of EU budget was found "climate proof"**. It is estimated that the average for the period 2014-2020 will be 18.8%<sup>7</sup>. This means significant progress has been made in relation to this pioneering concept of mainstreaming, but more efforts are still needed to meet the objective.

Furthermore, DG CLIMA is responsible for a specific funding programme: **the Climate Action sub-programme of the LIFE financial programme 2014-20**, with a key focus on mitigation, adaptation and governance. Thus, LIFE contributes to the emissions targets and to boost investment and promote job creation throughout the EU. The total budget of the Climate Action sub-programme of the LIFE programme for 2017 amounted to €122 M. In the 2017 call of the sub-programme for climate action, 33 projects were recommended for funding, covering both mitigation and adaptation projects.

**Example of EU added value  
From green house gases to Wind power: Veja Mate**

Veja Mate is one of the largest and most innovative offshore wind farm projects with 402 MW capacity in the German exclusive economic zone of the North Sea. It entered into operation in 2017 and it has the capacity to **produce enough electricity for 400.000 German homes every day**. It is the result of the European funds provided by the NER300 (EUR 112.6 million) and the cooperation among a group of stakeholders from different Member States.

NER 300 is a financial instrument managed by DG CLIMA with the expertise of the European Investment Bank. It is one of the world's largest funding programmes for innovative low-carbon energy demonstration projects. It is **entirely funded by the sale of 300 million emissions allowances from the EU ETS**.

Hence, projects such as Veja Mate are being financed through the EU policies aimed at reducing GHG emissions (ETS). Accordingly, ETS is a policy that contributes twice to fight against climate change: with the cap system and with the financing of zero-or-low-carbon technologies.

<sup>5</sup> The Montreal protocol is part of the Vienna Convention for the Protection of the Ozone Layer. It is an international treaty designed to protect the ozone layer by phasing out the production of numerous substances that are responsible for ozone depletion.

<sup>6</sup> EUCO 37/13 – 7/8 February 2013

<sup>7</sup> SEC(2017)250

The **Mid-term evaluation of the LIFE programme** concluded, based on processes put in place, the on-going activities and anticipated results, that the programme is effective, efficient, relevant, and complementary to other EU programmes and policies and provides significant EU added value, while also pointing out some aspects to be improved such as the communication strategy or the grant management procedures. In 2017, the LIFE Committee gave the Commission the green light to proceed with the adoption of the LIFE Multiannual Work Programme for 2018-2020, providing € 413.25 M for the climate action sub-programme.

Besides grants, the LIFE programme supports climate action through two financial instruments, managed by the European Investment Bank: The Private Finance for Energy Efficiency (PF4EE) and The Natural Capital Financing Facility (NCFF).

## EU International Climate Action

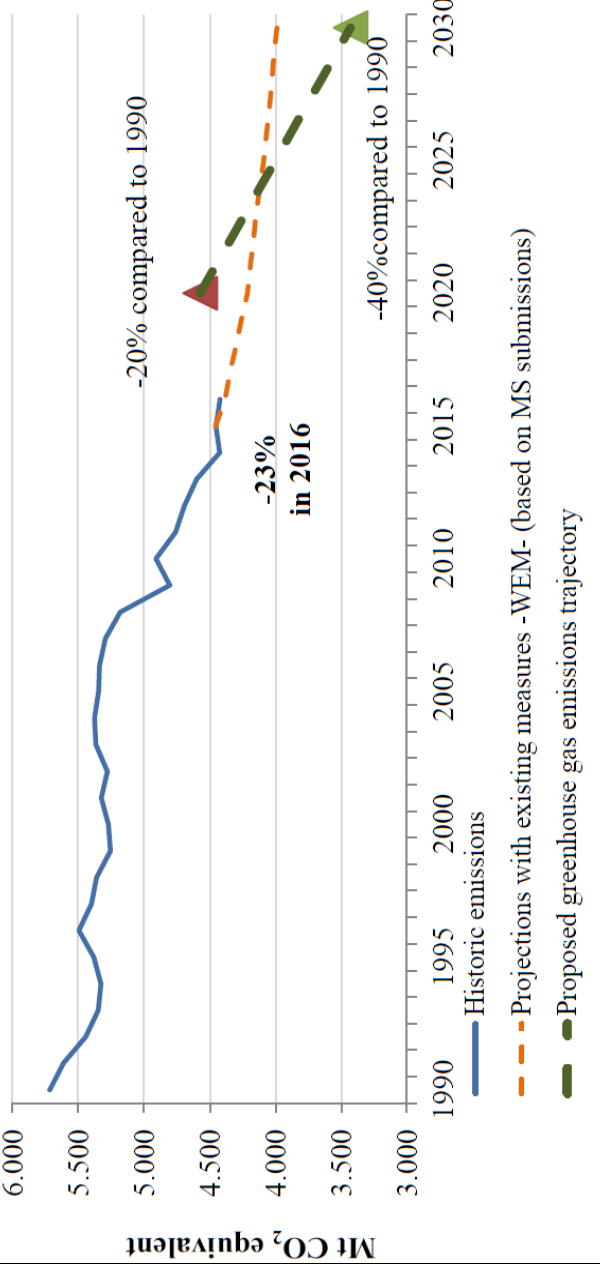
The fight against climate change requires a global common front. The EU has taken the lead in international climate negotiations.

2017 was also marked by the announcement by the US administration of its intention to withdraw from the Paris Agreement; this was a step back in the international action to tackle climate change. However, the EU has continued to lead action in order to maintain the political momentum. Some of the international actions taken by DG CLIMA during 2017 are mentioned below:

- DG CLIMA led the EU delegation to the **UN climate conference in Bonn** (COP23). More than 200 parties gathered and they concluded with significant progress towards the adoption of the rulebook and guidance for implementation of the Paris Agreement. COP23 saw also substantive agreement on the stocktaking exercises (starting with the Talanoa Dialogue in 2018), the Loss and Damage policy and on the first Gender Action Plan under the Convention.
- The EU established **the "Ministerial meeting on Climate Action (MoCA)"** with China and Canada and a first meeting was held in Montreal in September 2017. The meeting brought together ministers and high-level representatives from 34 countries. It was an open dialogue to push for continued leadership and support for the implementation of the Paris Agreement.
- The EU and its 28 Member States deposited at the United Nations their ratification instruments for the Doha Amendment. This amendment was agreed in 2012 and it will establish a second Kyoto period of legally-binding emissions commitments for 2013-2020.

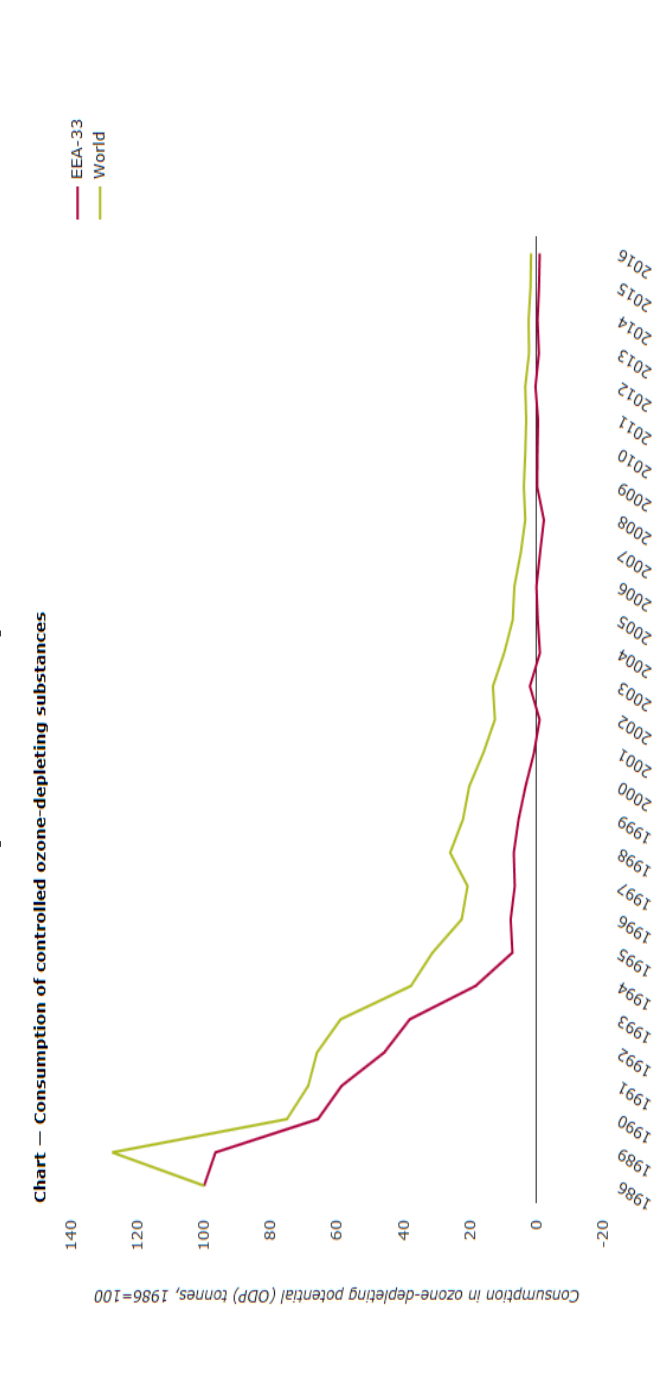
The EU and its Member States remain the biggest donors of climate finance to developing countries with a contribution of €20.2 billion in 2016.

## b) Key Performance Indicators (KPIs)

|  |  |
|--|--|
| <p><b>Most Relevant KP1:</b></p> <p>Reduction of greenhouse gas emissions (EU 28) captured in the EU ETS managed by DG CLIMA (specific objective 1)</p> <p>Source: European Commission and European Environment Agency (EEA) progress report 2017.</p> | <p>☺</p> <p><b>Progress towards meeting 2020 objective of -20% reduction of greenhouse gas (GHG) emissions (headline target EU 2020 strategy)</b></p>  <p><b>Target:</b> minus 20 % of greenhouse gas emissions by 2020 compared to 1990</p> <p>EU climate legislation for both the EU Emissions Trading System and the non-ETS sectors, and its implementation in the Member States, have greatly contributed to the considerable progress made in cutting GHG emissions in the EU. The EU is on track to achieve - and even overachieve - the target of reducing GHG emissions by 20% by 2020. In 2016, EU greenhouse gas emissions were 23 % below the 1990 level.</p> <p>According to the latest projections, emissions are expected to be 26% lower in 2020 than in 1990. The EU is, therefore, on track to meet its domestic emissions target. Unlike 2015 (when emissions slightly increased), in 2016 the total EU emissions fell by 0,7% compared to 2015.</p> |
|--|--|

| <p><b>Most Relevant KP2:</b></p> <p>Average emissions from CO2 and cars (specific objective 3)</p> <p>Source: European Commission and European Environment Agency (EEA) Report No 19/2017.</p> | <p>☺</p>                               | <h3 style="text-align: center;">CO2 emissions from new cars and vans</h3> <p>The chart displays CO<sub>2</sub> emissions in grams per kilometer (g CO<sub>2</sub>/km) on the y-axis (ranging from 80 to 200) against years on the x-axis (ranging from 2000 to 2021). Two data series are shown: Passenger cars (light blue squares) and Vans (orange squares). Both series show a steady decline over time. Trend lines are provided for both. Target markers are placed on the lines: Passenger cars target 2015 (dark blue square), Vans target 2017 (red square), Passenger cars target 2020 (dark blue square), and Vans target 2020 (orange square).</p> <table border="1"> <caption>Approximate data points from the chart</caption> <thead> <tr> <th>Year</th> <th>Passenger cars (g CO<sub>2</sub>/km)</th> <th>Vans (g CO<sub>2</sub>/km)</th> </tr> </thead> <tbody> <tr><td>2000</td><td>175</td><td>185</td></tr> <tr><td>2001</td><td>170</td><td>180</td></tr> <tr><td>2002</td><td>165</td><td>175</td></tr> <tr><td>2003</td><td>160</td><td>170</td></tr> <tr><td>2004</td><td>155</td><td>165</td></tr> <tr><td>2005</td><td>150</td><td>160</td></tr> <tr><td>2006</td><td>145</td><td>155</td></tr> <tr><td>2007</td><td>140</td><td>150</td></tr> <tr><td>2008</td><td>135</td><td>145</td></tr> <tr><td>2009</td><td>130</td><td>140</td></tr> <tr><td>2010</td><td>125</td><td>135</td></tr> <tr><td>2011</td><td>120</td><td>130</td></tr> <tr><td>2012</td><td>115</td><td>125</td></tr> <tr><td>2013</td><td>110</td><td>120</td></tr> <tr><td>2014</td><td>105</td><td>115</td></tr> <tr><td>2015</td><td>100</td><td>110</td></tr> <tr><td>2016</td><td>95</td><td>105</td></tr> <tr><td>2017</td><td>90</td><td>100</td></tr> <tr><td>2018</td><td>85</td><td>95</td></tr> <tr><td>2019</td><td>80</td><td>90</td></tr> <tr><td>2020</td><td>75</td><td>85</td></tr> <tr><td>2021</td><td>70</td><td>80</td></tr> </tbody> </table> <p><b>Target:</b> By 2021, the fleet average emission to be achieved by all new cars is 95 grams of CO<sub>2</sub> per kilometre.</p> <p>All large car and van manufacturers in the EU met their CO<sub>2</sub> emissions target in 2016, according to data published by the European Environment Agency. The report confirms - based on laboratory tests - the preliminary findings show that the EU fleet average of new vehicles is well below its 2016 emissions target.</p> <p>New cars sold in the EU in 2016 recorded on average CO<sub>2</sub> emissions of 118.1 grams per kilometre, which is 23 g/km above the 2021 target but well below the 2015 target of 130g/km, and 1.5 g/km lower than in 2015. A new van sold in the EU in 2016 emitted on average 163.7 grams of CO<sub>2</sub> per kilometre, which is already below the 2017 target of 175 g/km.</p> <p>Average CO<sub>2</sub> emissions from new cars decreased by 27 % in the last 10 years, while the emissions of new vans decreased by more than 9 % in the last 5 years. In order to meet their EU 2020/21 targets, the average CO<sub>2</sub> emissions from new cars and vans will need to continue decreasing at a similar pace.</p> | Year | Passenger cars (g CO <sub>2</sub> /km) | Vans (g CO <sub>2</sub> /km) | 2000 | 175 | 185 | 2001 | 170 | 180 | 2002 | 165 | 175 | 2003 | 160 | 170 | 2004 | 155 | 165 | 2005 | 150 | 160 | 2006 | 145 | 155 | 2007 | 140 | 150 | 2008 | 135 | 145 | 2009 | 130 | 140 | 2010 | 125 | 135 | 2011 | 120 | 130 | 2012 | 115 | 125 | 2013 | 110 | 120 | 2014 | 105 | 115 | 2015 | 100 | 110 | 2016 | 95 | 105 | 2017 | 90 | 100 | 2018 | 85 | 95 | 2019 | 80 | 90 | 2020 | 75 | 85 | 2021 | 70 | 80 |
|--|--|---|------|--|------------------------------|------|-----|-----|------|-----|-----|------|-----|-----|------|-----|-----|------|-----|-----|------|-----|-----|------|-----|-----|------|-----|-----|------|-----|-----|------|-----|-----|------|-----|-----|------|-----|-----|------|-----|-----|------|-----|-----|------|-----|-----|------|-----|-----|------|----|-----|------|----|-----|------|----|----|------|----|----|------|----|----|------|----|----|
| Year   | Passenger cars (g CO <sub>2</sub> /km) | Vans (g CO <sub>2</sub> /km)  |      |  |                              |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |    |     |      |    |     |      |    |    |      |    |    |      |    |    |      |    |    |
| 2000   | 175                                    | 185   |      |  |                              |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |    |     |      |    |     |      |    |    |      |    |    |      |    |    |      |    |    |
| 2001   | 170                                    | 180   |      |  |                              |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |    |     |      |    |     |      |    |    |      |    |    |      |    |    |      |    |    |
| 2002   | 165                                    | 175   |      |  |                              |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |    |     |      |    |     |      |    |    |      |    |    |      |    |    |      |    |    |
| 2003   | 160                                    | 170   |      |  |                              |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |    |     |      |    |     |      |    |    |      |    |    |      |    |    |      |    |    |
| 2004   | 155                                    | 165   |      |  |                              |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |    |     |      |    |     |      |    |    |      |    |    |      |    |    |      |    |    |
| 2005   | 150                                    | 160   |      |  |                              |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |    |     |      |    |     |      |    |    |      |    |    |      |    |    |      |    |    |
| 2006   | 145                                    | 155   |      |  |                              |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |    |     |      |    |     |      |    |    |      |    |    |      |    |    |      |    |    |
| 2007   | 140                                    | 150   |      |  |                              |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |    |     |      |    |     |      |    |    |      |    |    |      |    |    |      |    |    |
| 2008   | 135                                    | 145   |      |  |                              |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |    |     |      |    |     |      |    |    |      |    |    |      |    |    |      |    |    |
| 2009   | 130                                    | 140   |      |  |                              |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |    |     |      |    |     |      |    |    |      |    |    |      |    |    |      |    |    |
| 2010   | 125                                    | 135   |      |  |                              |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |    |     |      |    |     |      |    |    |      |    |    |      |    |    |      |    |    |
| 2011   | 120                                    | 130   |      |  |                              |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |    |     |      |    |     |      |    |    |      |    |    |      |    |    |      |    |    |
| 2012   | 115                                    | 125   |      |  |                              |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |    |     |      |    |     |      |    |    |      |    |    |      |    |    |      |    |    |
| 2013   | 110                                    | 120   |      |  |                              |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |    |     |      |    |     |      |    |    |      |    |    |      |    |    |      |    |    |
| 2014   | 105                                    | 115   |      |  |                              |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |    |     |      |    |     |      |    |    |      |    |    |      |    |    |      |    |    |
| 2015   | 100                                    | 110   |      |  |                              |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |    |     |      |    |     |      |    |    |      |    |    |      |    |    |      |    |    |
| 2016   | 95                                     | 105   |      |  |                              |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |    |     |      |    |     |      |    |    |      |    |    |      |    |    |      |    |    |
| 2017   | 90                                     | 100   |      |  |                              |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |    |     |      |    |     |      |    |    |      |    |    |      |    |    |      |    |    |
| 2018   | 85                                     | 95  |      |  |                              |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |    |     |      |    |     |      |    |    |      |    |    |      |    |    |      |    |    |
| 2019   | 80                                     | 90  |      |  |                              |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |    |     |      |    |     |      |    |    |      |    |    |      |    |    |      |    |    |
| 2020   | 75                                     | 85  |      |  |                              |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |    |     |      |    |     |      |    |    |      |    |    |      |    |    |      |    |    |
| 2021   | 70                                     | 80  |      |  |                              |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |     |     |      |    |     |      |    |     |      |    |    |      |    |    |      |    |    |      |    |    |

## Consumption of controlled ozone-depleting substances in the European Economic Area and worldwide (ODP tonnes)



**Target:** Phasing out of ozone depleting substances (ODS) controlled under the Montreal Protocol (including hydrochlorofluorocarbons or HCFCs and methyl bromide) by 2020.

Globally, consumption of ODS controlled under the Montreal Protocol declined by some 98.36 % worldwide between 1986 and 2016. Upon entry into force of the Montreal Protocol, EEA-33 consumption was approximately 420 000 ozone-depleting potential tonnes. Net consumption values around zero were reached in 2002 and have remained consistently so ever since. Since the early 1990s, the European Union (EU) has taken additional measures, in the shape of EU law; to reduce the consumption of ODS. In many aspects, the current EU regulation on substances that deplete the ozone layer goes further than the Montreal Protocol and it has also brought forward the phasing out of hydrochlorofluorocarbons (HCFCs), a man-made compound with ozone depleting potential.

**Most Relevant KP3:** EU consumption of ozone depleting substances (EU 28) as defined by the Montreal Protocol (specific objectives 2 and 7)

Source: European Environmental Agency, UNEP Ozone Secretariat

*NB: EEA-33 is the 28 EU Member States together with Iceland, Liechtenstein, Norway, Switzerland and Turkey.*



**Most Relevant KP4:**

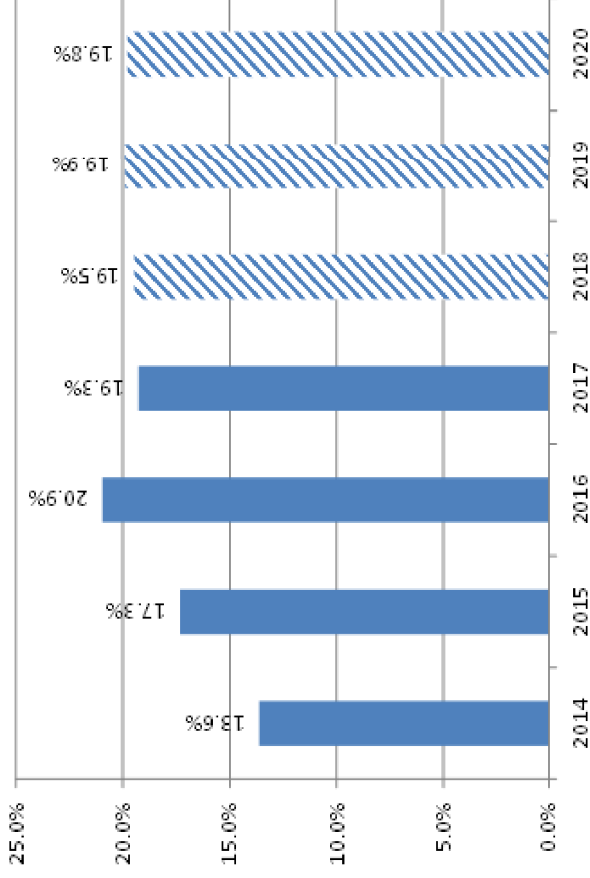
Proportion of climate related spending (mainstreaming) in the EU budget (specific objective 5)

Source: European Commission, Draft Budget Report 2018 (SEC (2017) 250)

*NB: The tracking methodology is set up in accordance with the 'Rio markers methodology' (0%, 40% and 100 % climate dimension). The climate share indicated in the programme statements of the distinct financial programmes of the EU budget is accounted for and added up to an estimated amount for the whole draft budget as compiled by DG Budget.*



**Share of climate relevant spending in EU budget**



**Target:** At least 20% (on average) by 2020

The 20% climate mainstreaming target is a political commitment from the Commission endorsed by the European Council for the current Multiannual Financial Framework (MFF) 2014-2020. The progress towards the 20% target has been monitored closely on an annual basis by DG Budget and DG Climate Action in the annual budgetary procedure. The mainstreaming percentages recorded have evolved positively: from 12.7% in 2014 to 16.8% in 2015, 20.9% in 2016 and 19.3% in 2017. It shows that the policy of climate action mainstreaming is delivering results. The mainstreaming target has been a key driver for integrating climate action systematically into individual spending programmes. In November 2016, the Court of Auditors issued an audit report on the 20% climate mainstreaming target, 'spending 1 euro out of 5 on climate'. The Court found that "ambitious work was underway and that, overall, progress had been made. However, there is a serious risk that the 20 % target will not be met without more effort". The Commission is still committed to fulfil the original 20% spending target in integrating climate action into the various Union spending programmes.

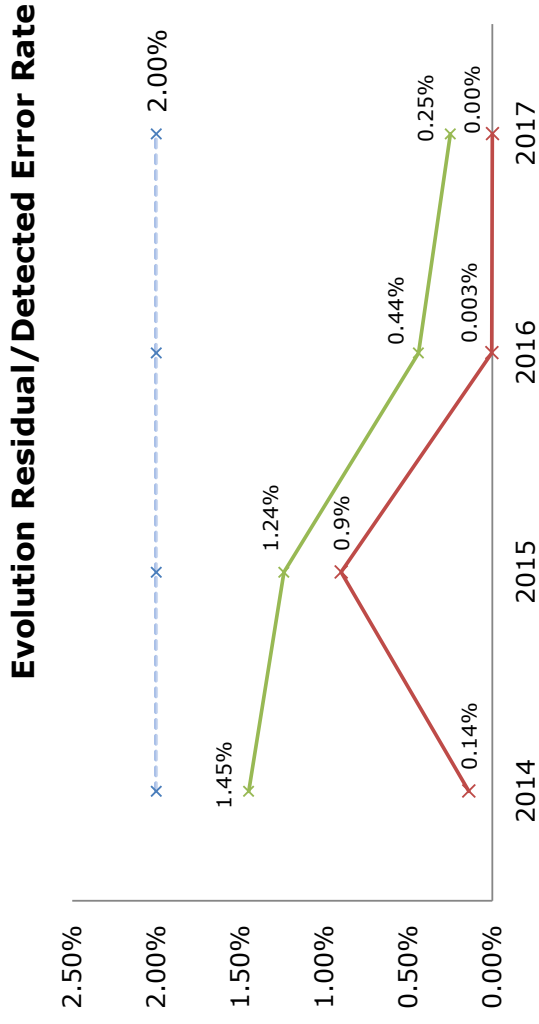
**Most Relevant KP5:**

Residual error rate (RER) in the sub-programme Climate Action of the LIFE programme 2014-20 (specific objective 5)

Source: internal assessment



**Amount at risk - Residual Error Rate (RER)**



**Target:** Residual Error Rate lower than 2%

The detected error rate based on ex-post audits of grants of the **former** LIFE+ programme is 0.25% for 2017. Considering there were no LIFE grant payments authorised in 2017 for DG CLIMA, the residual error rate is 0 while the amount at risk at closure is 914.00 € (calculations can be found in the table on pg.43).

## **c) Key Conclusions on Financial Management and Internal Control**

In accordance with the governance arrangements of the European Commission, (the staff of) DG CLIMA conducts its operations in compliance with the applicable laws and regulations, working in an open and transparent manner and meeting the expected high level of professional and ethical standards.

The Commission has adopted a set of internal control standards/principles, based on international good practice, aimed to ensure the achievement of policy and operational objectives. The financial regulation requires that the organisational structure and the internal control systems used for the implementation of the budget are set up in accordance with these standards/principles. DG CLIMA has assessed the internal control systems during the reporting year and has concluded that the internal control standards/principles are implemented and function as intended. Please refer to AAR section 2.1.3 for further details.

In addition, DG CLIMA has systematically examined the available control results and indicators, including those aimed to supervise entities to which it has entrusted budget implementation tasks, 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 refer to Section 2.1 for further details.

In conclusion, management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented. The Director General, in his capacity as Authorising Officer by Delegation has signed the Declaration of Assurance albeit qualified by a reservation concerning the financial, legal and reputational risk related to the security of the EU ETS.

## **d) Information to the Commissioner**

In the context of the regular meetings during the year between the DG and the Commissioner(s) on management matters, also the main elements of this report and assurance declaration, including the reservation envisaged on the remaining security weakness in the EU ETS, have been brought to the attention of Commissioner Miguel Arias Cañete, responsible for EU Climate Action and Energy policies, on 21 March 2018.

# 1. KEY RESULTS AND PROGRESS TOWARDS THE ACHIEVEMENT OF GENERAL AND SPECIFIC OBJECTIVES OF THE DG

## 1.1 Achievement of general policy objective(s)

As presented in its Strategic Plan 2016-2020<sup>8</sup>, the mission of the Directorate-General for Climate Action (DG CLIMA) is to foster the transition towards a low-carbon and climate resilient economy in the EU as a contribution to fighting climate change, and to support the protection and recovery of the ozone layer.

This mission was materialised as one of the ten strategic priorities for 2014-19 adopted by the Commission of President Juncker: "**A resilient Energy Union with a forward-looking climate policy**". Thus, DG CLIMA contributes, first and foremost, to this key general policy objective, which has been integrated in the **Energy Union Strategy** adopted by the Commission. Moreover, DG CLIMA also contributed to the achievement of two other priorities, namely, "Creating Jobs and Boosting Growth and Investment in Europe" and "a Stronger Global Actor".

The accomplishment of the general objective of DG CLIMA is crucial in order to reduce CO<sub>2</sub> emissions and protect the planet, citizens and ecosystems from the impact of climate change and the depletion of the ozone layer. It is the result of scientific evidence and the growing concern on the risks of climate change among the European population as reflected in the last Eurobarometer survey<sup>9</sup>. The action of DG CLIMA is driven by the need to take common EU action to tackle climate change and the evidence that individual approaches are insufficient. By extension, the EU is conscious that it cannot act alone and a truly global strategy is a must in the fight against climate change.

About 92% of the EU population considers climate change a 'serious' problem and 74% see it as a 'very serious' problem.

Consequently, **the EU has taken a full-fledged policy strategy oriented to mitigation and adaptation to climate change**. The first is based on the reduction of greenhouse gas (GHG) emissions, while the second aims at anticipating the adverse effects of climate change and prevent or minimize their negative impact. Furthermore, the EU takes initiatives both domestically (within the EU) and internationally (promoting international action).

Already in 2007, the European Union took concrete commitments to tackle climate change in its **Europe 2020 Strategy** and DG CLIMA was created in 2010 to turn these pledges into actions. Those measures are well on track and during 2017 progress was made with the proposals presented by DG CLIMA on the reduction of the CO<sub>2</sub> emissions in the transport sector and the provisional agreement between the European Parliament and the Council on key revision proposals: EU ETS, Effort Sharing Regulation and Land Use, Land Use Change and Forestry (LULUCF).

The policies aimed at tackling climate change are specially challenging for policy-makers since they foresee long-term goals and global impacts. While the EU emissions represent less than 10% of the global GHG emissions, the work of DG Climate Action is yielding positive results in terms of **decarbonisation of the European economy and making**

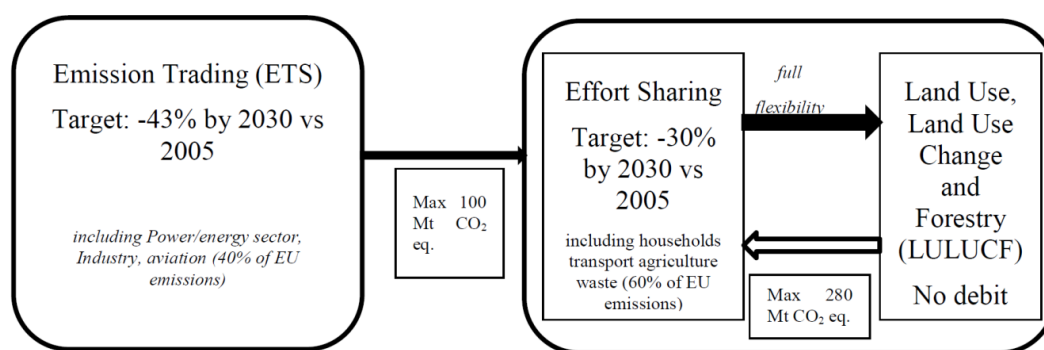
<sup>8</sup> Strategic Plan 2016-2020 DG Climate Action

<sup>9</sup> Special Eurobarometer 459 – Report on Climate Change – September 2017

Europe the leader in the fight against climate change. Two relevant indicators certify the good progress and are presented below: GHG emissions reduction and the carbon intensity of the economy<sup>10</sup>.

### Reduction of GHG Emissions

The EU set targets to reduce its GHG emissions for 2020 by 20% from 1990 levels. This had to be achieved through action concerning the sectors covered by the EU Emission Trading System (energy sector, energy intensive industry and aviation), which had to reduce by 21% their emissions compared to 2005 and the Effort Sharing Decision sectors (transport, buildings, agriculture and waste), and which annual targets per Member State had to reduce emissions by 10% compared to 2005. The 20% target by 2020 is doubled in the EU's 2030 climate policy framework, which has already been provisionally agreed by the co-legislators.



**Figure 2.** The three proposed legal bases for the EU's 2030 climate policy framework.

**The general objective for 2020 has already been achieved since emissions in the EU were already 23% below the 1990 level based on 2016 data<sup>11</sup>.** In 2016 emissions fell by 0,7% and confirmed the general trend. By extension and according to the latest projections, emissions are expected to be 26% lower in 2020 than in 1990, while emissions in 2030 are projected to be 32% lower under current policies<sup>12</sup>. Nevertheless, this objective is not achieved to the same extent in all sectors and Member States.

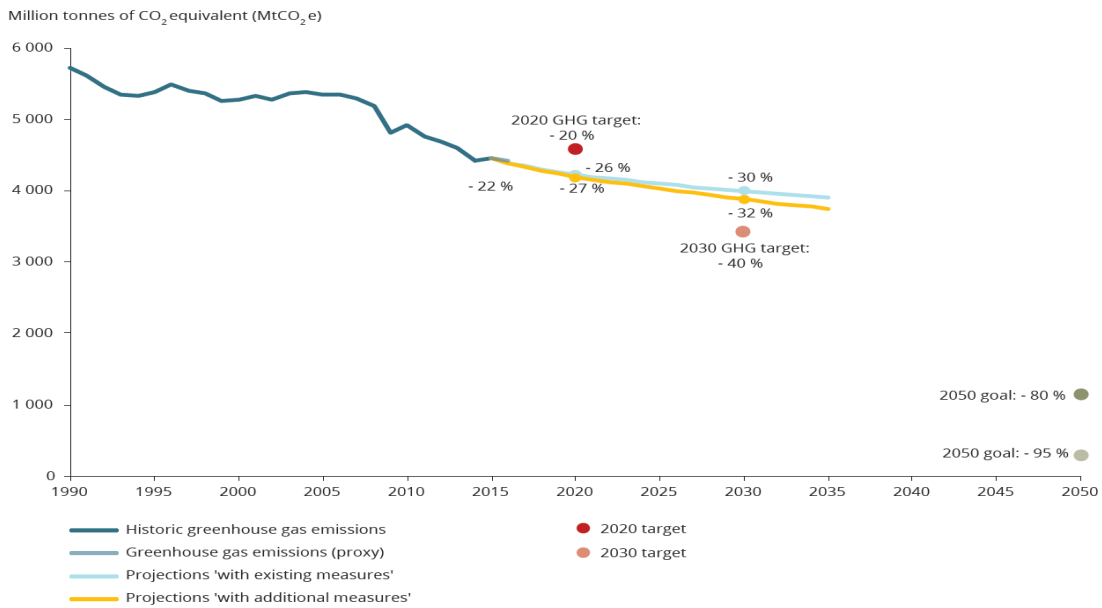
In 2016 the EU ETS has delivered emission reductions of 2.9% from participating installations. According to estimates by the EEA, the emissions under the ETS declined by 26% compared to 2005. On the other hand, emissions not covered by the EU ETS were 11% lower in 2016 than in 2005.

The large majority of Member States are expected to reach their 2020 targets, but a few of them will need to implement additional measures or make use of flexibilities such as buying allocations from other Member States. Those countries are: Ireland, Malta, Belgium, Germany, Luxembourg and Austria.

<sup>10</sup> Another relevant indicator is the share of renewable energy in percentage of gross final energy consumption, which is presented as a KPI in the AAR of DG ENER.

<sup>11</sup> The last available data is from 2016 due to the long collecting and processing data process

<sup>12</sup> Without taking into account new instruments being put in place in view of the new 2030 climate and energy targets



**Figure 3.** Greenhouse gas emission trends, projections and targets in the EU  
**Source.** European Environmental Agency. Report No 17/2017

### Carbon intensity of the economy

According to the International Energy Agency an investment of about EUR 3.5 trillion globally will be needed on average each year until 2050 to address climate change around the world<sup>13</sup>. The EU has acknowledged this situation and it sees the transition towards a sustainable and low-carbon economy as an opportunity to boost investment, promote growth and create green jobs. The results are being already delivered.

Almost 80% of the EU citizens believe that fighting climate change and using energy more efficiently will bring economic benefits<sup>13</sup>

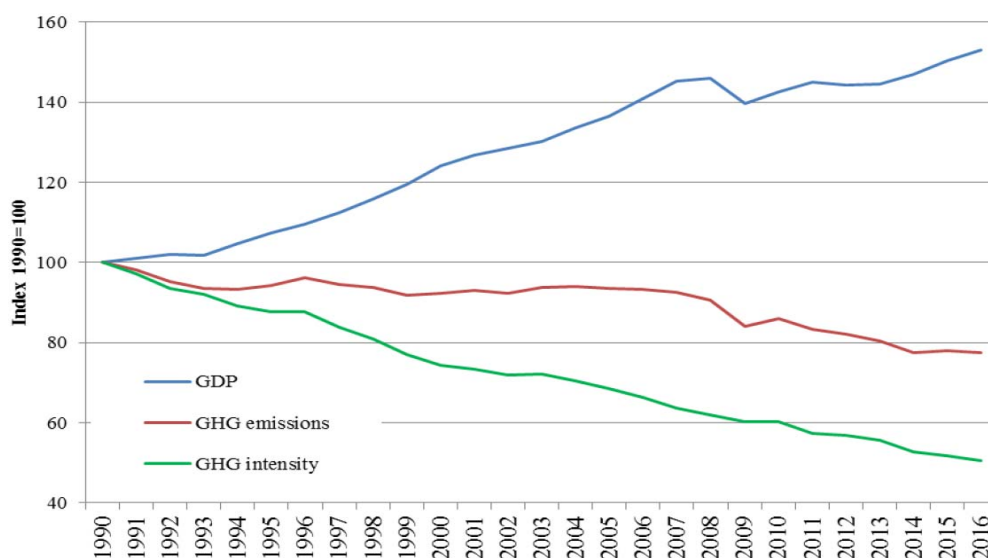
This transition is frequently measured through the carbon intensity of the economy, which is the ratio of greenhouse gas emissions to Gross Domestic Product (GDP). Evidence shows that the EU's carbon intensity halved between 1990 and 2016. The decoupling of the GHG emissions and economic growth has become, therefore, a reality: Overall, **the EU cut emissions by 23% from 1990 to 2016, while the economy grew by 53%**. The transport sector is the exception to this trend since its emissions grew significantly since 1990. The EU has made concrete proposals during 2017 to reduce these emissions in the future such as the "Clean Mobility Package" and "Europe's on the move" Package.

The decoupling of growth and GHG emissions has been proven to be driven mainly by EU legislation and technological improvements, together with the deployment of low-carbon technologies.<sup>15</sup>

<sup>13</sup> Perspectives for the energy transition: Investment Needs for a low-carbon Energy System. Report from the IEA. March 2017.

<sup>14</sup> Special Eurobarometer 459 – Report on Climate Change – September 2017

<sup>15</sup> Decomposition analysis of the changes in GHG emissions in the EU and Member States. Final Report by ICF international (2016). Available: [https://ec.europa.eu/clima/sites/clima/files/strategies/progress/docs/dca\\_report\\_en.pdf](https://ec.europa.eu/clima/sites/clima/files/strategies/progress/docs/dca_report_en.pdf)



**Figure 4.** Changes in EU GDP (in real terms), EU greenhouse gas (GHG) emissions, and EU GHG emissions intensity of the economy (ratio between emissions and GDP) Index (1990 = 100)

This tendency in the reduction of the carbon intensity was maintained in 2016, when the recovery of Europe's economy led to an increase in industrial and economic activities and an overall increase of 1.9% in Gross Domestic Product (GDP). The emissions decreased by 0.7% overall and even faster in the sectors covered by the EU Emission Trading System, which experienced a 2.9% reduction.

Looking at the positions of Member States, all have experienced a reduction in carbon intensity since 1990, but the reduction pace has been different depending on the Member State: while countries such as Spain, Cyprus or Portugal have reduced their intensity at lower pace, others such as Slovakia, Estonia and Romania experienced the highest reduction.

### **Assessing the challenges of EU climate and Energy policies The Landscape Review**

The European Court of Auditors published the '**Landscape review**' on energy and climate policies on the 19th September 2017. It provides an overview of EU action in those fields; it summarises key audit work done by the European Court of Auditors (ECA) and other Supreme Audit Institutions (SAIs) in the EU; and identifies the main challenges to inform the legislative debate and future audit work.

According to the Court, most EU actions focus on mitigating climate change by reducing greenhouse gas emissions, while action on the adaptation to the effects of climate change remains largely unregulated.

Based on the audit work, the **auditors identified seven areas where according to the Court further work is needed** in the field of energy and climate change: Energy and climate change governance; Evidence-based policy; The energy transition; Using research and innovation effectively; Planning for and tackling adaptation; Financing; and Involving EU citizens. The Commission has taken note and continues addressing these challenges.

## 1.2 Achievement of specific policy objectives

### SO 1: Ensuring further development and ensuring a well-functioning EU carbon market, via the EU ETS, towards further reduction of GHG emissions by energy power and heat generation installations, by energy-intensive industries and by domestic aviation

The EU Emission Trading System (ETS) is at the heart of the EU strategy to tackle climate change and the world's first and biggest international emissions trading system, accounting for over three-quarters of world-wide carbon trading. The sectors covered by

The EU has to reduce GHG emissions of the ETS sectors by 21% for 2020 and by 43% for 2030.

the ETS account for more than 40% of the total EU emissions and they have a specific target reduction of 21% for 2020 and 43% for 2030 compared to 2005. The EU remains on track to meet its domestic objectives since stationary emissions covered by the EU ETS fell by 26% between 2005 and 2016<sup>16</sup>. **In 2016 the EU ETS has delivered further emission reductions of 2.9% from participating installations**, while the surplus of

allowances in the carbon market fell to 1.69 billion allowances, its lowest level since the start of the Phase 3<sup>17</sup>. The auctioning of 400 M allowances in 2014, plus 300 M in 2015 and 200 M in 2016 was postponed ("backloading") in order to reduce excess liquidity in the market for allowances. These allowances will be transferred to the Market Stability Reserve from 2019, the EU ETS's structural solution for stabilizing the European carbon market in the midterm. Meanwhile, in 2017 the Market Stability Reserve surplus indicator was published for first time.

In 2017 DG CLIMA commissioned a study to analyse the use of Auction Revenues by the Member States for the period 2013-2015<sup>18</sup>. According to the EU ETS Directive at least 50% of the revenues generated from the auctioning of allowances should be used for specific climate and energy activities. The study concluded that **around 82% of these revenues were used for climate and energy purposes (mainly to support renewables and energy efficiency)**.

#### EU ETS finances Climate Action

Member States earned nearly EUR 15.8 billion from the auctioning of EU ETS allowances during the period 2013-2016.

These resources were used mostly domestically and dedicated mainly to the renewable and energy efficiency sectors. Nevertheless the use varies depending of the country. For example, **Italy uses 33% of its revenues for climate adaptation**

The EU ETS benefits from a very high 'compliance rate to the annual ETS cycle' by the MS competent authorities since the market-based system was created in 2005. Since its beginning it has been around 99% and this was achieved again in 2016. This represented more than 99% of the emissions covered by the EU ETS (emitted by the industrial installations and aircraft operators).

Encouraged by the success of the ETS emission reduction for the 2020 targets, DG CLIMA has been working in the recent years on the legislation for the post-2020 period. At the end of 2017, **a provisional agreement was reached by the European Parliament and the Council on revising the EU ETS for phase 4 (period after 2020)**. This revision will contribute to put the EU on track to achieving a significant part of its

<sup>16</sup> Two years after Paris – Progress towards meeting the EU's climate commitments.

<sup>17</sup> COM (2017) 693 final – Report on the function of the European carbon market.

<sup>18</sup> Analysis of the use of Revenues by the Member States. Ramboll, March 2017. Available: [https://ec.europa.eu/clima/sites/clima/files/ets/auctioning/docs/auction\\_revenues\\_report\\_2017\\_en.pdf](https://ec.europa.eu/clima/sites/clima/files/ets/auctioning/docs/auction_revenues_report_2017_en.pdf)

commitment under the Paris Agreement to reduce greenhouse gas emissions by at least 40% by 2030. This revision will strengthen the Market Stability Reserve to speed up the reduction of the current oversupply of allowances on the carbon market and additional safeguards will be developed to reduce the risk of carbon leakage.

The EU ETS is a domestic instrument, but it has an international dimension as shown during the year 2017 in different ways. First of all, it has to comply with international agreements. In 2017, **the EU ETS was amended in response to the agreement of the ICAO (International Civil Aviation Organization) Assembly to stabilize international aviation emissions**; this will ensure that the ETS is fit for tackling CO<sub>2</sub> emissions from aviation. The scheme will only start from 2021, but data will be collected from 2019.

Secondly, in 2017 **the EU and Switzerland signed an agreement to link their emissions trading systems**. This will allow participants to use both trading systems and it expands opportunities for cutting emissions and the economies of scale, thereby reducing the cost of fighting climate change. The linking agreement will probably enter into force in 2020 and is expected to be ratified by European Parliament and the Council in 2018.

Thirdly, it has provided other countries with a working example. And DG CLIMA engages intensively in dialogues with third countries interested in the functioning of an ETS system.

## **SO 2: A fair and operational framework for MS aiming for a further reduction of GHG emissions in the non-ETS sectors in the EU (agriculture, forestry, land use, buildings, transport, waste) (= EU Effort Sharing Decision, use of Fluorinated-gases and consumption of Ozone Depleting Substances)**

The European Union is on track to meet the 2020 targets for the sectors not covered by the EU ETS. These sectors include transport, buildings, agriculture, small industry and waste. The Effort Sharing Decision (ESD) in force establishes binding annual greenhouse gas emissions targets for Member States for the period 2013-2020. The national targets have been agreed unanimously on the basis of relative wealth.

The EU has to reduce the GHG emissions of the non-ETS sectors by 10% until 2020 and by 30% until 2030.

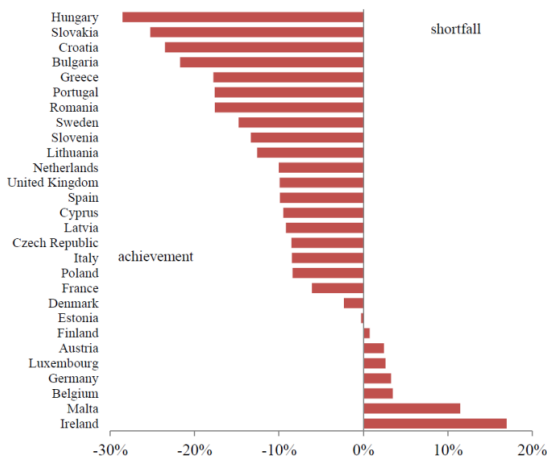
**Most of the Member States have met their ESD targets since 2013.** Malta has been the exception, it has failed to meet its ESD target for each of the years 2013-2015, but it has used the flexibility mechanism to comply with its legal obligations (it covered its excess of emissions by purchasing units from Bulgaria). DG CLIMA has been monitoring the progress towards these objectives in order to ensure that they are achieved.

As regards the emissions from Land Use, Land Use Change and Forestry (LULUCF), there appears to be no significant compliance risk at EU level. Nevertheless, as LULUCF accounts will be cumulative for the period 2013-2020 full results cannot yet be determined. Still, according to the provisional data available, only Latvia, Bulgaria, Finland and the Netherlands show a net emission level for the period 2013-2015.

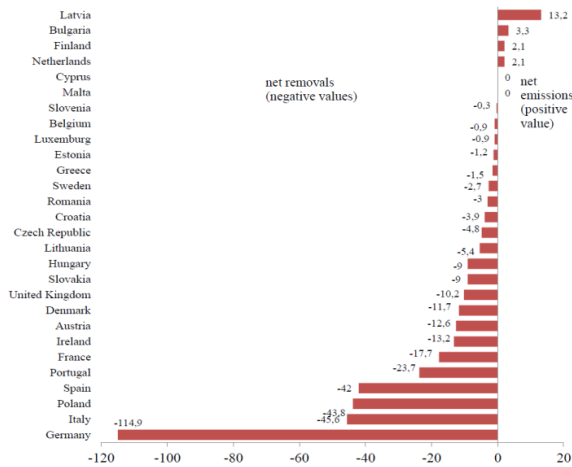
DG CLIMA represented the Commissions during the trilogues and intensified its inter-institutional efforts in order to contribute to an agreement on the legislation for both the LULUCF proposal and the Effort Sharing Regulation proposal for the period after 2020. **The provisional agreements by the Parliament and the Council for both proposals were reached at the end of 2017** and these mark an important step forward in the EU strategy to tackle climate change.

The proposal on the Effort Sharing Regulation sets the Member States targets for the period post-2020 and the proposal on LULUCF sets out a binding commitment for each

Member State to achieve net zero debits from the sector and the accounting rules to determine compliance.



**Figure 5.** Relative gap between projected 2020 emissions outside ETS and 2020 targets (in % of 2005 emissions)



**Figure 6.** Provisional accounted cumulative of Land Use, Land Use Change and Forestry (LULUCF) net emissions and removals per Member State (2013-2015)

### Use of Fluorinated-gases and consumption of Ozone Depleting Substances

On the use of Fluorinated-gases (F-gases), the EU is currently implementing a wide phase-down for the hydrofluorocarbons (HFCs) since 2015<sup>19</sup>. HFCs accounted for approximately 90% of F-gases and around 3% of GHG emissions in 2015. In 2016, the EU consumption of HFCs was the lowest in terms of their global warming effect since reporting began in 2007. This result was already 14% below the EU's obligation for 2019, under the Montreal Protocol's Kigali Amendment.

In 2017 DG CLIMA has started the evaluation of the Ozone Depleting Substances Regulation from 2009 in accordance with the Better Regulation principles to review legislation every 5 years. The final results are foreseen by mid 2019.



The EU was recognised as an 'ozone hero' by receiving an award marking 30 years of the Montreal Protocol being in force

<sup>19</sup> EEA Report - No 20/2017

### SO 3: Further decarbonisation of the transport sector in the EU beyond 2020 through development and implementation of harmonised policies (in cooperation with other DGs like DG MOVE, GROW,...)

The Strategy on low-emissions mobility sets a clear ambition: the reduction of EU GHG emissions from transport by at least 60% in 2050 compared to 1990 and the firm path towards zero emissions.

The general trend in the reduction of GHG emissions at the EU found its exception in the transport sector, which saw its emissions growing compared to 1990. Within this sector, road transport represents about 20% of the total EU GHG emissions and more than 70% of transport ones<sup>20</sup>. In 2016, the European Commission adopted a **Strategy on low-emissions mobility** aimed at fostering the emission reduction in the transport sector and 2017 has been a crucial year in the preparation for its implementation.

DG CLIMA worked closely with DG MOVE to present in 2017 **the Clean mobility package**. The package is fundamental to honour the EU's commitments under the Paris Agreement and to tackle emissions in the road transport post 2020. One legislative proposal sets new CO<sub>2</sub> Standards to embrace innovation for low-emissions vehicles (cars and light commercial vehicles) and specific targets are proposed for cars and vans. In 2025 emissions of the EU fleet of new cars and of new vans should both be 15% lower than in 2021, while in 2030 emissions should be 30% lower.

It is expected that this new legislation will generate jobs and reduce around 170 M tonnes of CO<sub>2</sub> in the period 2020 to 2030 (equivalent of the total annual emissions of Austria and Greece together) and, moreover, further improve air quality.

Also in 2017, the European Commission targeted the **emissions from Heavy Duty Vehicles** (HDVs, i.e. lorries, buses and coaches), which represent around 5% of total EU emissions and are set to increase by 10% between 2010 and 2030<sup>21</sup>. The proposal on the monitoring and reporting of CO<sub>2</sub> emissions from and fuel consumption of new heavy-duty vehicles is the first ever EU legislation addressing CO<sub>2</sub> emissions from these vehicles. The monitoring and reporting will promote transparency in the market and, therefore, competitiveness in the road transport sector. All in all, it is expected that the production of more energy-efficient vehicles will become a reality, which is vital for EU industry to keep pace, being conscious that other key global market players have already introduced fuel efficiency measures for HDVs.

#### **LIFE closing the information gap for car emissions**

LIFE is financing the transition towards low carbon technologies in the transport sector. *LIFE – Close the gap* is a project that aims at eliminating the information gap between the passenger cars fuel consumption as provided by the manufacturers and as experienced in real world operation. This information mismatch undermines the EU's climate policy and legislation tools and results in missing the CO<sub>2</sub> emission targets, as well as incurring higher fuel consumption by the end users.

The project will implement information and awareness campaigns and develop a knowledge base on emissions and fuel consumption testing. The knowledge will be disseminated to the target groups via media campaigns, expert talks, conferences, workshops, networking, interactive smartphone applications, and legal advisory services. The project is located in Belgium and Germany mainly, with cooperation of Italy, Netherlands, Hungary, Austria, and France, and it is planned for 3.5 years. The total costs of the project are 1,276,127 Euro, out of which the total EU contribution amounts to EUR765,376.

<sup>20</sup> <https://www.eea.europa.eu/highlights/eu-greenhouse-gas-emissions-from-transport-increased>

<sup>21</sup> EU Reference Scenario 2016: Energy, transport and GHG emissions - Trends to 2050

According to the last available data from the European Environment Agency, all large **car and van manufacturers** in the EU met their CO<sub>2</sub> emissions target in 2016. The average emissions level of a new car sold in the EU in 2016 was 118.1 grams of CO<sub>2</sub> per kilometre, well below the 2015 target of 130 g. And the average emission of a van is 163.7 grams of CO<sub>2</sub> per kilometre, which is already below the 2017 target of 175 g. Further efforts are needed by the manufacturers to meet the targets of 95 g CO<sub>2</sub>/km by 2021 for cars and 147 g CO<sub>2</sub>/km by 2020 for vans.

### **The monitoring, reporting and verification (MRV) system for EU shipping**

The EU is also committed to reduce greenhouse gas emissions from international shipping, which represent around 2.5% of global GHG emissions and are foreseen to increase significantly in the future unless important measures are taken. The practical implementation of Regulation (EU) 2015/757 on monitoring, verification and reporting of CO<sub>2</sub> emissions from shipping (EU MRV) started in 2017 with companies operating ships over 5000 gross tonnage (GT) submitting Monitoring Plans to accredited verifiers. This will enable monitoring of EU-related maritime transport activities carried out from 1st January 2018. First emissions reports are due by 30th April 2019.

After completion by the International Maritime Organization (IMO) of its Global Data Collection Tool DCS with the adoption in June and July 2017 of guidelines on verification and on the IMO ship fuel oil consumption database, the Commission, pursuant to Article 22 of the EU MRV Regulation has undertaken the necessary steps to carry out an analysis with a view to take appropriate account of the IMO DCS. An open public consultation was held for 12 weeks (until 1 December 2017).

Following the 2016 IMO agreement on a roadmap for drafting a comprehensive IMO strategy for reducing GHG emissions from ships, two key meetings on this IMO strategy were held in June and July 2017. At these meetings, the EU Member States and other parties argued in favour of including an ambitious emissions reduction objective (70 % by 2050) in the strategy.

### **Evaluation of the Fuel Quality Directive**

The evaluation of the Fuel Quality Directive (Directive 98/70/EC) was finalised in May 2017<sup>22</sup>. The main conclusions stated that the Directive is effective in ensuring high levels of environmental and health protection in relation to fuel used in road transport as well as non-road mobile machinery.

Despite the fact that a full cost-benefit evaluation of the FQD could not be done, there is evidence in the available data that proves the efficiency of the directive and no incoherence was found. Moreover, the Directive is considered to have an EU added-value and in the absence of common legislation, the national legislation would entail the risk of protection and inequalities among European citizens and could lead to a fragmentation of the fuel market. Despite not being part of the main objectives of the FQD, further margin for action was found related to the functioning of the internal market and the diversity of fuel blend supplies across different Member States, which may lead to higher costs for fuel suppliers.

### **SO 4: Increased resilience of EU society against the effects of climate change by 2020 via effective support to MS respecting the subsidiarity principle (adaptation)**

Since 1980, EU Member States have lost over EUR360 billion due to weather and climate extreme events, as well as an incalculable human cost. The EU Strategy on Adaptation to

---

<sup>22</sup> SWD(2017) 178 final

climate change was adopted in 2013 to make Europe more climate-resilient. In particular, the strategy aimed at enhancing the preparedness to respond to current and future climate change impacts at all EU levels through a coherent and coordinated approach. The two main elements of the strategy are its cross-sectorial approach (the mainstreaming of climate and adaptation in all EU funds and programmes) and its cross-level implementation (Member States, regions, cities and international action).

As foreseen in the EU Adaptation Strategy, in 2017 an Evaluation of the Adaptation Strategy was initiated and it is planned to be completed by the 3<sup>rd</sup> quarter of 2018. The evaluation will examine the actual implementation and performance of the Strategy. In view of the results of the evaluation and the Paris commitments, the European Commission will consider the possibility to revise the Strategy.

### **Strengthening EU Disaster Management: RescEU**

Key trends show how climate change is contributing to increase the intensity of fires. Throughout the year 2017, almost three times the five-year EU average of hectares of forest have been destroyed,

DG CLIMA and DG ECHO are working together on a strategy that could use the synergies between adaptation to climate change and disaster risk reduction.

The Commission's 2017 proposal to the European Parliament and Council on '**Strengthening EU Disaster Management: rescEU**' has as one of its objectives to focus on preventive action, including from climate change. The proposal asks Member States to include short and longer term risks in their risk assessment and ensure that national plans also look at climate change adaptation.

### **Cross-level implementation: Member States, Regions and Cities**

The EU considers the respect to the subsidiarity principle as one of its main drivers. Therefore, the EU Strategy on Adaptation aims to be a facilitator and promotes coherence, cooperation and information sharing across Member States.

#### **LIFE supports local authorities to adapt to extreme rainfall**

Climate change scenarios predict more frequent and larger extremes in rainfall. The LIFE funds are financing local initiatives aimed at adapting to these new circumstances.

Putten (NL) regularly faces climate change-induced pluvial flooding and it has developed an innovative strategy to face these circumstances. This is based on new technologies called Fast High Volume Infiltration (FHVI), which have been proven effective in small-scale testing and will protect Putten against urban pluvial flooding.

The LIFE programme is currently financing 60% of the EUR 4 Million project.

It was foreseen that all 28 Member States would have submitted an **Adaptation plan/strategy** by 2018 for implementation by 2020. By the end of 2017, 25 Member States had adopted such a plan. Croatia, Bulgaria and Latvia are currently working on their plans and they intend to finalise them during 2018.

Nevertheless, the most challenging part is not found in the delay of these three countries, but in the fact that less than half of the Member States have started to implement their action plans. Moreover, the development and implementation of monitoring and evaluation systems remains uneven in most EU countries.

DG CLIMA is monitoring progress. Together with the European Environment Agency, DG CLIMA has developed the "adaptation preparedness scoreboard", which identifies key indicators for measuring the readiness

to face climate change consequences and assess the Member States on a case-by-case basis.

National approaches towards adaptation are deemed not sufficient. The Commission is actively promoting action from local authorities. Urban consumption accounts for the majority of global CO<sub>2</sub> emissions and cities provide an opportunity to foster the low-carbon transition and promote investment.

Initiatives such as the **Covenant of Mayors** launched in 2008 by the European Commission are delivering. More than 7600 cities and towns have been mobilized together to take action on mitigation and adaptation to climate change by drafting voluntary local strategies and commitments. This means a steady increase as it happens with the number of action plans, presented already by the large majority of signatories. Since 2016 the initiative became truly global with its merger with the **UN Compact of Mayors**, and it is currently represented in the six continents.

### Financing Adaptation

There is an urgent need for continued and up-scaled investment in climate adaptation across Europe. The EU Budget is financing Climate Adaptation through a wide range of instruments that are mainstreamed throughout EU sectoral policies.

The LIFE programme has become a major driver for adaptation and mitigation measures. Its subprogramme on Climate Action has adaptation as one of its main priorities and a total of 17 of these projects have been proposed for funding by the Evaluation committee for the LIFE 2017 call.

In addition to EU budget resources, Member States have earned nearly EUR 15.8 billion from the auctioning of EU ETS allowances over the period 2013-2016 and countries like Italy have dedicated 33% of its revenues to adapting to climate change.

#### ***Diversity of instruments to finance adaptation***

Mediterranean ecosystems have been identified as being among the most likely to be impacted by climate change. One large Mediterranean ecosystem known as Montado in Portugal and Dehesa in Spain is already suffering from the consequences of desertification. As a result, agroforestry management practices are becoming increasingly uneconomical and rural depopulation is caused.

In the line of the EU Adaptation Strategy, LIFE is funding with more than EUR2 million a project aimed at introducing innovative adaptation technologies in the region, through demonstration of profitable Integrated Land Use systems.

Socioeconomic benefits are expected in addition to the environmental and climate outcomes.

### **SO 5: Optimisation and sound and efficient management of financial incentives 2014-20 to support the innovation-based shift towards a low carbon and climate-resilient EU economy (through the EU budget 2014-2020 and the (ETS) funds, in cooperation with all DGs)**

#### **20% Mainstreaming**

The delivery of the EU's climate objectives requires significant investment across all sectors (including agriculture and forestry, buildings, industry, transport and waste). This is especially significant for mitigation and adaptation, which are placed at the centre of the EU action. With a view to responding to these needs, the EU took the political commitment of devoting at least 20% of the EU Budget to climate relevant action<sup>23</sup> and the European Commission is implementing a mainstreaming methodology in the current Multiannual Financial Framework (MFF) 2014-2020 to secure this objective.

<sup>23</sup> Point 10 of the European Council conclusions of 7-8 February 2013 (EUCO 37/13) and the European Parliament on the Next MFF 2013 - P7\_TA(2013)0078

On average it is estimated that **the share of climate relevant spending in EU Budget for the MFF period will be 18.8%**<sup>24</sup>. This means a significant increase in comparison to the previous MFF programmes and close to the final 20% objective. In 2017, climate mainstreaming accounted for 19.3 % of the total EU budget and is planned to deliver almost EUR 30 billion. The Common Agricultural policy and the Cohesion funds account for about 80% of the mainstreamed funds.

## LIFE Programme

The **sub-programme for "Climate Action" of the LIFE programme** has a budget of EUR 860 M for the period 2014-2020 and it supports climate change mitigation, climate change adaptation and governance and communication projects. This sub-programme has attracted a strong interest from stakeholders, as shown by the high volume of applications presented. In 2017, 125 proposals were submitted: 39 for climate change adaptation (CCA), 60 for climate change mitigation (CCM) and 26 for climate governance and information (CGI). There has been an increase in applications from private commercial bodies compared to the previous year. The total available budget was EUR53m and the Evaluation Committee recommended 33 proposals for funding (17 CCA, 12 CCM and 4 CGI).

The 2017 **Mid-term evaluation of the LIFE programme**<sup>25</sup> showed that the programme's implementation is progressing in the right direction. The evaluation had some limitations since the majority of the financed projects have only just started or are still ongoing, but based on the processes put in place, the ongoing activities and the anticipated results, it concluded that the LIFE programme is effective, efficient, relevant, and coherent and provides a significant EU added value.

The evaluation demonstrates the efficiency gains of the programme and its catalytic role: it is estimated that the benefit to society of some of the projects from the 2014 call for proposals will amount to EUR 1.7 billion, which represents four times the cost of the overall LIFE Budget for 2014. Moreover, it showed how the LIFE regulation is extremely appreciated, due to its capacity to ensure that EU environmental and climate legislation and policies are applied in a consistent manner across the EU, and that it allows a better sharing of responsibility and solidarity.

The mid-term evaluation sees some room for improvement in the simplification of grant management procedures or the communication strategy. Overall, these results will help to enhance the programme under the next Multiannual work programme (2018-2020) and in the next MFF. EU Member States have also approved the Commission's multi-annual implementation plan for the next three years of the programme (2018-20).

| <b>LIFE Sub-programme for the Climate Action – Draft Budget 2017</b>     |                       |             |                    |             |                                    |             |
|--|-----------------------|-------------|--------------------|-------------|------------------------------------|-------------|
| <b>Outputs</b>   | <b>Priority Areas</b> |             |                    |             |                                    |             |
|  | Climate Mitigation    |             | Climate Adaptation |             | Climate Governance and Information |             |
|  | Number                | EUR million | Number             | EUR million | Number                             | EUR million |
| 1. Action grants (projects)  | 18                    | 37,0        | 22                 | 40,4        | 6                                  | 8,0         |
| 2. Public Procurement (contracts)  | 400                   | 10,0        | 2                  | 5,0         | 22                                 | 4,7         |
| 3. Operating grants (work programmes of non-profit making entities/NGOs) | 18                    | 6,3         | 12                 | 6,3         | 6                                  | 2,0         |
| <b>Total</b>   |                       | 53,3        |                    | 51,7        |                                    | 14,7        |

Source: Programme Statements DB2017

<sup>24</sup> SWD (2016) – 299 final

<sup>25</sup> Report on the Mid-term Evaluation of the Programme for Environment and Climate Action (LIFE) - SWD(2017) 355 final

## Financial Instruments (PF4EE and NCF) and the NER300 Fund

The **Private Finance for Energy Efficiency (PF4EE)** is a financial instrument funded through LIFE (EUR 80 M for 2015-2017) and implemented by the ECB. It aims at fostering energy efficiency investments, with a total expected investment generated up to about EUR 540 M. A total of 9 agreements have been signed by the end of 2017 (Czech Republic, Spain, France, Belgium, Portugal, Italy, Croatia, Cyprus, Greece) and € 23,5M remains to be allocated by the EIB to additional agreements in 2018 and 2020. The EIB now targets to achieve EUR 1 billion of new investments in energy efficiency, almost twice the initial leverage target.

The **Natural Capital Financing Facility (NCF)** combines EIB financing and the Commission's funding under the LIFE Programme. It is specifically oriented to conservation, restoration, management and enhancement of natural capital for biodiversity and adaptation benefits. Five projects are under appraisal and the first loan of the NCF was signed in April 2017: it was a EUR 6 M loan to Rewilding Europe Capital, a project that protects wildlife species.

### **NER300: Non EU budget financing transition to low-carbon economy**

The Windpark Handalmin (AU) has entered into operation in 2017, it will produce around 76 Megawatt hours of electricity a year. It produces enough electricity for 21,000 homes, saving 46,000 tonnes of CO<sub>2</sub> per year – the equivalent of taking 8,000 cars off the road.

This project has been financed with 11.3 mn with the NER300.

The **NER300** is an off-budget fund, funded completely from the sale of 300 M emission allowances from the New Entrants' Reserve (NER) set up for the third phase of the EU emissions trading system (EU ETS). Funds have been awarded to 39 projects (38 renewable energy projects and 1 carbon capture and storage (CCS) project) in 20 Member States for a total of €2.1 billion in two calls for proposals in 2012 and 2014. By the end of 2017, 12 projects have reached the final investment decision, while six projects have entered already into operation.

If all remaining projects materialise, EUR7.9 billion of total investments in low carbon technologies would be realised. The projects in operation have resulted in close to €2,5 billion of total investments and already generate 3,073,994 MWh renewable electricity per year.

Given the challenging economic and policy context since the NER 300 programme was designed in 2010, six projects have not been able to raise sufficient additional financial support and have been withdrawn. EUR457 M unspent money from 5 projects from the first call have been reallocated for support of innovative projects under the InnovFin Energy Demo Projects and the Connecting Europe Facilities Debt Instrument, both managed by the EIB. This will allow maximising the benefits of the NER 300 programme.

## **SO 6: Implementation of the Energy Union Strategy towards an enhanced climate and energy governance mechanism including streamlined reporting and planning post 2020 (coordination with DG ENER)**

In 2017, DG CLIMA focused on reaching an inter-institutional agreement on the proposal from 2016 regarding the Governance Rules for the Energy Union. By the end of 2017, Member States have adopted their negotiating position on the proposal for the Governance regulation. The proposal would require Member States to draft integrated national energy and climate plans covering a period of 10 years (2021-2030).

Member States are already drafting their national plans and approximately half of them already have long-term strategies for climate with a perspective until at least 2030.

The national plans are fundamental to implement the Paris  
clima\_aar\_2017\_final

Agreement: Member States have to set out their national targets and contributions to the Energy Union's objectives, including the EU's joint energy efficiency and renewable energy targets. Those targets will be closely monitored through the reporting rules for tracking progress set in the proposal and it provides specific mechanisms to cover possible gaps. Meanwhile, DG CLIMA is monitoring with other partners the progress towards these plans and at the end of 2017 more than two thirds of Member States have set up political processes.

Governance is considered a challenge according to the European Court of Auditors Landscape review of 2017. Effective governance systems are needed in the EU to manage and monitor energy and climate measures, to reduce risks, to avoid overlaps and to ensure progress, while finding cost-effective solutions.

A key element of the proposal will be its alignment with the 5-year review cycle set out in the Paris Agreement: it establishes a calendar for drafting, finalization and updating the plans, which will be fundamental for **the Talanoa (Facilitative) Dialogue** in 2018 (agreed at the COP23, where DG CLIMA acted as representative of the EU) and the Global Stocktake in 2023. Moreover, it provides consistent monitoring mechanisms for calculating the greenhouse gas emissions so that the EU meets its reporting obligations under the Paris Agreement.

The third Report on the State of the Energy Union was released in 2017. It concluded that the Energy Union has reached a critical juncture and it assessed progress towards energy and climate goals and the deliverables of the year. Finally, it called on the co-legislators, Member States and stakeholders to engage actively and facilitate agreement on the Governance Regulation as well as the implementation of the 2020 targets.

**So 7: Ambitious contribution to effective international negotiations on climate action (including bilateral cooperation and climate diplomacy, UNFCCC, Kyoto, Paris, ICAO, IMO) and ozone layer (Montreal) related**

Climate change does not stop at national borders and cannot be tackled in isolation, its consequences are felt all around the world and a truly international action is needed in order to tackle its causes and consequences. The EU has always been committed to a multilateral approach to face climate change as it demonstrated in the Paris negotiations by leading the "High Ambition Coalition".

**EU funding international Cooperation**

In 2017, DG DEVCO has subdelegated budgetary funds to DG CLIMA under the Global Public Goods and Challenges Thematic Programme of the Development Cooperation Instrument (DCI). This programme will be fundamental to support international groups and platforms such as the negotiations groups under the UNFCCC, the Cartagena Dialogue or the High Ambition Coalition. A total amount of EUR4.5 million was earmarked showing the EU's commitment to ensure international cooperation.

In June 2017, the United States publically announced its intention to withdraw from the Paris Agreement. This is s a setback and it is deeply regretted by the EU, but it does not weaken the EU commitment to the Paris Agreement, which is fit for purpose and cannot be renegotiated. Therefore, in 2017 DG CLIMA's international actions were focused on following the direction set by the Paris Agreement and ensuring that its implementation is

The LIFE programme financed valuable international EU action including preparatory work for and the logistic support to COP23.

well on track, including by supporting developing countries in the implementation of their commitments. Some of these actions are explained below:

The **COP23 held in Bonn** under the presidency of Fiji gathered nearly 200 countries and demonstrated that the political momentum is maintained. DG CLIMA represented the European Union and during the conference significant progress was made in turning the pledges of the Paris agreement into concrete action. An agreement was reached on the design of the '**Talanoa Dialogue**', which during 2018 will provide a space to showcase progress and share best practice in tackling climate change. Moreover, the parties agreed on a substantive decision text for Loss and Damage, which keeps a balance between what has been previously agreed and the needs of the most vulnerable countries. Finally, the COP23 took the initiative to establish the first Gender Action Plan and to give a new stimulus to the Indigenous Peoples' Platform.

In parallel to the COP23, the EU continued to promote other bilateral and multilateral measures, which go in the same direction as the Paris Agreement. Thus, in October 2017, the EU and India signed the Joint Statement on Clean Energy and Climate Change that will make cooperation on climate issues possible, including regarding investment flows in both directions and the engagement of the European Investment Bank in India.

The EU co-hosted **the Ministerial meeting on Climate Action (MoCA) in Montreal with Canada and China** to join forces and get involved in a dialogue with key partners on issues such as convergence between developing and developed economies and confirm the commitment to the implementation of the Paris Agreement.

The EU and its Member States contributed with EUR20.2 billion in 2016 to support developing countries in reducing their greenhouse gas emissions. The contributions were successfully channeled into climate change mitigation and adaptation initiatives in developing countries.

Finally, the **EU concluded in 2017 the ratification of the Doha Amendment to the Kyoto Protocol**. This implied 30 ratification procedures - in its 28 Member States, in Iceland and by the EU as a whole - and it has been deposited at the United Nations. This amendment was agreed in 2012 and it will establish a second Kyoto Protocol period of legally-binding emissions commitments for 2013-2020. The Amendment will entry into force as soon as it will be ratified by 144 parties to the Kyoto Protocol.

## 2. ORGANISATIONAL MANAGEMENT AND INTERNAL CONTROL

This section answers to the question *how* the achievements described in the previous section were delivered by the DG. This section is divided in two subsections.

The first subsection reports the control results and all other relevant information that support management's assurance on the achievement of the financial management and internal control objectives. It includes any additional information necessary to establish that the available evidence is reliable, complete and comprehensive; appropriately covering all activities, programmes and management modes relevant for the DG.

The second subsection deals with the other components of organisational management: human resources, better regulation principles, information management and external communication.

### 2.1 Financial management and internal control

Assurance is an objective examination of evidence for the purpose of providing an assessment of the effectiveness of risk management, control and governance processes.

This examination is carried out by management, who monitors the functioning of the internal control systems on a continuous basis, and by internal and external auditors. Its results are explicitly documented and reported to the Director-General. The reports produced are:

- the annual reports and declarations by AOD and AOSDs in which all financial (trans)actions are verified
- the reports from Authorising Officers in other DGs managing budget appropriations in cross-delegation;
- the reports on control results from entrusted entities in indirect management such as the European Investment Bank (EIB) as well as the result of the Commission supervisory controls on the activities of these bodies, and participation as observer in the management board meetings of the Executive Agency for Small and Medium-sized Enterprises (EASME);
- the contribution of the Internal Control Coordinator, including the results of internal control monitoring at the DG level;
- the contribution of the Risk Manager;
- the reports of the ex-post audit function provided by SRD2/ENV A.5;
- the observations, recommendations and the conclusions on the state of internal control reported by the Internal Audit Service (IAS);
- the observations and the recommendations reported by the European Court of Auditors (ECA);
- DG Climate Action and DG Environment's Advisory Committees on public procurement (CPAC and ENVAC) and their annual review reports;
- DG Climate Action's Risk Advisory Committee;

- Periodic reports and dashboards to management on resource issues.

Systematic analysis of the evidence provided in these reports provides a sufficient guarantee of the completeness and reliability of the information reported and results in a complete coverage of the budget delegated to the Director-General of DG Climate Action.

This section reports the control results and other relevant elements that support management's assurance. It is structured into (a) Control results, (b) Audit observations and recommendations, (c) Effectiveness of the internal control system, and resulting in (d) Conclusions as regards assurance.

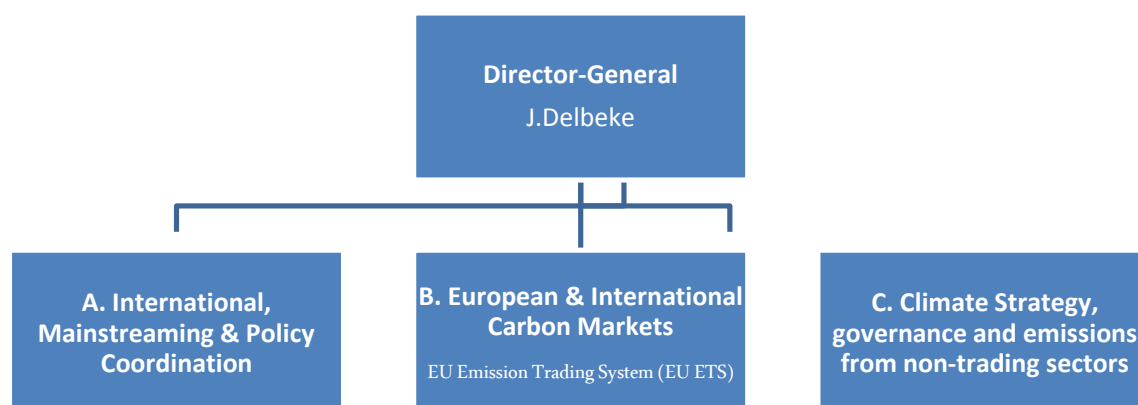
## 2.1.1 Control results

This section reports and assesses the elements identified by management that support the assurance on the achievement of the internal control objectives<sup>26</sup>. The DG's assurance building blocks and materiality criteria are outlined in the AAR Annex 4. Annex 5 outlines the main risks together with the control processes aimed to mitigate them and the indicators used to measure the performance of the control systems.

### Operational structure

At 31/12/2017, DG CLIMA had 206 staff members (including external personnel). The DG is structured around three Directorates.

The DG was reorganised as of 1st October 2017 to implement the decision of the SG and DG HR to suppress the Shared Resources Directorate (SRD) ENV/CLIMA. In this context, the DG changed its organisation chart to fully integrate the financial activities, administrative support, internal communication and information technology activities of the SRD. The changes included the creation of the new Finance Unit A.4., while existing responsibilities regarding the IT Development, Security and Support were integrated in Unit B2. The new support cell 001 saw a merger of internal and external communication tasks, while the legal support capacity was merged in unit A.1. The high-level organisation chart of DG CLIMA at the end of 2017 is the following:



### Financial overview

The 2017 commitments and payment appropriations under title 34 amount to €123,88

<sup>26</sup> 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).

million and €60,84 million respectively. The tables below provide an overview of the budget implementation at 31/12/2017.

*Financial overview title 34 (Climate action)*

| <u>Expenditure (M EUR)</u>                            | 2017<br>Commitment<br>Appropriations | 2017<br>commitments<br>made | 2017 Payments<br>Appropriations | 2017 Payments<br>made |
|---|--------------------------------------|-----------------------------|---------------------------------|-----------------------|
| LIFE support expenditure (34 01 04 01)*               | 3,28                                 | 3,28                        | 3,28                            | 0,23                  |
| LIFE & Completion LIFE (34 02-01, -02, -03, -51)      | 119,20                               | 119,20                      | 55,88                           | 55,29                 |
| Multilateral Climate. Agreements or MCA (34 02 04)    | 0,90                                 | 0,89                        | 0,90                            | 0,89                  |
| Pilot Projects/Preparatory Actions (34 02 77 02, -03) | 0,50                                 | 0,50                        | 0,77                            | 0,69                  |
| <b>total</b>  |                                      |                             |                                 |                       |
|   | <b>123,88</b>                        | <b>123,87</b>               | <b>60,84</b>                    | <b>57,09</b>          |

*\*non-differentiated appropriations, automatic carry-over of payment appropriations to 2018 for amount of RAL*

*Overview of usage of commitment appropriations in 2017 under the operational budget of title 34:*

| <u>Expenditure (M EUR)</u>                            | CONVENTIONS | FINANCIAL<br>INSTRUMENT | GRANTS       | PROCUREMENT  | Grand<br>Total |
|---|-------------|-------------------------|--------------|--------------|----------------|
| LIFE support expenditure (34 01 04 01)**              |             |                         |              | 3,28         | 3,28           |
| LIFE & Completion LIFE (34 02-01, -02, -03, -51)***   |             | 15,00                   | 89,91        | 14,29        | 119,20         |
| Multilateral Climate. Agreements or MCA (34 02 04)    | 0,89        |                         |              |              | 0,89           |
| Pilot Projects/Preparatory Actions (34 02 77 02, -03) |             |                         |              | 0,50         | 0,50           |
| <b>Sub-total voted appropriations</b>                 | <b>0,89</b> | <b>15,00</b>            | <b>89,91</b> | <b>18,07</b> | <b>123,87</b>  |

*Overview of usage of payment appropriations in 2017 under the operational budget of title 34:*

| <u>Expenditure (M EUR)</u>                            | CONVENTIONS | FINANCIAL<br>INSTRUMENT | GRANTS       | PROCUREMENT  | Grand<br>Total |
|---|-------------|-------------------------|--------------|--------------|----------------|
| LIFE support expenditure (34 01 04 01)**              |             |                         |              | 0,23         | 0,23           |
| LIFE & Completion LIFE (34 02-01, -02, -03, -51)***   |             | 14,45                   | 28,67        | 12,17        | 55,29          |
| Multilateral Climate. Agreements or MCA (34 02 04)    | 0,89        |                         |              |              | 0,89           |
| Pilot Projects/Preparatory Actions (34 02 77 02, -03) |             |                         |              | 0,69         | 0,69           |
| <b>Sub-total voted appropriations</b>                 | <b>0,89</b> | <b>14,45</b>            | <b>28,67</b> | <b>13,09</b> | <b>57,09</b>   |

The above tables will be an important source of information for the financial discharge on climate expenditure.

DG CLIMA is accountable for the part of the budget it implements itself and for what has been implemented by DGs and services having received a cross sub-delegation from DG CLIMA:

Financial overview DG CLIMA:

| Expenditure (M EUR)                                   | 2017 Commitment Appropriations | 2017 commitments made | 2017 Payments Appropriations | 2017 Payments made |
|---|--------------------------------|-----------------------|------------------------------|--------------------|
| <b>voted appropriations (C1) 34 01</b>                |                                |                       |                              |                    |
| Administrative expenditure (34 01 02)*                | 1,75                           | 1,74                  | 1,75                         | 0,57               |
| LIFE support expenditure (34 01 04 01)**              | 1,67                           | 1,66                  | 1,67                         | 0,22               |
| <b>other appropriations (C4, C8) 34 01</b>            |                                |                       |                              |                    |
| Administrative expenditure (34 01 02)                 | 0,00                           | 0,00                  | 0,16                         | 0,06               |
| LIFE support expenditure (34 01 04 01)                | 0,00                           | 0,00                  | 1,33                         | 1,29               |
| <b>Total 34 01</b>                                    | <b>3.42</b>                    | <b>3.40</b>           | <b>4.91</b>                  | <b>2.14</b>        |
|   |                                |                       |                              |                    |
| <b>voted appropriations (C1) 34 02</b>                |                                |                       |                              |                    |
| LIFE & Completion LIFE (34 02-01, -02, -03, -51)***   | 26,55                          | 26,55                 | 26,66                        | 25,92              |
| Multilateral Climate. Agreements or MCA (34 02 04)    | 0,90                           | 0,89                  | 0,90                         | 0,89               |
| Pilot Projects/Preparatory Actions (34 02 77 02, -03) | 0,50                           | 0,50                  | 0,77                         | 0,69               |
| <b>other appropriations (C4, C8) 34 02</b>            |                                |                       |                              |                    |
| LIFE & Completion LIFE (34 02-01, -02, -03, -51)      | 0,00                           | 0,00                  | 0,00                         | 0,00               |
| <b>Total 34 02</b>                                    | <b>27.95</b>                   | <b>27.94</b>          | <b>28.33</b>                 | <b>27.50</b>       |
| <b>total</b>  | <b>31,37</b>                   | <b>31,34</b>          | <b>33,23</b>                 | <b>29,64</b>       |

\* non-differentiated appropriations, automatic carry-over of payment appropriations to 2018 for amount of RAL + payments made by PMO (max. EUR 0,98M) are included in "2017 payment appropriations", but not in "2017 payments made"

\*\* non-differentiated appropriations, automatic carry-over of payment appropriations to 2018 for amount of RAL

\*\*\* payments made by DGT, DIGIT and OPOCE (EUR 0,17M) are included in "2017 payment appropriations", but not in "2017 payments made"

## Cross sub-delegations

### Given

As mentioned above, DG CLIMA has entrusted parts of its budget to other DGs through cross sub-delegations given (to DGs EMPL, ENER, ENV, JRC). In all these cases, the DG's supervision arrangements are based on a memorandum of understanding with delegated DGs and defined reporting obligations. All delegated AODs have given reasonable assurance in their reports on the correct use of funds (the legality and regularity of transactions and sound financial management).

Overview of CLIMA funds implemented by other services, but where DG CLIMA is accountable:

| Fund Management Center | Committed (M EUR) | Paid (M EUR) |
|------------------------|-------------------|--------------|
| CLIMA/EMPL             | -                 | 0,03         |
| CLIMA/ENER             | 0,4               | 0,56         |
| CLIMA/ENV              | 5,24              | 0,51         |
| CLIMA/JRC              | -                 | 0,27         |
| <b>Total</b>           | <b>5,64</b>       | <b>1,37</b>  |

### Received

On the other hand, DG CLIMA is also implementing parts of the budget of other DGs through cross sub-delegations received (from DG DEVCO, DG NEAR).

DG CLIMA has given reasonable assurance in its reports to the AODs on the correct use of funds.

DG CLIMA is managing a small number of actions under cross sub-delegation agreements with DG DEVCO (GPGC- Global Public Goods and Challenges). 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 global Sustainable Development Goals (SDGs). Through the GPGC, the EU has earmarked resources to help developing countries and partner organisations addressing environmental and natural resource and climate management issues.

DG CLIMA is also managing a few contracts under cross sub-delegation agreements with DG NEAR (IPA-Instrument for Pre-Accession Assistance) aiming to support IPA II beneficiaries in their transition towards a low emission and climate-resilient economy.

Overview of funds implemented by DG CLIMA, but where other DGs are accountable:

| Fund Management Center | Committed (M EUR) | Paid on 2017 commitments and RAL (M EUR) |
|------------------------|-------------------|--|
| DEVCO/CLIMA            | 4,65              | 10,97                                    |
| NEAR/CLIMA             | 2,00              | 0,10                                     |

### (Horizontal) co-delegations

The major part of the budget under title 34 (LIFE action grants) is implemented through a horizontal type I co-delegation<sup>27</sup> to the Executive Agency EASME. A smaller part of the budget is implemented by other DGs under a horizontal type II co-delegation (details in table below)<sup>28</sup>.

In both cases, each AOD must account for the use of the appropriations in his annual activity report.

The below table is therefore provided for information only. It aims at facilitating consolidation of budget implementation as accounted for in the AAR of DG CLIMA and has to be taken into account for the financial discharge of expenditure under title 34.

Overview of funds under title 34 implemented under co-delegation:

| Expenditure (M EUR)                            | type of co-delegation | Co-delegation with | Committed   | Paid        |
|--|-----------------------|--------------------|-------------|-------------|
| <b>voted appropriations (C1) 34 01</b>         |                       |                    |             |             |
| Administrative expenditure (34 01 02)          | HT II                 | HR                 | 0,03        | 0,01        |
| Administrative expenditure (34 01 02)          | Vertical              | PMO                | 0,00        | 0,89        |
| LIFE support expenditure (34 01 04 01)         | HT II                 | DIGIT              | 1,61        | 0,01        |
| <b>other appropriations (C4, C5, C8) 34 01</b> |                       |                    |             |             |
| Administrative expenditure (34 01 02)          | Vertical              | PMO                |             | 0,08        |
| LIFE support expenditure (34 01 04 01)         | HT II                 | DIGIT              | 0,00        | 1,24        |
| <b>Total 34 01</b>                             |                       |                    | <b>1,64</b> | <b>2,23</b> |

<sup>27</sup> split of appropriations on the same budget line/powers of a given budget line are co-delegated between a number of AOD's, all at the same level

<sup>28</sup> part of appropriations on a given budget line is co-delegated by a primary AOD to a secondary AOD for performance of certain administrative services

|  |          |       |              |              |
|--|----------|-------|--------------|--------------|
| <b>voted appropriations (C1) 34 02</b>   |          |       |              |              |
| LIFE (34 02-01, -02, -03)                | HT I     | EASME | 87,62        | 26,71        |
| LIFE (34 02-01, -02, -03)                | HT II    | COMM  | 0,02         | 0,00         |
| LIFE (34 02-01, -02, -03)                | HT II    | DGT   | 0,00         | 0,04         |
| LIFE (34 02-01, -02, -03)                | HT II    | DIGIT | 0,01         | 0,12         |
| LIFE (34 02-01, -02, -03)                | HT II    | EAC   | 3,00         | 2,48         |
| LIFE (34 02-01, -02, -03)                | HT II    | ESTAT | 2,00         | 0,00         |
| LIFE (34 02-01, -02, -03)                | Vertical | OPOCE | 0,00         | 0,00         |
| <b>other appropriations (C4, C5, C8)</b> |          |       |              |              |
| <b>Total 34 02</b>                       |          |       | <b>92,65</b> | <b>29,36</b> |
| <b>GRAND TOTAL</b>                       | -        | -     | <b>94,29</b> | <b>31,59</b> |

## Budget implementation tasks entrusted to other services and entities

### Executive Agency for Small and Medium-sized Enterprises based in Brussels (EASME)

Since 2014 DG CLIMA has been responsible for management of the Climate Action sub-programme under LIFE<sup>29</sup>, the newly established "Programme for the Environment and Climate Action (LIFE)" for 2014-2020. At the same time DG Climate Action and DG Environment, in accordance with the Commission's commitment to simplify the management of financial programmes (including LIFE), following a cost-benefit analysis, externalised the implementation of the major part of LIFE budget to the Executive Agency for Small and Medium-sized Enterprises. The Commission maintains political responsibility for the projects being externalised, while the financial responsibility (operational and financial implementation) is transferred to the Agency. According to the LIFE Regulation at least 81% of its budget is allocated to financing grants, which is managed by EASME. The remaining part of DG CLIMA budget is spent on procurement actions and for the two financial instruments managed by the European Investment Bank, EIB.

In 2017 EASME launched the call for proposals for action grants and for operating grants to NGOs in April, with an aim to help implement and shape EU policies on environment and climate change. In the climate action domain, the 2017 call for proposals has been closed on 7 September 2017. Out of the 125 proposals submitted, 39 were for climate change adaptation, 60 for climate change mitigation and 26 under climate governance and information. 42% of the proposals were submitted by public bodies, 24% by private non-commercial bodies and 34% by private commercial bodies. This represented an increase in applications from private commercial bodies compared to the previous year. In the evaluation process, 12 mitigation projects, 17 adaptation projects and 4 governance/information projects were selected. The total available budget is 53m EUR.

In order to ensure close cooperation between the DG and EASME, a memorandum of understanding has been signed by both parties. DG Climate Action supervises the work externalised through regular reports received 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 as observer in the Agency's Steering Committee meetings and as member of Task-Force-Meetings that are held regularly. Furthermore the Agency produces and disseminates half-year reports as foreseen in the Memorandum of Understanding.

### European Investment Bank (EIB) in Luxembourg

<sup>29</sup> Regulation 1293/2013

In December 2014, two new financial instruments with the EIB were launched: the Natural Capital Financing Facility (NCFF), aimed at providing loans and investments promoting the preservation of natural capital, including adaptation to climate change, and the Private Finance for Energy Efficiency (PF4EE) financial instrument which aims to increase private financing for investments in energy efficiency projects.

The Natural Capital Financing Facility (NCFF) is a pioneering tool. It represents an innovation which, if successful, could drive the architecture of natural capital financing across the world. For NCFF, the EIB will contribute a total budget for the Investment Facility of €100 – 125 million for 2014-2017. DG Environment and DG Climate Action equally contribute an amount of €50 million as a guarantee for the investments, and €10 million for a support facility. A first payment to EIB amounting to €3,250 M was made in December 2014. In 2015, there two further payments (January and May) were made amounting to a total of €8,500 M. Due to a slower than expected implementation of NCFF there was

In April 2017, the first project supported by the NCFF was signed. It was a €6 million loan to Rewilding Europe Capital. It will provide support for over 20 nature-focused business across Europe.

no payment made in 2016. However, progress was achieved in 2017 and a first deal was signed in April, Rewilding Europe Capital. To ensure the funds allocated for NCFF will be spent accordingly, an amendment was signed in October in order to extend the implementation period until and including 2021 and extend the maximum duration of contracts between the EIB and final beneficiaries from 15 to 25 years, whilst keeping the possibility of a further 5 year extension if needed. In addition, a payment of €895.000 was made in October 2017 as well.

**Private Finance for Energy Efficiency** (PF4EE) is a financial instrument funded through LIFE (€ 80 M for 2014-2017) and aiming at increasing investment in energy efficiency projects. At the outset of the PF4EE, support of total investment up to about EUR 540 million was expected, with an objective to sign operations in 6 to 10 Member States. By end of 2017, 9 deals were signed (CZ, ES, FR, BE, PT, IT, HR, EL, CY). As € 23,5M remains to be committed, it was decided to extend the implementation period to 2019 and to launch a new call of expression of interest in 2018. The EIB now targets to achieve EUR 1 billion of new investments in energy efficiency, almost twice the initial leverage target.

The instrument will be scaled up after its pilot phase, with an additional € 75M for the 2018-2020 period.

In terms of payments made, a first payment to EIB amounting to €6 M was made in December 2014. A second payment, amounting to €6,13 M, was done in July 2015, an additional payment of €7 M in July 2016 and two payments with a total of €14 M in 2017.

The Commission has put in place control and monitoring processes in order to verify whether the internal control system set up by the EIB is efficient and effective. For instance, Commission management (Directors and Heads of Unit of both DGs) participate in the Steering Committees, and financial statements and operational progress reports are provided twice a year by the EIB and scrutinized by the financial unit in the SRD and CLIMA.A.4 and by the operational unit in DG CLIMA. In addition, where appropriate, the Commission may perform on-the-spot checks of the Financial Intermediaries or Final Recipients on representative and/or risk-based samples of transactions, as stipulated in Article 6c of the Delegation Agreement.

## **Management's assessment**

### **a) Budget coverage**

The Annual Activity Report instructions<sup>30</sup> provide that the **assessment by management** should cover the **DG's significant budget areas**. 89.84% of payments authorised in 2017 relate to ABB activity 3402 (Climate action at Union and international level) and 10.16% relate to the budget chapter 3401 (Administrative expenditure). As shown in the table below, the payments authorised and made in 2017 amount to €29.65 million. In 2017, there were no payments for LIFE grants by the DG. The majority of payments were implemented through procurement and financial instruments. 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 2017:*

| <b>Expenditure (M EUR)</b>                            | <b>ADMIN</b> | <b>CONVENTIONS</b> | <b>FINANCIAL INSTRUMENT</b> | <b>GRANTS</b> | <b>PROCUREMENT</b> | <b>Grand Total</b> |
|---|--------------|--------------------|-----------------------------|---------------|--------------------|--------------------|
| Administrative expenditure (34 01 02)*                | 0,63         |                    |                             |               |                    | 0,63               |
| LIFE support expenditure (34 01 04 01)**              |              |                    |                             |               | 1,51               | 1,51               |
| LIFE & Completion LIFE (34 02-01, -02, -03, -51)***   |              |                    | 14,45                       |               | 11,47              | 25,92              |
| Multilateral Climate. Agreements or MCA (34 02 04)    |              | 0,89               |                             |               |                    | 0,89               |
| Pilot Projects/Preparatory Actions (34 02 77 02, -03) |              |                    |                             |               | 0,69               | 0,69               |
| <b>Sub-total voted appropriations</b>                 | <b>0,63</b>  | <b>0,89</b>        | <b>14,45</b>                | <b>0,00</b>   | <b>13,67</b>       | <b>29,64</b>       |

## **b) Key control indicators**

The assessment by management is based on the results of key controls performed in 2017, notably ex-ante controls and controls during project implementation. Following the Commission decision of 16 May 2017 to abolish and split the Shared Resources Directorate (SRD) of DGs ENV and CLIMA - including the budget and finance unit SRD.2 – with effect on 1 October 2017, DG CLIMA has taken direct responsibility for its financial arrangements. The updated financial circuits put in place in DG CLIMA are based on a thorough risk assessment and reflect the financial environment, the organisational capacity and an analysis of the budget implementation. The new financial circuits have been approved by DG BUDG.

However, since the split was effectuated only in October 2017, the table below shows the most relevant quantitative control indicators for 2017 compared to 2016 and 2015 based on the control environment of SRD2:

*Key control indicators:*

|  |             |             |             |
|--|-------------|-------------|-------------|
| <b>1. Input indicators (resources devoted)</b>                       | <b>2017</b> | <b>2016</b> | <b>2015</b> |
| Ex-ante financial initiation (FTE)                                   | 1.5         | 1.5         | 1.5         |
| Ex-ante financial verification (FTE)                                 | 1.5*        | 1.25        | 1.25        |
| Controls at ENVAC/CPAC meetings and programming (FTE)                | 0.5         | 0.5         | 0.5         |
| IAS/ECA (FTE)  | 0.5         | 0.5         | 0           |
| <b>2. Output indicators (controls during project implementation)</b> | <b>2017</b> | <b>2016</b> | <b>2015</b> |
| Procurement ex-ante: number of rejected/adjusted commitments         | 4.9%        | 6.69%       | 5.76%       |

<sup>30</sup> As a rule of thumb at least 90% of the "payments made" as per AAR Annex 3 Table 2 (2017 AAR Instructions)

|   |             |              |              |
|---|-------------|--------------|--------------|
| Procurement: number of procurement files reviewed by ENVAC (CPAC from October 2017) | 11          | 9            | 6            |
| Procurement: number of negative opinions by ENVAC                                   | 0           | 0            | 0            |
| Number of exceptions registered (ICS 8)   | 1           | 1            | 4            |
| <b>3. Other indicators</b>  |             |              |              |
|   | <b>2017</b> | <b>2016</b>  | <b>2015</b>  |
| Number of payments exceeding legal delays   | 13/331=3.9% | 25/346=7.23% | 12/369=3.25% |
| Number of European Ombudsman  | 0           | 0            | 0            |
| Number of OLAF cases  | 0           | 0            | 0            |

|                     |       |        |        |
|---------------------|-------|--------|--------|
| Detected error rate | 0.25% | 0.44%  | 1.24%  |
| Residual error rate | n/a   | 0.003% | 0.08%  |
| Average error rate  | n/a   | 0.01%  | 0.087% |

\*Ex-ante financial verification is adjusted to reflect the control environment in the new finance Unit, CLIMA A.4.

### Notes to the control indicators:

- **Ex-ante controls (procurement):** The resources allocated to control have remained relatively stable in 2017 until October when the SRD Finance Unit was split between DG ENV and DG CLIMA based on an overall headcount repartition key. DG CLIMA has established its own financial circuits and control environment which doesn't differ much from the previous SRD control environment. For procurement, the reviews performed by the ENVAC and now CLIMA Procurement Advisory Committee (CPAC) remain highly important. Following the recommendations of an IAS audit of DG CLIMA procurement in 2016, as from 2017 both ENVAC and CPAC mandates include as well the assessment of a sample of procedures for establishing specific contracts under Framework contracts. No negative ENVAC or CPAC opinions were issued in 2017 on DG CLIMA files. However, 90% of the scrutinized files were fine-tuned (e.g., better argumentation of points allocated, clearer assessment of selection and award criteria) following ENVAC/CPAC recommendations. Standard verification controls in the financial circuit contributed to other, non-material adjustments, for a number of files concerning both procurement and administrative budget expenditure (conferences, meetings, etc.).
- **IAS (FTE):** there were two staff members in the finance Unit of the Shared Resources Directorate who followed and coordinated the work necessary to implement recommendations and draft action plans in response to the audits performed by the Internal Audit Service and the European Court of Auditors. In DG CLIMA's finance unit ½ FTE is dedicated to the coordination and follow-up of both audits performed by the Court and the IAS.
- **Exception reporting:** The number of recorded exceptions (1 case) remains very low. The analysis of the reported case does not point to any material weaknesses in the internal control system and the case has been addressed promptly by mitigating actions.
- **Payment delays:** The number of DG CLIMA payments in 2017 (331) decreased slightly compared to 2016 (346 payments). In 2017, 3,9% of all DG CLIMA's payments were paid late as compared to the legal deadlines, which is a noticeable improvement compared to 2016 (7,23%). In monetary terms, late payments in 2017 accounted for 1,9% of the total amount paid (compared to 30,7% in 2016). The additional efforts made in 2017 to reduce again these payment delays and re-establish the positive trend are effective. It is believed that the in-house finance unit (following the split of the shared resources directorate) will further contribute to a more efficient and faster processing of financial transactions.
- **ALL CROSS-SUBDELEGATED AODS HAVE PROVIDED REASONABLE ASSURANCE IN THEIR REPORTS ON THE CORRECT USE OF FUNDS IN 2017.**

## Conclusion

Budget implementation tasks entrusted to other services and entities in DG CLIMA concern the executive agencies (EASME) and the EIB for the financial instruments Natural Capital Financing Facility (NCFF) and Private Finance for Energy efficiency (PF4EE).

DG CLIMA is satisfied with the governance structure of EASME and the dialogue and cooperation established. In terms of EIB, considering the slow uptake of the loans by the final beneficiaries, the risk of irregularities or loss of assets is currently insignificant. In addition, the EIB sent its anti-fraud strategy to CLIMA in 2015 which is adequate and compliant with Commission standards.

For the 2017 reporting year, the cross-sub delegated Authorising Officers by Delegation have reported reasonable assurance on the delegated budget managed by them. They have not signalled any material control issues.

## Coverage of the Internal Control Objectives and their related main indicators

- **Control effectiveness as regards legality and regularity**

DG CLIMA has set up internal control processes aimed to ensure the 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 concerned. The control objective is to ensure that the final amount at risk related to payments authorised in 2017 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 2017, ex-post audits aiming at detection and correction of potential fraud, errors and irregularities are carried out only on request by DG DEVCO/NEAR, in cases where there is suspicion of fraud or irregularity. No such cases were indicated in 2017. In addition, for procurement, the risk of payment-related errors is considered insignificant as: 1) there is an extremely limited number of pre-financings, 2) in case of partial delivery the full amount is not paid and 3) technical reports and deliverables required for the payments are discussed with the contractor and before final approved. 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 (CPAC, 4 eyes principle in the financial circuit), and controls and meetings during the management of the contract.

Thorough ex-ante controls apply to procurement-related transactions in DG CLIMA. In addition to the mandatory initiator/verifier controls of all commitments and payments, procurement specialists in the financial unit systematically provide advice and support to the operating units in DG CLIMA, for the whole lifecycle of a contract, from the drafting of the terms of reference till the final payment/decommitment.

Also, a specific procurement advisory committee ENVAC (CPAC from October 2017) performs verifications of all contracts above € 500, 000, plus of a sample of contracts of lower value. Value and type of procedures are the main factors of the risk- based approach of ENVAC/CPAC.

Therefore, reasonable assurance can be provided given the following cornerstones: robust ex-ante controls performed at various stages in the financial circuit; quality advice by procurement experts to the desk officers and authorising officers in the operating units; independent and positive ENVAC/CPAC verifications; guidance on how to deal with DES<sup>31</sup> cases; no significant errors and weaknesses detected by the internal and external auditors; and no fraud cases or Ombudsman cases flagged.

---

<sup>31</sup> EDES = Early Detection and Exclusion System

For financial instruments, the risk of payment-related errors is considered insignificant in 2017, as the European Investment Bank (EIB) only signed agreements with 10 financial intermediaries with no final recipient (yet). Also, their control environment is satisfactory and aligned with the Commission standards.

- **Estimation of the Detected Error Rate (DER), the Amount at Risk, and the residual error rate (RER)**

There were no payments for LIFE grants in 2017 made in DG CLIMA; however, for the sake of consistency with the past, below the calculation of error rate for LIFE+ grants is explained.

The ex-post audit team in the SRD and in DG ENV sampled 31 of the 224 LIFE grants for which final payment was made throughout 2016. The audited grants represent an audit coverage of 14% of the number of projects closed in 2016 and 22% of the total value of those grants. The sample is based on a random selection through the MUS methodology (Monetary-Unit Sampling). The detected error rate (DER) of 0.25% is therefore a reliable estimate and representative for the whole population of grants.

A comparison with the previous years is possible as the audit selection process has been consistent for years. On top, in the last 5 years, a total of 151 so-called MUS based audits have been performed. This large number of audits provides strongly reliable estimation for the error rates.

A multi-annual comparison of the yearly Detected Error Rates shows that the rates are low and declining year after year:

| Audit year - AAR year 2017          |                                 | 2013         | 2014         | 2015         | 2016         | 2017         | CUMULATIVE FIGURES |
|-------------------------------------|---------------------------------|--------------|--------------|--------------|--------------|--------------|--------------------|
| <b>DER</b>                          |                                 | <b>2,32%</b> | <b>1,45%</b> | <b>1,24%</b> | <b>0,44%</b> | <b>0,25%</b> | 1.14%              |
| Auditable population                | amounts                         | 71.342.258   | 92.613.550   | 131.938.211  | 210.942.654  | 205.948.574  | 712.785.247        |
|                                     | nr of grants                    | 105          | 133          | 165          | 273          | 224          | 900                |
| Selected randomly and audited       | amounts                         | 35.541.456   | 43.387.239   | 39.542.925   | 44.383.526   | 45.213.849   | 208.068.995        |
|                                     | <b>nr of audits</b>             | <b>32</b>    | <b>29</b>    | <b>29</b>    | <b>30</b>    | <b>31</b>    | <b>151</b>         |
| Representativity                    | % population                    | 50%          | 47%          | 30%          | 21%          | 22%          | 29%                |
| Recommended Recovery                | amounts                         | 826.198      | 630.359      | 491.476      | 196.723      | 112.601      | 2.257.357          |
|                                     | % of audited                    | 2,32%        | 1,45%        | 1,24%        | 0,44%        | 0,25%        | 1,08%              |
| DER applied to auditable population | B                               | 1.658.425    | 1.345.552    | 1.639.849    | 934.970      | 514.871      | 6.091.692          |
| Recoveries issued the audit year    | C                               | 37.389       | 908.976      | 478.912      | 699.225      | 140.195      | 2.264.696          |
| Net result after corrections        | B-C=D                           | 1.621.036    | 436.577      | 1.160.937    | 235.745      | 374.676      | 3.826.996          |
| <b>RER</b>                          | <b>D auditable population /</b> | <b>2,27%</b> | <b>0,47%</b> | <b>0,88%</b> | <b>0,11%</b> | <b>0,18%</b> | <b>0,54%</b>       |

|                                  | DER   | RER   |
|----------------------------------|-------|-------|
| Average figure                   | 1.14% | 0.78% |
| Weighted by auditable population | 0.85% | 0.54% |

The current low error rates, one of the lowest of all EU programmes, are the result of:

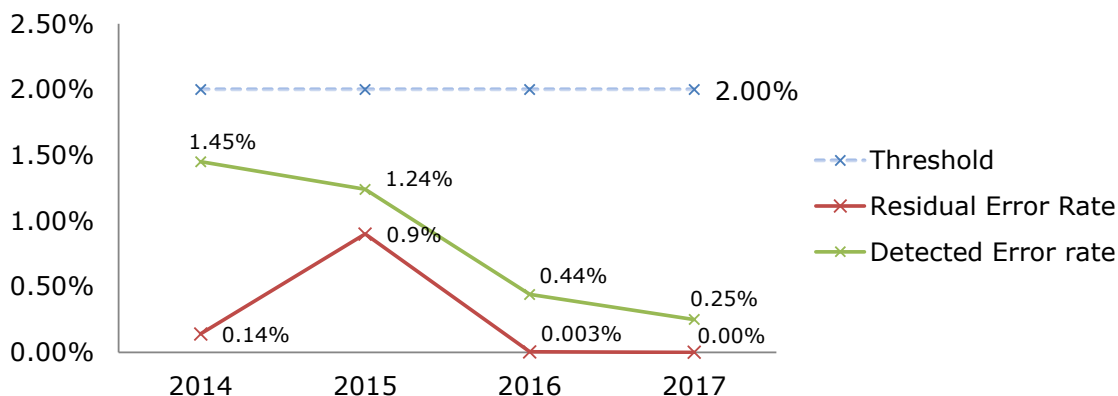
- Ex-ante controls, including good guidance from the start of the project, on-the-spot monitoring during the projects, and meticulous checks before final payments;
- Ex-post verifications, which cover a substantial proportion of grants and amounts, thus probably deterring fraudsters.

Good articulation of ex-ante and ex-post controls over time has also been decisive. The best example was when ex-post auditors analysed the causes of errors and detected that personnel costs were the most likely to be at risk: the ex-ante controllers adopted the conclusions and improved, as early as 2010, their guidance for timesheets. This decision, the result of internal cooperation, proved to be instrumental in leading to a lower error rate.

In the near future, one can expect that the DER will not decrease further but will remain stable well below 2%.

Detailed calculations on the amount of risk at closure can be found in the table on the next page.

### Evolution Residual/Detected Error Rate



### Estimated overall amount at risk at closure

| DG CLIMA   | "payments made" (FY; m€) <sup>32</sup> | minus new prefinancing (in FY; m€) <sup>33</sup> | plus cleared prefinancing (in FY; m€) | = "relevant expenditure" (for the FY; m€) | Average weighted detected error rate (DER %) | Estimated overall amount at risk at payment (FY; €) | Average Recoveries and Corrections (adjusted ARC; %) | estimated future corrections [and deductions] (for FY; €) | estimated overall amount at risk at closure (€) |
|--|--|--|---------------------------------------|---|--|---|--|---|---|
| (1)  | (2)                                    | (3)  | (4)                                   | (5)=(2) - (3) + (4)                       | (6)  | (7)=(5) x (6)                                       | (8)  | (9)=(5) x (8)   | (10)=(7) - (9)                                  |
| <b>6.400</b>   | <b>27.94</b>                           | <b>8.86</b>                                      | <b>11.40</b>                          | <b>30.48</b>                              | <b>0.003%</b>                                | <b>914</b>  | <b>0.00%</b>   | <b>0</b>  | <b>914</b>                                      |
| 2. Procurement, LIFE, pilot projects, preparatory actions, financial instruments | 26.42                                  | 8.86   | 11.40                                 | 28.96                                     | 0.0%   | 0   | 0.0%   | 0   | 0   |
| 3. Contributions (MCA)   | 0.89                                   | 0  | 0                                     | 0.89                                      | 0.0%   | 0   | 0.0%   | 0   | 0   |
| 4. Administrative (3401)   | 0.63                                   | 0  | 0                                     | 0.63                                      | 0.15%  | 945   | 0.0%   | 0   | 945   |

In the context of the protection of the EU budget, at the Commission's corporate level, the DGs' estimated overall amounts at risk and their estimated future corrections are consolidated.

For DG CLIMA, the estimated overall amount at risk for the 2017 payments made is 914,00 €. This is the AOD's best, conservative estimation of the amount of relevant expenditure during the year (€27.940.000,00) that was not in conformity with the applicable contractual and regulatory provisions at the time the payment was made.

Given that the major share of DG CLIMA's expenditure concerns procurement- which is not subject to any ex-post controls on the spot and thus not leading to any financial recoveries/corrections- and financial instruments which are not mature enough for and ex-post control on the spot, the overall amount at risk at closure is also estimated at 914,00 €.

<sup>32</sup> Amount as per Annex 3, table 2: Outturn on payment appropriations in 2017. The difference of €1.707.209,86 due to expenses booked on Fund Management Centre CLIMA:OP for a total amount of 1.707.209,86 € (budget chapter 34.02). As a consequence, this amount will be reported as payments made in the Annex3 of OPOCE (on top of their actual payments), whereas they should have been accounted for in the statistics of DG CLIMA.

<sup>33</sup> For **cross-sub delegations**, the payments made remain duly listed under the (accountable) delegating DG, but the amounts of the new & cleared pre-financing due to technical reasons remain listed under the delegated DG. This has proposed to be changed as from 2018.

- **Cost-effectiveness and efficiency**

Based on an assessment of the most relevant key indicators and control results, DG Climate Action has assessed the cost-effectiveness and the efficiency of the control system and reached a positive conclusion.

### Cost 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/launch of Calls | 0.5              | 71,500         |
| Financial operations (ex-ante)         | 2                | 286,000        |
| Supervisory checks (ex-post)           | 1                | 143,000        |
| <b>Subtotal before allocations</b>     | <b>3.5</b>       | <b>500,500</b> |
| Overhead cost allocation (7.2%)        |                  | 36,036         |
| <b>Overall cost of controls</b>        | <b>3</b>         | <b>536,536</b> |

The number of FTEs associated with exercising controls has been established. The overall cost of controls consists of direct costs and an allocation for overhead costs obtained from the annual screening exercise of DG HR (7.2%). The overall cost of controls for procurement amounts to € 536,536€.

The efforts identified above to control procurement procedures over their whole lifecycle justify the estimated zero error rate in the procurement cycle in 2017. None of the DG CLIMA calls for tender were cancelled, while one open call with 3 lots received no applicants for one of the lots and one low value tender was not awarded because lack of any suitable offers. The planned procurement programme of the DG has been implemented, with no errors or irregularities detected.

Grants- cost of controls

| 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  | 107,250        |        |                            |                |
| <b>0.75</b>                                       | <b>107,250</b> |        | <b>20,000<sup>34</sup></b> | <b>-</b>       |
| <b>Total ex-ante =</b>                            |                |        |                            |                |
| Stage 4 - Ex-post controls and recoveries         |                |        |                            |                |
| -   | -              |        | -                          | -              |
| <b>Total ex-post</b>                              |                |        |                            |                |
| <b>Subtotal before allocations</b>                |                |        |                            |                |
|   | <b>107,500</b> |        |                            |                |
| Overhead cost allocation (9%)                     |                |        |                            |                |
|   | 7,740          |        |                            |                |
| <b>Total costs</b>                                |                |        |                            |                |
|   | <b>115,240</b> |        | <b>20,000</b>              | <b>135,240</b> |

Indirect Management (Cost of controls)

The cost of supervision of indirect management is shared between several staff members and it represents a small or even a very small part of their time for each of them. The cost of such supervision does not exceed 1 FTE the main part being represented by verification of indirect management for some international organisations and the EIB. In addition, the cost of controls of the Financial Instruments includes the management fees charged by the EIB which for 2017 amount to €275.249 for PF4EE. There were no fees paid for NCFF.

Total cost of controls, procurement grants and financial instruments: **€ 947,025.**

Overall conclusion on cost effectiveness of controls

The control cost efficiency is assessed by comparing the control costs over the budget managed (payment made in 2017).

| Expenditure M€                                   | Grants | Procurement | Financial instruments | Total Payments made in 2017 M€ |
|--|--------|-------------|-----------------------|--------------------------------|
| LIFE & Completion LIFE (34 02-01, -02, -03, -51) | 0      | 13.69       | 14.45                 | 28.14                          |

Overall, during the reporting year the controls carried out by DG Climate Action for the management of funds were **cost effective, as cost of controls (€ 0.95 M) as a percentage of the budget managed (€ 28.14 M) amount to 3.4%.**

The AOD has used, in 2017, the possibility foreseen in FR art 66.2 to differentiate the frequency

<sup>34</sup> Share of the monitoring contract of LIFE projects

of DGs controls considering the cost of controls compared to the risks involved in small transactions. As a result of this examination the number of actors in the financial circuit has been reduced for low risk transactions which are to be handled in a fully centralised financial circuit in the newly established CLIMA finance unit. Standard administrative expenditure, 1st pre-financing payments, registration of invoices, de-commitments and accounting corrections are all considered as low risk transactions. Under a simplified centralised workflow the AOS can be asked also to act as verifying agent.

### **Control efficiency**

#### Time to grant

The "time to grant" is the period between the final deadline to submit a proposal and the signature of the grant agreements. The maximum length is 9 months as defined in Article 128.2 of the Financial Regulation. There was no call for proposals launched in 2017 by DG CLIMA.

#### Time to pay

Four different maximum payment days are applicable depending on the type of contract. In 2017, 96% (331) of all payments (344) were made within the maximum payment delays.

Details on time to pay can be found in Annex 3, Table 6.

#### Time to inform

The time-to-inform indicator starts from the final date for submission of complete proposals up to the time of informing the applicants of the outcome of the evaluation of their applications.

There was no call for proposals launched in 2017.

### **Fraud prevention and detection**

The current anti-fraud strategy and its action plan were adopted in March 2016, and are valid for the period 2016-2018. Its actions, like the manual on utilisation of Early Detection and Exclusion System (EDES), adoption of fraud indicators (red flags) for grants and procurement, training and awareness actions like the annual reminder on 'whistleblowing', continued being implemented in 2017. In addition, fraud awareness was raised in the newly created CLIMA Finance Unit by the DG's anti-fraud and OLAF coordinator who provided tailor-made info sessions on anti-fraud strategy background, red flags, etc.

The Anti-Fraud Strategy is built around the following anti-fraud objectives: (1) Fraud risk assessment "prevention"; (2) Dissemination of anti-fraud measures and raising fraud awareness within DG CLIMA; (3) Developing and communicating Fraud Indicators / "Red Flags"; (4) Developing Early Detection and Exclusion System (EDES) guidelines and internal guidance on EDES-flagging; and (5) Following up on Fraud Cases. Each objective has a clearly structured roadmap, with indicators to monitor implementation, clear identification of units responsible, and target dates when the objectives need to be carried out.

During the reporting year, DG Climate Action transmitted no cases to OLAF/IDOC for investigation. Also, 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 2017.

### **Other control objectives: safeguarding of assets and information, reliability of reporting, significant intangible assets**

DG CLIMA, being the business owner and manager of the EU ETS policy tool, is responsible for safeguarding the accuracy, integrity and reliability of relevant market sensitive data managed by the system.

As a result, DG CLIMA handles EU ETS sensitive but non classified information on a daily basis. In order to ensure a coherent protection of this sensitive but unclassified information, DG CLIMA developed the ETS Classification policy. The markings developed through this policy were adopted by DG HR-DS<sup>35</sup> and are thus Commission-wide applicable. DG CLIMA has organised regular training sessions for DG CLIMA Staff on handling of ETS sensitive information, has implemented IT measures and action plans to secure and protect data and has established an EU Registry Steering committee .

No leaks/breaches of confidential data or violation of data integrity were reported in 2017

As regards the delegation of the implementation of the 2 financial instruments to the European Investment Bank ("indirect management"), DG CLIMA has received from the EIB reasonable assurance that in all material respects the information set out in the Financial Statements is in accordance with the accounting, is complete and accurate and that it applies a professional degree of care and diligence to the execution of the tasks entrusted to it in the Delegation Agreement.

- According to the assessment done during the accounting closure, there was no impairment of intangible assets in DG CLIMA in 2017.
- Two projects are being depreciated since 2015. The depreciation was booked during 2015 closure and it will be automatic for the next 8 years for the 1<sup>st</sup> project and for the next 5 years for the 2<sup>nd</sup>.

## 2.1.2 Audit observations and recommendations

### Court of Auditors

The **2016 DAS (Déclaration d'assurance) report** was presented by the Court to the European Parliament on 28 September 2017. DG CLIMA was briefly mentioned in the Chapter 7 devoted to "Natural Resources" but the Court did not make any specific comments about DG CLIMA. In Chapter 3, on the performance of the budget, the ECA recognised that in relation to the (pioneering) 20 % mainstreaming of climate into the EU budget target, ambitious work was underway and that, overall, progress had been made towards reaching the target, A serious risk was flagged that the 20 % target would not be met without more effort to tackle climate change. The Commission replied that as part of the of the Mid-term Review of the present MFF, the Commission concluded that the policy of climate mainstreaming had been largely successful, even though the target for 2014-2020 of 20% climate related expenditure was slightly under-achieved (18.9% reported in MFF-Mid-Term Review Staff Working Document, updated to 18.8% in the 2018 draft budget). The Commission has undertaken that it will identify the areas with underutilised potential and consider opportunities and actions to increase climate relevance in the context of spending programmes' individual mid-term evaluations.

Finally, in the context of the Statement of Assurance (**DAS exercise) for 2017**, which is performed every year and focuses mainly on legality, regularity and sound financial management of financial transactions, the European Court of Auditors have selected one transaction in DG CLIMA regarding an interim payment to the JRC (Audit of the interim payment for the project "CO2 from road vehicles 2015-2018"). Supporting documents were provided to the Court that

---

<sup>35</sup> DG HR-DS - Security Notice 01 Revision 10 dated of 5 June 2014 "The use and application of markings"

concluded on the legality and regularity of the transaction.

Based on the audit work, the auditors identified seven areas where according to the Court further work is needed in the field of energy and climate change: Energy and climate change governance; Evidence-based policy; The energy transition; Using research and innovation effectively; Planning for and tackling adaptation; Financing; and Involving EU citizens. The Commission has taken note and continues addressing these challenges

### **Internal Audit Service (IAS)**

#### **Conclusions on the state of internal control in DG CLIMA end 2017**

The Internal Audit Service's (IAS) conclusion on the state of internal control draws on the audit work undertaken in the period 2015- 2017 and takes into account for the accepted recommendations made by the IAS in the same period and the fact that the management has adopted plans to implement these recommendations that the IAS considers adequate to address the residual risks identified, that the implementation of these plans is monitored by management and by the IAS and that management has not rejected any critical and/or very important recommendations.

On this basis, the IAS concluded that for DG Climate Action the internal control systems that have been audited are partially effective and that a number of very important findings remain to be addressed in line with the agreed action plans and their timetable. The residual risks related to these recommendations may affect one or several internal control principles and/or components.

Particular attention should be given to the impact of the delay observed in implementing the recommendation on the implementation of the ETS's security controls from the 2013 IAS audit on the management of the security of the EU ETS IT system.

The IAS bases its conclusion on the following accepted and open audit recommendations that are rated 'very important' and not reported as implemented by management and/or closed by the IAS.

#### **Reported as not yet implemented by management**

##### **Audit on the processes for managing and sharing data on agri-environmental-climate issues in DG AGRI, DG CLIMA and DG ENV (2016)**

- *Recommendation 1: Mapping of information needs and available data*

DG AGRI, DG CLIMA and DG ENV should (taking into account the role played by the main EU data providers) reinforce the coordination and sharing of agri-environmental-climate data and related indicators. They should also establish a coordinated inventory of agri-environmental-climate information needs and available data.

- *Recommendation 2: Coordination of Member States (MS) reporting requirements and reuse of data*

DG AGRI, DG ENV and DG CLIMA should actively coordinate between themselves and with the European Environment Agency and Eurostat to ensure better consistency and, where possible, simplification through more effective re-use of collected data in MS reporting requirements. In particular, this can be included in the European Commission's Regulatory Fitness and Performance Programme (REFIT) aimed at making EU law simpler and reducing the regulatory costs. In addition, the three DGs should clarify with the Legal Service what can be legally required from MS under EU legislation, regarding the sharing of CAP spatial data between public

authorities at national level and with the European Commission and the EEA for environmental/climate purposes.

To address the recommendations, DGs ENV, CLIMA and AGRI have developed a joint action plan that the IAS assessed as satisfactory in addressing the issues identified.

### **Assessed as not yet implemented following an IAS follow-up audit**

#### **Audit on the management of the security of EU ETS IT system (2013)**

##### *Recommendation 1: Implementation of the ETS's security controls*

A second follow-up audit was performed in the first quarter of 2017, which concluded that two key sub items of the action plan still remained open.

Until the implementation of the remaining controls in the roadmap is completed ETS IT Systems are still exposed to security breaches possibly affecting the confidentiality of the data, the integrity of the transactions and the availability of the system for the Member States and the traders. This ultimately may result in legal disputes and reputational consequences for the Commission with potential financial losses.

The IAS acknowledges the progress made in defining a Security Plan and the corresponding implementation roadmap for the key security controls of the ETS. However DG CLIMA is urged, in cooperation with DG DIGIT as service provider, to ensure the preparation of the migration of the ETS platforms to the new Secured Hosting Services (SHS) provided by DG DIGIT.

As described further below, the DG is of the opinion that the EU-ETS related reservation must be maintained in the 2017 AAR.

## **2.1.3 Assessment of the effectiveness of the internal control systems**

The Commission has adopted an Internal Control Framework based on international good practice, aimed to ensure the achievement of policy and operational objectives. In addition, as regards financial management, compliance with the internal control framework is a compulsory requirement.

DG CLIMA has put in place the organisational structure and the internal control systems suited to 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 it operates.

### **Annual assessment of the internal control standards**

On 19 April 2017, the Commission adopted a revised Internal Control Framework (ICF), aiming to move away from a purely compliance-based to a principle-based system, offering the services the necessary flexibility so that they can adapt their internal control strategy to their specifics, while ensuring robust internal control and consistent assessment throughout the Commission.

The new ICF consists of five internal control components, seventeen principles and their main characteristics. Each principle should have a set of indicators, which should be reviewed regularly and changed as necessary, e.g. following an internal reorganisation

This interim assessment of the state of internal control in DG CLIMA that was carried out to prepare for the implementation of the new Internal Control Framework has not identified any major deficiencies. While there is 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. DG CLIMA 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:

1. **Inventory of the 15 internal control standards in preparation for the implementation of the new Internal Control Framework (ICF):** The Internal Control Coordinator (ICC) carried out his own review of the 15 internal control standards in the summer of 2017 and compared them with the new ICF principles. No particular critical areas of improvement were identified, except the weaknesses persistent in the area of EU ETS security and governance out of which the IAS limited conclusion that DG CLIMA's internal control systems are partially effective, stems from. However, as aforementioned, DG CLIMA and DG DIGIT are rolling out action plans to improve the ETS system security. In addition, a couple of areas where attention or awareness raising is needed have been identified, such as ethics and integrity trainings/workshops in general and anti-fraud in particular, document management and protection of personal data, knowledge retention and information sharing in the DG. The latter weakness was confirmed by an audit of the IAS.
2. Each year DG CLIMA asks managers (Directors, Heads of Unit and Heads of Sector) to complete **a survey related to the state of Internal Control in the DG**. This year the questions have been adjusted to reflect the revised ICF. The response rate was 76% and the results are the following:
  - Feedback from management was positive, with a 100% affirmative response, in the areas of Control environment component, specifically principle 1, commitment to integrity and ethical values where managers confirmed their knowledge and requirements concerning ethics and standards of behaviour as well as stated that the culture in their Units/Directorates contributes to mitigation of risk of fraud and unethical behaviour. A perfect result was also scored in the area of whistleblowing in terms of being familiar with the procedures on how to report violations of the rules and the awareness of main financial and operational risks related to their specific responsibilities and tasks. In addition, all the managers who responded to the questionnaire stated that they are aware of their responsibility in terms of internal control, specifically concerning ethics and integrity. Moreover, managers who had a member of their staff flagged a risk or an internal control weakness, ensured a systematic follow up of the issue.
  - 100% of managers think that the external communication of DG CLIMA is effective and supports the achievement of policy objectives related to their domain of activity.
  - Considering areas where improvement is needed, component 1, specifically the principle 4 commitment to attract, develop and retain competent individuals in alignment with objectives, stands out with two out of four questions under this component receiving a high degree of partial or negative responses. The two questions deal with staff allocation and mobility and promotion of a flexible and dynamic organization, for example through cross-DG task forces. Considering the available skills in the DG and allocation of workload, managers suggested a corporate tool to help them identify more systematically the available skills and competences in the DG as the E-CV is not the most user friendly tool.
  - Another area that will be reflected on is how to increase usefulness of the internal and corporate Management Plans when it comes to objective setting and reaching as only 62% of managers answered positively when asked if objectives and indicators related to their Unit/Directorate are pertinent and facilitate performance management.

- There are divided opinions when it comes to principle 9: assessing change, as 38% of managers replied partially or negatively when asked if the change they've participated in was announced in advanced and duly communicated. The positive experience was gained from successfully managing the split of the Shared Resources Directorate and successful integration of the finance/document management unit into a new Directorate, as well as incorporation of a new team of 9 persons dealing with CLIMA IT systems into an already existing unit, will serve as good practice for future change processes.
  - Managers are not completely satisfied with internal communication of the DG, with 38% of them responding partially or negatively to this question. The main deficiency as identified by the respondents is a lack of space for informal gathering and informal interaction between staff which would further improve information sharing and learning.
  - Lastly, more can be done in the area of documenting best practices (for repetitive tasks), guidance, checklists and procedures.
3. The annual declarations by the Authorising Officers by Sub-delegation. In this declaration, each AOS confirms that the commitments and payments authorised by him/her in 2017 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 indicate any (significant) weaknesses in the control system.
  4. **Exceptions and non-compliance events:** DG Climate Action's tracking of exceptions and derogations from existing rules and procedures is aligned with the instructions received from DG Budget. The objectives are to reinforce the consistent application of the reporting requirements, to adequately assess serious cases and to keep the number of exceptions and derogations at the lowest possible level. There was only one case reported in 2017 and its analysis does not show any material weaknesses in the internal control system.
  5. Information obtained from the **monitoring dashboards:** This tool was implemented in 2012 and has become an effective means of reinforcing senior management supervision. It is based on a set of reports and control indicators covering, for example, budget implementation, payment delays, recovery orders, etc. The monitoring results, which are presented and discussed at senior management level on a regular basis (8 reports per year) and are disseminated widely, do not indicate any significant weaknesses in the internal control system.
  6. The twice monthly "**Financial Priorities Report**", which was developed in 2014, gives to each AOS a listing of open invoices under his/her responsibility, with indication of those that are approaching the payment deadline and is a useful tool to alert the managers of action needed.
  7. DG Climate Action's **risk register:** A Risk Advisory Committee (RAC) is established. Management was invited to flag all risks as part of the internal Management Plan 2018 process. On this basis, the critical risk register of the DG encompassing "critical" and "very important" risks was established. The only critical risk (residual critical risk as a result of mitigating measures) the DG is managing is the security risk of cyber-attacks to the EU ETS registry.
  8. **OLAF fraud cases:** During the reporting year, no cases have been transmitted to OLAF by the DG or initiated by OLAF.
  9. **The European Ombudsman.** No individual cases were brought to the attention of the Ombudsman in 2017.

10. **Review of sensitive functions:** The process in place in DG Climate Action to identify and manage sensitive functions is effective. A review was carried out in December 2017 and it confirmed the 2016 evaluation, with the exception of the function of Local Authorisations Manager (LAM, formerly called Local Profile Manager or LPM) where the review of the level of responsibility and mitigating measures in place concluded that the new controls have significantly reduced the risk. Hence this function will no longer be considered to be sensitive. Certain ETS related functions are still considered as sensitive as these jobholders have access to highly sensitive market information and despite all mitigating measures and controls in place, the residual risk of disclosure of confidential information, and/or loss of integrity would have substantial impacts on business. In cases where changes to the responsibilities linked to functions occur, or new functions are created/identified, a risk assessment will be carried out in collaboration with the Directorate/Unit concerned.

11. **Document management:**

Measures taken in 2017 have focused on analysing the feasibility of introducing the electronic signatory to financial transactions in 2018. Due to the split of Shared Resources Directorate services on 1 October 2017, this project has been delayed but will be picked-up again from the beginning of 2018. Meanwhile DG CLIMA has volunteered for the migration to e-submission, a module of the new e-procurement system and to e-invoicing. Additionally, in view of the Commission's Strategy on data, information and knowledge management, widening the visibility of DG CLIMA's ARES files Commission-wide is presently being assessed, and might be implemented conditional to legal, security or commercial restrictions.

Actions undertaken regarding document management include awareness raising activities (e.g., specialized training and coaching) at all levels including managers and promotion of good practices. In addition, in order to strengthen efficient management of information and data within the DG, electronic archiving is implemented.

In the DG, no leaks/breaches of confidential data or violation of data integrity were reported in 2017.

12. **Staff Allocation and Mobility:** DG Climate Action has paid particular attention to staff allocation and mobility during the course of 2017. The DG's work is clearly embedded in the third of the 10 priority areas of this Commission. Staffing levels in the DG grew during the course of year, with the DG receiving 5 additional posts in the complementary allocation in May 2017. Specific actions related to staff allocation and mobility were as follows:

- The DG was reorganised as of 1st October 2017 to implement the decision of the SG and DG HR to suppress the Shared Resources Directorate (SRD) ENV/CLIMA. In this context, the DG changed its organisation chart to fully integrate the management of finances, administrative support, internal communication and information technology activities of the SRD. The DG used this opportunity to create synergies and efficiencies with other horizontal and support activities of the DG, which allowed suppressing the 'Administrative and Legal Support Sector' previously attached to the Director General.
- Vacant posts are continuously assessed as they arise and action is taken to fill them as quickly as possible. The average vacancy rate for 2017 was 4.4%, lower than the Commission average and reflects normal mobility patterns.
- Inter-DG mobility is encouraged in DG CLIMA in view of the DG's efforts to mainstream Climate Change Policy in other key policy areas of the Commission.
- Intra-DG mobility is also encouraged by publishing all vacancies in the DG's weekly newsletter and by promotion of career discussions with staff.

The annual assessment of the functioning of the internal control systems in 2017 reassures management that as a rule the internal control framework is implemented and functioning as intended with the exception of Principle 13, component 4 (in relation to ETS system security) where improvements are needed and which could have a significant impact on the assurance. In addition, DG Climate Action has taken measures to further improve the effectiveness of its internal control systems in the area of staff allocation and mobility, document management, and development of tools to monitor payment delays. Also, we have fully prepared for the transition to the new Internal Control Framework by assigning indicators to each principle, identifying the responsible actors for each component or principle and informing those actors of the results of the yearly internal control assessment, urging them to implement measures to correct deficiencies by the end of the year and throughout 2018. The ICC and the staff of the Finance Unit in charge of the internal control organized bilateral meetings with the responsible units/desk officers to help guide them through the revised ICF and assist in setting up new indicators. This activity, as well as an awareness raising campaign will be further implemented in 2018.

## **2.1.4 Conclusions as regards assurance**

This section reviews the assessment of the elements reported above (in Sections 2.1, 2.2 and 2.3) and draws conclusions supporting the declaration of assurance and whether it should be qualified with reservations.

Concerning financial management (mainly procurement), the AOD's assurance relies - to a large extent - on the ex-ante verifications performed in 2017: 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), which, following the split of the Shared Resources Directorate, became the Climate Procurement Advisory Committee (CPAC). These controls effectively reduce to an acceptable level the risk of significant errors being undetected. In addition, the accounting controls performed by the accounting correspondent in 2017 in the frame of the accounting revision file also mitigate the risk of errors. For 2017, the average accuracy rate calculated against the number of transactions is 98.60% and 99.62% when calculated against the financial volume. These results confirm the high level of accounting quality and give reasonable assurance on the reliability of the financial statements and accounts.

The number of "exceptions" and "non-compliance events" reported in 2017 remained the same as in 2016 (1 exception registered).

DG CLIMA is satisfied with close cooperation with the Executive Agency EASME and with the internal control and risk management in place in the Agency. Furthermore, the established permanent organisational links work well and provide an additional layer of assurance: the DG participates, as observer, in the Agency's Steering Committee meetings, and Task-Force-Meetings are held regularly at unit level. DG CLIMA supervises the work externalised through regular reports and ad hoc contacts with the Agency. In addition, in collaboration with other parent DGs, DG CLIMA plays a direct role in the definition of the annual work programme of the agency and/or evaluation of the calls for proposals. Finally the Agency produces and disseminates quarterly reports as foreseen in the Memorandum of Understanding. In its own AAR, EASME has given assurance on the use of the corresponding resources.

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 2017 are legal and regular and in compliance with the principle of sound financial management.

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

The audit work performed by the IAS in 2017 concluded that the internal control systems audited are partially effective since a number of 'very important' recommendations remain to be addressed, in line with the agreed action plans. The DG is progressively implementing the agreed action plans and taking measures to assure the mitigation of any residual risks that could potentially affect one or several internal control principles and/or components. According to management's self-assessment, all 15 Internal Control Standards have been implemented effectively and the work on full roll-out of the new Internal Control Framework is progressing satisfactory though some areas will require particular attention in 2018.

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

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 previous AARs of DG CLIMA is repeated in the AAR 2017. During its follow-up audit on the management of the security of EU ETS IT system end 2016-beginning 2017, the IAS acknowledged the progress made to date in mitigating the related risks, in particular the very important recommendation No. 1 on Implementation of the ETS's security controls (progress in the definition of a Security Plan and the corresponding implementation roadmap for the key security controls of the ETS). But, as two key sub-items are still not implemented, the IAS considers that the related risks are not yet fully mitigated and that the system is still vulnerable. Management of DG CLIMA endorses this opinion. As assurance that the current security measures could successfully prevent a future cyber-attack cannot reasonably be provided, the reservation cannot be lifted.

## **Overall Conclusion**

Management's conclusions on the actual results of controls and their completeness and reliability, and thus the assurance about the achievement of each of the relevant internal control objectives, are satisfactory. The decision to maintain the reputational reservation related to the security of the EU ETS Registry systems in the 2017 AAR is further elaborated in part 2.1.5.

The IAS noted that the DG's internal control system of the processes audited is partially effective since a number of 'very important' recommendations remain to be addressed. However, the DG is working closely with other DGs associated in various audits in order to implement the agreed action plans and close the accepted recommendations.

Therefore, the Director-General has reasonable assurance that, suitable controls are in place and working as intended; risks (like those relating to the legality and regularity of the underlying transactions) are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented.

The Director General, in his capacity as Authorising Officer by Delegation has signed the Declaration of Assurance albeit qualified by a reputational reservation concerning the security of the Union Registry for the Emissions Trading System (EU ETS).

## 2.1.5 DECLARATION OF ASSURANCE AND RESERVATIONS

*I, the undersigned,*

*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<sup>36</sup>.*

*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, and the limited conclusion of the Internal Auditor on the state of control. 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 Commission.*

*However the following reservations should be noted: 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)*

*Brussels, 26 March 2017*

*[SIGNED]*

*Mauro PETRICCIONE*

---

<sup>36</sup> True and fair in this context means a reliable, complete and correct view on the state of affairs in the DG.

## Reputational reservation on remaining security weakness in the EU ETS

|  |   |
|--|---|
| <b>DG</b>  |   |
| <b>Title of the reservation, including its scope</b> | Reservation on reputational grounds related to remaining significant security weakness identified in the Union Registry of the EU Emissions Trading System (EU ETS)   |
| <b>Domain</b>  | Central direct management in collaboration with national authorities-Administration of the Union Registry and Union Transaction Log by the Commission   |
| <b>Programme and amount affected (= "scope")</b>     | ABB Activity 34 02 : Climate Action at Union and international level  |
| <b>Reason for the reservation</b>                    | <p>Operational since January 2005, the registries system ensures the accurate accounting of allowances issued under the European Emissions Trading System (EU ETS). It is qualified as a critical system. In 2010/11 several successful cyber-attacks occurred against national registries and theft of allowances was reported. Since the migration in June 2012 of the national registries to a single Union Registry operated by the Commission, the latter is now clearly exposed to a reputational risk and legal/financial liabilities if new cyber-attacks would succeed.</p> <p>The absence of any reported security incidents since 2012 does not mean that the current security protection is sufficient. No 'reasonable' assurance can currently be provided that the current security measures could successfully prevent a future attack.</p> <p>The follow up IAS audit report on the governance and security of the EU ETS system of 2016 notes the good progress made in implementing the dedicated action plan. But the implementation of the remaining key sub-actions (roadmap and migration) is a key condition to lifting the reservation, as is acknowledged by the IAS in their limited opinion on the state of control in DG CLIMA. Without the full implementation of these two sub items, the EU ETS system is still vulnerable to the high risks identified at the time of the audit</p> <p>In all the AARs of the DG CLIMA since 2010 the DG has issued a reservation on reputational grounds related to security weaknesses identified in the Union Registry for the Emissions Trading System (EU ETS).</p> <p>Though the inherent critical reputational risk did not materialise, and hence did not turn into a reputational event in 2016 and 2017, this reservation is not lifted but repeated in the AAR 2017 because of some remaining significant weaknesses and financial and reputational risks.</p> |
| <b>Materiality criterion/criteria</b>                | <p>The significance of the events of 2010/11 was assessed against the following 3 criteria:</p> <ul style="list-style-type: none"> <li>- 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),</li> <li>- 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)</li> <li>- duration: a series of incidents started in November 2010 continuing 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</li> </ul>   |

|  |  |
|--|--|
|  | incident occurred in a national registry in October 2011.  |
| <b>Quantification of the impact (= actual exposure")</b> | <p>Reputational risk</p> <p>A Swiss cement company lodged a complaint against the Commission about (alleged) 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 both the complaint and the ensuing appeal so the contingent liability was lifted in the 2016 accounts.</p>  |
| <b>Impact on the assurance</b>                           | <p>The event falls within the scope of the declaration as it is a core activity managed by CLIMA with high visibility and media coverage to which considerable human and financial resources are and will continue to be allocated in the future. The EU ETS is a flagship instrument for achieving one of the headline targets of 2020: reduction of greenhouse gas emissions 20% compared to 1990. The critical IT tool is managed in-house by the Commission. However, the weakness does not invalidate the declaration of <u>reasonable</u> assurance by the Director General</p>  |
| <b>Responsibility for the weakness</b>                   | <p>The Commission as central administrator has a key role in the functioning of the EU ETS in managing the Union registry and the Union transaction log.</p>   |
| <b>Responsibility for the corrective action</b>          | <p>Further progress has been reported by DG CLIMA in 2017 (in line with the action plan presented after the last Follow-up) in implementing the action plan with DIGIT and HR/DS following the 2014 IAS audit on the IT security and governance of the EU ETS Registry.</p> <p>However, two key sub items of one 'very important' recommendation remain open due to the complexity and novelty of the issue. Relevant actions are still to be further rolled out in 2018.</p> <p>Firstly, the implementation of additional key security controls listed in the security roadmap should be completed. Notably CLIMA in collaboration with DIGIT launched the migration of the current platform to the new secured services (SHS) provided by DG DIGIT which should be finalised in 2018.</p> <p>Secondly, and once finished the first item, CLIMA (together with the associated services DG DIGIT and DG HR.DS) would perform a reassessment of the significance of the security controls that would still be missing at the end of 2018 (because of cost effectiveness issues, other technical constraints).</p> <p>Pending the results of the above risk assessment, the successful implementation of these key sub-actions would provide reasonable assurance that the residual risk of any successful cyber-attack would be under control and reduced to a low and acceptable level.</p> <p>However until the implementation of the remaining controls in the agreed security roadmap are completed, the ETS IT Systems are still exposed to security breaches possibly affecting the confidentiality of the data, the integrity of the transactions and the availability of the system for the Member States and the traders. This ultimately may result in legal disputes and reputational consequences for the Commission with potential financial losses.</p> |

## 2.2 Other organisational management dimensions

Efficiency gains examples:

- DG Climate Action participated fully in the implementation on efficiency gains in the area of HR, IT, Communication and Logistics in 2017 and will continue implementing the agreed recommendations during the course of 2018.

For ex. the Commission has implemented rationalised **logistics and mail distribution**. The GBI ('gestion des bâtiments et infrastructure') and mail clerk functions were centralized. DG CLIMA is now served by a local 'proximity team' while in the DG a Single Point of Contact for Logistic issues (SPOC) was appointed.

- In the **financial environment**, several simplification measures were put in place following the split of the Shared Resources Directorate (SRD) of DGs ENV and CLIMA on 1 October 2017.

- The updated financial circuits put in place in DG CLIMA after the dismantling of the SRD ENV/CLIMA are based on a thorough risk assessment and reflect the financial environment, the organisational capacity and an analysis of the budget implementation. For the administrative budget, a fully centralised financial circuit was established in the finance unit, while for operational budget the centre of gravity is situated in the policy units with counterweight (ex ante control) in the finance unit.

- For 2018, DG CLIMA has for the first time presented a separate Financing Decision (financial workprogramme) for the climate sub programme under the LIFE Programme. It was adopted on 18 December 2017. This is considered to be a simplification measure and a major achievement since it will enable an early start in launching the procurement procedures in 2018.

- Finally, a financial simplification measure was establishment of DG CLIMA's internal Procurement Advisory Committee (CPAC) to ensure that the public procurement and grant management of DG Climate Action is compliant with the Financial Regulation. CPAC was created following the lessons learnt and possibility for efficiency gains observed during the previous ENVAC (Environment Advisory Committee) mandate. Basic principles of the CPAC functioning are flexibility, risk-orientation and proportionality

- As a good example of **IT rationalisation** and governance, it is worth mentioning that the new EU ETS modules being developed are based on common platform (Declare) jointly maintained by DG CLIMA and DG ENV. The modalities for the cooperation have been agreed with DG ENV and established through a Memorandum of Understanding.

- In relation to **document management**, action taken in 2017 has focused on analysing and testing the feasibility of introducing the electronic signatory to financial transactions in 2018. Meanwhile DG CLIMA has volunteered and been preparing the migration to e-submission, a module of the new e-procurement system and the use of electronic invoicing.

In addition, in order to strengthen efficient management of information and data within the DG, electronic archiving is being implemented

### 2.2.1 Human resource management

DG Climate Action makes significant efforts to streamline its activities, and all efforts were deployed to ensure efficiency gains in the course of 2017.

In line with the HR Modernisation project and the changes to the way in which HR services are delivered in the Commission, DG CLIMA joined the second wave pilot on 16th February 2017. The DG has appointed an HR Business Correspondent team of two directly attached to the Director General and other HR services are delivered by an Account Management Centre located in Beaulieu serving four DGs, CLIMA/ENV/CNECT/REGIO (AMC3).

In October 2017, further efficiencies were achieved, when the DG reviewed the organisational structure of the DG in order to fully integrate the financial, administrative support, internal communication and information technology activities of the SRD.

The DG also focused its efforts on having a competent and engaged workforce by:

- Focusing on female representation in middle management functions with the result that the DG achieved its quantitative target in terms of three first time appointments of female Heads of Unit since 2014 and now has 40% of middle management posts occupied by women.
- Finalising the Action Plan developed following the staff survey of 2016, with the support of a staff led Focus Group, and steadily implementing the actions defined, targeted both at improving staff engagement and also paying particular attention to the role of management in staff well-being. The DG continued to promote actions to support general staff well-being in the DG.
- The DG also consulted staff and management on in-house learning and development in order to develop a programme of activities to make staff more efficient and skilled.

## **2.2.2 Better regulation (only for DGs managing regulatory acquis)**

In 2017, DG CLIMA has continued to prepare its policy initiatives and manage the acquis under its responsibility in line with the Better Regulation principles. DG CLIMA's new initiatives delivered in 2017 reflect the Commission's 10 political priorities, and in particular contribute to the 3<sup>rd</sup> priority on 'A resilient energy Union with a forward looking climate policy' and, to a lesser extent, to "A New Boost for Jobs, Growth and Investment" and "A Stronger Global Actor".

In particular, the DG has managed to have 100% of its Impact assessments submitted to the Regulatory Scrutiny Board to receive a favourable opinion on first submission (although two received a positive opinion with reservations). As regards the evaluation work, the DG has continued its efforts to ensure that its primary regulatory acquis is covered by recent retrospective evaluation findings. In 2017, two evaluations took place: the evaluation of the Fuel Quality Directive (FQD) and the Mid-term evaluation of the LIFE programme done in cooperation with DG ENV.

DG CLIMA's 2017 enforcement strategy had to proceed with the initiation of 23 infringement procedures on the transposing of the Fuel Quality Directive (2015/652/EC) for not communicating any steps to transpose the directive (6 were closed already in 2017). Several EU Pilot letters were sent to Member States in 2017 due to their non-compliance with the notification obligations.

## **2.2.3 Information management aspects**

The former IT unit (SRD.3), which developed and maintained a number of "shared systems" to serve both DG ENV and DG CLIMA, has been split as well on 1 October and modalities have been

agreed to ensure the continuity of the operation of these systems.

Following the split, Unit B2 has now become the new fully-fledged IT unit of the DG CLIMA. In addition to developing the Union Registry for the EU ETS, it also ensures all IT support functions for the DG (Information Resource Management, Local Informatics Security Office and Local Registration Authority) as well as the development of three other information systems (the licensing system for the Ozone Depleting Substances (ODS), the Monitoring Reporting Verification and Accreditation (MRVA) ETS module and the New Entrants and Closures (NEC) ETS module).

As a good example of IT rationalisation and governance, it is worth mentioning that the latter ETS modules are based on common platform jointly maintained by DG-CLIMA and DG-ENV. The modalities for the cooperation have been agreed with DG ENV and established through a MoU.

## 2.2.4 External communication activities

*DG CLIMA's external communication actions in 2017 focused on its main political priorities, as well as supporting the European Commission's corporate communication actions and campaigns. In particular, actions focussed on building on the positive momentum of the Paris Agreement on climate change and increasing awareness, understanding and support for climate action as part of efforts to implement the Energy Union, the Paris Agreement and the 2030 Climate and Energy framework, alongside mainstreaming climate action into all major spending programmes.*

*Results of the communication activities were very positive, with continuous upward trends for web and social media, without paid promotion, and with positive feedback from audiences from countries all over the world. DG CLIMA also measures public attitudes toward climate change and EU climate action in regular Eurobarometer opinion polls<sup>37</sup>. The surveys consistently show high levels of public concern about climate change and of public support for climate action across the EU. According to the latest survey in 2017, 92% of Europeans see climate change as a serious problem, 74% see it as a "very serious" problem, and 79% recognise that fighting climate change and using energy more efficiently can boost the economy and employment.*



*Following the split of the "shared resource directorate ENV/CLIMA", DG CLIMA also took over the management and further development of the DG's internal communication and intranet. DG CLIMA also actively contributed to several internal corporate communication campaigns and actions, won two internal communication prizes and had the most visited DG intranet in relation to number of staff in October 2017.*

---

<sup>37</sup> Special Eurobarometer 459. Report on Climate Change from September 2017.