

Emissions trading - flexible mechanisms under the Kyoto Protocol

The entry into force of the Kyoto Protocol created an international regime aimed at mitigating the effects of climate change. In the same connection targets for reducing greenhouse gas emissions were also set for the EU member states. Between 2008 and 2012 the member states are meant to reduce their emissions to 8 % below the 1990 level (in Finland's case the 1990 level). The EU's joint emissions reduction target is divided into the Community's emissions trading sector and the non-emissions trading sector, in which reducing emissions is up to the member states. In Finland the Government is responsible for seeing that the interim national target in the burden sharing agreement is achieved. In practice this means that Finland's greenhouse gas emissions in the non-emissions trading sector should not exceed the allocated amount.

From the viewpoint of direct effects on public finances, the Kyoto mechanisms are one of the most significant steering instruments in achieving the national emission reduction target. The idea of the flexible mechanisms in the rules for implementing the Kyoto Protocol is to allow the reduction in emission to take place outside Finland, where it might be cheaper than a corresponding reduction on the domestic market. The reduction in greenhouse gas emissions can thus be implemented where it is most cost-effective.

This audit concerning the use of the flexible mechanisms under the Kyoto Protocol evaluated the functioning and effectiveness of Finland's mechanism purchases. In evaluating functioning, attention was focused on the planning and organization of activities, the use of personnel resources, financing practices and the monitoring of activities. In evaluating effectiveness, attention was focused on the purchase of emissions allowances and their cost.

The audit found that purchasing activities have been satisfactory but could be improved. The audit noted some problems in the organization of purchasing activities. These included the poor match-

ing of personnel resources to work requirements, the complicated decision-making process in Finland's bilateral purchases and overlap between the ministries responsible for purchasing activities. Shortcomings were also observed in the monitoring of purchasing. This is actively monitored, but different indicators describing activities could be more informative. The analysis and description of planning, risk management and performance could be improved. Findings regarding performance also indicate that mechanism purchases are cost-effective compared with domestic measures to reduce emissions, and that in terms of administrative costs, investments in funds that produce emission credits have been cheaper than bilateral purchases of emission credits.

The National Audit Office considers that the Ministry of Employment and the Economy, which is responsible for preparing legislation regarding the Kyoto mechanisms, should carry out more detailed calculations particularly concerning funds' expected yield and costs and document these in connection with the monitoring of activities. In calculating the costs of bilateral purchases, one should also take into account all the costs that have a substantial effect on activities, including the costs of support services. Indicators describing performance should be developed accordingly.

The National Audit Office also considers that the Ministry of Employment and the Economy, in chairing the steering group for the Kyoto mechanisms, should strive to improve the planning of risk management in the steering group.