



EUROPEAN COMMISSION
DIRECTORATE-GENERAL
CLIMATE ACTION

DG CLIMATE ACTION

2010 ANNUAL ACTIVITY REPORT

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PART 1: POLICY ACHIEVEMENTS

1.1. Introduction – creation and mission of DG CLIMA

In November 2009, the President of the European Commission announced the creation of a new portfolio on Climate Action (separately from Environment). The Commission decided on 15 December to set up a Task Force with the mission “to provide by mid-January 2010 a detailed proposal for creating this new DG”. It identified its core activities, the additional human resources to reach a “critical mass” of 204 persons and provided for the setting up of a Shared Resources Directorate (SRD) to handle the human, financial, ICT and logistic functions for both DG CLIMA and DG ENV.

On 17 February 2010 DG CLIMA was officially created by Commission Decision. The portfolio of the Commissioner in charge of Climate Action, Connie Hedegaard, reads as follows: *'You have central role in continuing EU leadership in fighting climate change and leading our international negotiations on climate as well as helping the EU to deal with the consequences of climate change. Inside the EU you will be responsible for helping the EU to meet its targets for 2020 and beyond to reduce greenhouse gas emissions. You will be responsible for the development and implementation of the EU emissions trading system and for promoting its links with other carbon trading systems with the ultimate aim of building an international carbon trading market'*.

The mission of Directorate-General for Climate Action ("DG CLIMA") is to lead international negotiations in the areas of mitigation and adaptation to climate change and protection of the ozone layer; to develop and implement EU legislation to meet the 2020 targets and beyond including robust monitoring, reporting and verification systems and to contribute to the transition to a low-carbon economy while ensuring a proper adaptation to the consequences of climate change and the mainstreaming of climate action into other EU policies. This is reflected in the Europe 2020 Strategy which includes climate action as one of its key headline targets.

1.2. Policy deliverables in 2010

The first objective of the newly created DG CLIMA was to build capacity to address the political challenges, ensuring business continuity of operations and ensure compliance with rules, regulations and procedures in force.

On top of the administrative and control risks inherent to a new DG, the political agenda in 2010 was dominated by the financial crisis and economic recession. The economic downturn had a negative impact on the trading and price of carbon emission credits and risked to divert the interest of the public and stakeholders from the climate change challenges.

Progress on the international stage

A first important action was the implementation of the Copenhagen accord of December 2009. A crucial element was the monitoring of pledges in relation to the fast start financing made by the EU and other developed countries. In total the EU has mobilized fast start funding of € 2.2 billion to support developing countries' efforts to adapt to and mitigate climate change as part of the EU's overall commitment to provide € 7.2 billion

for the period 2010-2012. From the side of the Commission, a first tranche of € 50 M of a tri-annual budget of € 150 million was implemented in 2010, equally balanced between adaptation and mitigation activities.

Secondly in March 2010 the Commission issued a Communication on 'How to reinvigorate international climate negotiations', setting out the strategy Post-Copenhagen helping to maintain the global momentum towards an ambitious and comprehensive global legal agreement. In the run-up to the United Nations Climate Change conference in Cancun (Mexico) in December 2010, the Commission participated in a number of bilateral and multilateral meetings like the Tianjin meeting (China) in October and carried out outreach initiatives to facilitate the negotiations.

The Cancun summit in December 2010 delivered on substance with the adoption of the so-called Cancun Agreements that bundle concrete new initiatives on adaptation, technology transfer, reducing emissions from deforestation and forest degradation and the new green climate fund. The Agreements can be considered as a milestone in international climate change policy enhancing the global fight against climate change ahead of the next COP in Durban (South Africa).

New policy developments towards a carbon-free economy

The Commission issued in May 2010 a Communication on "Analysis of options to move beyond 20% greenhouse gas emission reductions and assessing the risk of carbon leakage" in order to launch a debate with the Council, the European Parliament and other stakeholders on the most effective emission reduction policy by 2020.

In the last quarter of 2010 a public consultation was launched on the preparation of the 'Roadmap for a low carbon economy by 2050', The roadmap, which is due to be adopted in the first half of 2011, will set out a strategy for achieving the EU's objective of reducing its greenhouse gas (GHG) emissions by 80-95% of 1990 levels by 2050. It will also contain an analysis of milestones on the pathway to 2050, including the necessary scenarios of the ambition level for 2030.

In October 2010 the Commission launched, in collaboration with the European Investment Bank (EIB) a major investment program for innovative low-carbon and renewable energy technologies. The initiative, known as "NER300", will provide substantial financial support for at least 8 projects involving carbon capture and storage (CCS) technologies and at least 34 projects involving innovative renewable energy technologies. The financial support using revenues from selling 300 million allowances of the 'New Entrants Reserve' in the EU ETS is estimated at € 4,5 billion.

Implementing measures

Following the formal adoption of the Climate and Energy package in early 2009, the Commission continued working on the necessary implementing measures foreseen in the legislation.

In this context, a Regulation was adopted governing the auctioning of emission allowances under the EU Emissions Trading System (EU ETS) for the third trading period 2013-2020. In line with the provisions of the revised Emissions Trading Directive, the Commission also adopted a decision which determines a ceiling or 'cap' on the number of emission allowances that will be available under the EU Emissions Trading System (EU ETS) in 2013. The revised EU ETS Directive significantly

increases the share of allowances to be auctioned rather than to be allocated free of charge. Transitional EU-wide rules, including benchmarks for the harmonized free allocation of emission allowances to installations deemed at risk of carbon leakage were proposed by the Commission and adopted by the Climate Change Committee in Council.

In the field of CO₂ emissions from road transport, the Commission adopted detailed rules to harmonize the monitoring of CO₂ emissions from cars across the EU. In December, an informal agreement was reached between the EU institutions on the Commission's proposal for setting a CO₂ target for 2020 of 147 g/km for light commercial vehicles (vans).

Finally, the Commission requested a mandate to start negotiations to link Switzerland's domestic trading system to the EU ETS, another step towards building an OECD-wide emissions trading market which can later be extended to include more advanced developing countries.

Financing and mainstreaming into the next Multi-annual Financial Perspectives

The Communication on Budget Review of October 2010 prepared the new multi-annual financial framework post 2013 and made it clear that the EU budget can and must play a key part in delivering the Europe 2020 strategy, including its headline targets related to climate change. One option would be to reshape the EU budget to create large-scale, dedicated funds devoted to the delivery of investment in areas such as resource efficiency and climate change. However the review also points out that mainstreaming these priorities into different programmes may be a more effective approach, recognizing that the same action can and should pursue different objectives at once.

Towards the end of 2010, in collaboration with DG ENV, DG CLIMA has launched a broad stakeholder consultation to gather on the needs, size or design of a future instrument for climate action and environmental protection. The responses will feed into the impact assessment of the future instrument or programme on climate action and environment and provide input for the debate on the mainstreaming of climate issues into the new Multiannual Financial Framework.

Communication strategy

Timely and extensive consultation of the other European institutions and of key stakeholders such as business, non-governmental organisations, regions and local majors is crucial to gain wide political support for an ambitious EU climate change policy through accelerated innovation and sustainable growth.

Communication activities are therefore essential. They involved production and dissemination of many EU publications and brochures, speeches and press releases and the go-live of the official website of DG CLIMA and the website of Commissioner Connie Hedegaard. A pro-active external communication strategy for Climate Action was shaped and its implementation is ongoing based on the following 'Leitmotiv': "Climate change is happening and we have to act now, at EU and at international level. Our action is not only about climate, but also about opportunities for growth, competitiveness, innovation, energy security and jobs".

1.3. Achievements by General Objectives

Climate change represents one of the greatest environmental, social and economic threats for the quality of life on our planet this century. Climate action is a fundamental pillar in ensuring sustainable growth in the EU and the transition to a low carbon and resource efficient economy.

This is reflected in the Europe 2020 Strategy setting our priorities for the next years. The flagship initiative on a 'Resource efficient Europe' puts the achievement of growth that is greener, more resource efficient and low-carbon at the heart of the vision for the EU's development over the coming decade. Reducing our greenhouse gas emissions, building a low-carbon economy and increasing resilience to the impacts of climate change will enhance Europe's competitiveness, drive innovation, create new and greener jobs and strengthen our energy security.

Climate action is acknowledged as one of the key headline targets of the Europe 2020 Strategy through the "20/20/20" climate and energy targets that should be met by 2020 (including an increase to 30% of emissions reduction if the conditions are right).

The **two general objectives** of the actions of DG Climate Action are

- to keep global average temperature increase below 2 degrees Celsius compared to pre-industrial levels
- to recover the ozone layer.

To serve this purpose, the general lines of action of DG Climate Action are the following:

- (1) ***To pursue ambitious climate action at international level.*** The EU should continue taking the leading role in international negotiations towards an ambitious, comprehensive and legally binding global climate change agreement with an aim to control climate change and halt the average rise of global temperature on earth below the agreed threshold of 2°C above pre-industrial levels. EU should also provide significant contribution to the global efforts towards the recovery of the ozone layer, whilst maximising synergies with the protection of the climate system.
- (2) ***To ensure the EU achieves its 2020 climate and energy targets and prepares the transition to a low carbon economy by 2050.*** The EU should become the most climate friendly region in the world. It is taking domestic mitigating actions to achieve substantial emission reductions by implementing the climate and energy package and possible future decisions to increase EU ambition level. The EU should also prepare the transition to a low carbon economy and take the necessary decisions to meet our objective to reduce EU greenhouse gas emissions by 80-95% below 1990 levels by 2050.
- (3) ***To mainstream climate action into relevant policies and programmes and to adapt the EU economy to inevitable climate change.*** Integrating climate change into other policies will be crucial in order to achieve the EU's ambitious mitigation targets and to effectively adapt to climate change.

The move to a low carbon, resource efficient and climate resilient economy will indeed require harnessing the contribution of many EU policies including the next Multi-annual Financial Framework (in particular with regard to cohesion, agricultural and rural development, research and innovation, Transport and Energy programmes, external action, etc.).

Impact Achieved on EU society in 2010

- **European Union is meeting its GHG reduction targets**

The European Environment Agency published on 2 June 2010 the latest EU inventory of greenhouse gas emissions showing that EU-15 emissions in 2008 dropped by 1.9% from 2007 while the economy grew by 0.6 %. The reduction takes EU-15 emissions to 6.9% below their levels in the base year (1990 in most cases). This brings the EU-15 closer to reaching its Kyoto Protocol target of reducing emissions in the 2008-2012 commitment period to an average of 8% below the base year level. EU-27 emissions fell 2% over the year to 11.3% below the 1990 level.

The Commission's annual progress report on delivering on the Kyoto objectives published in October shows that the 25 Member States with reduction targets under the Kyoto Protocol will meet their commitments by 2012.

In the transport sector a progress report on implementing the Clean and Energy Efficient Vehicles strategy for reducing CO₂ emissions from light-duty vehicles (cars and vans) shows that the average CO₂ emissions from new cars sold in the EU dropped by 5% last year, the biggest annual fall ever recorded. It concludes that most of the measures contained in the 2007 strategy have already been implemented or are in the process of being implemented. The latest data show that the car industry is on track to achieve the 2015 average emission target of 130g CO₂/km that is to be met in 2015 and most likely several major manufacturers will be able to do so well in advance.

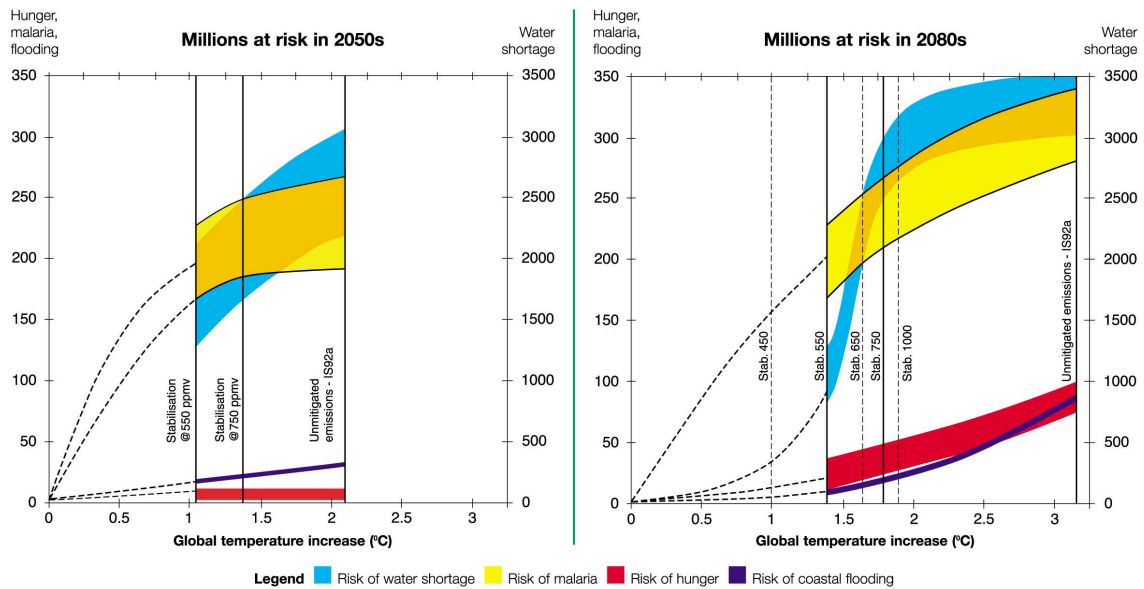
- **Protection and recovery of the ozone layer is progressing.**

The ozone layer is a layer of gas in the upper atmosphere which protects humans and other living things from the harmful ultraviolet (UV-B) rays of the sun. The annual reporting in June 2010 on the 2009 EU consumption of ozone depleting substances under the Montreal Protocol shows that CFC (Chlorofluorocarbons) have been phased out in developing countries. The production and consumption of Ozone Depleting Substances in the EU have decreased by more than 99.9 percent compared to baseline levels and dropped from 2,754 tonnes in 2000 to only 2 tons in 2009.

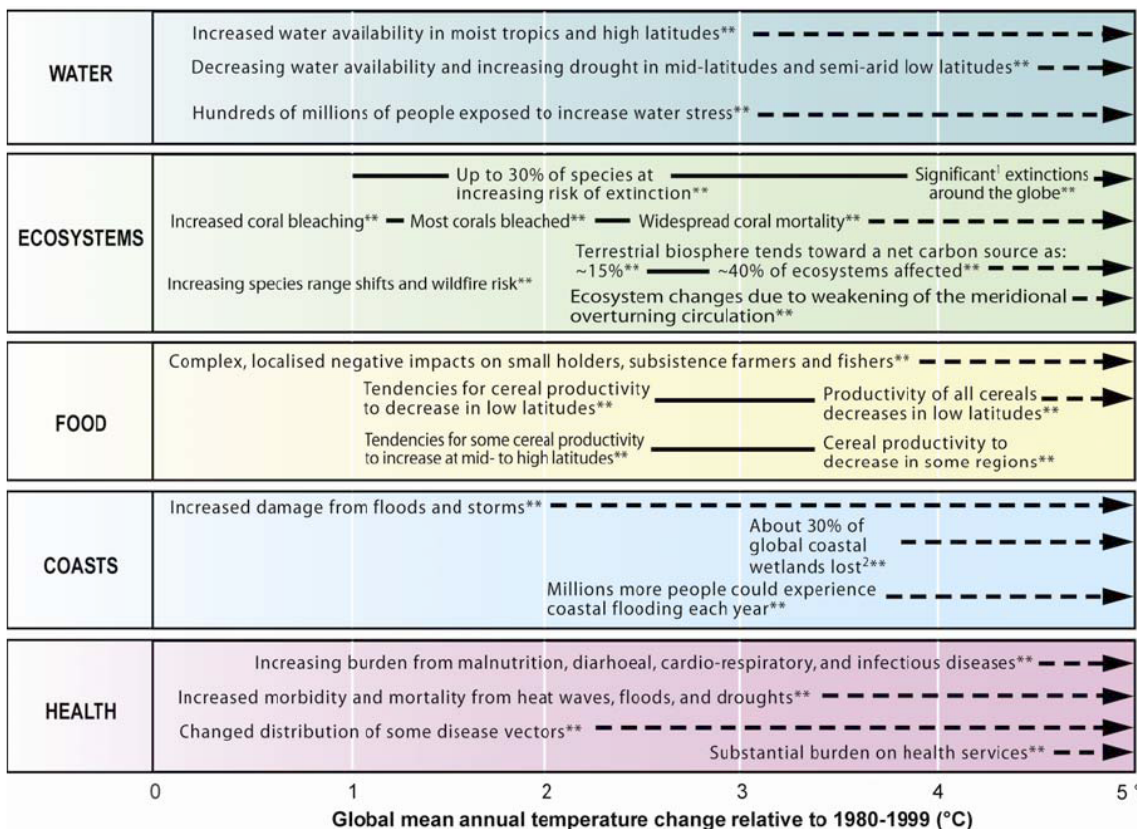
GENERAL OBJECTIVES	Impact indicators			
	Indicators	Target (long-term)	Milestones (if any)	Current situation
To keep the global average temperature increase below 2 degrees Celsius compared to pre-industrial levels	Global average temperature compared to pre-industrial levels (CSI 012 ¹)	To keep the increase below 2°C		The global (land and ocean) average temperature increase up to 2009 was 0.74°C compared to pre-industrial levels. The best estimates for projected global warming this century are a further rise in the global average temperature from 1.8 to 4.0°C for different scenarios that assume no further/additional action to limit emissions.
	Global GHG emissions compared to 1990 levels	'By 2050, 50% reduction compared to 1990 levels		Increase by 39,11 % in 2009 compared to 1990 levels. Emissions dropped about 1.3 percent from 2008 to 2009
	EU GHG emissions compared to 1990 levels	The European Council supports an EU objective, in the context of necessary reductions according to the IPCC by developed countries as a group, to reduce emissions by 80-95% by 2050 compared to 1990 levels.	EU has adopted intermediary emission reduction targets of -20% compared to 1990 by 2020 (climate and energy package), and the EU-15 of -8 % for the period 2008-2012.	Reduction of EU greenhouse gases (GHG) for EU-27: -16 % compared to 1990 in 2009. EU-27 is expected to reduce their emissions by 17.3% compared to the base year levels for the 2008-2012 Kyoto commitment period.
To aim for full recovery of the ozone layer	Stratospheric ozone levels	To recover at the pre-industrial levels	Stabilisation. Worsening of ozone layer stopped	The average total stratospheric ozone levels in 2006 - 2009 remained at the same level for the past decade. Recovery expected by 2050

Why 2° C max? Millions of people at risk

¹ The EUROPEAN ENVIRONMENT AGENCY has developed a **Core Set of Indicators** (CSIs) in co-operation with DG Environment. The CSIs, based on over 100 data sources, provide robust, credible, quality-assured data on trends and changes in 37 specific areas of the environment, linking with the pursuit of EU environment policy objectives. In view of their high credibility and direct link with environment, CSIs are the preferred indicator throughout this document.



Potential Impacts



1.4 Achievements by ABB Activities

<i>I. GLOBAL CLIMATE ACTION AFFAIRS</i>		
SPECIFIC OBJECTIVE:		
<p>To pursue ambitious climate action policies at international level to achieve the long-term objective of stabilising greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system.</p> <p>Contribute to the global efforts towards the recovery of the ozone layer (incl. taking into consideration links between stratospheric ozone and climate change).</p>		
Result indicators	Latest known result	Target (mid-term)
Successful definition of post-2012 international climate change objectives to reduce global greenhouse gas emissions.	International negotiations on climate change in 2010 culminated in the UN Conference on Climate Change in Cancun. Negotiations will continue in view of the next Conference in South Africa at the end of 2011.	Put in place post-2012 commitments that move towards the EU's goal of limiting climate change to 2°C above pre-industrial levels. Agreement within UNFCCC on a legal framework covering a larger share of global emissions.
Number of countries having climate and energy legislation in place and good quality greenhouse gas emissions data reporting systems Number of countries that have worked out a low-emission development strategy	The Copenhagen Accord of December 2009 foresees that developing countries will implement mitigation actions in the context of sustainable development. Least Developed Countries and small island developing states may undertake actions voluntarily on the basis of support Mitigation actions, including national inventory reports, to be communicated. It is too early to provide any details on the latest results.	At least 5 (more advanced) developing countries have a good quality greenhouse gas emissions data reporting system by 2015 At least 5 (more advanced) developing countries have worked out a low-emission development strategy by 2015.
Stratospheric ozone levels Global consumption of ozone depleting substances	The average total stratospheric ozone levels in 2006 - 2009 remained at the same level for the past decade. This remains however 3,5% below the 1964-1980 averages but is projected to recover in the coming decades In 2009, worldwide consumption stood at 39,361 ODP tonnes, having gone down from 263,200 in 2000, and 43,195 in 2008.	Early recovery of the ozone layer, whilst maximising climate benefits Decrease to the minimum possible the consumption of ozone depleting substances
Commission's and EU fast start climate finance contribution programmed or implemented in support of action by developing countries as a share of the pledge made in Copenhagen.	The EU and its Member States have mobilised € 2.35 billion of fast start finance in 2010 as part of its overall commitment to provide €7.2 billion for the period 2010 – 2012. The Commission has earmarked €150 million for the period 2010-12.	Developed countries have committed to provide \$30 billion public climate fast start finance in developing countries for the period of 2010-12. The EU and its Member States have committed to provide €7.2 billion for this purpose. For post 2013, increased support by the EU budget to be determined in light of the outcome of international negotiations and as

		<p>part of the preparation of the post 2013 multi-annual financial framework.</p> <p>The Copenhagen Accord commits developed countries to jointly mobilize \$100 billion (public and private climate finance) a year by 2020 to address the needs of developing countries.</p>
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Main evaluation results

According to the latest data available, global emissions have increased by 15% in 2005 compared to 1990 levels while in the EU a reduction of EU greenhouse gases (GHG) for EU-27 up to -14.3% compared to 1990 was achieved in 2008.

By 2005, 191 Parties to the Montreal Protocol had achieved a 95 percent reduction in the consumption of ODS compared to established baselines. Reductions are highest (99.2 percent) in industrialized countries, and somewhat lower (80 percent) in developing countries. ODS production and consumption in the EU have decreased by more than 99.9 percent compared to baseline levels.

Major achievements up to 2010

- Implementation of the Copenhagen Accord including proper and timely delivery of "fast-start" finance is on track,
- Agreement on a set of concrete set of decisions reached at the summit in Cancun (Mexico) about laying the foundation for a new legal framework and for the launch concrete new initiatives such as capacity building in development countries, adaptation, a technology centre and network, developing national strategies and setting up effective monitoring in order to reduce emissions from deforestation and forest degradation, the decision to create a Green Climate Fund.
 - Commission's Communication on the international climate negotiations post-Copenhagen (9 March 2010)
 - Further intensification of strategic bilateral partnerships with key players: deepening of climate policy dialogues and cooperation activities.
 - Continue exploring with third countries the possibilities to link the EU ETS with other trading schemes which could be set up in OECD countries, as well as sectoral crediting mechanisms. In this context, a cooperation with China on carbon market has been further developed in 2010.
 - Cooperation with developing countries for the deployment of advanced technologies (for instance through the implementation of the EU-China Near-Zero Emissions Coal Plant project (€60 million, 2009-2013), and the Global Energy Efficiency and Renewable Energy Fund, (€100 million, 2007-2010).
 - Support to the Global Climate Change Alliance (2008-2010). Policy support to adaptation and, to a lesser extent, mitigation policies in Least Developed countries (DG DEVCO leading) ;
 - Cooperation with developing countries on new Global Technology Initiatives initiated under the Major Economies Forum
- Continuation of negotiations under the Vienna Convention for the Protection of the Ozone Layer and the Montreal Protocol on ozone depleting substances: propose and/or negotiate decisions of the Parties that are further contributing or safeguarding the recovery of the ozone layer in the 2050-2075 timeframe and possibly on Climate Change (HFCs)

2. IMPLEMENTATION OF EU POLICY AND LEGISLATION ON CLIMATE ACTION

SPECIFIC OBJECTIVE :

Contribute, through climate actions at EU level, to the long-term objective of stabilising greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system.

Result indicators	Latest known result	Target (mid-term)
Reduction of EU greenhouse gas emissions compared to base year by 8% for the period 2008-12 under the Kyoto Protocol	EU15: -6.5 % in 2008 compared to 1990 EU27: -11.3 % in 2008 compared to 1990	EU15: 8% reduction of EU greenhouse gas emissions by 2012, EU27: 20% by 2020 with a possible step up to 30% reduction by 2020, provided that other developed countries commit themselves to comparable emission reductions and that developing countries contribute adequately according to their responsibilities and respective capabilities.
Compliance with the emission cap under the EU ETS	Allocated allowances in 2009: 1.967 million tons (+ 0,5% compared to 2008 level) Verified emissions in 2009: 1.873 million tons, (-11,6% compared to 2008 level) (state: 30.4.2010) Compliance rate: 98% of the installations that submitted their verified emission on time are in compliance.	Target for 2008-2012: the annual average emission target is set 6.5 % below 2005 verified emissions Target for 2020: 21% below 2005 verified emission level
Progress in non ETS sectors	1st compliance exercise to be carried out in 2015 to assess compliance with 2013 emissions target	Targets for 2020: 10% below 2005 emission level
Proportion of renewable energies in EU energy consumption	8.5% of energy consumption in the EU produced by renewable energy sources (DG-TREN & ESTAT 2005). Rising overall energy consumption in absolute terms has counteracted some of the environmental benefits from the higher use of renewables. The strongest increase came from wind and solar energy. In absolute terms, about 80 % of the increase was accounted for by biomass.	Binding target of 20% of final energy consumption in the EU produced by renewable energy sources by 2020.
Average emissions of CO2 per km of new cars	Average new car emissions in EU27 in 2009: 145.7g CO2/km	130 g/km carbon dioxide (CO2) emissions on average from new cars by 2012.

		Target of 95 g/km in average set forth for 2020
The consumption of Ozone Depleting Substances (defined as production plus imports minus exports of controlled substances under the Montreal Protocol) in EEA member countries	1986: 79,697 ODP tonnes 2000: 2,754 2007: 902 tonnes 2008: 790 tonnes 2009: 2 tonnes	Further reduction of EU ODS consumption, and emissions from ODS banks and exempted uses

Main evaluation results 2010

- Proportionate Impact Assessments have been prepared to support the implementing provisions adopted or prepared in 2010 in particular on the following issues: implementing measures under the EU ETS, preparation of comitology decisions related to the rules for auctioning and the allocation of free allowances based on benchmarks

- On 21 December 2010 the Commission published a Communication on carbon market oversight. This Communication provides a first assessment of the current level of protection of the carbon market from market abuse and similar problems. It concludes that a major part of the carbon market is subject to appropriate oversight, but that more may be needed in the spot market. As a next step, the Commission will examine in greater detail the structure of the carbon market, the level of market oversight and the available options (incl. the classification of allowances as a financial instrument). A public consultation will be conducted in the first half of 2011, the results of which will feed into an impact assessment. This preparatory work might result in a legislative proposal.

- The 2007 strategy for reducing CO₂ emissions from light-duty vehicles presented in COM(2007)19 aimed at reaching the objective of 120 grams of CO₂ per kilometre for an average light-duty vehicle (cars and vans) by 2012. An assessment concludes that the objective is not likely to be achieved by that date because the legislative measures put in place generally come into force at a later stage. But the measures adopted have played an important role in decreasing of CO₂ emissions in the recent years. Furthermore a long-term objective for 2020 was included in the CO₂ from cars and vans regulations that should compensate for a delay of short-term reductions and it will push for further reductions towards 95 grams of CO₂ per kilometre by 2020.

- Total greenhouse gas emissions in the EU-27, excluding emission and removals from land-use, land use change and forestry ('LULUCF'), decreased by 12.5 % between 1990 and 2007. Emissions decreased strongly in the new Member States during the 1990s but since 2000, the trends have been almost identical as in EU-15. Between 1990 and 2007, greenhouse gas emissions decreased in all sectors except in the transport sector, where they increased significantly.

Major achievements up to 2010

New policy instruments

2009

- Adoption of the climate and energy package

2010

- Communication on the analysis of policies to move beyond 20% emission reduction targets by 2020, including an assessment of the situation of energy intensive industries and of carbon leakage – follow-up discussions in Council and the European Parliament on this issue
- Drafting of the Impact assessment preparing Communication on a roadmap for low-carbon economy by 2050, also with a view to determining the necessary scenarios for 2030 to be adopted in 2011
- Further implementation of EU Emission Trading Scheme: Some key measures have been adopted or prepared in 2010, in particular the Auctioning Regulation and the setting of the cap for on emission allowances for 2013, the benchmarking rules.

- Decarbonisation of the transport sector: further implementation of the CO2& cars legislation, completion of the co-decision procedure on CO2&vans legislation, preparatory work on emissions from shipping.
- Preparation of the revision of the EU Monitoring Mechanism Decision (adoption foreseen in 2011) to streamline and improve the reporting requirements of various legal instruments related to greenhouse gas emissions
- Communication & awareness-raising on Climate mitigation and adaptation (publications, website) as meeting the EU emission reduction targets requires concrete further actions to be taken by citizens and other stakeholders to reduce their carbon footprint
- Stakeholder consultation about the possible inclusion of the LULUCF sector in the EU's GHG emissions reduction target

3. CLIMATE MAINSTREAMING AND INNOVATION

SPECIFIC OBJECTIVE 1:

Develop and implement adaptation strategies to climate change as well as contribute to the decarbonisation of the economy through acceleration of innovation, climate action mainstreaming in all relevant EU policies and financial programmes as well as awareness raising and communication towards an inclusive low carbon economy.

Result indicators	Latest known result	Target (mid-term)
Adaptation strategies and action plans adopted at : - national level ; -regional or departmental level	In 2009, eight countries in Europe have developed and adopted formal national adaptation strategies On the regional level 31 regional strategies targeting climate change impacts were identified in six EU countries.	All EU Member States to have national and sub-national action plans by 2015
Degree of integration of climate change into other Community policy areas achieving successful results	There is to date little specific earmarking of climate actions in the relevant Community financial programmes.	Set out clear indicators and reporting on climate integration into EU sectoral policies & EU funding (such as Rural Development, R&D, Cohesion, Energy and Transport) in terms of outputs results Increase of results achieved in terms of mitigation (reduction of emissions) and adaptation under EU funding instruments
Awareness / knowledge of EU citizens about climate issues and the opportunities of moving to a low-carbon economy	According to a Eurobarometer survey carried out in September 2009, 47% of EU citizens consider "climate change", as one of the most serious problems facing the world today. Almost two-thirds of citizens think that fighting climate change can have a positive impact on the European economy	Increased awareness of EU citizens on climate mitigation and adaptation

Main evaluation results

An extensive Impact Assessment was prepared for the 2009 Commission's White Paper on Adaptation to Climate Change, which objective is raising profile of adaptation and building coherent approach at all institutional levels.

More evaluations have been carried out to assess the contribution of different financial programmes to climate actions. For instance, an annual review is carried out to evaluate the contribution of the FP7 (Framework Programme for Research) projects to "sustainable development" including climate action. Several exercises have also been launched in the context of the Cohesion Policy and the Common Agricultural Policy.

Major achievements up to 2010

In the area of carbon capture and storage:

- Preparation for the tender and selection process for the disbursement of the 'NER300' (€ 300 M) New Entrants' Reserve of the European Emissions Trading Scheme for subsidising installations of innovative renewable energy technology and demonstration of carbon capture and storage)
- Finalisation of guidelines and management of implementation of the Directive 2009/31/EC on the geological storage of CO₂

Preparatory work in view of adoption of the following initiatives:

- Input for the mainstreaming of climate issues into the new Multiannual Financial Framework
- Preparation of the Impact assessment of an instrument or programme on climate action and environment for the post 2013 period

In the area of adaptation to climate change

- Adoption of White Paper on Adaptation to Climate Change in 2009
- European Climate Change Impacts Vulnerability and Adaptation Clearinghouse - Implementation Phase 1
- Identification and Elaboration of Methodology to be used in the classification and costing of projects and programmes for adaptation to climate change in the context of cohesion policy.

PART 2. MANAGEMENT AND INTERNAL CONTROL SYSTEMS

2.1 Introduction to DG CLIMA

DG CLIMA was created on 17 February 2010 by Commission Decision. It was the result of transfer of activities and staff mainly from DG ENV but also from RELEX and ENTR. A Shared Resources Directorate (SRD) with ENV was also established at the same time. Handover notes were sent on the transfer of activities from ENV to CLIMA.

Given that it was its first year of operations, 2010 was a particular year for DG CLIMA.

The 2010 Commission budget was adopted in December 2009 without any funds earmarked for DG CLIMA. At the time of the reorganisation of services on 17/02/2010, including the creation of DG CLIMA, DG BUDG decided not to modify the budget nomenclature for 2010 but rather to share implementation, where relevant and possible, between the relevant services by means of 'co-delegations'.

As regards the financial instruments relevant for DG CLIMA, the following was agreed:

- For the ENRTP(Environmental natural resources thematic programme) , a specific cross-sub delegation was put in place between DG AIDCO and DG CLIMA for the implementation of Climate specific actions under priority ... (support to UNFCCC, to IPCC, calls for tender for capacity building on monitoring, reporting and verification, and other aspects of climate policies in developing countries) ;
- For LIFE + programme, taking into account the specific requirements of the legal base as regards action grants and support to NGOs (one single annual call for proposals for either), the co-delegation would only cover the part of Commission actions related to contracts for studies & services, development and maintenance of CITL & ODS database and communication and information activities.

An agreement with DG ENV allocated the following funds to DG CLIMA for the 2010 Management Plan,

2010	Commitment appropriations (€)
07 01 04 01 LIFE + support expenditure - co-delegated CLIMA	695.300
07 01 04 04 - Contribution to international environmental activities — Expenditure on administrative management – co-delegation CLIMA	120.000
07 03 07 - LIFE + operational - codelegated CLIMA	10. 580.000
21 04 01 - cross-subdelegation AIDCO ENRTP	5.550.000
TOTAL	16 945 300

A number of actions initially managed by DG ENV were transferred to the new CLIMA Units. The management plan had to be revised accordingly and a new plan for 2010 was adopted by DG CLIMA early in May. The re-posting of existing financial commitments to the newly created Fund management centre in the accounting system of the Commission (ABAC) only came into effect at the end of April. Some posts, in particular management posts, were only filled by mid year or in the last quarter of the year. The process of planning, revision and implementation of financial activities of DG CLIMA was also affected. The majority of the commitments were made in the last quarter of 2010 and this can be partly attributed to the reorganisation.

DG CLIMA is associated to the results of a preparatory action of EUR 2 500 000 concerning "Climate in the Carpathian Basin". This project is directly managed by DG ENV as it concerns more specifically drought and desertification than directly climate.

The management mode selected for financial operations is direct centralised management by the DG meaning the DG has direct control and responsibility over the spending procedures. The DG is not parent DG of any agency but DG CLIMA relies extensively on the work carried out by the European Environmental Agency (Copenhagen, DK) on the processing, validation and consolidation of data reported in the context of EU legislation. This work is essential to allow the DG to define and to assess the effectiveness of its legislation (including compliance checking and enforcement) and to identify further policy development needs and any opportunities for streamlining.

The financial transactions of the year concern, to a minor extent, transactions processed in DG ENV before 17 February 2010 which were subsequently transferred to DG CLIMA and, for the larger part, transactions directly managed by DG CLIMA. The total funds managed spent by DG CLIMA in 2010 amounted to € 35,37mio of Commitments and € 11,58 mio of payments.

The difference between the amount committed and the amount paid can be explained by the important number of new projects launched by the new DG towards the year-end resulting in a limited number of first payments. The payments concern a few climate actions initiated before the creation of DG CLIMA.

On 31 December 2010, 95% of the budget was committed and 78% of the payments were executed which is satisfactory. A limited number of 26 payments out of a total of 202 exceeded the payment targets. Some late payments were due to the transitional arrangements related to the creation of the dedicated Fund Management Centre. On average, the DG paid within 20 days in 2010 which is in accordance with the payment times for procurement files en below the overall average of the Commission.

2.2 The functioning of the entire internal control system.

The goals for the DG in 2010 were to promptly build-up operational capacity in order to address the pressing political agenda and the timely delivery of initiatives listed in the work programme 2010, ensuring business continuity of operations, such as in the area of finances, and ensuring compliance with rules, regulations and procedures in force.

As a newly established service, DG CLIMA had to create its own integrated internal control framework.

A number of processes/procedures are shared with the Shared Resources Directorate (SRD)/Shared Internal Audit Control (SIAC) as service provider (for instance for the business continuity planning, recruitment and training of staff, publications, budget and financial management and control).

However, most of the ICS have to be managed primarily by DG CLIMA, with or without facilitation by the SRD/SIAC, such as the strategic planning and programming (annual work programme, or the annual management plan/annual activity report), risk management, evaluations and impact assessments, communication and information..

The key objective in the implementation of these ICS was to avoid unnecessary duplication of procedures and to make DG CLIMA 'internal control proof' within the shortest delays.

2.2.1 – Compliance with the requirements of the control standards

A self-assessment carried out in January 2011 via an electronic survey developed in-house to all heads of unit and directors confirms that compliance with the requirements of internal control standards has been achieved. Particularly good results have been achieved in the following areas: mission, risks management, business continuity, internal communication, document management and management supervision. However, difficulties were reported during this first year in relation to allocation and mobility of staff. This is an understandable issue as in the first months following the creation of the DG the new organisational structure had to be put in place and posts to be filled. By the end of the year the DG had overcome these difficulties. Further efforts still appear to be necessary in relation to awareness raising regarding the control standards on ethics and integrity, fraud or conflict of interest. However, a general reminder about fraud prevention/detection and reporting of irregularities (whistle-blowing) had been to all staff in September 2010.

However, no serious flaws or breaches were identified by the management of the DG as part of this self-assessment exercise. The issues highlighted were inherent to the transitional phase experienced by DG CLIMA in 2010 as a newly created DG.

No derogation on mobility rules was granted in 2010.

2.2.2 – Effectiveness of implementation of the prioritised control standards

As 2010 was the first year of operations for DG CLIMA as an independent DG, this clearly was a transitional year. This had a certain influence on the DG's performance but the potential impact was mitigated as far as possible through the joint effort of the DG and the SRD as well as a prioritization of activities.

In relation to the prioritised Internal Control Standards, a selection was made partly based on the identified needs of DG CLIMA as a new DG (staff allocation, organizational structure) and partly on past experience (risk management, communication and information). Although compliance was the main objective, towards the end of the year even partial effectiveness was achieved. This is proven by the management reports pertaining to 2010 in relation to financial management and internal control.

ICS 3 – Staff allocation and incoming mobility

A major objective achieved in 2010 was the completion of the functions in the organisation chart of the new DG. With support from the newly created Shared Resources Directorate of DGs ENV/CLIMA, the DG has demonstrated its absorption capacity in terms of recruitment and management of mobility.

A considerable number of staff was transferred from other DG's such as DG ENV, ENTR and RELEX or recruited on vacant posts allocated to the DG. Numerous vacancy notices and job descriptions were drafted and interviews were held. By the end of the year, all Heads of Units' posts and two out of three Directors' post were filled. All newcomers were welcomed, allocated office space and integrated in the new structure.

ICS 6 – Risk management process

Risks related to the critical system CITL/CR (Community Independent Transaction Log and Community Registry) and the decentralised IT governance model for these policy tools were addressed in 2009 in the action plan following an IAS audit. In the follow-up audit report, the IAS considered that the actions were implemented and closed all recommendations.

However, the reputational risk linked to any failure, unwanted shutdown or cybercrime against the Member States registries or the Community registry still persists.

The IAS issued an audit report on risk management in DG ENV (before the creation of DG CLIMA) at the end of January 2010. The seven recommendations issued in the report required mitigating actions that will result in a number of deliverables such as awareness raising and training of managers, enhanced and continuous risk management and a regular quality review of the risk register and monitoring of the implementation of the risk mitigation plans. DG CLIMA has associated itself to the DG ENV action plan aiming for a gradual implementation of the most relevant actions in a proportionate way. DG CLIMA has actively contributed to the design and development of a new risk module in the existing tool e-AMP (Electronic Management Plan) that will enter into production in May 2011 in time for the Management Plan 2012. In the 2010 management plan preparatory process, the DG identified and assessed the risks connected to its actions and created a critical risk register. The monitoring of the implementation of the mitigating actions will be enhanced in 2011 using the new risk tool. Dedicated training on risk for managers was organised in collaboration with DG BUDG.

ICS 7 – Operational structure

In the weeks following the decision to create DG CLIMA, the newly appointed Director General defined, assigned and communicated on paper financial and operational delegations of power that were replicated in corporate and local ICT tools such as in the security environment of ABAC (accrual based accounting).

The standard IT governance policy of the Commission was applied with support from the SRD but the decentralised IT governance model of DG CLIMA for its critical systems CITL/CR was maintained.

A brand new resources management model was set up with the creation of the Shared Resources Directorate serving both DGs ENV and DG CLIMA. This new setting required a large number of adjustments in corporate resources management systems, the establishment of coordination mechanisms, such as a coordination cell and coordination meetings, and duplication and/or updating of most existing procedures to reflect the new organisation chart.

After a careful risk assessment, a sensitive function policy was adopted for DG CLIMA restricting the number of sensitive functions to senior managers empowered with significant responsibilities as authorising officer.

ISC 12 – Internal and external communication and information

Communication activities should be regarded as an integral part of operations supporting the development and implementation of policies. Currently a very limited number of staff can be attributed to communication activities in DG CLIMA due to its small size. Currently no dedicated communication unit has been established. As the need for raising awareness with citizens, consultation of stakeholders and the explanation of the purpose of our legislation to industry and the markets is growing steadily, DG CLIMA has designed in agreement with the Commissioner its external communication strategy clearly outlining target audiences, messages and action plans. Another communication gap was bridged when the DG released its fully-fledged external website dedicated to Climate Actions on the Europa server on 18 October 2010.

In view of the growing size of the DG, an internal communication policy and internal working arrangements need to be further developed, formalised and implemented.

Compliance of the IT systems with relevant Commission procedures and quality assurance were improved following the IAS audit (see ISC 6). The protection against security incidents was stepped up as the policy systems CITL/CR and ODS (Ozone Depleting Substances) are hosted by DG DIGIT on a central, dedicated platform. Project steering committees composed of business and IT representatives meet regularly to supervise the development and maintenance of IT projects

Conclusion. A lot of progress was made during 2010 in terms of setting up a new organisation built on existing and on new staff and management. This integration process was successfully achieved. Therefore the focus in 2011 will shift to the

following two other standards: 'processes and procedures including financial circuits' and 'staff assessment, training and development'. As the work on the standards 'risk management' and 'information and communication' is in progress, these standards will be carried forward to the 2011 Management Plan. In addition, an effort will be made to raise further awareness about 'core values'; 'professional ethics', 'prevention of fraud' and 'conflict of interests' in relation to the activities of DG CLIMA.

2.2.3 – Risk management including reputational risks/events

Risk environment DG CLIMA

The management plan exercise 2010 identified a number of risks in DG CLIMA. As Climate Action is a global issue, the DG is exposed to number of external risks in relation to international negotiations. Moreover, the newly established DG has identified several organisational risks in 2010 relating to the coordination with the new Shared Resources Directorate ENV/CLIMA.

The only 'critical' system DG CLIMA is managing is the Community Independent Transaction Log/ Community Registry CITL/CR, the main EU tool supporting the greenhouse gases emission trading system (ETS). It was identified as a critical tool in the Business Impact Assessment exercise for IT tools conducted mid-2010 feeding into the drafting of common business continuity plan of DG CLIMA/ENV/SRD, also in the Management Plans 2010/2011 of DG CLIMA and as well in the IT Master plans of 2010/2011. Corresponding system related risks and reputational risks were highlighted.

In-house the security risks (availability, data integrity, data confidentiality) of this critical information systems were mitigated to the extent possible via a number of actions following the IAS audit on CITL governance: hosting on a dedicated IT platform, drafting of a Service Level agreement with DG DIGIT, drafting of a manual of procedures, a security plan and development of a disaster recovery plan following the IAS audit on CITL governance.

Reputational risks/events related to the Emission Trading System (ETS)

The complexity of the ETS system however, involving administration of the national registries in the MS, bears an inherent reputational risks for the Commission, a risk that unfortunately materialised in 2010. The security breaches re-occurred in 2011 on a scale that forced the Commission in its capacity as central administrator to suspend access to national registries until adequate security measures were in place.

One 'critical' reputational risk related to the ETS materialised and turned into a reputational event in 2010: the cyber-attacks on 2 MS' registries (unauthorized access to EU ETS registry accounts) in November -December 2010. These incidents were beyond the control of the Commission but had an indirect impact on the reputation of the Commission as promoter and guardian of the carbon market and as central administrator of the CITL/CR system. Though the Commission had no indication at the time that this unauthorized access was due to insufficient security requirements in the EU ETS registry system, immediate action was taken both by the Commission and by the national administrators as EU legislation requires that Member States take all

necessary steps to ensure the security of their own registry. It became clear however that the speed of implementation of adequate security measures in the national registries was not sufficient. Following another 3 cyber attacks in January 2011, the Commission therefore decided to suspend temporarily the national registries until adequate security remedies were in place. The Commission set out enhanced security measures supported unanimously by all MS, provided swift information to the market via press releases and statements on the Europa website, held audio conference calls with the counterparts in the capitals and is preparing a review of the legal basis, i.e. the Registries Regulation.

After careful internal assessment against the standard criteria (the nature, the spread and the duration of the impact) and taking into account all measures implemented, it deems that the **impact on the Commission's reputation** of these events is characterised by 'a **limited loss of confidence**' in the Commission by the stakeholders in the carbon market as the Commission took all possible actions in its power to remedy the situation. This was confirmed in meetings with Member States representatives in 2011 that supported unanimously the measures taken by the Commission. The risk is continuously being monitored and scrutinised by DG CLIMA in close cooperation with DG DIGIT and in coordination with the administrators of the national registries and governments of Member States.

2.3 – Information to the Commissioner

In conformity with the code of conduct for Commissioners of 20th August 2004, a special report on financial and internal control matters was sent to the Commissioner on 26 May 2010 and was discussed during a bilateral meeting on 1 June 2010. Minutes of this meeting were issued and sent to all the participants.

The main elements of this report and the reserve on reputational grounds on the assurance declaration have been brought to the attention of Commissioner C. Hedegaard. A dedicated meeting to exchange the information took place on 24 March 2011.

2.4 – Conclusion

The result of the survey on internal control standards and the individual reports of the AOS show that functioning of the entire control system is effective despite the particular situation related to the recent creation of the DG.

The sound experience of the staff and units in the SRD combined with the good cooperation with the DG allowed the control system to be rapidly in place. However a significant effort was made, during the year, to implement the adequate controls needed in the DG itself. Organisational structure problems should disappear in 2011 as the transitional period for the new DG ends. Ethics and integrity is an internal control standard where efforts needs to be stepped up in terms of raising awareness and targeted communication in 2011.

To this end, but also in order to assess the effectiveness and raise awareness on other control standards, the DG plans to intensively use the new framework contract from DG BUDG in 2011.

The reputational events related to the carbon market trading mechanism (ETS) that occurred in 2010 and continued in 2011 were handled by the Commission in a timely, relevant and adequate manner. Overall trust by the market stakeholders was not lost but the events had an impact on the reputation of the Commission. .

PART 3. BUILDING BLOCKS TOWARDS THE DECLARATION OF ASSURANCE AND RESERVATION

3.1 Building blocks towards reasonable assurance

3.1.1 – Building block 1: Assessment by management

The control strategy of the DG is based, first, on the different checks and controls defined in annex V:

- ex-ante controls: control of bids during the management plan preparatory process, control of technical specifications and launching of calls for tenders centralised in the Finance Unit, check of justification of direct grants, opinion of an internal procurement advisory body (ENVAC, shared with DG ENV) on the main procedures.
- transaction controls: hybrid of models two and three for the main operations meaning operational initiation, verification and authorisation/validation in the operation units, financial initiation and verification centralised in two distinct units the SRD . No second level ex ante control.
- ex-post control: only ex-post audits based on detection and correction of potential fraud, errors and irregularities.
- reporting: monthly on budgetary implementation, six monthly on recovery orders, annually from Authorizing officers by sub-delegation on financial management and from managers on implementation of internal control standards.

The yearly reports of the Authorizing officers by sub-delegation are positive, giving assurance on the functioning of the control and supervision system, and do not state any systemic weakness. The AOS commented that the process of planning, revision and implementation of financial activities was affected by the creation of DG CLIMA as a new DG. The consolidation of the DG, in terms of filling management posts in the establishment plan (appointment of new heads of units and directors) required considerable effort in the first half of the year. Some others factors related to the establishment of DG CLIMA, such as the validation as a new entity in the Accrual Based Accounting tool ABAC tool impacted on the execution of the budget throughout the year.

The majority of the tendering procedures were finalised in the second half of 2010 leading to a concentration of commitments in the last quarter of the year. This phenomenon partly attributed to the effects of the reorganisation and the fact that funding related to some contracts only became available in the second half of the year, following the adoption of the second financing decision annex work-programme in June 2010.

In the course of 2010, additional adjustments to the MP 2010 were required in relation to some ETS related events (security of the EU ETS Registries, growing interest of China on the use of ETS to meet domestic GHG reduction targets). Due to the extended decision making process for the adoption of the Auctioning Regulation entailing a joint procurement procedure with Member States to purchase a common auctioning platform, some projects were also postponed to 2011. Several training sessions for incoming

managers were organised, in collaboration with SRD 2 and SIAC, in 2010. These sessions, which were very well attended and appreciated, included risk management, internal control standards for effective management and the financial lifecycle including AOS's responsibilities.

The monthly reports published by SRD2 were very useful for the operational units, especially the new entities, in verifying and tracking processes. These reports were used to ensure timely delivery on the planned financial activities and to draw attention to unexpected delays and possible derogations.

A reminder about fraud prevention/detection and reporting of irregularities ('whistle blowing') was sent to staff on 2 September 2010.

Other indicators

Environment Advisory Committee (ENVAC)

To ensure continuity of control, DG CLIMA decided to call upon the services of the existing Advisory Committee of DG ENV/SRD. The membership of the Committee was modified and included a Head of Unit from DG CLIMA in order to create a joint Committee between ENV and CLIMA. Ten procurement files of DG CLIMA were submitted to this internal committee, six above the threshold of €300.000 and four preselected randomly. No grants were submitted. All opinions issued by ENVAC were favourable.

Ex-ante control Verification

It was estimated that 25% of SRD.2's staff, dealing with financial matters had to be devoted to financial ex-ante verification of DG CLIMA files. As a result 1,5 FTE were assigned to financial control for DG CLIMA. For financial initiation, one person is working only for CLIMA in the SRD and 6 are shared between ENV and CLIMA, applying the same ratio as above it is estimated that 2,5 FTE are allocated to CLIMA.

In total 382 transactions were verified: 12.6% of those transactions were sent back for correction by the verifiers, 2% were suspended and only 0,7 % (3 transactions) definitively rejected. The large majority were procurement files, only 9 payments were made for grants on 2010 for DG CLIMA.

Ex-post audits

As DG CLIMA is managing a very small number of grants it was decided that, in a first phase, only ex-post audits based on detection and correction of potential fraud, errors and irregularities could be carried out on request. As a result, one project at risk was identified in 2010 and the relevant audit is included in the audit plan 2011 approved on the 26 January 2011 by the Director General.

Exceptions

Only one exception, linked to an amendment to an ongoing contract, was registered in 2010.

Key indicators on controls

Input indicators	2010
Staff devoted to financial verification in full time equivalent.	1.5
Number of files submitted to ENVAC	10

Output indicators	2010
Budget implementation rate	95% for commitments and 78% for payments
Rate of transactions corrected/rejected by ex-ante control	12,6 %
Number of Exceptions registered	1
Number of negative opinion given by ENVAC	0
Complaints in Court	1
OLAF and Ombudsman cases	1 (Ombudsman)
Overriding decisions	0
Payment times	87% processed within the legal targets

3.1.2– Building block 2: Results from audits during the reporting year

No specific recommendation that should be handled by the new DG CLIMA was made by the **Court of Auditors** in the DAS (Declaration of Assurance) report or by the Discharge Authority in the discharge report. No special report has been issued at this stage on topics concerning DG CLIMA.

No specific **IAS** (Internal Audit Service of the Commission) report was issued in 2010 concerning DG CLIMA.

DG CLIMA is associated to the follow-up of the IAS audit report on "Monitoring the Implementation of EU Law in DG ENV" and more in particular the outstanding

recommendation about the timely verification of national implementing measures taking into account the risk-based transposition approach.

The DG is as well associated to the action plan of the IAS audit on Risk Management in the Commission including DG ENV and more precisely the recommendations about risk acceptance, risk response and related mitigating action plans and about the creation of the risk register and risk information in the MP and AAR.

In the last quarter of 2010 the IAS carried out a consultancy engagement in DGs CLIMA, ENV and the SRD that resulted in a Management Letter on the Re-organisation of former DG TREN, DG ENV and DG JLS and on the creation of the SRDs in the beginning of February 2011. A number of lessons learnt, risks and 'issues for consideration' were outlined in the Management Letter in view of improvements of this new governance model, notably risk assessment and monitoring of the re-organisation, guidance from the horizontal services, corporate identity for SRDs, staff turnover and motivation in the SRD, filling senior management posts and reconciliation of further economies of scale with duplications of deliverables and increased workload. In the mid-term the effectiveness of the new model for shared services needs to be evaluated.

During the year 2009, the **SIAC** (Shared Internal Audit Capability of DG CLIMA) carried out an audit on some sub-processes in the field of financial management of DG ENV (including the climate actions of directorate C, the core of the future DG CLIMA). No material weakness has been identified. The action plan prepared by the Management was implemented and the main actions became effective in 2010 (e.g. the mandate and guidelines of ENVAC were reviewed according to the auditors' recommendations and the new guidelines have been implemented in 2010). The new project management tool Profile+ has been developed and entered into production in 2010. The follow-up audit, conducted in 2010, concluded that all important recommendations have been adequately and effectively implemented.

In the beginning of 2010 the new (S)IAC performed the audit of DG ENV's payments, including the payments of former Directorate C now integrated in DG CLIMA. This audit resulted in recommendations concerning procedural compliance. The management accepted all recommendations and the action plan designed to mitigate the risks identified was developed. None of the findings identified during this audit was considered as a significant weakness.

The follow-up audit on "Human Resource Management and Administration" was successfully conducted as well. The internal auditors concluded that all recommendations have been adequately and effectively implemented.

In the second half of the year, the SIAC conducted the audit of the procurement tendering process in DG CLIMA. The purpose of this audit was to check whether this financial process conforms to the principles of legality, regularity and sound financial management and whether it is effectively and efficiently implemented. The report spells out strengths such as the absorption and management capacity of financial resources, sound knowledge and expertise available in the financial unit for the provision of quality financial in-house trainings and the added value provided by operational AOS being member of ENVAC.

The draft audit report did not reveal any systemic weakness but suggested some improvements: 3 very important, 11 important and 5 desirable recommendations were issued.

The very important recommendations relate to the monitoring and supervision of procurement by management, the quality of tender evaluation reports and the functioning of the internal consultative committee on procurements (ENVAC). To address the latter recommendation, a new mandate has already been approved on 10 February 2011 to solve the issues raised. For all recommendations a comprehensive action plan has been drafted in cooperation with the SRD and submitted to SIAC on 23 February 2011 for approval. The implementation of these actions will be shared between the Authorising Officers in DG CLIMA and the resources units in the SRD.

3.1.3 – Building block 3: Follow-up of previous years' reservations and action plans for audits from previous years

DG CLIMA was created in 2010 so there are no previous year's reservations or audits.

3.1.4 – Building block 4: Assurance received from other Authorising Officers in cases of crossed sub-delegation

No sub-delegation granted to another DG.

3.1.5 – Completeness and reliability of the information reported in the building blocks

As far as the completeness of the information is concerned, all financial activities of DG CLIMA are covered by appropriate and efficient control systems, on which information has been provided. Two of the building blocks are not relevant for DG CLIMA in 2010.

Concerning the reliability of the information, all operational services with financial responsibilities and all control actors in the DG have been actively involved in the provision of relevant information and in the final approval of the AAR.

Finally, all major control actors within DG CLIMA, SIAC and SRD have effectively contributed to the drafting of the report. The majority of these actors have significant experience in financial and internal control-related issues, reinforcing the accuracy and reliability of the analysis.

As management's self assessment is re-assuring, as no critical recommendations or systemic weaknesses were detected by internal auditors and as management is determined to implement robust action plans, management considers that overall reasonable assurance can be provided.

However, management's opinion is that the incidents in relation to breaches of the ETS security system occurring in 2010 and continuing in 2011 justify a reservation on reputational grounds still allowing the Director-General to provide reasonable assurance.

3.2 Reservation

DG/Service	DG CLIMA
Title of the reservation, including its scope	Reservation on reputational grounds related to a significant security breach identified in the national registries of the EU Emissions Trading System (ETS).
Domain	Central direct management - Administration of the ETS registries
ABB activity and amount	ABB Activity 07 03 – Implementation of Community environmental policy and legislation
Reason for the reservation	The reputational risk materialised and turned into a reputational event. Transactions in the ETS are recorded in the national registries, in the Community Independent Transaction Log (CITL) and the Community Registry (CR). The Commission is the central administrator of the CITL. Following the organised cyber-attacks on national registries between November 2010 and January 2011, protection will be improved by means of continuously adapting security measures based on experience and new technologies.
Materiality criterion/criteria	The significance of the event was assessed against the following 3 criteria: <ul style="list-style-type: none"> - political importance of the event: medium-term negative stakeholder perception impacting the ability of the Commission (DG CLIMA) to meet key objectives, - breadth of awareness of the events: international and national press coverage, communication in full transparency by the Commission via the dedicated website on the Europa server - duration: the series of incidents (phishing attacks and cyber thefts) started in November 2010 and continued in January 2011 leading to a temporary suspension of transactions of allowances on the 'spot' market that accounts for less than 20% of transactions under the ETS.
Quantification of the impact	N/A- Reputational damage

<p>Impact on the assurance</p>	<p>The event falls within the scope of the declaration as it is an activity with high visibility and whereby high economic and financial interests are at stake. It is managed by CLIMA but does not invalidate the declaration of reasonable assurance by the Director General.</p>
<p>Responsibility for the weakness and its correction</p>	<p>Since the EU Emissions Trading Scheme started operating in 2005, responsibility for its infrastructure (registries) and administration to electronically track ownership of emission allowances has been split between the Central Administrator having a supervising/coordinating role, assigned by the Commission to DG CLIMA, and the national administrators, appointed by Member States.</p> <p>EU legislation requires that Member States take all necessary steps to ensure the security of their own registry. However, the speed of implementation of adequate security measures in the national registries was not sufficient.</p> <p>Corrective action is now imposed by the Commission on the administrators of national registries. Simultaneously the Commission is taking action to improve the security and hosting provisions of the Community Independent Transaction log (CITL) and Community Registry (CR) managed in-house.</p>
<p>Corrective action(s)</p> <p><i>P.S. Confidentiality clause. Details of the measures are not disclosed for obvious security and confidentiality reasons</i></p>	<p>2010</p> <p>- In November-December 2010 cyber-attacks occurred on 2 national registries i.e. unauthorized access to EU ETS registry accounts</p> <p>- Immediate action was taken both by the Commission and by the national administrators as EU legislation requires that Member States take all necessary steps to ensure the security of their own registry. Inquiries were launched by national authorities.</p> <p>2011</p> <p>- After the organised cyber-attacks in January on 3 other national registries and the suspension of transactions of allowances on the 'spot market', security reports about the adequacy of the security measures drafted by independent experts have to be submitted by national authorities for each national registry. These reports are screened by the Commission assisted by external IT consultants before reconnection to the system is granted. Furthermore the Commission set out enhanced security measures supported by all MS, provided swift information to the market via</p>

press releases and statements on the website on 'Europa' as well as regular conference calls and meetings with MS authorities

- The Commission is organising 'security vulnerability tests' to prevent unlawful access to the Community Registry component of the system

Future (in view of the fully centralised EUTL/EUR by 2012)

As of 2012, there will be a single, centralised registry operated by the Commission, one of the series of measures to harmonise and improve the EU ETS agreed in 2008 as part of the Climate and Energy Package.

To mitigate risks associated with the centralisation of all MSs registries in the EU Registry (EUR), certain additional security measures, such as 2-factor authentication as for online banking, are already foreseen to be in place when the single registry becomes operational in 2012.

For this purpose, DG CLIMA is preparing a proposal for an amendment of the "EU ETS Registry Regulation (COMMISSION REGULATION (EC) No 2216/2004 of 21 December 2004 for a standardised and secured system of registries pursuant to Directive 2003/87/EC of the European Parliament and of the Council and Decision No 280/2004/EC of the European Parliament and of the Council".

In this context, and taking into account experience gained so far, DG CLIMA will review the need for additional harmonized security requirements for the registries' system in 2012 as well as the role of the Central Administrator in case of a security breach.

- **An IT Security Plan** was produced for the EUR
 - Classifying it in terms of confidentiality, integrity and availability of its data
 - Defining a risk management plan with identified risks and mitigation measures
- **A gap analysis** is on-going
 - To map existing mitigation measures to identified risks
 - DG DIGIT will present what IT security features are available to evaluate in the

	<p>context of the gap analysis if further enhanced security services would be necessary</p> <ul style="list-style-type: none">• During 2011, a study will be launched to compare the security of the EUR/EUTL against 'state of the art' security in the banking sector in order to take the security level/measures as provided in the banking sector as guidance <p><u>Cybercrime and the EU</u></p> <p>As not only the ETS but the EU Institutions in general are vulnerable to organised cybercrime and cyber attacks need a rapid and co-ordinated response for identifying and countering the attacks and analysing the goals and the motives of the attackers, a Cyber Attack Response Team (CART) has been set up in the Commission by DG HR in co-operation with DG DIGIT"</p>
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PART 4. DECLARATION OF ASSURANCE

I, the undersigned, Jos DELBEKE

Director-General of DG CLIMA

In my capacity as authorising officer by delegation

Declare that the information contained in this report gives a true and fair view ¹.

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 work of the internal audit capability.

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

However the following reservations should be noted: Reservation on reputational grounds related to a significant security weakness identified in the national registries of the EU Emissions Trading System (ETS).

Brussels, 31/3/2011

[signed]

Jos DELBEKE

¹ True and fair in this context means a reliable, complete and correct view on the state of affairs in the service