

THE SWEDISH NATIONAL AUDIT OFFICE

RiR 2011:8

Efforts abroad to mitigate climate change – the Central Government’s acquisitions of CDM and JI credits

Summary

The Swedish National Audit Office (SNAO) has audited the central-government sector’s acquisitions of emission credits from other countries. Sweden’s national milestone target for 2020 will be met partly with the help of such emission credits. The SNAO’s general conclusion is that the Government has not determined *how many* emission credits are to be bought and *when*. The central-government sector’s purchases of emission credits have not been done with sufficient efficiency and transparency, but the costs could be lower than for other measures.

Background of the audit

Motive: Climate change and its threat on society is global. The central-government sector’s purchases of emission credits are an important part of Swedish climate policy. The purchases of emission credits are important for whether Sweden will be able to reach the national milestone target on emission reductions with 40 per cent in the non-trading sector by the year 2020 compared to 1990. A third of the emission reductions shall be achieved with the purchases of emission credits from other countries. Furthermore, the Riksdag (the Swedish parliament) has, since the budget year 2009, strongly increased appropriations that may be used for the purchases of emission credits. The operation is complicated and associated with risks and uncertainty.

Purpose: The purpose of the audit is to illustrate to what extent the central-government sector’s acquisition of emission credits from other countries contributes to reaching the Riksdag’s milestone target for 2020. Another purpose is to revise to what extent the central-government sector’s purchases of emission credits have been done efficiently, transparently and at reasonable costs.

What we have audited: The audit concerns the central-government sector’s purchases of emission credits starting 2002 to June, 2010. The emission credits come from so-called CDM and JI-projects aiming to decrease greenhouse gas emissions. This can be done by; for example, building a wind power plant instead of a coal power plant. The central-government sector can take credit for emission reductions in Sweden for the funds invested in the projects. The Swedish Energy Agency has the main responsibility to purchase emission credits on behalf of the Government, both directly from projects in other countries and indirectly through investments in climate funds. Up until June of 2010, the Swedish Energy Agency had signed agreements for the purchases of emission credits from 33 CDM- and JI-projects and from 5 climate funds amounting to a total value of about SEK 740 million.

Result of the audit

The audit has resulted in the following conclusions and findings:

The Government has not made the conditions to reach the milestone target by 2020 clear

Uncertain how many emission credits are to be purchased. According to the Government Bills on An integrated climate and energy policy, the emission reductions achieved in other countries will amount to 6.7 million tonnes by 2020. This equals a third of the total emission reduction of 20 million tonnes that is to be reached by 2020. However, the Government has not decided on the amount of emission reductions that will be attained up until 2020 through the purchases of emission credits from other countries. In addition, the Government has not decided on a year from which to start taking credit from delivered emission credits or on how large a part of the annual emission reductions achieved may come from climate efforts in other countries. This results in uncertainty as to how many emission credits are needed in total to reach the milestone target by 2020. The need of emission credits can be, depending on the interpretation of the milestone target, at least 6.7 million and at most 100 million tonnes. Therefore, it is not clear which emission reductions; that is, climate effects, the milestone target contributes to.

The appropriations can be too high, too low or reasonable. Since the Government has not clarified the amount of emission reductions that may be attained with the help of emission credits from other countries for the time-period up until 2020, one is unable to determine whether the appropriations are too high, too low, or reasonable. The central-government sector can in total need at least about SEK 670 million and at the most, SEK 10 million for the purchases of emission credits, depending on how the target is interpreted. The Riksdag, therefore, does not have a clear and appropriate base for making decisions on appropriations for the central-government sector's purchases of emission credits.

The costs can be reasonable

The SNAO has estimated the costs for the central-government sector's purchases of emission credits. The costs for this instrument can be considered to be reasonable compared to other known climate efforts: the costs for the purchases of emission credits are lower than if the Government had bought credits on the secondary market. At least in a short-term perspective, it can also be cheaper to purchase emission credits than to carry out emission reductions in Sweden. But there is potential for the Energy Agency to work more efficiently than today and, thus, contribute to an increased target achievement.

The central-government sector's purchases of emission credits are not done efficiently, effectively and transparently enough

The milestone target for 2020 is not taken enough into account. Since the Government has not decided on how large the emission reductions the milestone target entails, that worsens the conditions to plan and carry out the purchases of emission credits effectively. The milestone target for 2020 is not included in any of the Swedish Energy Agency's internal management documents regarding the CDM- and JI-projects. The Agency reported in February of 2011 that the milestone target for 2020 is one of several targets for the CDM- and JI-projects. Yet earlier on in the audit, the Swedish Energy Agency stated that the milestone target is not to be considered a target for the operations.

Risks and insecurities are not taken enough into account. The Swedish Energy Agency does not have any documented risk analyses for decisions regarding the purchases of emission credits for the period 2002–2009, for 13 of 15 projects. Therefore, it is not possible for the SNAO to determine

whether the Swedish Energy Agency has had sufficient control over the risks that the CDM- and JI-operations have entailed. Starting 2010, the Swedish Energy Agency has improved the documentation of the risk analyses; however, there are still deficiencies. The risk analyses are most often completed after the purchase agreement has been signed. More appropriate risk assessments could lead to taking measures that could limit risks and contribute to a safer delivery of emission credits.

The monitoring of the purchases is insufficient. The monitoring of the operations is deficient. The Swedish Energy Agency has not secured the delivery of emission credits at the pace that had been agreed upon, which can lead to the effects of the climate efforts being less than expected. The Swedish Energy Agency has considered it to be unimportant if the emission credits from the project are late, since the Agency most often pays first at delivery.

Reporting is lacking and does not give a cohesive picture of the target achievement. The Government does not provide a clear account of whether the central-government sector's purchases of emission credits through CDM and JI have reached the targets and purposes of the operation so far. The Government's reporting to the Riksdag is mainly built on the Swedish Energy Agency's annual reports. The Swedish Energy Agency does not portray in its annual reports a cohesive picture of either the CDM- and JI-operations or the target achievement. The Swedish Energy Agency interprets the principle of public access to official records restrictively. According to the Swedish Energy Agency, business secrecy prevails regarding information on prices of individual projects and agreements, risk assessments and annual reports from funds. This impedes the Government, the Riksdag and the general public from assessing to what degree the central-government sector's purchases of emission credits are carried out efficiently, effectively and in accordance with the targets for the operation. The shortcomings in the reporting also mean that the Riksdag does not have clear and appropriate information to make decisions on appropriations for the operations.

Recommendations

To the Government:

- The Government should decide on the starting year for the milestone target for 2020, the pace at which the emissions will decrease, and how many emission credits will be taken credit for at the most during the time-period in order to reach the target by 2020. The Government should develop a comprehensive plan for how many emission credits can be needed to reach the milestone target for 2020. The plan can serve as a foundation for the management of the operation and the awarding of appropriations.
- The Government should clearly account for how far the central-government sector has come regarding target achievement on a yearly basis; that is, how many emission credits have been acquired and how much they have cost.
- The Government should make sure that the Swedish Energy Agency contributes to increased transparency by, to a larger extent, documenting and openly providing accounts for its work.
- The Government should make sure that the Swedish Energy Agency's purchases of emission credits contribute to reaching the milestone target for 2020 effectively. The Government should, for this purpose, make sure that the Agency reports on the aggregated purchases of emission credits in relation to the target.

- The Government should suggest that the appropriations for the purchases of emission credits are adjusted to when the purchases actually take place and the money is to be paid out. Up until the turn of the year 2009/10, a large amount of the appropriations have been paid out long before they had been used. Consequently, central-government sector funds have been tied-up for a long time. At the turn of the year 2009/10, about SEK 400 million were tied-up in this way at NEFCO. The Government should broaden the scope of authorization so that the Swedish Energy Agency can use it instead of yearly appropriations for when the agency signs purchase- or fund agreements.

To the Swedish Energy Agency:

- The Swedish Energy Agency should make sure that the purchases of emission credits contribute to reaching the milestone target for 2020. The Swedish Energy Agency should establish gradual supply targets for the operations that could continuously be adjusted and updated.
- The Swedish Energy Agency should provide clear annual accounts concerning the degree of achievement of the milestone target for 2020 and how much it has cost.
- The Swedish Energy Agency should contribute to increased transparency by documenting and providing accounts for its work openly. Improved documentation means increased possibilities to evaluate the operation and it decreases the risk for dependency on specific people.
- The Swedish Energy Agency should carry out and document appropriate risk analyses before the purchases of emission credits. The analyses should be taken into account when selecting projects.
- The Swedish Energy Agency should regularly request information from the Ministry for Foreign Affairs and Sida (the Swedish International Development Cooperation Agency) on risks for corruption and country-specific risks when selecting projects.