

Summary

Sweden is committed to reducing its greenhouse gas emissions by about 20 million tonnes per year. Between 1990 and 2009 Sweden's emissions decreased slightly, but they increased again in 2010. In line with Swedish emissions targets, a third of the reduction will be achieved by purchasing carbon credits, primarily through the UN's carbon offsetting scheme CDM. The Swedish Energy Agency is responsible for the Swedish government's purchase of carbon credits. This is either done bilaterally, i.e. directly from a project in another country, or via multilateral funds.

This report examines one of the many projects that Sweden will be buying carbon credits from in the future – a hydropower project in Rampur, northern India. The project is partly financed by a fund administered by the World Bank.

During the negotiations of the Kyoto Protocol in 1997, industrialised countries promised to reduce their greenhouse gas emissions, whilst developing countries were exempted from such commitments to provide room for growth and poverty reduction. The Protocol also introduced three flexible mechanisms to help countries meet their emissions targets: CDM (Clean Development Mechanism), JI (Joint Implementation) and ET (Emissions Trading). These three mechanisms created a carbon market enabling countries to be credited for emissions reductions made in other countries.

The idea behind the CDM was that international cooperation would lower the costs of reducing emissions, enabling more countries to meet their carbon targets. The negotiations over the CDM went on for several years and involved many meetings, compromises and concessions. Negotiations were held from 1997 until 2005 when the CDM officially came into force.

All CDM projects must meet two criteria:

1. **Additionality:** It must be proven that the emissions reductions would not have occurred had the project not received the financial contribution generated by the sale of carbon credits (Certified Emission Reductions or CERs).
2. **Sustainable development:** The project should contribute to sustainable development in the country where it is implemented.

The primary aims of the CDM are to help reduce greenhouse gas emissions in a cost-effective manner and to enable countries to reduce their emissions by purchasing carbon credits. One benefit of the CDM is that it has raised awareness about climate change in countries that are part of the scheme. Moreover, in areas where there have been electricity shortages, many people now have access to clean energy sources.

However, scholars and interest groups have also criticised the CDM for its shortcomings over the years. The main criticisms concern doubts about additionality, the projects' questionable contributions to sustainable development and their uneven geographical distribution. There has also been criticism of the system itself. For example, if global emissions targets do not get more ambitious than they are today, there will be less

pressure on industrialised countries to transform, meaning that the necessary steps required to reduce emissions and make communities less energy-intensive may be delayed.

One of the CDM projects that Sweden will be supporting to reduce its carbon footprint is the Rampur Hydroelectric Project in northern India. With 350 million people in India living without electricity, there is a great need for the country to increase its energy production. The Indian government has developed a strategy to try to meet this demand and a significant portion is to come from large-scale hydropower plants. One of the rivers that has been identified for the development of hydropower is the Satluj in Himachal Pradesh.

The field study has raised questions about the project's contribution to local sustainable development and its compliance with the additionality requirements. The project's operator Satluj Jal Vidyut Nigam Limited (SJVN Limited) explained that the project had been planned since 1997, and that the preparatory work to widen roads and acquire land had started before the application was submitted to the CDM Executive Board. Such information creates uncertainty about the project's additionality.

During a visit to the project site it was also revealed that there were numerous problems concerning health and safety, as well as the working conditions of the many migrant workers who are temporary employees. Many villagers and small-scale farmers near the river also stated that they had not received adequate compensation from the project company and that there had not been clear or transparent information about the negative effects of the project.

This study highlights three problems with Sweden's commitment to carbon offsetting: a lack of accountability in certain multilateral projects, as well as doubts about additionality and sustainable development.

The Swedish Energy Agency does not believe that the project in Rampur is representative of the Swedish CDM initiatives since it is part of a multilateral effort. It states that the processes that characterise bilateral projects are more likely to prevent negative consequences from occurring. Investments from funds should be subject to the same risk analyses and controls to ensure compliance with the CDM's criteria on additionality and sustainable development. According to international guidelines, companies are responsible for the entire production chain, even if this in some cases only involves a responsibility to learn, stay informed, and ensure that there is effective and appropriate compensation for those affected. Both the UN Framework and the OECD Guidelines are aimed at companies. However, since Sweden has signed up to both of them, and the Swedish Energy Agency is dealing with companies in the CDM system, it should also be subject to these standards and guidelines. With respect to the hydropower project in Rampur, Sweden and the Swedish Energy Agency only have an indirect impact through the World Bank. However, according to the guiding principles there is still a responsibility to stay informed and try to prevent violations throughout the entire production chain.