13 Clearing of the Carbon Fund

13.1 The Kyoto Protocol (the Protocol) adopted in 1997 set binding targets for industrialised states, including the EU member states, to reduce greenhouse gas (GHG) emissions over two commitment periods: 2008 – 2012 and 2013 – 2020 (see Figure 13.1).[1] In 2015, Ireland also signed up to the Paris Agreement which set commitments for reductions in GHG emissions between 2021 and 2030.

Figure 13.1 Ireland's emissions targets

Period	Target
2008 – 2012	Limit annual emissions to no more than 13% above 1990 levels, by end 2012.[a]
2013 – 2020	Reduce non-ETS emissions to 20% below 2005 levels by end 2020.

Source: Kyoto Protocol (1997)

Note: a The trading sector and the EU member state governments shared responsibility for achieving the emissions reduction target. The EU Emissions Trading System (ETS) set a Europe-wide cap on emissions by certain energy-intensive sectors. The State assumed responsibility for reduction of all non-ETS emissions.

13.2 The Protocol allowed nations to buy carbon credits, also referred to as 'Kyoto units', where they were unable to meet emissions targets through mitigation measures alone.[2] The Department of Climate, Energy and the Environment (the Department) is responsible for decisions to purchase carbon units, as and when required.

13.3 The Carbon Fund (the Fund) was established by the Carbon Fund Act 2007 to record carbon credit transactions.[3] The National Treasury Management Agency (NTMA) was appointed to manage the Fund and to be the designated purchasing agent on behalf of the State. The NTMA administers and manages the carbon credit transactions. It is also required to submit an annual report to the Minister for Climate, Energy and the Environment (the Minister) on the activities of the Fund, and to prepare annual financial statements.

13.4 The financial statements of the Fund for the financial year 2024 report the cancellation of the last remaining carbon credits purchased under the Kyoto arrangements. This report was compiled to explain the background to and reasons for the cancellation.

Achieving Ireland's emissions targets

13.5 Ireland's plan to achieve its GHG emissions reduction targets involved buying carbon credits to offset expected emissions in excess of the Kyoto limits.

Commitment period 1 (2008 – 2012)

13.6 For the first commitment period, it was projected that excess emissions would require the State to purchase 18 million carbon credits.[4]

1 The Kyoto Protocol was adopted in December 1997 and came into force in February 2005.

2 A Kyoto unit is equivalent to one metric tonne of carbon dioxide.

3 See also *Report on the Accounts of the Public Services 2008*, chapter 19, Investment in Carbon Credits.

4 National Climate Change Strategy, 2007 – 2012.

13.7 The total number of credits obtained by the State was just over 9 million.

- The NTMA acquired 5.26 million credits through direct purchases from the market at a cost of €89.6 million.
- The remaining credits were obtained through investments of just over €26.5 million net in multilateral funds — the BioCarbon Fund, the Carbon Fund for Europe and the Multilateral Carbon Credit Fund (see Annex 13A).

13.8 The actual requirement for carbon credits in the first commitment period was only 3.05 million. This was largely due to the contraction in economic activity that occurred during the 2008 – 2012 period. The remaining credits (almost 6 million) were available for use during the second commitment period.

Commitment period 2 (2013 – 2020)

13.9 Ireland's commitments for the second Kyoto period were mainly to be discharged through the 2009 EU Effort Sharing Decision.[1]

13.10 During the period 2019 – 2021, the Fund purchased almost 2.95 million certified emissions reduction units at a cost of €2.1 million.[2]

13.11 In 2021, it was estimated that excess emissions at the end of 2020 would require the State to surrender just over 12 million carbon credits.[3]

13.12 The Effort Sharing Decision placed certain restrictions on the types of carbon credits that could be applied by member states in respect of the 2013 – 2020 period. This resulted in Ireland being unable to use 702,000 of its carbon credits in respect of commitment period 2 (see Figure 13.2).

13.13 To meet the balance of the liability in respect of the missed 2020 target, in early 2023, the Department purchased and surrendered 4.15 million annual emission allocation units, under a bilateral agreement with Slovakia, at a cost of €2.9 million. This transaction took place separate to the Fund.

Figure 13.2 Ireland's carbon credits recorded and surrendered by period[a,b]

	Commitment period	
Carbon credits	**1 (2008 – 2012)**	**2 (2013 – 2020)**
	000 credits	**000 credits**
At the start of period	—	5,967
Purchased by		
The Fund	9,019	2,944
The Department	—	4,150
Surrendered	(3,052)	(12,359)
Balance at period end	**5,967**	**702**

Source: NTMA and Department of Climate, Energy and the Environment. Analysis by the Office of the Comptroller and Auditor General.

Notes: a Information above refers to transactions related to the period, not necessarily within the period.

b Credits purchased for period 1 are carbon credits. Credits purchased for period 2 are certified emissions reduction credits and annual emissions allocation units.

1 Decision No 406/2009/EC, of 23 April 2009.

2 The Clean Development Mechanism is a carbon offsetting mechanism introduced in the Kyoto Protocol that provides for the creation of 'certified emissions reduction' units.

3 NTMA Carbon Fund Annual Report 2021.

Cancellation of the unused credits

13.14 The Kyoto Protocol allows for the voluntary cancellation of units.

13.15 The Department stated that the European Commission had advised member states against taking action regarding surplus units until the United Nations Framework Convention on Climate Change had published its review reports for the second commitment period under the Kyoto Protocol which were due by mid-2023.

13.16 The Carbon Fund financial statements for the year ended 31 December 2024 note that the State still held 702,000 carbon credits. These were being held at nil value.

13.17 In April 2025, the NTMA received an instruction from the Department for the voluntary cancellation of the remaining 702,000 units on the basis that they cannot be used for compliance with current EU emissions reduction targets and are not valid for use under the Paris Agreement. The cancellation occurred on 17 April 2025 and the Fund now has no remaining carbon credits.

Unused carbon credits

13.18 Over 90% (637,000) of the 702,000 unused credits resulted from Ireland's investment in the BioCarbon Fund. Ireland's total contribution to the BioCarbon Fund was a net €7.25 million, which yielded 1.859 million credits.

13.19 The Effort Sharing Decision excluded the use of credits arising from land use activities.[1] The BioCarbon Fund credits were generated from afforestation/reforestation projects and for that reason, the related credits were ineligible for use to offset excess emissions in the second commitment period.

13.20 The remaining 65,000 unused credits resulted from investments made in the Carbon Fund for Europe and the Multilateral Carbon Credit Fund. The Department stated that these credits were also not eligible for use due to the European Commission revising the list of credits eligible for use by member states under the Effort Sharing Decision.

13.21 The Department stated that it would be complicated to calculate the cost of these credits as the investment amount in these funds was fixed but the number of units received changed as more projects delivered units.

13.22 The current EU legislative framework sets out binding targets for member states' GHG emissions reductions to 2030. This only provides for the trade or use of annual emission allocation units generated by EU member states. It does not permit the trade or use of international carbon credits recognised under the United Nations Framework Convention on Climate Change.

13.23 Legal advice obtained by the Department indicated that the Carbon Fund Act, in its current form, does not provide for the purchase of 'annual emission allocation' units as they are an EU specific unit not recognised independently under the United Nations Framework Convention on Climate Change. However, it was further advised that the Carbon Fund Act could readily be amended to provide for the purchase of annual emission allocation units, under the European Communities Act 1972.

1 Land use, land-use change and forestry covers the following categories: forest land, cropland, grassland, wetlands, settlements, other land and harvested wood products.

Status of the Carbon Fund

13.24 The Fund has been dormant since 2022 with no assets other than the 702,000 unusable carbon credits which were carried at nil value. With the cancellation of the credits in April 2025, the nominal assets have now been eliminated, and the Fund is effectively dormant.

13.25 The Carbon Act 2007 does not include a ‘sunset clause’ which would automatically cause the Fund to be legally dissolved once its activities have ceased. As a result, annual audited financial statements, and an annual report to the Minister, will continue to be required until the Act is changed.

13.26 The administrative and reporting costs of the Fund are incurred by the NTMA, and no charges are disclosed in the financial statements of the Fund. The NTMA does not recharge the Department for the costs of administration or producing the Fund’s annual report or financial statements. The NTMA has estimated these costs to be approximately €5,000 per annum.

Conclusions

13.27 The Carbon Fund served for a period to facilitate Ireland to buy and hold carbon credits as part of its strategy to meet emissions targets under the Kyoto Protocol. Using the Fund, the State spent over €118 million net in acquiring almost 12 million carbon credits to meet anticipated obligations up to end 2022. Over 11 million of the credits were used to meet obligations over the period.

13.28 The Department also purchased and surrendered 4.15 million units under a bilateral agreement with Slovakia, at a cost of €2.9 million. This transaction took place separate from the Fund.

13.29 As a result of restrictions introduced under the 2009 EU Effort Sharing Decision, Ireland was not able to use the remaining 702,000 carbon credits in the Fund during the second Kyoto commitment period. The cost of acquiring the unused credits has been effectively written off.

13.30 More recent carbon credit purchases have been in the form of annual emission allocation units. Legal advice obtained by the Department indicated that the Carbon Fund Act, in its current form, does not provide for the purchase of such units, but could be readily amended to provide for this. Absent a change in the legislation, annual financial reporting and auditing will continue for the effectively dormant Carbon Fund account. However, any such change is a policy matter.

Annex 13A Summary of Carbon Fund transactions, 2007 to 2024

	Cost €000				
	Commitment period				
	2008 – 2012			2013 – 2020	
	Gross[a]	Refund[b]	Subtotal	Spend	Total
Market	89,573	—	89,573	2,117	**91,690**
Multilateral funds					
BioCarbon Fund	7,670	(415)	7,255	—	**7,255**
Carbon Fund for Europe	4,100	(98)	4,002	—	**4,002**
Multilateral Carbon Credit Fund[c]	20,000	(4,746)	15,254	—	**15,254**
Total	**121,343**	**(5,259)**	**116,084**	**2,117**	**118,201**

	Carbon credit units (000)[d]					
	Commitment period 1		Carried over	Commitment period 2		Balance
	2008 – 2012			2013 – 2020		
	Purchased[e]	Used		Purchased	Used	
Market	5,255	—	5,255	2,944	(8,199)	—
Multilateral funds						
BioCarbon Fund[f]	1,859	(1,222)	637	—	—	637
Carbon Fund for Europe[g]	244	(200)	44	—	—	44
Multilateral Carbon Credit Fund[h]	1,661	(1,630)	31	—	(10)	21
Total	**9,019**	**(3,052)**	**5,967**	**2,944**	**(8,209)**	**702**

Source: NTMA and the Department of Climate, Energy and the Environment

Notes:

a The gross cost figures for fund transactions represent the cash amounts paid. Commitments may have been entered into several years before payment was made.

b Refunds of investments made arose when the funds transferred were not ultimately invested in the various carbon credit generating projects.

c The Department of Climate, Energy and the Environment had already committed to a €20 million investment in the Multilateral Carbon Credit Fund, prior to the establishment of the Carbon Fund. The annual reports and financial statements of the Fund include the related carbon credits.

d Various types of carbon credits — each the equivalent of one metric tonne of CO_2 — were acquired through different mechanisms.

e The nature of the multilateral funds is that the number and timing of carbon credits receivable is uncertain. In some cases, credits were received several years after the initial investment.

f The BioCarbon Fund closed in 2021.

g The Carbon Fund for Europe closed in 2018.

h The Multilateral Carbon Credit Fund closed in 2014.