

**A Guide to Using Kyoto Units in the European Union Emissions Trading
Scheme (EU ETS)**

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1. Introduction

Phase II of the EU ETS (2008-2012) coincides with the first commitment period under Kyoto and the two systems are now linked. This means that there are now seven types of unit that can be held in person and operator holding accounts in the UK national registry. It should be noted that other Member States and Parties may have restrictions on the holding of certain unit types in accounts within their national registries.

Whilst all of these unit types can be freely acquired, transferred and held in the UK national registry, not all of them can be used by operators for EU ETS compliance. This document is intended as a guide to the uses and restrictions of the various unit types that are now available. Further guidance on the compliance process for operators can be found in the [Operators Guide to the EU Emissions Trading System](#).

Brief descriptions of each of these units can be found in the table below. All of these units are equivalent to 1 tonne CO₂ and are therefore freely exchangeable. However, due to differences in the way that they are generated and how they can be used under the EU ETS and Kyoto, they are likely to have different monetary values.

2. Summary of Units and Allowances (Carbon Trading (Kyoto and EU ETS) Unit Types)

All allowances and units are equivalent to one tonne of carbon dioxide

Unit	Acronym	Description	Who issues them?	Can they be used by operators for EU ETS compliance?	What happens to them at the end of the Phase / commitment period?	Additional restrictions
European Union Allowance	EUA	<p>They are allocated to installations that fall within the scope of the EU ETS according to the methodology set out in the NAP.</p> <p>Created by converting a proportion of a Party's AAUs (in effect, EUAs are "backed" by AAUs).</p> <p>EUAs for Phase II are referred to as EUA_AAUs in the UK national registry</p>	Member State that is an Annex 1 Party to the Kyoto Protocol	Yes	EUAs are only valid for compliance use in the EU ETS in the phase in which they are issued. However, any unused EUAs will be replaced with EUAs that are valid in the next phase (see section 6). There are no restrictions on the number of EUAs that can be replaced.	EUAs cannot be transferred outside of the EU ETS system unless an agreement as set out in Article 49 (2) of the Registries Regulation has been made. At the time of publication, no such agreement has been made.
Assigned Amount Unit	AAU	Created in the national registry, they are the basic Kyoto currency; tracking performance against targets. Further information on this can be found on the " Kyoto Protocol Reference Manual on Accounting of	Annex 1 Party to the Kyoto Protocol	No	All AAUs can be carried over for use in the next commitment period (see section 5).	None

Unit	Acronym	Description	Who issues them?	Can they be used by operators for EU ETS compliance?	What happens to them at the end of the Phase / commitment period?	Additional restrictions
		Emissions and Assigned Amounts ".				
Certified Emission Reduction	CER	Generated for emission reductions or removals by CDM projects	CDM Registry	Yes – but with restrictions on the number and type of credits (see section 3)	CERs can be carried over for use in the next commitment period, but there is a limit which may impact on those being held in person and operator holding accounts (see section 5).	None
temporary Certified Emission Reduction	tCER	Generated for emission removals by afforestation and reforestation CDM projects	CDM Registry	No	Any tCERs that remain in person or operator holding accounts at the end of the commitment period will be cancelled (see section 5)	tCERs have a limited life-span and are subject to expiry and cancellation under certain circumstances (see section 4)
long-term Certified Emission Reduction	ICER	Generated for emission removals by afforestation and reforestation CDM projects	CDM Registry	No	Any ICERs that remain in person or operator holding accounts at the end of the commitment period will be cancelled (see section 5)	ICERs have a limited life-span and are subject to expiry and cancellation under certain circumstances (see section 4)
Emission Reduction	ERU	Issued for emission reductions or removals	Annex 1 Party	Yes – but with restrictions on the	ERUs can be carried over for use in the next	None

Unit	Acronym	Description	Who issues them?	Can they be used by operators for EU ETS compliance?	What happens to them at the end of the Phase / commitment period?	Additional restrictions
Unit		from JI projects by converting an equivalent quantity of the Party's existing AAUs or RMUs		number and type of credits (see section 3)	commitment period, but there is a limit which may impact on those being held in person and operator holding accounts (see section 5).	
Removal Units	RMU	Issued for net emission removals from land use, land use change and forestry activities	Annex 1 Party	No	RMUs cannot be carried over and any that remain in person and operator holding accounts at the end of the commitment period will be cancelled (see section 5).	None
Voluntary Emission Reduction	VER	Generated by projects that are assessed and verified by third party organisations rather than through the UNFCCC	Variable	No	N/A	VERs cannot be acquired, held or transferred in national registries.

3. Using Kyoto Units for Compliance under the EU ETS

In addition to EUAs, only credits from CDM and JI projects (i.e. CERs and ERUs) can be used for compliance under the EU ETS. No other Kyoto units are permitted. There are limits on the number and type of these project credits that can be used by operators and it should be noted that it is the responsibility of the operator to ensure that these limits and restrictions are adhered to.

a. Quantitative Limits

Under the [Linking Directive](#), Member States were given the flexibility to set their own limits for the use of CERs and ERUs in phase II of the EU ETS. The UK set this limit at 9.3% of the free allocation for large electricity producers (LEPs) and 8% of the free allocation for all others. The restriction is set out in the [Phase II NAP](#) and referred to in regulation 27A(4) of the [Greenhouse Gas Emissions Trading Scheme Regulations 2005](#). This limit is applied to each installation separately (rather than a nation-wide limit) and is cumulative so operators can carry forward their right to use CERs and ERUs to any later year within the phase.

For example, a non-LEP installation (project credit limit of 8%) that has a free allocation of 100 EUAs per year for Phase II will be able to surrender 8 CER/ERUs per year. If that installation does not surrender any CER/ERUs for 2008, then they will be able to surrender 16 for 2009 compliance (or save the “unused” number of CER/ERUs for future compliance years within the phase). It is the responsibility of the operator to ensure that the number of project credits used for surrender purposes does not exceed their limit. If an operator is found to have exceeded their project credit limit the excess project credits surrendered will not be counted for compliance purposes and the operator may be subject to a civil penalty.

There are no restrictions on when a specific project credit can be surrendered within the phase (i.e. an operator holding a credit issued for a particular commitment period can surrender it for any compliance year within the corresponding phase), subject to the quantitative and qualitative limits set out in this document. In addition, there are no restrictions on using a project credit issued for a particular commitment period in the previous commitment period, subject to the quantitative and qualitative limits set out in this document. For example, an operator holding a credit issued for commitment period 2 could surrender it for the EU ETS compliance year 2012, if that project credit is held in the operators account before the surrender deadline of that year.

b. Qualitative Limits

Not all CERs and ERUs are acceptable for compliance purposes under the EU ETS. The [Linking Directive](#) specifies that credits from Land Use, Land Use Change and Forestry (LULUCF) activities and nuclear projects cannot be used. These restrictions have been transposed by regulation 27A(3) of the [Greenhouse Gas Emissions Trading Scheme Regulations 2005](#). A JI LULUCF project can only generate ERUs by converting RMUs and a CDM LULUCF project can only generate tCERs or ICERs. This means that operators must not surrender ERUs converted from RMUs, tCERs or ICERs for EU ETS compliance purposes.

Since credits from nuclear projects cannot be used by operators or Member States for compliance purposes under the EU ETS, they are essentially

ineligible to be registered as CDM or JI projects and therefore it is extremely unlikely that any such credits will be issued.

It should be noted that credits from large hydroelectric project credits can be surrendered in the UK national registry for EU ETS compliance purposes. There are restrictions on this type of credit, but these restrictions are at the project approval stage, so that once the project has been approved the credits will be acceptable for compliance use by operators in the UK.

Account representatives can see the type of units that their accounts contain in the View Account Balance section of the secure Registry. ERUs converted from RMUs, tCERs and ICERs are clearly shown as separate unit types. Account representatives can also see the project ID of any project credits that they may be holding by selecting the relevant transaction number from the Account Transaction History section of the secure Registry. The same detail is available whilst transactions are being proposed manually. It is the responsibility of the operator to ensure that only valid and eligible project credits are surrendered. If an operator is found to have surrendered ineligible project credits the ineligible project credits surrendered will not be counted for compliance purposes and the operator may be subject to a civil penalty.

When deciding which units to use for EU ETS compliance purposes, operators should be aware that different unit types are subject to different rules at the end of the commitment period and some may have to be cancelled, whilst others can be carried over / replaced with units that can be used in the subsequent phase / commitment period. Full details are set out in the sections on restrictions on tCERs and ICERs (section 4), carry-over of Kyoto units (section 5) and EU Cancel and Replace (section 6) for EUAs.

4. Restrictions on tCERs and ICERs

tCERs and ICERs are credits awarded to emission reductions from forestry projects. These units are valid only for a specific period of time to deal with the potential non-permanent nature of the emissions removals achieved by forestry activities and the risk of re-emission into the atmosphere at a future date, e.g. if a plant is cut down or destroyed through fire or disease. The expiry date of these units can be found in the serial number.

tCERs expire at the end of the commitment period after the one in which they were issued (i.e. a tCER issued during commitment period 1 would expire at the end of commitment period 2).

ICERs expire at the end of the crediting period for the project or, at the end of the last crediting period of the project activity. Due to the way in which projects generating ICERs report on their activities, the expiry date of these units can be extended if the crediting period of the CDM afforestation or reforestation project activity is renewed. If this is the case, the registry administrator will be notified by the UN and directed by Defra to amend the expiry date and this may happen without prior notice to the account holder / representatives.

There are four main situations in which these types of project credit may need to be cancelled or otherwise removed from accounts in the UK national registry.

a. Expiry

The registry administrator will be notified by the UN and directed by Defra to cancel any t/ICERs that are due to expire up to 30 days before the

expiry date. Any such t/ICERs being held in person or operator holding accounts will be cancelled during the period between receipt of the UN notification by the registry administrator and the expiry date and this may be carried out without prior notice to the account holder / representatives.

b. Reversal in Storage

If the CDM Executive Board finds that there has been a reversal of GHG storage (due to some kind of catastrophic occurrence) at the CDM project that generated the credits, the registry administrator will be notified by the UN and directed by Defra to cancel ICERs held in person and operator holding accounts. It may be that only a proportion of the credits issued by the project need to be cancelled; it has not yet been decided how the exact units to be cancelled will be determined, but this guide will be updated when more information is available. This cancellation of units may take place without prior notice to the account holder / representatives. It should be noted that, during the period between receipt of the UN notification by the registry administrator and compliance with the direction given by Defra, all ICERs associated with the relevant CDM project will be prevented from being transferred.

c. Non-submission of Certification Report

If the CDM Executive Board finds that the certification report for the CDM project that generated the credits has not been submitted, the registry administrator will be notified by the UN and directed by Defra to cancel all ICERs held in person and operator holding accounts. This removal of units may take place without prior notice to the account holder / representatives. It should be noted that, from the time of receipt of the UN notification by the registry administrator, all ICERs required to be cancelled will be prevented from being transferred.

d. Excess issuance

If the CDM Executive Board finds that too many tCERs or ICERs were issued for a CDM project, the Designated Operational Entity (DOE) that approved the project will be instructed to cancel a number of units to the excess issuance cancellation account in the CDM registry in order to compensate. Note that this does not necessarily need to be the exact units that were issued in error. In some instances, the DOE may make a request directly to those holding the affected units to perform a cancellation. Defra is the DOE for the UK and will not make such requests of account holders but will instead fulfil the obligation itself.

5. Carry-over

At the end of the commitment period the registry administrator will be directed by Defra to remove any remaining Kyoto units being held in person and operator holding accounts, as per the carry-over process set out in COP/MOP [Decision 13/CMP.1](#). During this process, some units will be carried over for use in the next commitment period and will remain in the original accounts, whilst others will be cancelled. This process will be carried out by the registry administrator after the UK has completed Kyoto compliance activities (after a period that is known as the "true-up period), which is likely to be in 2015 for the first commitment period. Different Kyoto unit types are subject to different carry-over rules:

- There is no limit on the number of AAUs that can be carried over;
- RMUs, ERUs that have been converted from RMUs, tCERs and ICERs cannot be carried over and will therefore be cancelled;

- CERs and ERUs that have been converted from AAUs can be carried over up to a national limit (2.5% of the Party's Assigned Amount for both unit types). This means that some may need to be cancelled.

Where units are to be cancelled this will be carried out by the registry administrator and may be done without prior notice to the account holder / representatives. Due to the fact that it may not be possible to carry-over all CERs and ERUs for use in the next commitment period, operators may wish to take this in to consideration when deciding which units to use for EU ETS compliance purposes. In the event that some CERs and ERUs need to be cancelled, a decision will need to be made by Defra regarding which specific units will be carried over and which will be cancelled. It has not yet been decided how this decision will be made, but this guidance will be further updated once this information is available. Note that at the end of the phase, EUAs will be cancelled and replaced with EUAs that are valid for the next phase as part of a separate process called EU Cancel and Replace (see section 6).

6. EU Cancel and Replace

As per Article 61 of the [Registries Regulation](#), at the end of each Phase the registry administrator is required to cancel all remaining EUAs (that have not been used for compliance purposes or cancelled) from holding accounts in the national registry and replace them with EUAs that are valid for use in the next Phase. For Phase II, this will take place on 1st May 2013. There are no restrictions on the number of EUAs that can be replaced in this way. This should be taken into consideration by operators when deciding which units to use for EU ETS compliance purposes.

7. The Commitment Period Reserve (CPR)

The CPR is a limit agreed under the Kyoto Protocol to ensure Parties are able to meet their compliance obligations. This limit is set at either 90% of the Party's Assigned Amount¹ or 5 times the Party's most recently reviewed inventory² of the Party (whichever is the lower). The Party is required to ensure that the total holdings of valid units and allowances in the national registry as a whole do not drop below this figure.

The UK is a Party to the Kyoto Protocol in its own right and is therefore subject to the UK CPR. In addition, the UK is a member of the EU15, which is also a Party to the Kyoto Protocol and is therefore subject to the EU15 CPR.

Transfers of units and allowances outside of the national registry that would cause a breach of either UK or EU15 CPR will be prevented by the registry or terminated by the ITL. Transfers that are prevented or terminated in this way will not be queued and it is the responsibility of the account holder to keep attempting the transfer until it can be successfully submitted. Voluntary cancellations that would cause a breach of the UK CPR will also be prevented by the registry.

Details of any transaction that has been terminated by the ITL can be viewed through the "View Transaction History" screen, as shown in below. The response

¹ The Assigned Amount is the total quantity of valid emissions allowances (Kyoto Protocol units) held by a Party within its national registry. For further details, see the "[Kyoto Protocol Reference Manual on Accounting of Emissions and Assigned Amounts](#)".

² A national inventory contains estimates of greenhouse gas emissions by a Party and descriptions of the methods used to produce these estimates. In the UK, it is compiled on behalf of Defra by AEAT.

code corresponds to an error message, which can be found in the [UNFCCC's Data Exchange Standards](#) (code 5104 relates specifically to the CPR).

The ITL will inform the Party if the holdings of the national registry fall below the CPR limit. The Party is then required to “rectify” the breach and increase registry holdings to an amount above the CPR level. Any known issues with the UK CPR will be documented on the Registry News Pages. Unfortunately, as the EU15 CPR is calculated across 15 Member States, it is not possible to display information relating to it on the UK registry website.

8. Q&A

a) How many project credits can I surrender?

The limit on the number of project credits an installation can surrender is based on the free allocation, as set out in the [Phase II NAP](#). For large electricity producers, the limit is 9.3% of the free allocation and for all others, the limit is 8% of the free allocation. For further details, see section 3.

b) What kind of project credits can I surrender?

Restrictions under the [Linking Directive](#) mean that only CERs and ERUs will be accepted for surrender within the EU ETS and there are quantitative and qualitative limits that will apply (see section 3).

c) Does the year in which a project credit is issued / generated affect when it can be surrendered within the EU ETS?

There are no restrictions on when a specific project credit can be surrendered within the phase (i.e. an operator holding a credit issued for a particular commitment period can surrender it for any compliance year within the corresponding phase), subject to the quantitative and qualitative limits set out in section 3. In addition, there are no restrictions on using a project credit issued for a particular commitment period in the previous commitment period, subject to the quantitative and qualitative limits set out in section 3. For example, an operator holding a credit issued for commitment period 2 could surrender it for the EU ETS compliance year 2012, if that project credit is held in the operators account before the surrender deadline of that year).

d) Can credits from large dam projects be used for EU ETS compliance?

Yes, credits from large hydroelectric projects can be surrendered in the UK national registry for EU ETS compliance. There are restrictions on this type of credit but these restrictions are at the project approval stage, so that once the project has been approved the credits will be acceptable for compliance use by operators in the UK.

e) Who is responsible for ensuring that operators do not surrender any project credits that are explicitly excluded under the Linking Directive?

It is the responsibility of the operator to ensure that only project credits permitted under the Linking Directive are surrendered and that the limits set out in the NAP are not exceeded.

f) How can I tell what units I have in my account?

Authorised Representatives are able to see the unit types of any allowances or units that are in their accounts. See section 3 of this document, or the user guide (available from the secure part of the registry) for more details.

g) What will happen to the Kyoto units in my account at the end of the Commitment Period?

Some units will be carried over and will be valid for use in the next commitment period, whilst others will be cancelled. For full details, see section 5. The cancellation of units may be performed without prior notice to the account holders / representatives.

h) What happens to EUAs in my account at the end of the Phase?

EUAs will be cancelled and replaced with EUAs that are valid for the next Phase of EU ETS, as detailed in see section 6.

i) Are there any restrictions on units that I should know about?

Yes. t/ICERs have a limited life-span and could be subject to cancellation in certain circumstances (see section 4). In some cases, cancellation of these project credits could be undertaken without prior notice to the account holders / authorised representatives.

j) What is the Commitment Period Reserve (CPR) and how does it affect me?

The CPR is a limit below which the total holdings of valid units and allowances in the national registry of the Party must not drop. This limit is agreed under the Kyoto Protocol to ensure parties are able to meet their obligations (for further details, see section 7). The UK is subject to CPR limits both as Sovereign State and also as a member of the EU15 (which is also a Party to the Kyoto Protocol).

Transfers of units and allowances that would cause a breach of either the UK or EU15 CPR limit will be prevented by the registry or terminated by the ITL. Voluntary cancellations that would cause a breach of the UK CPR may also be prevented by the registry. Any known issues with the UK CPR will be communicated to the public via the [Registry News Pages](#). It is not possible to display information regarding the EU15 CPR.

k) Will the registry / my account be different after the go-live with the ITL?

Following connection to the ITL a number of additional capabilities will be available (e.g. the ability to hold and trade Kyoto Units). Full details are in the User Manual, which will be available to Authorised Representatives from the secure section of the UK national registry after EU ETS has connected up to the ITL.

9. Useful Links

For further information on the United Nations Framework Convention on Climate Change, Kyoto Protocol, JI and CDM projects, please see the [UNFCCC website](#).

To access the UK national registry public homepage, click [here](#).

For further information on the EU ETS, see [Defra's EU ETS web pages](#).