

Glossary of Emissions Trading

Explaining the terminology and political milestones of International Emissions Trading



Allocation

Allocation of emissions allowances.

Allowances

Emissions allowances within the emissions trading system.

Annex B countries

Annex B of the Kyoto Protocol contains a list of the industrial nations committed to regulating their greenhouse gas emissions in the period between 2008 and 2012. Among the countries listed in Annex B are countries from the OECD, Central and Eastern Europe, and the CIS. The list of Annex B countries is not identical to that of Annex I countries: Turkey and Belarus are included in Annex I, but not Annex B, while Croatia, Monaco, Liechtenstein, and Slovenia are listed in Annex B, but not in Annex I.

Assigned Amount Unit (AAU)

An emission certificate as defined by the Kyoto Protocol. Annex B countries can use AAUs to fulfill their obligations as stipulated in Article 3, Paragraph 1 of the Kyoto Protocol.

Auction

Auction (complete or partial) of the emissions allowances initially allocated.

Banking

The possibility of carrying over emissions allowances from one compliance period to the following period is known as banking. In Germany, it is not possible to bank emissions allowances from the 2005-2007 compliance period for use in the 2008-2012 compliance period; unused 2005-2007 emissions allowances become invalid after April 30, 2008. Banking will, however, be possible in subsequent compliance periods. Banking is most worthwhile if increased prices for emissions allowances are expected, or to hedge against future price changes.

Benchmarks

Instruments for determining what allowance should be allocated to each installation type and for recognizing Early Action. Standard emissions values for installation types and industries are determined, for example using BAT (Best Available Technology) or average values, and these standard values are then used to calculate what

emissions allowances should be allocated.

Burden Sharing

Sharing of the burden of climate protection within the EU to fulfill the commitment the EU made in the Kyoto Protocol (8-percent reduction). Germany has committed itself to reducing all greenhouse gases by 21 percent.

Cap

Upper emissions limit or emissions goal for emissions trading at the national level and targets for all macro-sectors (energy production; industry; trade, commerce and services; transport and households) and particularly for what is known as the emissions trading segment, that is the parts of industry that participate in emissions trading in accordance with the guideline. The overall goal is based on Burden Sharing, whereas the targets for the macro-sectors are based on the national climate protection program, the contribution the individual sectors make to carbon dioxide emissions as a whole, and the German Government's climate policy priorities.

Clean Development Mechanism (CDM)

The opportunity for countries or companies to acquire Certified Emission Reductions (CER) that can be used to meet their own commitments by investing in projects in developing and newly industrializing countries (without themselves having to reduce emissions).

Certified Emission Reductions (CER)

CERs are emissions certificates issued by bodies of the UN Framework Convention on Climate Change and the Kyoto Protocol for the successful completion of Clean Development Mechanism (CDM) climate protection projects.

Compliance

System for checking adherence to reduction obligations, including measures and sanctions to be implemented if a country does not fulfill its obligations to reduce emissions as laid down in the Kyoto Protocol.

Emissions allowance

Permission to emit one ton of carbon dioxide or carbon dioxide equivalent in a specified period of time. Emissions allowances and the Kyoto units known as ERU (Emission Reduction Units) and CER (Certified Emission Reductions), which derive from the project-based mechanisms JI (Joint Implementation) and CDM (Clean Development Mechanism), are referred to jointly as "certificates." Other Kyoto units not relevant for the current 2005-2007 commitment period are AAU (Assigned Amount Units) and RMU (Removal Units).

Emissions reduction obligations

Compulsory obligations on the industrial countries to limit and reduce their greenhouse gas emissions are laid down in the Kyoto Protocol for the first commitment period (2008-2012). In Annex B of the protocol, the following countries are listed as having undertaken

to adjust their greenhouse gas emissions in relation to 1990 levels as follows: Bulgaria, all EU countries, Monaco, Romania, Switzerland: -8%, USA: -7%, Japan, Canada, Poland, Hungary: - 6%, Croatia: - 5%, New Zealand, Russia, Ukraine: +/- 0%, Norway: +1%, Australia: +8%, Iceland: +10%. This translates into an overall reduction of 5.2% in greenhouse gas emissions in the countries listed. The European Union countries have redistributed their reduction commitments in a so-called burden-sharing agreement.

Emissions trading (ET)

A market-based approach to achieving the environmental protection goals defined by the Kyoto Protocol. This approach allows countries that reduce their greenhouse gas emissions further than required to trade their excess certificates to offset emissions from other sources within or outside the country. Trading can take place at national or international level, or between companies. Emissions trading in Europe began on January 1, 2005, and is regulated by an EU directive. Companies receive a certain amount of certificates, which is reduced from period to period. Companies that have already made significant climate protection efforts or have shown themselves to be particularly innovative can sell their excess certificates, thus receiving an additional source of income. Heavy polluters must make extra efforts or buy in allowances to fulfill their obligations; those that do not fulfill them must pay a penalty. In this way, the reductions in emissions are made where the costs of reduction are lowest. The efficiency of climate protection is increased and the achievement of the ecological goal ensured.

Emission Reduction Unit (ERU)

Emissions certificates that are issued for the successful completion of Joint Implementation (JI) climate protection projects.

EU Allowances (EUA)

Emissions certificates as defined by the European emissions trading system. They are only traded by participants in the EU emissions trading system. Installation operators can use EUAs to fulfill their obligation to surrender emissions allowances.

Flexible mechanisms

The Kyoto Protocol makes provision for three instruments that provide flexibility to its signatories in implementing their reduction goals: emissions trading, Joint Implementation (projects carried out jointly by industrial countries) and the Clean Development Mechanism (projects which reduce emissions in developing countries). The underlying philosophy of all three flexible mechanisms is that the Annex B countries can make some of the reductions to which they have committed themselves outside their own country.

Hot air

In Kyoto, some countries (including Russia and Ukraine) were allocated more emissions allowances than they are expected to need (as a result of the breakdown in the industries after 1990). This so-called "hot air" can be sold in the emissions trading system – with the result that emissions trading with these countries leads to more emissions, and real reductions are not made.

Joint Implementation (JI)

The opportunity for countries or companies with projects in other countries which have signed the Kyoto Protocol to acquire Emission Reduction Units (ERUs) that can be offset against their own commitments.

Kyoto Protocol

The 1997 Kyoto Protocol commits the 39 participating industrial nations as a whole to a five-percent reduction from 1990 levels in their emissions of gases damaging to the climate, such as carbon dioxide, by 2012. It came into force on February 16, 2005. The European Union must thus reduce its average emissions between the years 2008 and 2012 by eight percent compared to the level in 1990. To achieve this goal, the member states are working separately in some areas and together in others. The most important climate protection measure is currently the establishment of the European emissions trading system for companies.

National Allocation Plan

German law that regulates the allocation of emissions reduction targets to the macro-sectors energy production; industry; trade, commerce and services; transport, and private households. It also regulates how emissions targets are allocated to the energy production and industry sectors, which participate in the trading system.

Opt-in

The option to include further activities and greenhouse gases in emissions trading at the national level, if sufficiently accurate data collection is ensured, the ecological integrity of the trading system is guaranteed and no distortion of competition results.

Opt-out

The option for member countries to exclude certain industries and installations from emissions trading until 2007 if they ensure comparable climate protection measures with respect to emissions limits, inspection, and sanctions.

Pooling

The opportunity for installations to join together in order to take part collectively in the emissions trading system. Included in the EU emissions trading guidelines after pressure from Germany.

Register

The Register is a database which shows who owns what emissions allowances. Account balances can be viewed and transactions initiated online. It combines the functionality of a land registry with that of online banking. The Register is not a trading platform; it does not support the statement of sale and purchase orders or prices.

Reserve funds

Part of the overall budget of emission certificates reserved for

installations entering the market for the first time.

Removal Units (RMU)

Credits arising from emissions reductions created by the respective countries by means of projects that reduce emissions (land-use change and forestry) according to Article 3 of the Kyoto Protocol. RMUs are only traded at country level, and can be used towards fulfilling national obligations as of 2008.

Trading period

Period of time for which ETS emissions certificates are issued. Initially, two trading periods have been defined: 2005-2007 and 2008-2012.

Transactions

Transfer of emissions allowances from one Register account to another. It is possible to have internal transactions between two accounts on the same Register as well as external transactions between two accounts that exist on different national Registers (e.g., Germany and Italy). The deleting and surrender of emissions allowances are also transactions.

Transfer rule

Recommendation of the BMU (German Ministry for the Environment, Nature Conservation and Nuclear Safety) on emissions trading. When replacing an old installation with a new one, the certificates allocated to the old installation may be transferred in their entirety to the new one. It is expected that most operators will make use of this transfer rule. As new technology generally emits less carbon dioxide, there will be an excess of certificates that can be sold on the market.

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