

Carbon Markets and Units (Extract from the UNFCCC website)

Greenhouse Gas Emissions – a New Commodity

Parties with commitments under the Kyoto Protocol (Annex B Parties) have accepted targets for limiting or reducing emissions. These targets are expressed as levels of allowed emissions, or “assigned amounts,” over the 2008-2012 commitment period. The allowed emissions are divided into “assigned amount units” (AAUs).

Emissions trading, as set out in Article 17 of the Kyoto Protocol, allows countries that have emission units to spare - emissions permitted them but not "used" - to sell this excess capacity to countries that are over their targets. Thus, a new commodity was created in the form of emission reductions or removals. Since carbon dioxide is the principal greenhouse gas, people speak simply of trading in carbon. Carbon is now tracked and traded like any other commodity. This is known as the "carbon market".

Other Trading Units in the Carbon Market

More than actual emissions units can be traded and sold under the Kyoto Protocol's emissions trading scheme.

The other units which may be transferred under the scheme, each equal to one tonne of CO₂, may be in the form of:

- A removal unit (**RMU**) on the basis of land use, land-use change and forestry (LULUCF) activities such as reforestation
- An emission reduction unit (**ERU**) generated by a joint implementation project

- A certified emission reduction (**CER**) generated from a clean development mechanism project activity

Transfers and acquisitions of these units are tracked and recorded through the registry systems under the Kyoto Protocol. An international transaction log ensures secure transfer of emission reduction units between countries.

The Commitment Period Reserve

In order to address the concern that Parties could "oversell" units, and subsequently be unable to meet their own emissions targets, each Party is required to maintain a reserve of ERUs, CERs, AAUs and/or RMUs in its national registry. This reserve, known as the "commitment period reserve", should not drop below 90 per cent of the Party's assigned amount or 100 per cent of five times its most recently reviewed inventory, whichever is lowest.

Relationship to Domestic and Regional Emissions Trading Schemes

Emissions trading schemes may be established as climate policy instruments at the national level and the regional level. Under such schemes, governments set emissions obligations to be reached by the participating entities. The European Union emissions trading scheme is the largest in operation.

Reference:

UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE
(2014) [On-line] Available at:

http://unfccc.int/kyoto_protocol/mechanisms/emissions_trading/items/2731.php