



# Koyoto Compliant Reductions

Several standards exist for carbon credits, but they can be categorized into two primary categories – Kyoto compliant reductions and non-Kyoto compliant reductions.

Countries with commitments under the Kyoto Protocol to limit or reduce greenhouse gas emissions must meet their targets primarily through national measures and Kyoto for compliant reductions. As an additional means of meeting these targets, the Kyoto Protocol introduced three market-based mechanisms, thereby creating what is now known as the “carbon market.”

## The Kyoto Protocol mechanisms:

- Stimulate sustainable development through technology transfer and investment
- Help countries with Kyoto commitments to meet their targets by reducing emissions or removing carbon from the atmosphere in other countries in a cost-effective way
- Encourage the private sector and developing countries to contribute to emission reduction efforts

## The Kyoto Protocol mechanisms are:

- The Clean Development Mechanism (CDM)
- Joint Implementation (JI)
- Emissions Trading

CDM and JI are the two project-based mechanisms which feed the carbon market. The CDM involves investment in sustainable development projects that reduce emissions in developing countries, while JI enables industrialized countries to carry out joint implementation projects with other developed countries. CDM projects generate Carbon Emission Reduction (CER) carbon credits, while JI projects generate Emission Reduction Units (ERU) carbon credits. Both these credits can be traded with other Kyoto ratified countries to help meet emission targets. Very few ERU credits are on the market due to the small amount of JI projects.

CDM and JI projects produce highly transparent and credible offsets. In order to obtain the CDM status, projects are rigorously assessed by the host country, the UN, and independent assessors accredited by the UN.

Emissions Trading Schemes (ETS) may be established as climate policy instruments at the national and regional level. Under such schemes, governments set emissions obligations to be reached by the participating entities. The European Union emissions trading scheme (EU ETS) is the largest in operation where they trade Certified Emission Reductions (CERs) and European Union Allowances (EUAs). Each allowance is equal to one carbon credit.

The EU ETS currently covers more than 10,000 entities in the energy and industrial sectors who each receive a set of EUAs for free from the EU member states' governments. Each year they are obliged to return an amount of emission allowances to the government that is equivalent to their CO2 emissions in that year. In addition to receiving this initial allocation, an operator may need to purchase EU allowances from others (installations, traders, government) in order to meet their emissions targets. Conversely, if an entity has more free allowances than it needs, through reducing their emissions, they may sell them on carbon markets.

Carbon Emission Reductions (CERs), European Reduction Units (ERUs), and European Union Allowances (EUAs) demand the highest price. One of the primary reasons is the considerable 'maturity differences' of markets and recognition of certification standards. Carbon offsetting education levels vary greatly from country-to-country as do buyer needs (e.g. individuals offsetting a flight or corporate social responsibility). This combination affects the price that certified carbon credits can attract voluntary markets.

These two carbon credits are all well established and have a strong demand and supply. CERs/ERUs are also tradable via the Kyoto Emissions Trading level.

CERs/ERUs are currently trading at US\$20.72 (13.85 Euro) while EUAs are trading at US\$21.60 (14.44 euro) on the European Climate Exchange. (October 15, 2009). Both credits are regulatory, not voluntary. [Click here for current prices.](#)

The UK, who are set to introduce their Carbon Reduction Commitment (CRC) Energy Efficiency Scheme for businesses and organizations which are heavy energy consumers but are not covered under existing regulations, such as the EU Emissions Trading Scheme have capped the price of carbon to soften the impact over the three-year introductory phase at US\$19.27 (£12).<sup>1</sup>

This is an extremely strong indicator that the price of carbon will continue to rise in strong markets.

In comparison, voluntary credits are trading at a lower level. This can be attributed to market maturity, in that many voluntary markets are less mature and in countries or regions where carbon trading is in its infancy.

The Chicago Climate Exchange (CCX) has dropped significantly recently to US\$0.10-\$0.15 due to concern that the credits would not be allowed in the expected US Trading Scheme. Voluntary trading on the CCX only accounts for 13%.

GS VERs currently ranges from US\$7.50-\$9.00 while VCU's are fetching US\$2.75-\$3.50 in China and US\$4.00-\$5.50.