



General Information about Carbon Emissions Trading

Carbon emissions trading is an administrative approach, brought in by Kyoto Protocol, which is used to control the air pollution by providing economic incentives for achieving lower levels of carbon pollution of the atmosphere.

A carbon emission trading in some cases is called a policy for emissions reduction using quotas. A central body (usually a government or international body) defines the limit or maximum quantity (cap) of the polluter's emissions. The installations or other groups are being issued quotas (or credits), which gives the right to dump a certain quantity of carbon emissions. The total amount of quotas should not exceed the cap and that's how the emissions are kept at certain level.

The companies that need more quotas should buy credits from other companies which pollute less. The transfer of quotas is considering as a trade. **In fact the buyer is paying a tax for polluting and the seller is getting a premium for reducing its emissions.** Thus, theoretically the companies that reduce the carbon pollution will do that with less cost for the society.

There are active programs for trading some sorts of pollution. The green house gasses have been in the scale of the European Union **Emission trading scheme** (EU ETS). In USA there is a national market for reducing the acid rains and some regional markets for NO. The markets for other polluters are small. Emissions' trading is providing flexibility to the companies in implementing their own strategies, offering the most effective method of the industries, which should carry on the obligation of emission reduction.

The main traded emission in EU are the **European Union Allowances**, which are being issued according to the European Union Emission trading scheme (EU ETS), where a quota is giving the right to throw away one ton of carbon dioxide (CO₂) and the secondary **Certified Emission Reductions (CER)**, released by the **Clean Development Mechanism** from Kyoto Protocol. One CER is giving the right to release also one ton of carbon dioxide (CO₂).

According to Kyoto Protocol the industrial countries agreed to reduce their total green house gas emissions (**GHG**) with 5.2% compared to 1990. The national restrictions vary from 8% for EU and some other countries, to 7% for USA, 6% for Japan, 0% for Russia, China and India. The protocol allows an 8% increase for Australia and 10% for Iceland.

The approach „Reduction and transaction of emissions”, which is used in European Union Emission trading scheme (EU ETS), defines a common restrictive cap or maximum amount of emission thrown away. The companies are being distributed quotas which is their cap of pollution of a given period. At the end of the period the companies should return their quotas to cover their pollution. If they don't have the needed quotas they should be buying, if they have extra – they could sell them.

If a particular operator is not supporting enough quotas to cover the needed amount, it should pay a €40 fine for **Phase I** 2005-2007 (which is increasing to €100 in **Phase II** 2008-2012) for every additional ton of carbon dioxide released in the atmosphere.



Phase III is from 2012 to 2020 and was approved by the EC on the 6th of April 2009 and is combining the efforts against the climate change and promotion of the use of renewable sources of energy. The purpose of EU is to decrease with 20% the green house gases compared to their 1990 level an increase with 20% the use of renewable sources of energy until 2020.