

Technical Note:

“Retirement” and “cancellation” of instruments

Terminology

Cancellation – Internal transfer of a unit to a cancellation account, in order that it may not be used for compliance with an emission target

see http://unfccc.int/kyoto_protocol/registry_systems/registry_functions/items/4066.php

Retirement – Internal transfer of a unit to a retirement account, in order that it can be used by the Annex B Party for compliance with its emission target

see http://unfccc.int/kyoto_protocol/registry_systems/registry_functions/items/4066.php

Surrendering – means the accounting of an allowance by an operator or aircraft operator against the verified emissions of its installation or aircraft (COMMISSION REGULATION (EU) No 389/2013, of 2 May 2013)

Introduction

The objective of this document is to clarify terminology related to the use of carbon credits and other instruments frequently used by companies.

Different terms are often used in a variety of ways, which creates ambiguity. The aim of this document is to clarify the terminology adopted by CDP in its climate change questionnaire and guidance document, and explain the rationale behind the use of this terminology.

Carbon credits use and registries

States and companies use a variety of instruments to manage their carbon obligations and commitments. Examples of such instruments are:

- Carbon units, established by either international or national regulatory mechanisms for purposes of accounting, compliance and trading between parties. These include:
 - Units created under the UNFCCC:
 - AAU – Assigned Amount Unit;
 - RMU – Removal Unit;
 - ERU – Emission Reduction Unit;
 - CER – Certified Emission Reduction;
 - tCER – temporary Certified Emission Reduction;
 - ICER – long-term Certified Emission Reduction
 - Units created under the European Union Emission Trading Scheme (EU ETS):
 - EUA – European Unit Allowance.
- Carbon credits, established by voluntary mechanisms or standards;
- Instruments used to track electricity:
 - GO – Guarantee of Origin;
 - REC – Renewable Energy Certificate.

These instruments convey information that entitles their users to make certain claims. They can be sold in the market, which then enables others to claim (what is conveyed by) the instrument. Often instruments are created and managed under an electronic registry, rather than in physical form. These electronic registries have specific mechanisms in place to track the ownership of the

instrument, whether the instrument can still be traded or if it has been used against a specific use case. Such use cases include:

1. An organization fulfilling a regulatory obligation, e.g. companies under the EU ETS are required to surrender an amount of allowances equal to their verified emissions from the previous year by 30th April;
2. An organization fulfilling a voluntary commitment, e.g. a company has a voluntary target to offset 100% of its emissions during 3 years using CER's;
3. A state fulfilling a regulatory obligation.

To fulfill these use cases, organizations are required to undertake certain actions that permanently remove the instruments from the market. After taking those actions it is no longer possible to use the instrument for any other purpose. This mechanism is fundamental for the environmental integrity of the system ensuring that a unit shall not be accounted twice.

These important actions are often referred to as “retirement”, “cancellation” or “surrendering”. Even though these terms are often used interchangeably in the market place, they actually have different meaning, as detailed in the table below. CDP has adopted the terminology used by CDM and the EU ETS for use in its questionnaires and guidance documents.

Action	CDM ¹	EU ETS ²
Retirement	Internal transfer of a unit to a retirement account, in order that it can be used by the Annex B Party for compliance with its emission target	‘Retirement’ means the accounting of a Kyoto unit by a party to the Kyoto Protocol against the reported emissions of that Party
Cancellation	Internal transfer of a unit to a cancellation account, in order that it may not be used for compliance with an emission target	‘Cancellation’ means the definitive disposal of a Kyoto unit by its holder without accounting it against verified emissions
Surrender	[Not defined]	‘Surrender’ means the accounting of an allowance by an operator or aircraft operator against the verified emissions of its installation or aircraft

From the table above, it is evident that these registries (CDM, EU ETS) use different terminology depending on the actors that perform the actions. The actions are similar in nature in that their purpose is to ensure that the instrument ceases from being available for use by anyone else. For example:

- An Annex B Party “retires” AAU's in the national registry for complying with its Kyoto obligations;
- An organization (company, NGO, etc.) “cancels” CER's or ERU's (or other Kyoto unit types) in the CDM registry for its own compliance purposes. These units may not be then used by Annex B Parties for their own compliance purposes;
- An operator (company) under the EU ETS “surrenders” an equal amount of allowances to its verified emissions to fulfill its legal obligations. For all purposes this action is similar to a “cancellation”, it just happens with EU ETS units and not with Kyoto type units.

¹ The source of these definitions is http://unfccc.int/kyoto_protocol/registry_systems/registry_functions/items/4066.php which follows and is in accordance to DATA EXCHANGE STANDARDS FOR REGISTRY SYSTEMS UNDER THE KYOTO PROTOCOL, TECHNICAL SPECIFICATIONS (Version 1.1.10) that can be found at http://unfccc.int/files/kyoto_protocol/registry_systems/application/pdf/des_full_v1.1.10.pdf

² The source for these definitions is COMMISSION REGULATION (EU) No 389/2013 of 2 May 2013 establishing a Union Registry pursuant to Directive 2003/87/EC of the European Parliament and of the Council, Decisions No 280/2004/EC and No 406/2009/EC of the European Parliament and of the Council and repealing Commission Regulations (EU) N. 920/2010 and N. 1193/2011 that can be found at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:122:0001:0059:EN:PDF>



For the purpose of responding to CDP, the term “cancellation” shall be preferred to the other two- “surrendering” and “retirement”- unless referring specifically to “EUA surrendering” or “retirement by an Annex B Party to the Kyoto Protocol”.

Different regulatory initiatives might use and introduce different terminology for actions that are similar in nature. To the extent possible CDP will attempt to analyze and document the use of such terminology. Companies are welcome to contact CDP at respond@cdp.net to share information about such instances.