HMRC - OT20410 - EU Emissions Trading Scheme - Phase II

The same general principles applied to Phase I also apply to Phase II.

Certificates for offset under the Clean Development Mechanism (‘CDM’) and the Joint Implementation (‘JI’) mechanism.

CDM is one of the so-called “flexible mechanisms” under the Kyoto Protocol. The Protocol provides for a CDM as a means for companies to undertake projects in countries without a Kyoto target which reduce their emissions of greenhouse gases. Such projects may then be credited with “Certified Emissions Reductions” (CERs) which can be used for compliance by companies surrendering them to help meet their EU ETS allocations.

JI is another “flexible mechanism” which provides a means for companies to undertake projects in countries with a Kyoto target. Such projects may then be credited with “Emissions Reduction Units” (ERUs) which can be used by companies surrendering them to help meet their allocations under the EU emissions trading scheme.

LB Oil and Gas has confirmed with UKOITC that comparable treatment will be given to these carbon credits, where DEFRA has stipulated they can be used by operators for EU ETS compliance.

However there is a limit to the number and types of credit that can be used. For Phase II CERs and ERUs can only make up to 9.3% of the free allocation of credits and we would only be prepared to allow deductions up to that amount.

There are also other types of credits e.g. CERs from forestry (tCERs), reforestation projects (ICERs), and voluntary emissions credits (VERs) which cannot be used in the EU ETS scheme and are excluded from the ring fence and PRT. There is however nothing to stop companies dealing in these credits.

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