

# Allowances in the EU ETS (2021)

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Various types of emission allowances are used within the EU ETS. This document sets out these various types of emission allowances. The document contains information on the use, validity and holding of the various types of emission allowances.

## 1. General

### **Type of emission allowances**

Various types of emission allowances exist within CO<sub>2</sub> emissions trading. Below is an overview of the most important types of emission allowances.

- **European Union Allowances (EUAs)**  
EUAs are emission allowances that are allocated to operators. They also enter the market through auctions. Both companies and aircraft operators can use EUAs without limitation to offset their CO<sub>2</sub> emissions.
- **Aviation European Union Allowances (AEUAs)**  
AEUAs are emission allowances that are allocated to aircraft operators. These also enter the market through auctions. There are no restrictions on the use of AEUAs.
- **Swiss general emission allowances (CHUs)**  
CHUs are emission allowances created in Switzerland. Both CHUs and EUAs can be used for compliance in both systems. This means that EU operators can use Swiss emission allowances and Swiss operators, conversely, can use EU allowances.
- **Swiss aviation allowances (CHUAs)**  
CHUAs are the Swiss equivalent of AEUAs. EU aircraft operators are able to use Swiss CHUAs for compliance and vice versa.
- **Certified Emission Reductions (CERs)**  
CERs are emission allowances originating from Clean Development Mechanism (CDM) projects. These projects reduce the emission of greenhouse gases in countries that have no obligations under the Kyoto Protocol. Businesses and aircraft operators can exchange valid CERs, within a particular limit, for EUAs (businesses) and AEUAs (aircraft operators).<sup>1</sup>
- **Emission Reduction Units (ERUs)**  
ERUs are emission allowances originating from Joint Implementation (JI) projects. These projects reduce the emission of greenhouse gases in countries that do have obligations under the Kyoto Protocol. Businesses and aircraft operators can exchange valid ERUs, within a particular limit, for EUAs (businesses) and AEUAs (aircraft operators).<sup>2</sup>

### **Holding emission allowances**

The CO<sub>2</sub> registry includes various types of account in which users are able to hold emission

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<sup>1</sup> NB: these allowances can only be exchanged for EUAs until 1 May 2021.

<sup>2</sup> Ditto.

allowances. Not all types of emission allowances can be held in every type of account. Below are the most important rules for holding emission allowances.

### Rules

- EUAs/CHUs and AEUAs/CHUAs may be held in all types of account, except a Kyoto account.
- Valid CERs and ERUs can be held in all types of account.
- Invalid CERs and ERUs can only be held in a Kyoto account.
- Invalid CERs and ERUs from a previous Commitment Period (CP1) cannot be held in any account.

In which type of account can you hold which type of emission allowance?

	<b>Operator holding account</b>	<b>Aircraft operator holding account</b>	<b>Trading account</b>	<b>Kyoto account</b>
<b>EUA/CHU</b>	Yes	Yes	Yes	No
<b>AEUA/CHUA</b>	Yes	Yes	Yes	No
<b>Valid CERs and ERUs</b>	Only if obtained in the account before 1 May 2021, in which case they may be held until 1 July 2023 <sup>3</sup>	Only if obtained in the account before 1 May 2021, in which case they may be held until 1 July 2023 <sup>4</sup>	Only if obtained in the account before 1 May 2021, in which case they may be held until 1 July 2023 <sup>5</sup>	Yes, until 1 January 2026
<b>Invalid CERs and ERUs<sup>6</sup></b>	No	No	No	Yes, until 1 January 2026

The rules listed above affect the transfer of emission allowances. Only allowances that you may hold in a certain type of account can be transferred to such an account. EUAs, for example, may only be transferred to an aircraft or other operator holding account or trading account, but not to a Kyoto account.

You can find more information on the various types of account in the CO2 registry in the 'CO2 registry accounts' background document.

## 2. PHASE 4 (2021–2030)

### Identifying phase 4 allowances

Phase 4 allowances can be identified by a marking indicating that they are from phase 4. This applies to all phase 4 allowances, so both the auctioned emission allowances and those distributed through free allocation.

### Buying allowances through auction or from third parties

The allowances that will be issued by auction from 1 January 2021 will be phase 4 allowances. These cannot be used for the 2020 year-end closing. If you buy allowances from third parties during the transition period, it is important to know whether these are phase 3 or phase 4 allowances.

### Use of CERs in phase 4

*No use of CERs in the CO2 registry*

In phase 4 of the EU ETS, using CERs<sup>7</sup> in the EU ETS will no longer be permitted. Up to 1 May 2021 at the latest, you can exchange CERs for phase 3 emission allowances (EUA/AEUA) in the CO2 registry.

<sup>3</sup> CERs from the Clean Development Mechanism (CDM) registry may only be directly transferred to a Kyoto account. Only CERs that can be used in the EU ETS can be transferred to all types of account later.

<sup>4</sup> Ditto.

<sup>5</sup> Ditto.

<sup>6</sup> Since 2013, CERs and ERUs that cannot be used (in the EU ETS) may only be held in Kyoto accounts.

<sup>7</sup> This applies to all Kyoto units, which includes ERUs in addition to CERs.

### *Holding CERs in the CO2 registry*

From 1 May 2021, incoming transactions with CERs will no longer be permitted on EU accounts. Holding CERs will still be allowed for some time in the CO2 registry:

- in EU accounts: until 1 July 2023, CERs already held in accounts can be held in EU accounts in the CO2 registry.
- in Kyoto accounts: CERs may be held until 1 January 2026.

## 3. Validity of Kyoto units

There are rules within the EU ETS regarding the validity of emission allowances. Below is an overview of these rules.

### Validity of EUAs and AEUAs

All EUAs and AEUAs that were allocated through auction or freely after 1 January 2013 are valid indefinitely. As such, account holders who hold EUAs or AEUAs at the end of phase 3 will be able to continue to use these allowances in phase 4 (2021–2030).

### Validity of CERs and ERUs

During phase 3 (2013–2020) of the EU ETS, only a limited proportion of all available CERs and ERUs was valid. The CO2 registry clearly shows whether a CER or ERU is valid or not. The following general rules apply regarding the validity of these two types of emission allowances:

- CERs and ERUs from nuclear energy projects, afforestation and reforestation projects and projects to destroy industrial gases (HFC-23 and N<sub>2</sub>O adipic acid): these CERs and ERUs are not valid in the EU ETS.
- All other types of CERs and ERUs representing reductions that have taken place up to and including 31 December 2012: these CERs and ERUs are not valid in the EU ETS.
- All other types of CERs and ERUs from projects that were registered before 31 December 2012 and represent reductions that have taken place since 1 January 2013: these CERs and ERUs are valid for use in the EU ETS.
- All other types of CERs and ERUs from projects that were registered after 1 January 2013: CERs and ERUs from projects that were registered with the United Nations Framework Convention on Climate Change after 1 January 2013 are only valid for use if the projects took place in Least Developed Countries (LDCs). More information about LDCs can be found on this United Nations website.

The use of CERs and ERUs is no longer permitted in phase 4 of the EU ETS (2021–2030).