

A full-page background image of a mountain landscape. The upper half shows jagged, rocky mountain peaks partially obscured by white mist or clouds. The lower half shows steep, green grassy slopes with a narrow, winding path visible on the right side.

USE OF INTERNATIONAL CREDITS TOWARDS THE 2040 EU CLIMATE TARGET

April 2026

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KEY RECOMMENDATIONS

- 1. The 90% 2040 target should be met through domestic action.** In line with the European Scientific Advisory Board on Climate Change, a fully domestic pathway to 90% net emissions reductions by 2040 is within reach. International carbon credits should complement — not substitute — domestic action and should be reserved for ambition beyond 90% or as a hedge against unforeseen shortfalls.
- 2. Institutionalise international credits as an EU-level reserve driving additional ambition, enabling compliance with Paris Agreement reporting & transparency obligations and – within clear limits – acting as a flexibility to Member States in case of unexpected performance shortfalls.** A single, centrally administered credit reserve (i.e. a centrally managed pool of credits accessible under predefined conditions) avoids governance complexity that would arise if Member States had to report international cooperations as individual parties within the UNFCCC. It strengthens aggregated demand signalling and allows clearer attribution across two distinct use cases: financing ambition beyond 90% and acting as a hedge against unforeseen domestic underperformance. Credits withdrawn to cover Member State shortfalls should be refinanced by the withdrawing Member State under a replenishment mechanism catering to the Just Transition.
- 3. Do not fix a %-share of international credits for 2036–2040 in 2026.** The 5% ceiling set by the European Climate Law is a maximum, not a target. Availability of Article 6-compliant credits remains highly uncertain. Countries already active on Article 6 markets illustrate the structural difficulty of sourcing high-integrity credits at scale – and our analysis based on the Commission’s own domestic cost estimates suggest domestic action may not be more expensive than international credits, once trade conditions and mitigation-benefit sharing are properly accounted for. The next five years and the 2031–2035 pilot phase must be used to resolve outstanding questions on supply, quality, capacity, and cost before any %-share is institutionalised. The earlier the better.
- 4. Carbon removals must be a central and structurally increasing share of any international credit portfolio, with applications governed by the Like-for-Like principle.** Fossil residual emissions should be neutralised only by permanent CDR; biogenic emissions may be matched with durationally-equivalent biogenic removals. The EU should use its CRCF experience to actively shape IPCC TFI CDR guidance (2027) and the Article 6.4 framework ahead of the 2028 UNFCCC review, applying whichever standard is more robust where European and international rules diverge.

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INTRODUCTION

Carbon Gap's position

Carbon Gap strongly prefers domestic action as the primary route to the European Union's 2040 -90% target. The European Scientific Advisory Board on Climate Change (ESABCC) confirmed that a fully domestic pathway is within reach, and we agree. International carbon credits should complement, not substitute, domestic action. Where the EU nonetheless authorises their use, this response sets out the safeguards we believe are required to ensure they deliver equivalent climate impacts and do not become an expensive delay of much-needed climate action.

Several critical aspects still need to be further investigated, understood and clarified prior to any decision to institutionalise international credits as part of European Climate Policy Instruments. Thus, Carbon Gap welcomes the European approach of piloting international credits within the 2031-2035 period, as we deem it essential to gain further understandings of processes around and the availability of international credits for the 2036-2040 period.

The novelty of International Carbon Markets under Article 6, as well as the spontaneous reintroduction of the topic within the European context (with no impact assessment undertaken so far), should result in a cautious incorporation of international credits.

Legislative proposals must also consider the dynamic nature of the UNFCCC frameworks. For example, the EU's cited quality benchmark, the Paris Agreement Crediting Mechanism under Article 6.4 (PACM), has yet to formulate and adopt principles, methodologies and tools for carbon removals. This prevents a detailed comparison of UN-level methodologies with, for example, the European CRCF, which itself only began publishing methodologies during this public consultation period in Q2 2026.

Lessons from Kyoto-era international carbon credit trading – including failures around environmental integrity and the role of intermediaries – also provide a cautionary baseline for any future European involvement. But since Europe could act as a market-shaping entity, careful design will be required to avoid repeating those failures and to genuinely contribute to the Paris temperature goals with higher leverage.

The below outlines Carbon Gap's thinking on the use of international credits in the European post 2030 climate policy architecture.

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This response addresses four design questions raised by the Call for Evidence: (i) how international credits should be integrated into the EU's post-2030 climate policy architecture; (ii) what credits the EU should authorise; and (iii) how their purchase should be financed; and (iv) what principle should govern their use. We address each in turn below.

1. INTERNATIONAL CREDITS IN THE EU CLIMATE POLICY ARCHITECTURE

Integration as a separate pillar would mean that contributions from international credits cannot be directly used as part of other climate targets and policies. It establishes an independent but institutionalised pillar that contributes to overall European climate targets. Integration as a flexibility would mean international credits can be used at EU or member states level, whereby their use is to directly contribute to the achievement of other existing Climate targets (such as LULUCF, ESR or ETS). As a flexibility, international credits offer additional pathways to deliver on climate ambition. However, it will likely need to be accompanied by clear strategies enabling a respective demand signal for international carbon markets to materialise. Without clear strategies and safeguards, the EU risks higher administrative burdens, inconsistent approaches across Member States, and ultimately lower climate ambition at higher cost if international credits are presented as a pure flexibility.

Carbon Gap favours a **pillar structure limited to credits purchased for ambition beyond 90%**. However, this approach faces political constraints that make such an implementation rather unrealistic. But it could be addressed as follows: International credits could be acquired through a **central EU-level flexibility reserve for international credits**. That is, a centrally administered pool of credits, held in a single EU-level account, drawn down only under predefined conditions, retired against an explicit accounting purpose, and capped on a per-Member-State basis so no single Member State can draw down more than 5% of its own 1990 emissions from the EU-wide allowance. Crucially, this means use of international credits should be institutionalised centrally, **acting as a flexibility strictly limited to hedge against unforeseen domestic shortfalls**. We thereby agree with the European Scientific Advisory Board on Climate Change that the 90% reductions set forth in the European Climate law can and should be planned to be met via domestic actions only (ESABCC [2025](#)). Their analysis of European capacities, including competitiveness, showed that: **an EU target by 2040 of 90–95 % and based on a fully domestic scope is within reach**.

The sections below explain why a pure pillar architecture is theoretically cleanest but politically fragile given the geopolitical context, why a pure flexibility is unacceptable because it risks undermining domestic leadership, and why the international credits

reserve is the compromise that preserves highest ESABCC alignment while accommodating Member State's political constraints.

First preference: A pillar structure that introduces international credits to go beyond 90%

Establishing international credits as a pillar is the cleanest architecture. A dedicated pillar for ambition beyond 90% reductions by 2040 would deliver higher transparency and ambition across several dimensions:

1. Respecting transparency provisions of the Paris Agreement

As part of its obligations under the Paris Agreement, Europe must report on Article 6 transactions compatible with general UNFCCC provisions, notably Article 6, 9 and 13 of the Paris Agreement. A better reflection (and aggregation) of individual MS activities concerning international credits at the EU level is much needed, as the EU must put greater emphasis on complying and thereby strengthening multilaterally agreed reporting processes under the Paris framework at times of increased geopolitical tensions. To this end, the European Governance Regulation should seek to streamline reporting of individual member states' plans to incorporate international credits, safeguarding transparency and their application in a way where they act as a complement to 90% domestic reductions. Further considerations on this point are reflected in Carbon Gap's response to the [respective consultation](#) on the upcoming Governance Regulation.

2. Reflecting higher ambition and other climate diplomacy considerations

a. By individual member states:

Not incorporating international credits within a dedicated European pillar might turn out to become an unnecessary blocker for member states pursuing higher ambition than their European mandate. For example, the Swedish 2045 Climate Neutrality target outlines a contribution of up to 15% from non-domestic activities, without specifying if such activities should lie in another EU member state or come from internationally transferred mitigation outcomes (ITMOs) traded under Article 6.

b. By the EU:

European policymakers have hinted at several other aspects motivating European purchases of international credits. For example, in addition to direct climate finance contributions as it has [done in the past](#), the EU could

leverage Article 6 pathways, including mitigation contribution units. Clear attribution to either climate finance (no transfer of carbon credits) or carbon finance (transfer of a carbon credit) will be critical in this regard, but done right, international credits present a pathway for the EU to strengthen its position as an internationally leading climate actor. Further details on the attribution between compensatory use and contributions is discussed in the Annex.

c. By European private sector:

Contribution units reflected at the EU level will allow to better incorporate activities by the private sector, including engagements on a voluntary basis.

3. Addressing the need for unprecedented, near-term efforts in light of a worsening climate outlook

- a. International carbon credits can be a tool to frontload global emission reductions and thereby contribute towards lower cumulative emissions to the atmosphere prior to reaching a net-zero milestone and the subsequent realisation of net negative CO₂ emissions. If done right, they can present an important lever to address the need for unprecedented global climate action in the near term, supporting European and third-party countries in rapidly tackling climate change. To prevent international credits from substituting for domestic action, reliance on them must be limited to ambition beyond 90% reductions by 2040. However, international carbon credits, through applications in the form of mitigation contribution units could complement a 2040 target that remains centred on the agreed 90% reduction threshold, respecting that the 90% target can and should be achieved domestically. Explicit institutionalisation of such contributions within an EU-aggregated international credits pillar strengthens European domestic leadership and allows to better represent consolidated efforts within an international context.

The political reality: Examining international credits as a flexibility

A pillar approach for ambition above 90% is politically fragile. During the lead-up to the -90% agreement, Member States made clear that their support for 90% was already conditional on flexibility provisions for international credits — a political reality a pure

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pillar cannot accommodate. A pillar that explicitly forbids substitution would likely be diluted or abandoned in Council and Trilogue, leaving the EU with either no architecture at all or one watered down beyond recognition. But establishing international credits as a pure flexibility (including integration under a National-economy wide target (NEWT) logic) risks disguising domestic underperformance in a veil of international mitigation substitutes. Additional sub-targets and limits on substitution would be needed to reflect European Climate leadership in a transparent way. This points to a highly complex governance framework spread across European capitals, which might hinder efforts to achieve higher levels of European competitiveness, as the “flexibility” could turn out to be administratively burdensome.

Establishing international credits as an EU-level flexibility reserve is a compromise option. We explore how international credits can be incorporated in a way that maintains the 90% domestic-action priority while accommodating justified Member State requests for safeguards. This proposal reflects the concept of a flexibility reserve, first introduced by Agora Energiewende in late 2025¹. It builds on the suggestion of an international credits reserve at the EU level, aggregating higher ambition and/or hedging against domestic shortfalls in unexpected circumstances (e.g. natural disturbances).

Centralised EU-level reporting of Article 6 activities is a constant of any plausible architecture. Whether the EU draws zero, some, or the full 5% of credits, cooperative approaches must be reported compliant with UNFCCC rules. Unilateral Member State compliance would create administrative complexity, fragment the EU’s reporting voice, and obscure overall progress against the domestic 90% target — making it harder for the Commission to track domestic delivery and harder for the UNFCCC to assess Europe’s contribution. Central reporting should, in alignment with the EU’s joint NDC reporting, be enabled via changes to the EU Governance Regulation.

¹ The original proposal introduces both, domestic carbon removals and international credits within the flexibility reserve. Our proposal focusses on international credits only, as we propose to incorporate domestic carbon removals as a pillar, reflected in respective MS-level LULUCF and pCDR targets. Consult Carbon Gap’s response to the National Targets and Flexibilities consultation [here](#).

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USE OF CREDITS FROM THE RESERVE

Future use of credit scenarios

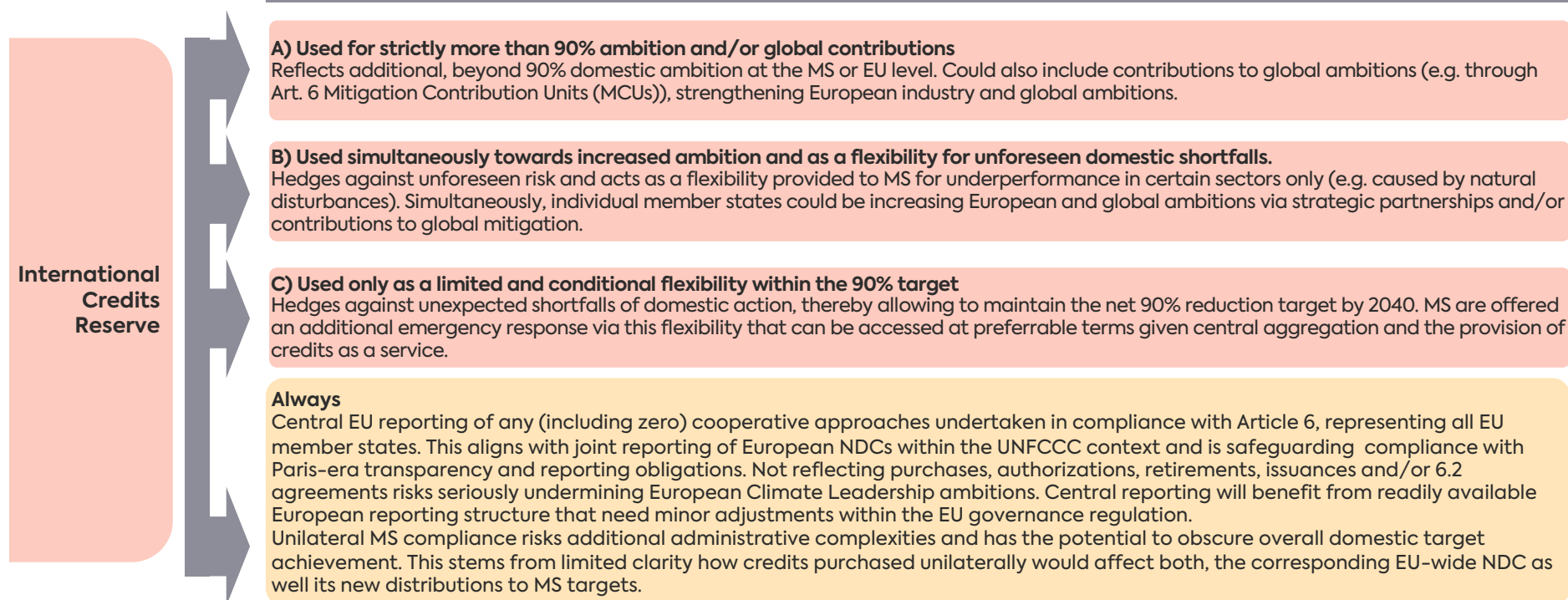


Figure 1 illustrates three scenarios the credits flexibility reserve can accommodate. It also highlights the necessity to include Article 6 related activities in European frameworks for the compliance with UNFCCC provisions.

How the reserve operates

Table 1 summarises key aspects of the Flexibility reserve across different scenarios

Scenario	Trigger	How credits are used	Accounting treatment	Financing	Safeguard
a — Higher ambition	Domestic policies can deliver 90% reductions (e.g., see ESABCC 2025)	Credits fund ambition beyond 90%: climate diplomacy, mitigation contribution units, or (non-binding) higher EU targets	Beyond domestic 90% ambition reflected in the EU NDC with proportional attribution to Member states (also displaying when counted as climate-finance contribution)	EU budget; voluntary contributions from Member States contributing to a surplus of 90% across the EU.	Transparent attribution to higher-ambition use; not substitutable for domestic action
b — Higher ambition and (sectoral and/or individual MS) shortfalls	Mix of higher ambition by some MS or sectors and limited shortfalls in others	Both ambition-beyond-90% and shortfall-hedging in parallel	Transparent attribution per credit to its specific use case	Mixed: EU and MS budget for ambition, MS contributions for shortfalls	Central governance tracks each credit's allocation and accounting treatment
c — Shortfall hedge	Genuinely unforeseen, independently verified domestic underperformance (e.g., natural disturbances)	Credits cover the gap, capped at 5% of the affected Member State's 1990 emissions	Counted toward the underperforming Member State's national target, proportionally reflected within the EU NDC	EU budget upfront, refinanced by the drawing Member State under a Just Transition replenishment mechanism	Per-Member-State 5% cap; replenishment requirement prevents structural reliance

The flexibility reserve operates across three scenarios, described above. The proposal is compatible with Carbon Gap's respective contributions to the parallel consultation on National targets and flexibilities for the post 2030 period accessible [here](#).

Without a compromise of this kind, the EU risks undermining the credibility of its climate strategy and the delivery of climate targets within the wider global context. A pure

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“pillar” approach is likely to collapse under political pressure; a pure “flexibility” approach would risk disguising domestic underperformance and lock in of credits. The flexibility reserve is the narrow path that could preserve both scientific integrity and political viability.

2. QUALITY CRITERIA, FINANCING AND CENTRAL PURCHASING OF INTERNATIONAL CREDITS

Quality and sourcing criteria determine which credits are eligible: environmental integrity (real, additional, verifiable mitigation), alignment with shared European values, and a dynamically increasing share of carbon removals within the portfolio are things to stress. Structure wise, UNFCCC provisions form the basis, but EU-wide criteria could apply across all eligible inputs — ITMOs, Article 6.4ERs (PACM credits), MCUs, Article 6.8 cooperation outcomes, and other internationally transferred mitigation outcomes — with potential additional Member-State-level criteria layered on for cooperations that go beyond their domestic European reduction mandate. Strategic considerations such as the promotion of European industry and technology leadership must safeguard sourcing that later allows for use of credits that is compatible with the like-for-like principle.

Central purchasing delivers four benefits unavailable under unilateral Member State approaches: it increases EU bargaining power through pooled demand, lowers administrative burden across Member States, avoids price arbitrage by intermediaries (a known failure mode from the Kyoto period), and converts heterogeneous Article 6 instruments into domestic accounting units suited to differentiated use cases.

Financing should be informed by a dedicated impact assessment covering: prioritisation of domestic investment over international credits, uncertainty in future mitigation costs (in the EU and abroad), the availability of credits that meet European quality standards, the synergies and complementarity between carbon and climate finance, and the recovery of EU expenses through service-charges to drawing Member States under a Just Transition framework. For further insights on Climate Finance targets see e.g. the latest summary report by Oxfam ([2025](#)).

INTERNATIONAL CREDITS FLEXIBILITY RESERVE

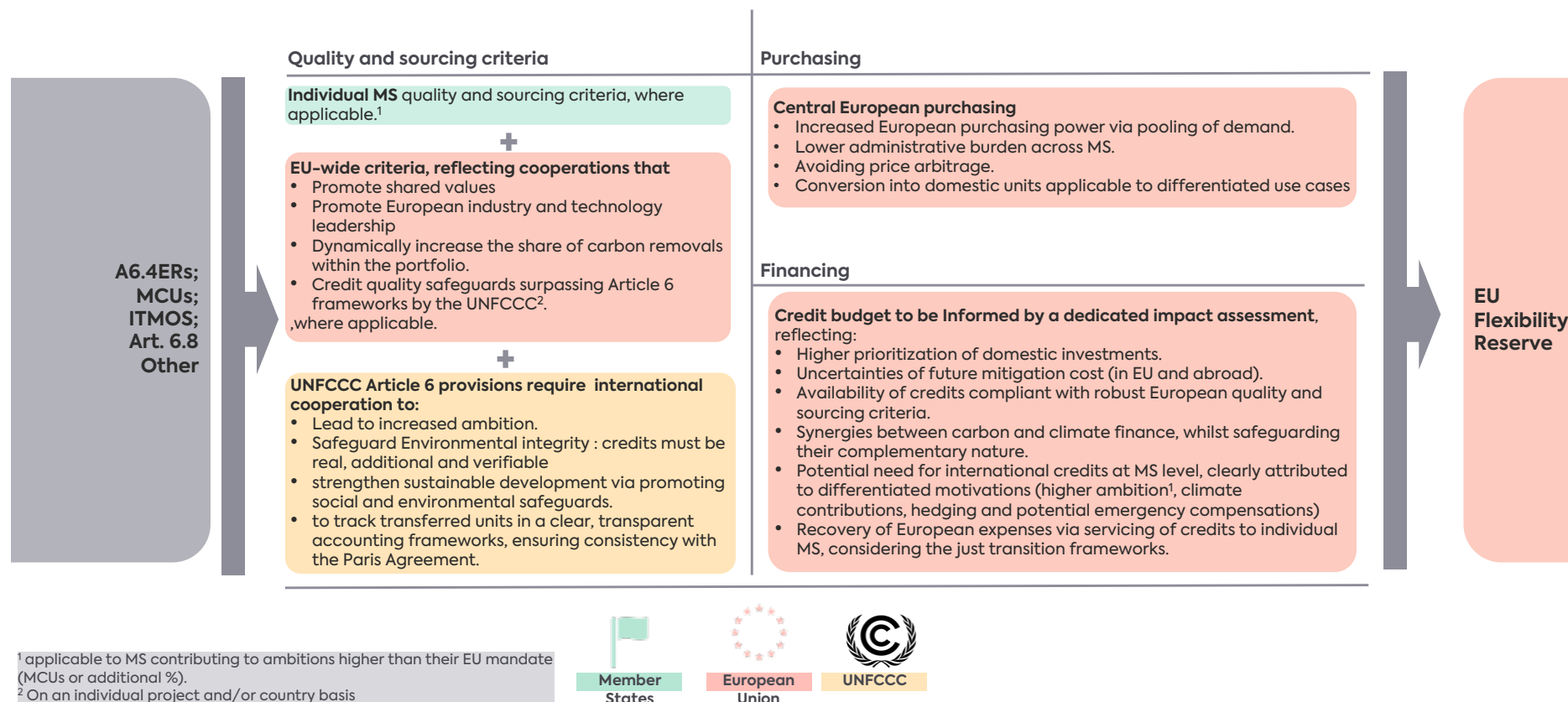


Figure 2 schematically outlines how different quality and sourcing criteria could overlap, restricting the number of available credits for the EU flexibility reserve.

2.1 Quality and sourcing criteria

Carbon removals face special needs, but the EU is well positioned to lead and establish globally applicable frameworks that safeguard credit integrity and applicability to the EU context

Importantly, credit quality standards should be informed by the foreseen credit application. We stress the need to gradually transition towards compliance with the [Like-for-Like principle](#), enabling a durable state of net-zero and net negative CO₂ emission balances. Credit level integrity benchmarks, however, remain (partially) undefined at the UNFCCC level, especially for carbon removals. The time between 2026 and 2030 is set to deliver on much-needed internationally harmonised frameworks: Carbon removal accounting within national inventories is a precondition for any subsequently transactions (as ITMOs with a corresponding adjustment or MCUs without a corresponding adjustment), quantified in line with a harmonised, yet to be developed international framework. The EU has unique experience with carbon removal quantification and accounting protocols, and it should play an active role in the ongoing development of the evolving global framework, to better support European carbon removals:

- The IPCC TFI is developing a [CDR methodology report](#), which guides national inventory accounting for selected carbon removal pathways by 2027. For a clear anchoring of carbon removals within any European international credit portfolio, consistent accounting of carbon removals taking place at home and in third countries is an essential precondition for successful removal transactions. The EU must therefore take an active role in developing these novel standards and ensure readiness for adoption latest by the time the pilot period starts. In April 2026, Switzerland became the first country to incorporate carbon removals from the concrete sector into its national inventory. Given similar demand by European entities, European actors should prioritise equivalent work to close current gaps in carbon-removal accounting guidance. Additionally, the EU is outpacing international developments via work on CRCF methodologies that could go beyond the scope of international protocols available to date. Via a proactive, but science-based approach, the EU has the potential to unilaterally unblock technical barriers or address legal uncertainties, setting precedents that could be replicated across the around 200 UN parties.

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- The UNFCCC Article 6 governance has been [working on important carbon removal regulations](#) over the past 5 years and is likely to finalise an initial Article 6.4 framework for carbon removals over the coming years, just in time for a substantial review of the Article 6.2 and 6.4 rules, modalities and procedures scheduled at the UNFCCC level for 2028. Given its holistic experience stemming from the carbon removals and carbon farming regulation, Europe is uniquely positioned to inform developments concerning the definition of a permanence standard/threshold and corresponding risk assessment tools needed at the UNFCCC level. European interventions should seek to streamline the alignment of European frameworks such as the CRCF with corresponding instruments at the UNFCCC level, safeguarding interoperability to the extent possible, in line with scientific advice. In doing so, it should seek to respect the quality principles of whichever standard requires the more robust and precautionary approach. This is especially relevant concerning the setting of baselines, approaches to uncertainties and other things regarding credit level quantification, as well as the transparency provisions and a coherent implementation of reporting obligations with sufficient publicly accessible information both within Europe and across the globe. At the same time, Europe should not artificially limit a highly diverse set of potential Article 6 projects by trying to regulate an extremely heterogeneous set of activities with different use cases within a single framework. Near-term policy decisions should remain open to project level assessments that would be impossible via general requirements. Exemplarily, a pioneering high-quality carbon removal project delivering ITMOs at costs above €300/tonne based on European technologies could face completely different impacts compared to a conventional carbon reduction or avoidance credit delivering mitigation at much lower cost. According to the Like-for-Like principle (explained below) these credits should serve different use cases and thus likely require distinct frameworks.

The EU should therefore work on a framework that is flexible in allowing both, the authorised use of existing methodologies compliant with the UNFCCC and EU quality safeguards, as well as the incorporation of additional requirements in (partially) novel standards to match respective needs, European purchasing of international credits must pay further attention to the long-term ecosystem integrity and the avoidance of biodiversity loss and should seek to promote actions in partner countries that are equally committed to reduce lock-in of high levels of emissions, or emission-intensive technologies or practices in either, Europe or the host country.

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2.2 Purchasing and financing

Using the period prior to 2036 to clarify the theoretical and practical potential of international credits is critical to determine a fixed %-share of international credits that should be centrally purchased at the EU level.

The global availability of and the European needs for international carbon credits compliant with (pending) EU quality safeguards remain highly uncertain. Therefore, settling on the specific %-number of international credits to be integrated towards the 2040 target in 2026 risks blind spots that will prove critical for later implementation. They must be tackled and clarified over the coming decade. A clearly specified demand signal, including details on the preferred portfolio composition, is a central, but missing element for any credible implementation. It will benefit from pooling of activities across member states via central purchasing. That way, an active steering towards the formation of an effective and liquid global market for international credits aligned with European needs is more likely. The maximum cumulative amount of 5% of 1990 emissions, totalling roughly 240MtCO₂eq, presents a welcome maximum benchmark, but it should be understood as a preliminary number that needs to be urgently investigated.

International credits to be included within the flexibility reserve should be financed by member states and the Union budget. Member states seeking higher than 90% domestic ambition targets should contribute financing of their full expected cost to the central flexibility reserve operator. Such centralisation allows pooling of European demand from plural sources, enabling economies of scales and higher negotiation power for European member states. However, a central flexibility reserve operator should also prioritise investments within the EU, strengthening intra-European flows where possible. Intra-European investments and transactions should be promoted strategically, to ensure European welfare benefits from the green transition remain within Europe over the long term. Near term investments remain critical for achievement of a longer-term transition in a cost-efficient manner. This should allow the EU to strategically avoid future dependencies on international stakeholders that could become powerful influences on the European climate target achievement and its credibility as a climate leader. Member States should also have dedicated but optional entry points to a central operationalisation of international credit purchases, to allow for member-state-specific preferences, respective to their contributions to the flexibility reserve. The amount of upfront financing by Member States should be transparently derived from better incorporation of the planned and actual use of international credits as part of European

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governance regulations. Better incorporation of national-level plans must therefore be introduced urgently and become operational latest by the start of the piloting period in 2031.

Separately, a yet-to-be-determined % of international credits (with an upper limit of maximally 5% of 1990 emissions) must be defined as soon as possible, to safeguard that Europe sends a credible signal towards international carbon markets. But Article 6 markets remain a novel instrument of limited transaction volumes to date. It will benefit from a clearly formulated European demand signal and resulting European capacity-building for high-quality credit generation and partnerships. Formulating a dedicated %-level target could still allow for subsequent decision on the actual use of the credits and a respective allocation to carbon finance as a flexibility or climate finance targets at either, the European or member state level. For the determination of the %-contribution of international credits financed via the European budget, European policymakers are urged to further investigate the cost and the availability of respective EU budgets. There are many factors EU policymakers will need to consider in defining how many international credits it should purchase, and the decision will depend on the standard under which the EU chooses to operate, the level of ambition and how it defines that, and the total cost of domestic and international action. These factors and their ramifications are detailed in the Annex and can be compared in an interactive [calculator](#) developed by Carbon Gap.

3. USE OF INTERNATIONAL CREDITS AND THE LIKE-FOR-LIKE PRINCIPLE

How credits enter specific EU climate instruments depends on the instrument and the use case.

Within the **EU ETS** (I and II), international credits could be financed by ETS revenues to support ambition beyond 90% overall reductions, or to act as an EU-level sectoral flexibility. Any credits integrated must adhere to the Like-for-Like Principle: durable fossil ETS emissions can only be addressed via permanent credits from (international) CDR. Permanent CDR projects supported by the EU should strive to promote European technology leadership and not hinder the domestic green transition.

Within **LULUCF**, international credits could be financed by Member State beneficiaries either to deliver ambition beyond 90% domestic LULUCF reductions by 2040, or to address unforeseen shortfalls in domestic LULUCF performance — financed by the affected Member State in line with the Just Transition framework. Like-for-like applies, with opportunities for temporary CDR.

Within the **ESR**, international credits could be financed by Member State beneficiaries to support ambition beyond 90% domestic reductions, or to fund individual MS climate-finance contributions in the form of Article 6-compliant global mitigation contributions or MCUs. Like-for-Like applies until the 90% domestic ambition is achieved; thereafter, methodological flexibility increases across permanent and temporary CDR pathway.

LIKE-FOR-LIKE USE OF CREDITS

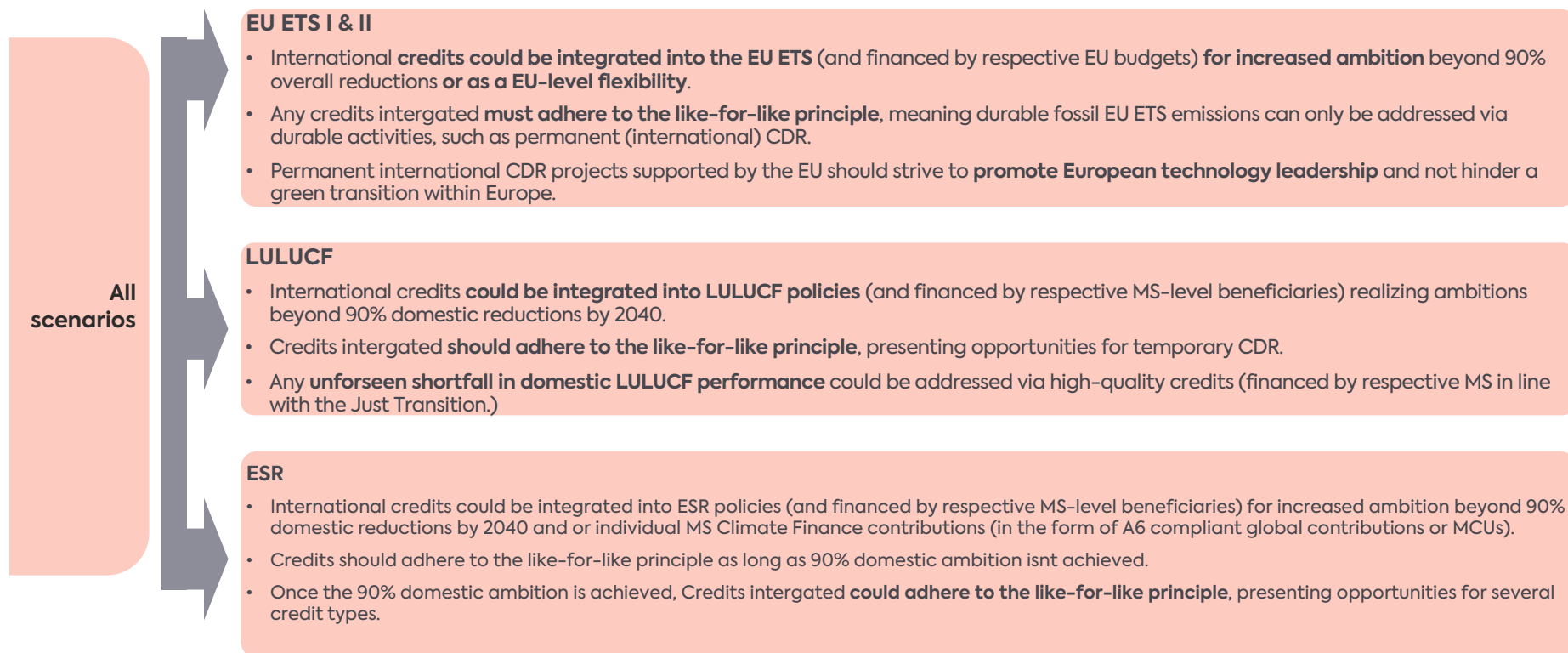


Figure 3 visualises how international credits should be used within the EU climate policy architecture, safeguarding the achievement of durable net-zero in line with the Like-for-Like principle.

To effectively halt global warming, net-zero CO₂ must be sustained in the long run. This requires a state of “durable net-zero,” where carbon fluxes are rebalanced with the appropriate removals, and carbon pools are stabilised. The Like-for-Like principle establishes minimum requirements for employing carbon dioxide removal (CDR) to durably neutralise residual emissions:

- Any remaining fossil CO₂ emissions can only be neutralised using permanent CDR.
- Temporary nature-based removals can be used to neutralise residual biogenic emissions, such as those from agriculture, land use change, or the temporary warming effect of methane matching their duration.

By creating robust rules for neutralisation, the Like-for-Like principle:

- strengthens the incentive to cut emissions
- clarifies the use cases of temporary removals
- creates the demand for permanent CDR to scale up to the relevant volumes.

The implementation of the Like-for-Like principle faces a series of challenges in the short term, among them limited supply and the high costs of permanent removals. Carbon Gap recommends enshrining this principle in legislation now, including any legislation related to the use of international credits, and creating mechanisms for a gradual implementation.

4. THE NEED FOR A DEDICATED EUROPEAN INTERNATIONAL CREDITS IMPACT ASSESSMENT

In summary, international carbon credits can support greater ambition and provide a safety reserve that reflects Member State political realities. However, Article 6 rules and market activity remain limited, particularly for carbon removals. The EU therefore has an opportunity to lead methodological work on quantifying and accounting for removals internationally. It should also streamline reporting on Article 6 activities—including all activities across Member States—to the UNFCCC at least bi-annually in line with Paris agreement reporting processes. Near-term updates to the Governance Regulation could better capture and reflect Member States' willingness to engage in Article 6 cooperation and fill corresponding knowledge gaps (incl. on MS budgets available).

Carbon removals must be treated as a central component of a European international carbon credit portfolio. Although the initial contribution of carbon removals is likely to be marginal, their share should be institutionalised to grow over time, in line with the Like-for-Like principle concerning the use of international credits. European learnings from the CRCF framework can inform the evolving UNFCCC frameworks concerning carbon removals. Active European involvement should i) inform credible and realistic estimates of future CDR credit availabilities to be reflected in the definition of the %-number of credits financed by European budgets; ii) it should also inform UNFCCC developments by incorporating learnings from the European context and multiply its impact via institutionalisation at the UNFCCC level.

International carbon credits should be purchased centrally, including via contributions from the EU budget. This budget must be (to some extent) clearly anchored upfront, to support future credit issuance and delivery. Developing international carbon markets compliant with European requirements benefits from near-term capacity building, clear signalling and a strategic approach to determining the %-number of credits to be supplied towards the flexibility reserve. In the very near term, the EU should seek clarity about potential financial contributions by individual Member States to international credits (in the form of ITMOs, A6.4ERs or MCUs), and their expected likelihood of achieving a domestic -90% target, including information about a process for increased domestic measures that could be taken in case of unexpected underperformance instead of reliance on international credits. Such information is likely to become available only after the EU has decided on domestic components of its post-2030

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climate framework. Given the need and opportunity for European leadership in the international context, Europeans should remain focused on domestic action and use international credits in a complementary manner first and foremost. The Kyoto era revealed price inflations and central purchasing can reduce arbitrage and governance risks if designed well. Pooling financial resources also enables strategic considerations and a mitigation hierarchy that prioritises domestic emission reductions and removals.

ANNEX

How many credits exactly?

Insights from Carbon Gap Analysis presented via the [international credit calculator](#)

Trade conditions and standards

The Article 6 framework links international carbon credits with other sustainable development and climate goals. After a decade of political negotiations, two main pathways for international credit transfers have been established. They both codify possible approaches to adaptation, climate finance contributions, shared efforts for achieving (conditional) NDCs, and overall mitigation of global emissions into UN-level standards. In navigating the choice between Article 6 standards, the EU will need to act strategically in choosing which standard it uses, how much it contributes to global mitigation and adaptation, and with whom it partners if it wants to achieve its ambition to be a global climate leader.

Both Article 6.2 and PACM take different approaches for allocating a share of credits to other objectives, namely contributions to e.g. the global adaptation fund via the so called “Share of Proceeds” (SOP) as well as contributions to overall mitigations for global emissions (OMGE).

- Article 6.2 does not lay out specific minimums for SOP. The ECL is unclear on exact quantities, but a 5% SOP is generally considered a minimum based on 6.4 as a benchmark, with some experts arguing for up to 20% split evenly between SOP and OMGE contributions.
- PACM establishes a minimum 5% SOP and 2% for OMGE.

Sharing of mitigation benefits

The EU must determine with whom and under what conditions it engages in international climate transactions. For their NDCs, most countries have stated that they will rely on cooperation, and higher ambition targets are oftentimes conditional on receiving international climate finance. Europe wants to remain a climate leader and is conscious of its historical responsibilities. So, when purchasing credits, the EU could ensure that a share of the mitigation benefits remain with the host country. In this regard, the ECL does lay out some rules for potential partnerships:

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- Countries must be signed up to the Paris Agreement and must be committed to the same climate objectives. Although it ensures shared ambition, this stipulation could lower the amount of available credits and potentially increase the cost.
- The EU should strive for ‘high ambition’ regarding the sharing of mitigation benefits according to the agreed ECL. In addition to direct climate finance contributions as it has done in the past, the EU could co-opt Article 6 instead. For example, in a higher ambition scenario, the EU would buy 100% of a country’s credits, but would use only a fraction in its own accounting, with the remaining credits being used for both the country’s NDCs and potentially European climate finance goals. However, clear attribution to either climate finance (no transfer of carbon credits) or carbon finance (transfer of a carbon credit) will be important in this regard.

Possible implications of the factors discussed above are displayed in Figure 4 below.

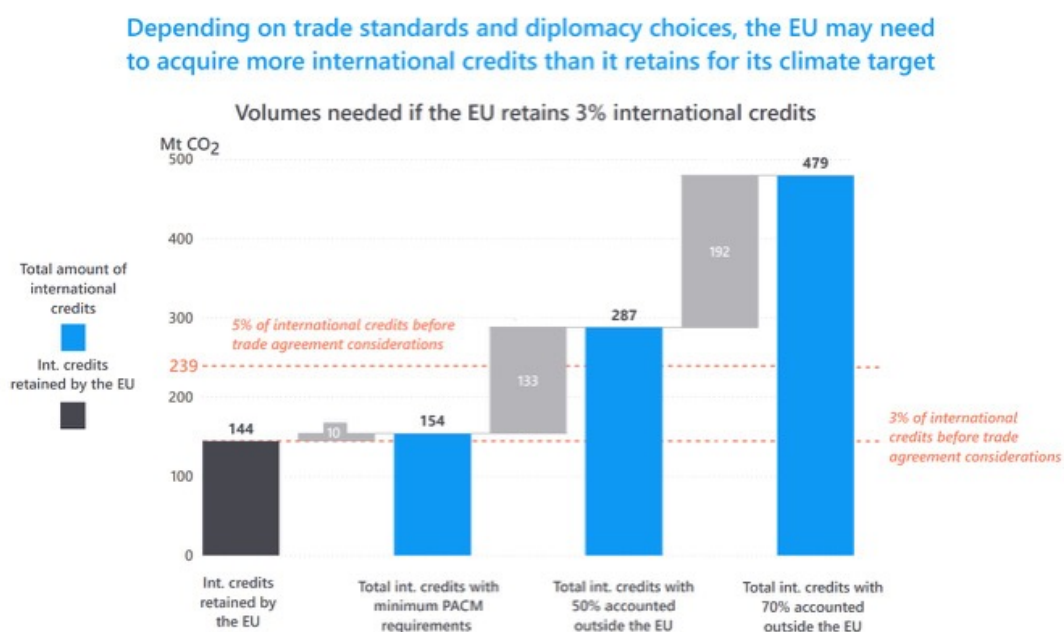


Figure 4 illustratively shows the volume of international credits the EU would need to finance to retain credits equivalent to 3% of its 1990 emissions. The dark grey bar indicates the volume of credits the EU retains (i.e., the full 3% target). The subsequent blue stacked bars show the larger volume that must be financed under different trade-standard and climate-diplomacy assumptions that would each reduce the share of credits the EU can ultimately account for in its own inventory. Under PACM, for instance, minimally 7% of credits are reserved for other objectives, so the EU must finance more than 3% to retain the same amount. There have also been calls for substantially higher shares of credits to be reserved for adaptation, overall mitigation of global emissions, or shared with host countries—potentially up to 50% (Schneider et al. 2025). Under such assumptions, retaining credits equivalent to 3% could require financing above 5% of 1990 emissions. The provisional ECL agreement only states “high ambition” concerning the above discussed points, and the number of credits will ultimately be determined by how the EU interprets that term.

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Investment needs for climate (in)action

The debate on international credits operates under the presumption that financing projects abroad is cheaper than domestic action. But a better understanding of the trade-offs between the cost of international credits and domestic mitigation needs can call this presumption into question.

The cost of domestic action

It's important to consider the scenario where no international credits are purchased and instead all mitigation actions are domestic. As it nears 90% emissions reductions, the EU is left with the emissions that are the hardest to abate and present novel challenges in sectors such as steel, chemicals, cement or transport, and requiring higher costs than previous emissions reduction efforts in the energy transition.

In a 2024 report, the Commission found that if it only relied on domestic action, reaching between 78–92% emissions reductions would have a marginal investment cost between €150–340/tonne. Interpolating these costs per tonne to the 85–90% range yields a €220/tonne investment estimate if the EU were to rely solely on domestic action (including both carbon removal and emissions reductions) with no international credits. Comparing the cost of domestic action provides an important counterpart to the cost of international credits when defining a set %-number for international credits.

Estimating the investment cost of international credits

The cost of international credits is highly dependent on the portfolio composition for several reasons;

- the cost of international emissions reductions will co-depend on available credits;
- more carbon removal means higher (short-term) costs;
- the availability of international credits is uncertain with so many other countries, including the host country, interested in using them for their own efforts.

Reaching the EUs targets will require a portfolio of both emissions reductions and carbon removal credits, but it is important to provide rough estimates as to how much each of these types of credits will cost, also in light of the need to strengthen credible demand signals for high quality carbon credits.

Credit portfolio choices impact financing requirements

The EU is holding itself up to certain standards for purchasing credits, ensuring they originate from countries with similar climate ambitions. Yet the type of credits the EU purchases, not just the quality, also reflects its ambitions. With targeted cooperation for high-quality emissions reductions credits, the EU faces tangible opportunities for emissions reductions globally. International credits present a way to heavily front-load near term emissions reductions abroad. But it's not just about emissions reductions. Along with other countries in the Paris Agreement, the EU has a net-zero target and net-negative ambitions thereafter; carbon removal projects are an essential condition of reaching net-zero and maintaining a net-negative emissions balance. Allocating a share of high-quality carbon removal projects in its portfolio therefore becomes a key design choice for Europe. The question is therefore not whether but how many carbon removal credits to include. Including carbon removal credits can also safeguard against trading low-effort mitigation credits that are far better suited for national NDCs, instead favouring an increasing reliance on carbon removal credits over time. Following on from [India's example](#) of deeming cookstove and forestry projects ineligible for Article 6 transactions, countries should instead use these types of credits as part of their national accounting. Future trading partners are likely to continue limiting the types and amount of emissions reduction efforts they grant for external NDCs, as their own NDCs are set to become ever more demanding. Therefore, increasing the amount of carbon removal credits in Europe's portfolio over time will allow Europe to scale such projects both at home and abroad, an action Switzerland has already pioneered in its [Net Zero Roadmap](#).

Fine-tuning the composition of any European portfolio of international credits emerges as a key policy design choice. It is likely to respond to varied strategic considerations that could change over time. Therefore, we suggest careful management with **a dynamically adaptable framework and clearly assigned responsibilities to reflect strategic considerations.** Europe must remain conscious of its net-negative ambitions post 2050 and ensure they are front and centre in deciding its portfolio composition. If done right, Europe will be creating long lasting win-win-win situations, where Europe, the trading partner countries, as well as overall global climate ambition are all strengthened. Figure 5 below provides insights into the financial implications of differing credit portfolio compositions.

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The debate about the reliance on international credits has been based on the underlying premise that the EU will need to invest in climate action for a number of reasons, but it is worth revisiting the cost of inaction, which according to [research](#) is consistently more expensive than investing early. Inaction results in higher public spending later in response to crises, more social compensation, regional support schemes and so on. Policy uncertainty can cause a more disorderly transition toward a climate-friendly economy with greater investment loss and a worse economic outlook. By contrast, early, planned investment consistently shows lower long-term costs. The question of purchasing up to 5% international credits thus isn't about "whether" but "where and how," so that it is approached dynamically and does not deprioritise domestic action in sectors where domestic abatement costs are competitive in the long term; for example, if domestic action turns out to be cheaper, policymakers could shift the focus away from international credits or vice versa. This relationship, however needs to incorporate a potentially causal effect to safeguard against political lock-ins accompanied by respective path dependencies: If the focus stays on international credits, European action is unlikely to attract investment, slowing innovation that could ultimately make domestic action cheaper than international alternatives. International credits must therefore reflect strategic, long-term considerations that seek to minimise unhealthy European dependencies.

Based on cost references from [literature](#), the international credit calculator estimates total investment needs and how these affect overall international credit valuations.

The portfolio and differing investment costs of domestic action and international credits from carbon dioxide removal (CDR) and emission reduction (ER) create tradeoffs for overall cost

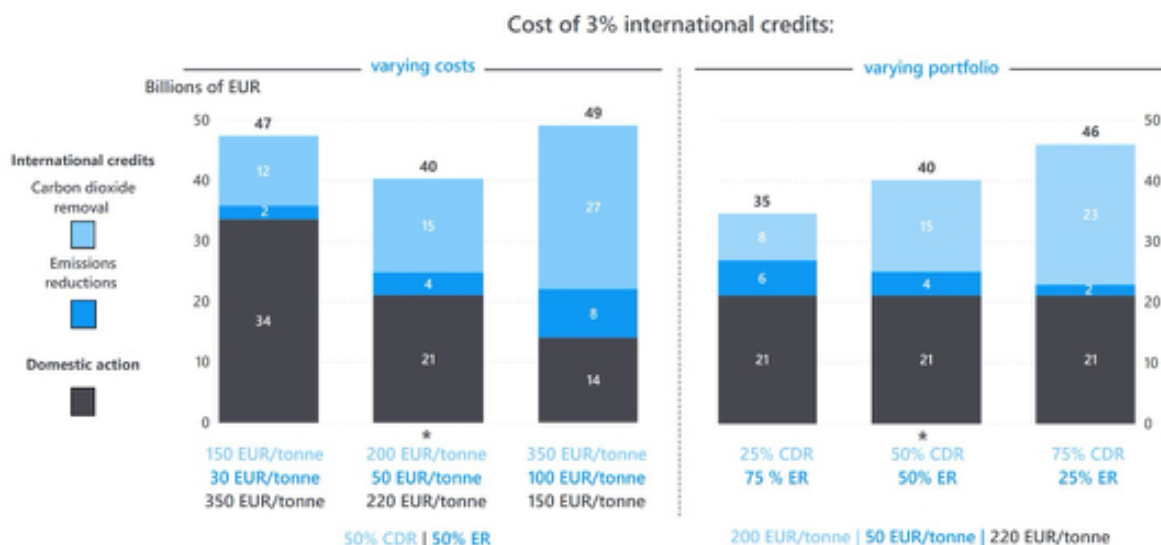


Figure 5 shows the European investment cost to obtain international credits equivalent to 3% of its 1990 emissions considering different portfolios of mitigation strategies and prices for international credits and domestic action in EUR/tonne of CO₂ mitigated. The international credits could be supplied through either high-quality emissions-reduction (ER) units or carbon-dioxide removal (CDR) units. The left three bars vary in their investment costs, and the right three bars vary in their split between international credits coming from CDR or ER. The two starred scenarios have an identical policy design. All the hypothetical scenarios follow PACM, where 7% of credits are accounted for outside the EU, meaning the EU must finance more than 3% to retain the same amount.

Our analysis of different scenarios shows **that international credits are not always cheaper**. The trade negotiations that will form the foundation of these credit purchases may preference Europe's ambition for climate leadership or a longer time horizon, rather than pure cost. Figure 3 shows that in three illustrative scenarios (1%, 3%, or 5% of international credits) depending on the trade standards and conditions, the EU's investments costs may be higher – as demonstrated in a case where the EU finances more than what is accounted for in its own inventories for the sake of a more ambitious agreement. For example, 3% of international credits delivered through higher ambition trade agreements could cost more than obtaining 5% with lower ambition trade agreements (Figure 3).

The choice of trade standard and diplomacy will affect the EU's overall investment cost to reach its climate target

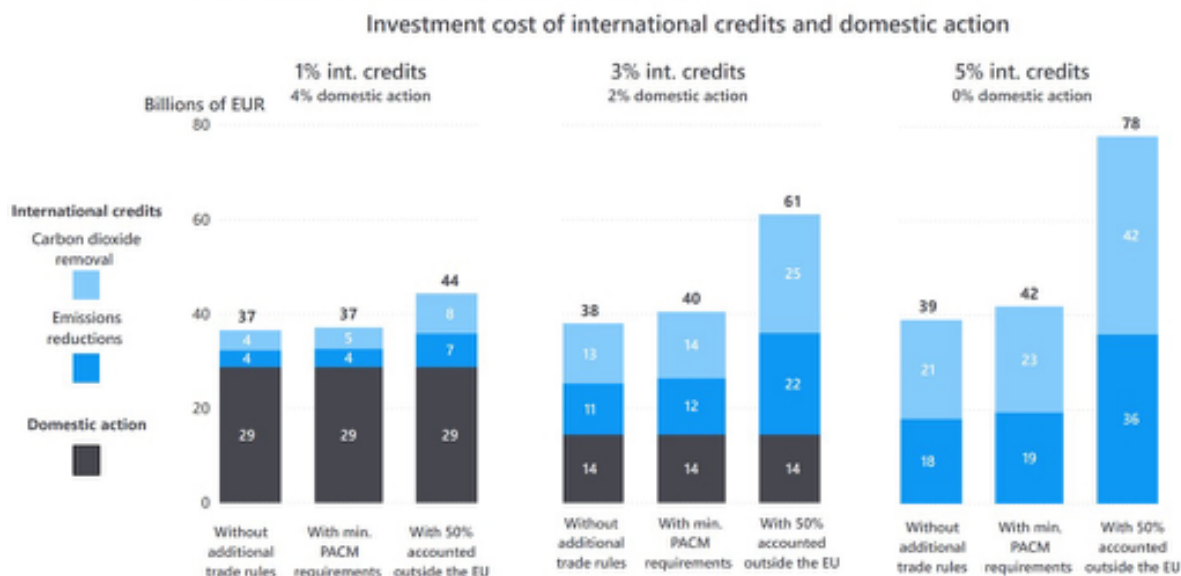


Figure 6 shows the costs of achieving a 90% reduction target with different contributions of 1%, 3%, and 5% international credits, here presented as clusters of bars, each with different possible trade standards and diplomacy. The international credits could be supplied through either high-quality emissions-reduction units or carbon-dioxide removal (CDR) units (illustrated here with a hypothetical 75/25 split). The same exemplary price points for domestic action, emissions reductions and carbon dioxide removal are applied across the scenarios (respectively 150, 100 and 350 EUR/tonne). The individual bars show the resulting costs if 1) no additional international credits are accounted for outside the EU; 2) if the PACM is followed, where minimally 7% of credits are accounted for outside the EU; and 3) 50% of the international credits are accounted for outside the EU, following calls for ambitious climate financing and mitigation benefit sharing.

Insights into costs as presented above must be deemed preliminary and currently lack the necessary detail to inform legislative proposals on the topic. But cost implications and the respective availability of a EU budget, including which activities it might draw financing from must be explored prior to settling on a %-number for EU level contributions. We expect further analysis with high urgency, as we advise European policymakers to define the %-number (reflecting expectations prior to road testing within the much-needed pilot phase) latest by 2030.

We stress the need to **further explore credit availabilities**. (Inter)National policies on Article 6 related matters are constantly evolving and there is no consensus concerning the amount of Article 6 compliant credits that can realistically be expected available by 2036. Studies should reflect what share of non-European Climate ambition could be transacted as ITMOs, taking into account that ITMOs, per design, must be additional to mitigation already covered in third party NDCs. With an ever-increasing scope and

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ambition of emissions covered under global climate compliance policy regimes, future credit availability is set to shrink structurally over time. Within the Paris logic, rather than exporting climate efforts to the EU, third parties must be equally committed to their own climate targets, likely decreasing the share of climate action they allow to flow out of their own emissions inventories and NDCs. This trend is further strengthened by the principle of “Encouraged ambition over time” [incorporated to Article 6.4](#) methodologies at the UNFCCC level. This incorporation requires all Article 6 methodologies to incorporate additional ambition into crediting methodologies, translating to higher expectations enshrined in carbon credit methodologies at the UN level. Early learning from other countries’ transactions should be taken into account and contributing to an active exploration and potential co-creation of novel activities delivering sufficient carbon removal credits. At the same time, **the Article 6 framework has been moving at a very slow pace to date**, realising a full operationalisation of the central PACM framework only last year, notably ten years after the Paris signatures. And still to date, there are **substantial outstanding knowledge gaps, an ongoing lack of rules (e.g. at PACM methodology level) and clarity on best practice and processes (e.g. concerning consistent Article 6.2 reporting and standard integrity)**. The novelty of Article 6 and the respective absence of internationally agreed guidance, processes or methodologies must be clearly acknowledged and inform a precautionary approach. This enables the fulfilment of the holistic potential of international credits by first seeking to clarify critical outstanding questions, rather than settling on a specific %-amount these credits should contribute in a premature way.