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International Credits in EU Climate Policy: Old Conflicts, New Challenges

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In the discussions being held at EU level about the 2040 mitigation target, the role of international credits has recently taken centre stage. The new momentum in those discussions is due in part to the German government having announced its support for a mitigation target of a net 90 per cent greenhouse gas emissions reduction is conditional on up to 3 per cent of the target being achieved through international credits. How the target is to be drawn up and what it means for EU climate policy instruments will inevitably give rise to conflicts during the forthcoming legislative processes. Despite open questions about the quality, additionality and availability of the credits, it makes sense to hold a timely debate about their possible functions so that, if necessary, policy instruments can be further developed and corrections made later. It would be expedient to ensure that the use of international credits is focused on durable carbon dioxide removal technologies that are scalable only to a limited extent within the EU itself. Not only could international removal credits make a contribution to overcoming the challenges on the path to greenhouse gas neutrality by counterbalancing residual emissions; the creation of institutionalised demand for high-quality removal methods would also lay the foundation for achieving net-negative emissions.

Over the past few decades, the self-image of the European Union and Germany as climate policy pioneers has been strengthened by the comparatively early and extensive progress made in the expansion of renewable energies in parts of Europe. Some five years after climate policy was adjusted to aim for net-zero greenhouse gas emissions, issues and conflicts that hardly played a role in the previous target architecture (80—95 per cent emissions reduction by 2050) are coming to the fore. Twenty years before the target year that Germany has set for itself to achieve greenhouse gas neutrality (twenty-five years under the EU target), it is important to find strategies for the "last mile" on the path to greenhouse gas neutrality while at the same time drastically reducing emissions. Besides clarifying how to deal with technologies subject to critical discussion — such as carbon management — the question of what role international credits should play needs to be answered by the climate policy pioneers.

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In the past two to three years, there has been a political turnaround as far as carbon management is concerned. Earlier, carbon capture and storage (CCS), carbon capture and utilisation (CCU) and carbon dioxide removal (CDR) were largely ignored — not least in Germany — as strategies for dealing with emissions that are hard to abate (CCS/CCU) or residual emissions (CDR). Since then, their use has been the subject of a controversial debate. It was only after the results of net-zero modelling studies had become available and industry and science had exerted pressure that the topic featured prominently on the political agenda. Today, Germany numbers among those EU states that are actively promoting a debate on this very topic and demonstrating their support for these technologies.

In the case of international credits, a very similar development is emerging. In 2015, the signatories to the Paris Agreement agreed to create a framework for international cooperation and trade in certified mitigation projects, some of which can be counted towards achieving national targets. The negotiations that followed were lengthy, and it was only in recent years that the signatory states were able to agree on the overall structure of the framework. At the climate conference in Baku in November 2024 (COP29), the most important structural aspects were considered to have been clarified. Thereafter, Germany's CDU, CSU and SPD parties agreed in their coalition agreement to call for the international credits to be included in the new EU mitigation target for 2040 and in the European Emissions Trading System (EU ETS). They thereby triggered an EU-wide debate in which the German position is supported by France and Poland, among others.

Old conflicts and a new political situation

In climate policy, compensation mechanisms were long regarded as ineffective and apparently undermining individual countries' climate policy ambitions. That assessment was confirmed by the negative experiences with credits issued under the Kyoto Protocol, which were partly integrated into the EU emissions trading system. During this period, poor-quality credits came to light and cases of fraud were uncovered. Not least as a result of the critical discussions that followed, the European Climate Law (Regulation 2021/1119) limits the achievement of the mitigation targets for 2030 (net reduction of greenhouse gases by 55 per cent compared with 1990) and 2050 (greenhouse gas neutrality) to the territory of the EU. But with today's decision-makers focused on the crisis in European industry and the competitiveness of European manufacturers, international credits are enjoying a renaissance as an element of EU climate policy, under the slogan of "flexibilisation" and along the lines of "Europe cannot save the climate alone".

The underlying motives are complex. On the one hand, there are actors who are driving the debate with the aim of weakening the EU's climate policy ambitions or undermining their credibility overall by fuelling uncertainty. On the other hand, there are those who see Article 6 as offering the opportunity to ensure that the existing climate policy architecture is shielded against weakening and more far-reaching reforms. It is their belief that Article 6 allows for new flexibilities that could help stabilise alliances threatening to disintegrate in the current situation. However, whether the current debate on Article 6 ultimately leads to the stabilisation or weakening of climate policy remains completely open. But in view of the huge amount of political attention, a central question arises: Does opening up EU climate policy to international credits provide an opportunity to prepare for the final stretch towards climate neutrality and at the same time achieve that goal more cost-effectively? Or does the current discussion serve, above all, as a strategy to avoid fundamental questions and conflicts? A look at the processes surrounding the EU 2040 mitigation target and the challenges and opportunities associated with Article 6 can help contextualise both

the debate and the various positions represented in it.

2040 target: International expectations and internal EU conflicts

The setting of a mitigation target for 2040 provides an opportunity to shape the next phase of European climate policy. The political process has been significantly delayed by the European Commission, not least by its president, Ursula von der Leyen. Both this delay and the new focus on international credits as a "flexibilisation option" reflect today's changed political situation, in which climate policy is under renewed pressure to justify itself. But time is running out to formally adopt a 2040 target — and that is the case for at least two reasons.

First, it was previously planned to use the 2040 target as a reference for establishing the EU's nationally determined contribution (NDC), including an interim target for 2035. However, the official deadline for submitting the NDC was February 2025 (see SWP Comment 14/2024); and it would now require a political tour de force for an agreement on the 2040 target and the NDC derived from it to be reached before COP30 in Belém, Brazil in November 2025. Not only would the member states have to rapidly establish a consensus on both the 2040 target and the NDC; procedural creativity might also be needed — for example, the influence of the European Parliament could, in effect, be limited. Whether the link between the 2040 target and an interim target for 2035 can be maintained is both politically and procedurally questionable. Indeed, removing that link could make it easier to submit an NDC well ahead of COP30; at the same time, it poses the risk of a 2035 target being adopted that is not compatible with a net 90 per cent target for 2040. Meanwhile, the delay in the EU process is being closely monitored at the international level. As a long-standing advocate of the idea that procedural governance mechanisms are an important element of the Paris Agreement, the EU is currently undermining its own claim to leadership. And as a result of the internal blockades within the EU and the failure to meet deadlines, it could be that in future, other states will be even less inclined to take deadlines in the UN processes seriously.

Second, the updating of all important climate policy instruments in the EU —EU ETS I/II, the Effort Sharing Regulation (ESR) and the Land Use, Land-use Change and Forestry Regulation (LULUCF) — necessarily builds on the ambition level of the 2040 target. Any further delay in the target process will push back the time-consuming legislative processes required to revise the policy instruments. Given the significantly narrower majorities in the European Parliament and the fluid majorities in the Council, it may not be possible to finalise all dossiers before the 2029 EU elections, creating an environment of major uncertainty until shortly before the start of the new trade and target periods (from 2031 onwards).

International credits in the next phase of EU climate policy

Impetus for the debate on the 2040 mitigation target has recently come from Germany: the prominent mention of this target in the coalition agreement of the new German government has created new momentum in the preliminary negotiations in Brussels. Not only is it remarkable that Germany, a large and influential EU member state, has committed itself to supporting a net 90 per cent target; the conditionalities set out in the coalition agreement are also significant. The focus is on the planned use of Article 6 credits: the agreement states that it should be possible to meet up to 3 per cent of the 2040 target through "certified and permanent projects [...] in non-European partner countries for the economically viable reduction of residual emissions". Although this discussion has been imminent for some time, many stakeholders have largely ignored it, often referring to the European Climate Law, which, as noted above, states that the existing 2030 and 2050 targets will

have to be achieved *within* the European Union, that is, *without* international credits.

Once the Commission's proposal has been published and the ordinary legislative procedure initiated, the question of how the 2040 target should be drawn up will take centre stage. Two elements frequently discussed as flexibilisation options are particularly relevant for the upcoming debate. The first is whether and to what extent international credits can be used to achieve the target. The second addresses the role of CDR and whether its contribution to achieving the target should be limited. In the debates expected during the legislative process, three target designs will serve as centres of gravity for positioning (see Table 1, p. 5), whereby compromise options are also conceivable.

The European Science Advisory Board on Climate Change (ESABCC) recommends setting separate 2040 targets for gross emission reductions and carbon dioxide removals. Unlike the German coalition, however, the ESABCC calls for a 90—95 per cent emission reduction to be achieved within the EU. It thereby positions itself against Article 6 as a flexibilisation option and against the emerging debate about whether it should be permissible for a 90 per cent target to be achieved proportionately through the use of international credits.

If international credits and carbon removals are to be integrated into the target design, the establishment of separate targets would send the clearest political signal. The precise target values are less important than a clear separation from gross emission reductions so that quantified demand for CDR and Article 6 credits can be institutionalised. This would have an impact on both areas, for which investment security is essential but has so far been lacking. However, a very detailed target design would require extensive political negotiation processes and compromises. The time pressure and the tense climate policy situation argue in favour of ensuring the other options are included in strategic planning, too. Not least, the smaller majorities in the European Parliament and Council could be the reason why there will be no further concretisation during the current legislative processes.

Furthermore, it is to be expected that, as part of the legislative process to supplement the 2040 target in the European Climate Law, attempts will be made to implement further changes to the Regulation. Member states and stakeholders that are sceptical about the ambition level of the Climate Law are likely to advocate that, for example, the target design for 2050 should be revised as well — possibly to include international credits. Such an initiative would come as little surprise in the current political climate. Nevertheless, changing the target design along these lines would be not only controversial within the EU but also problematic vis-à-vis the Paris Agreement. That is because Article 6 provides for the use of the international credits "to allow for higher ambition" in the signatory countries' mitigation efforts. A possible way out could be to adopt a more specific target for net negative emissions after 2050, as the current wording leaves many questions still unanswered.

Fundamental challenge: Additionality

Apart from the issue of whether and how international credits should be included in the target design, there is another main challenge: the additionality of the certified mitigation projects that are implemented. The Paris Agreement has fundamentally changed the institutional setup for international offsetting. Unlike under the Kyoto Protocol, which stipulated binding reduction targets only for industrialised countries, all signatory states are now obliged to submit NDCs. This alters the relationship between the countries that purchase credits and the *host countries* (those in which the certified projects are implemented): if credits from a host country are counted towards the target achievement of a purchasing country (as so-called Internationally Transferred Mitigation Outcomes or A6.4 Emis-

Table 1

Options for the 2040 target design

Target design	Net target without further specifications	Combination of gross emission reduction and "additional measures"	Separate targets with quantified subcomponents
Illustrative values	— Net: 90 %	— Gross emission reduction: 80 % — Additional measures: 10 %	— Gross emission reduction: 80 /83 % — Carbon dioxide removal: 7 % — (International credits: 3 %)
Explanation	A net target whereby neither gross emission reduction, carbon dioxide removal nor international credits are specified would reduce the pressure for gross reduction. Political conflicts would be shifted to the instrument level.	A fixed gross reduction would be supplemented by another category that includes CDR and international credits. This option would create transparency in the gross reduction while keeping open the exact proportions between CDR and international credits.	Separate targets for gross emissions reduction and CDR (possibly split according to sectoral allocation). A separate target could also be introduced for international credits. This option would require extensive coordination and could thereby delay the legislative process.

sion Reductions), there is a risk that the achievement and/or ambition level of the host country's climate targets will be undermined (through overselling).

It is true that such conflicting goals can be mitigated through methodologies, transparency requirements and accounting rules. However, given the growing political pressure on industrialised countries to meet their climate targets, it would be inadvisable to rely solely on the effectiveness of those measures. Institutionalising demand for Article 6 credits in the EU's target architecture would simultaneously increase the incentive and step up the pressure to design methodologies and projects in such a way that a large number of credits become available at an early stage. This could have a negative impact on the quality of the projects — including their additionality — and encourage overselling by the host countries.

Why the debate is still important

Despite such risks, it makes sense strategically to initiate an open debate on international credits right now — and not in the mid-2030s, when there will be no time left for a step-by-step approach and corrections. There are three arguments supporting this assertion.

First, reforms at EU level take years — that applies not only to the legislative process but also to implementation and the development of incentives. A timely discussion would allow governance structures to be established in an orderly manner and quality standards to be developed, including mechanisms and time buffers for readjustments in the event of undesirable outcomes.

Second, active EU involvement in the implementation of Article 6 sends a strong political signal for strengthening the processes associated with the UN Framework Convention on Climate Change (UNFCCC). Not least at a time of geopolitical tension and growing scepticism towards multilat-

eral mechanisms — as exemplified by the withdrawal of the United States from the Paris Agreement — the EU can continue to play a leading role here. In addition, the international trade in carbon credits remains important for many countries of the Global South; and those countries will play a bigger role when it comes to further developing the UNFCCC.

Third, the debate on Article 6 offers the opportunity to address the issue of residual emissions. The function of Article 6 does not have to be reduced to that of a classic compensation mechanism that serves to lower domestic ambitions. Rather, it can serve — through suitable conditionalities — to promote technology: for example, the global technological ramp-up for durable CDR such as Direct Air Carbon Capture and Storage, which has limited upscaling potential in the EU. Countries with abundant supplies of renewable energy would be better suited for the deployment of these technologies. Moreover, the additionality of the durable CDR projects would be obvious and the design of complex and bureaucratic verification systems and processes — such as those used for (re)afforestation projects — much more straightforward. Nonetheless, care would have to be taken to ensure that CO_2 storage facilities and other necessary infrastructure do not have a negative impact on local populations.

Drawing up positive lists for certain types of project is not a new approach in the use of international credits, but those lists have already proved their worth in previous mechanisms and can have important steering effects. If the 3 per cent under discussion were to be interpreted as a quantity that applied to the durable removal of CO_2 in partner countries, the EU could seize the opportunity to create demand and thereby play a key role in shaping both the emerging market and the quality standards. This would provide a counterbalance to the low-quality credits that would force their way onto the market. In addition, it would be much easier to integrate permanent CDR credits into European instruments than is the case with less durable removal methods — the latter would have to be safeguarded against reversibility at considerable bureaucratic expense. Thus, a narrower interpretation limited to permanent CO_2 removals would be more likely to support the stability and credibility of the policy instruments than a broader interpretation that allowed for the use of all credits.

The last mile – for now

Around twenty years before the target of net zero greenhouse gas emissions is due to be met in Germany (and around twenty-five years in the EU), it is time to orient climate policy instruments towards what is — at least for now — the last mile. Inevitably, there are politically difficult decisions that will have to be made. Issues that have long been ignored — such as carbon management and international credits — are increasingly featuring in the climate policy debate and imminently awaiting far-reaching resolutions. Depending on the outcome of the decisions taken, the current climate policy architecture could be undermined; but, at the same time, the upcoming reforms could safeguard the existing instruments. In any case, the political pressure is unlikely to decrease in the coming years — on the contrary. The establishment and design of the 2040 mitigation target, together with the follow-up legislative package for implementation, are vital for the prospects of EU climate policy. Following are two overarching recommendations for the upcoming legislative processes.

Robust instruments are more important than targets

The focus on robust, crisis-proof policy instruments should be the guiding principle during the reform process. Mitigation targets have important functions in climate policy: they establish ambition levels that send important signals to the covered economic sectors and international partners; and they serve as benchmarks against which progress in climate protection can

be measured. However, whether the 2040 mitigation target or the net zero target is achieved to the last tonne in the planned year is less important in the long term than the question of whether the climate policy instruments are robust and capable of maintaining the effectiveness of incentives to reduce emissions — even at times when political priorities are shifting.

The discussion on Article 6 in particular raises the following strategic question: will integration into the EU ETS under the narrative of "flexibilisation" help stabilise the instrument and make it fit for the future? If the answer is "yes", the inclusion of international credits should be considered and introduced for debate in future legislative processes. However, it is equally possible that the current proposals will simply follow the logic of an incremental adjustment that yields to political pushback against the overarching ambition levels. In such a case, there would be a risk of attempts being made to resolve political conflicts primarily through technocratic adjustments and increasingly complicated instruments that would become vulnerable in the medium term. A broader debate on possible alternatives to the embedding of international credits into the EU ETS would help avert blind spots and make the overall climate policy architecture more resilient.

Net zero: Transition to a new phase of climate policy

While the achievement of net zero is often seen as the last milestone in climate policy, it will, in fact, be only the start of a new phase. Both German and European climate laws already stipulate that net-negative emissions should be targeted after greenhouse gas neutrality. It is important to start thinking about this phase today, not least because the net-negative target is likely to be achieved ahead of the target year in some sectors. Besides the drastic emission reductions required, the technologies needed to scale up durable carbon removal are a key element in achieving net-negative emissions, and they depend on reliable demand signals being sent in this early phase (Comment 13/2025). The strategic use of Article 6 can make an important contribution here. The institutionalisation of demand in the target design would promote technologies that will remain economically unviable in the EU for the foreseeable future but are essential for achieving both net-zero and net-negative targets.

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