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International (Article 6) Credits under the EU 2040 Climate Target

ANALYSIS

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On 10 December 2025, the Council and European Parliament reached a political agreement in trilogue on the EU's 2040 climate target: a 90% reduction in net greenhouse gas emissions by 2040 compared to 1990, to be integrated into the European Climate Law as a milestone on the path to climate neutrality by 2050.¹²

Key Analysis Findings

ARTICLE 6 BECOMES A STRUCTURAL PART OF THE 2040 ARCHITECTURE.

The trilogue agreement allows up to five percentage points of the EU's –90% net 2040 target to be achieved via high-quality international credits under Article 6, with at least 85 percentage points covered by domestic mitigation.

THE 5% CEILING IS 232 MT CO₂-EQUIVALENT IN 2040.

Using the Annual EU GHG inventory 1990–2023 and the 2025 National Inventory Document, 1990 net emissions (including LULUCF sinks) are 4,635 Mt CO₂-equivalent. On this basis, 5% = 232 Mt CO₂-equivalent, which is the maximum annual volume of international credits that can be counted towards the 2040 target.

A LINEAR BUILD-UP AND PHASE-OUT IS THE MOST REALISTIC DEMAND PROFILE.

In a linear trajectory accounting scenario, EU use of international credits could start at 27 Mt in 2031, rises in equal annual steps to the full 232 Mt in 2040, then declines linear back to 27 Mt in 2049. Over the use phase 2036–2040, volumes increase from 141 Mt to 232 Mt, resulting in around 932 Mt CO₂-equivalent of Article 6 units used towards the 2040 target. In the build-up phase, the credits could be used as mitigation contribution Article 6.4 emission reduction units (MCUs), counting as EU climate finance. The phase-out phase use case is not yet clear, however, the 2050 target is to be achieved domestically.

CONSTANT MAXIMUM USE DEFINES A LEGAL UPPER BOUND, NOT AN EXPECTED PATHWAY.

In an averaging accounting scenario, where the EU use of Article 6 credits would sum to 1,160 Mt CO₂-equivalent. This reflects the legal maximum permitted by the 5% window rather than a realistic policy scenario and is best treated analytically as an upper bound.

INTEGRITY WILL DEPEND ON PILOT DESIGN, QUALITY RULES AND GOVERNANCE.

The 2031–2035 pilot phase, the detailed definition of “high-quality” / “high-integrity” credits, and choices on centralised EU-level procurement versus fragmented national purchasing will determine whether the 5% window supports transformational mitigation in partner countries or risks functioning as a large offset-type loophole in the EU framework.

1. What the deal says on international credits

The 2040 EU Climate Target outcome on international credits builds on three layers of text: the Commission proposal, which initially suggested allowing up to three percentage points of the 2040 reduction to be achieved through international credits; the Council general approach of 5 November 2025,

¹ <https://www.consilium.europa.eu/en/press/press-releases/2025/12/10/2040-climate-target-council-and-parliament-agree-on-a-90-emissions-reduction/>

² <https://www.europarl.europa.eu/news/en/press-room/20251110IPR31334/eu-2040-climate-target-meps-want-90-emissions-reduction-in-eu-climate-law>

which raised this ceiling to 5% of 1990 net emissions, explicitly corresponding to 85% domestic net reductions and 5% imported mitigation; and the Parliament’s report and amendments, which endorsed the 5% ceiling but emphasised the need for “high-quality international carbon credits”, “robust safeguards”, and a focus on partner countries.³⁴

The emerging compromise on international credits can be summarised as follows.

- From 2036 onwards, up to five percentage points of the 90% reduction may be met through international credits under Article 6 of the Paris Agreement, subject to detailed quality and accounting rules to be adopted in subsequent EU legislation.
- This implies at least 85% domestic reductions relative to the [1990 net baseline of 4,635 Mt CO₂-equivalent](#), and allows for up to 232 Mt CO₂-equivalent of international credits in 2040.
- The Council general approach introduces a pilot phase in 2031–2035 to “initiate a high-quality and high-integrity international credit market”. Credits used in this pilot phase would not count towards the 2040 target but would be intended to build the institutional, methodological and partnership frameworks required for later large-scale Article 6 use.³
- From the texts it is not entirely clear whether Article 6 credits are not to be used for compliance in the EU ETS, maintaining the ETS as a predominantly domestic instrument. This issue still seems to be open and may be further clarified in delegated acts clarifying the use of the international credits.
- At the same time, the deal allows Member States, within the Union-wide 5% cap, to use high-quality international credits for up to 5% of their post-2030 national targets, subject to future review in the context of the evolving climate framework.
- Parliament’s amendments underline that the use of international credits must comply with environmental integrity, human-rights safeguards and the objectives of the Paris Agreement, and must be embedded in a regime of regular monitoring and review, with the

Which type(s) of international credits are we talking about?

We are effectively talking only about Article 6–based credits, specifically ITMOs authorised under Article 6.2 for use towards NDCs. For legal and accounting reasons, there is no other credible option: any credit used for NDC compliance has to be authorised by the host country under Article 6.2 to qualify as an ITMO; otherwise the EU would either (i) rely on units that do not “count” under the Paris Agreement accounting framework or (ii) become one of the world’s largest double-counters. [The Commission’s press release](#) from December 10th, 2025, underlines this reading by requiring safeguards “that complement those under Article 6.4 of the Paris Agreement” and a pilot for 2031–2035. Since safeguards under the Article 6.4 mechanism (PACM) explicitly include avoiding double counting, they implicitly assume the use of the Article 6 accounting architecture, with Article 6.2 functioning as the minimum floor. Voluntary carbon market (VCM) units may still play a role, but only once they are “upgraded” through host-country authorisation into Article 6.2-compliant ITMOs.

³ https://www.europarl.europa.eu/doceo/document/A-10-2025-0223_EN.html

⁴ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52025PC0524>

Commission required to assess progress and propose adjustments, as needed, on a biennial basis.

The detailed design questions—such as eligible host countries and sectors, crediting mechanisms, baseline and additionality rules, safeguards, and the governance of procurement—are intentionally deferred to future Commission proposals and delegated acts. The political agreement establishes the quantitative envelope and the high-level principles; operationalisation will follow in subsequent legislation.

2. How big is 5% in practice?

2.1 Quantitative ceiling

Based on the 1990 net emissions baseline of 4,635 Mt CO₂-equivalent (including LULUCF sinks), 5% corresponds to exactly 232 Mt CO₂-equivalent in 2040. This figure defines the maximum volume of Article 6 units the EU could use to meet its 2040 target in that year.⁵ The same 5% ceiling applies annually from 2036 to 2040, meaning that the legal framework allows, in principle, for a maximum annual use of 232 Mt CO₂-equivalent of international credits during that period. If this maximum were fully exploited in each of the five years, cumulative use would amount to 1,160 Mt CO₂-equivalent. This constant-maximum trajectory is best interpreted as a theoretical upper bound, not necessarily an expected utilisation profile.

2.2 Demand trajectories: linear build-up as a central scenario

International guidance under Article 6 allows Parties with single-year targets to apply different accounting approaches when reflecting the use of internationally transferred mitigation outcomes (ITMOs). In particular, [Decision 2/CMA.3](#) permits either a trajectory-based approach, where corresponding adjustments are applied annually along an indicative emissions pathway, or an averaging approach, where adjustments are based on the average amount of ITMOs transferred over the implementation period. These alternative accounting treatments do not change the overall contribution limit but can significantly affect the timing of credit use and the resulting accounted emissions profile⁶. The following scenarios illustrate stylised demand trajectories consistent with these two approaches.

1. **Trajectory accounting scenario:** This scenario reflects an accounting-consistent trajectory approach in which corresponding adjustments are applied annually in proportion to ITMO use. Demand increases linearly from the pilot phase to reach the full contribution ceiling in 2040 and declines thereafter. This pathway illustrates a smooth and behaviorally plausible market ramp-up and phase-down, with cumulative demand over 2036–2040 remaining below (932 Mt CO₂) the theoretical maximum allowed under the 5% cap.⁵

⁵ <https://www.eea.europa.eu/en/analysis/publications/annual-european-union-greenhouse-gas-inventory-2025>

⁶ Siemons, A., & Schneider, L. (2022). Averaging or multi-year accounting? Environmental integrity implications for using international carbon markets in the context of single-year targets. *Climate Policy*, 22(2), 208–221. <https://doi.org/10.1080/14693062.2021.2013154>

Figure 1 International Credits Demand Scenarios under the New EU 2040 Climate Target

International Credits Demand Scenarios under the New EU 2040 Climate Target



Averaging: ITMO use increases over time such that average engagement equals the contribution counted toward the target year.
 Trajectory: ITMO use aligned with multi-year emissions trajectory with annual corresponding adjustments applied to each year.
 Decision 2/CMA.3 provides that Parties may account for ITMOs either through a multi-year trajectory with annual corresponding adjustments or through an averaging approach based on cumulative transfers over elapsed years (Annex, paras. 7(a)(i)-(ii)).

Source: Climate & Company analysis based on official [Annual European Union greenhouse gas inventory 1990-2023 and inventory document 2025](#) (1990 net GHG levels 4635 Mt CO₂ equivalent, gross, not including LULUCF sinks), EU 2040 Climate Target.

2. **Averaging accounting scenario:** This scenario illustrates the flexibility inherent in the averaging accounting approach, where the contribution counted toward the target is determined by average engagement over the implementation period. Credit use is back-loaded toward the end of the period so that the average equals the allowed contribution in 2040 and is compliant with achieving the EU’s NDC. This stylised pathway demonstrates how accounting rules can alter the timing and cumulative scale of demand rather than representing a forecast of EU purchasing behaviour.

Taken together, these trajectories highlight that the 5% window is quantitatively significant, even under more moderate utilisation patterns. Both the scale and the time profile of EU demand will have substantial implications for EU domestic emissions, Article 6 market development, host-country planning and the distribution of mitigation efforts. Depending on the chosen Article 6 accounting approach (averaging or trajectory) for the EU’s single year target, over the period from 2036 - 2040, **domestic emissions would be one-third higher** with the use of international credits or 50%+ higher in the target year 2040. Cumulatively, this could lead to up to **1,160 million tons of CO₂e in 2040 being transacted via Article 6: equivalent to the combined annual emissions of Germany, Austria and Greece**. Such a development dramatically increases the importance of responsible engagement with Article 6: it could drive cost-effective climate mitigation or threaten to erode climate ambition both in the EU and abroad.

3. Implications for Article 6 design and next steps

From an Article 6 perspective, the EU has now moved from debating whether to rely on international credits to defining a structured framework for their potential use. Several analytical points follow from this:

1. First, the 2031–2035 pilot phase will play a significant role in setting the tone for EU Article 6 engagement. Depending on the design chosen by the Commission and co-legislators, the pilot could be oriented towards contribution-type approaches—where units are used primarily as a form of climate finance for partner countries and are not counted towards EU target compliance— or towards establishing operational routines for large-scale offset-like use after 2036. The treatment of corresponding adjustments, the framing of claims, and the integration with broader climate-finance commitments will be critical.

The no-banking rule (or no “carry-over” rule) under Article 6 of the Paris Agreement

Under Article 6.2, ITMOs cannot be “banked” across NDC periods: mitigation outcomes must be used for compliance within the same NDC implementation period in which they are generated. Unlike under the Kyoto Protocol or the EU ETS, countries cannot carry surplus units forward to the next period or stockpile them as long-lived compliance assets.

For the EU’s 5% Article 6 window, this has two main implications:

- The rule was introduced by the EU in the Article 6 negotiations at COP26 in Glasgow (2021), aiming to avoid *technological lock-ins* and low-ambition legacy projects that are non-additional and do not raise the ambition of host countries’ NDCs.
- No stockpiling from the pilot phase: ITMOs generated and used in 2031–2035 cannot simply be carried over and counted towards the 2036–2040 use of the 5% window.
- But high volumes are still possible within one period: The rule does not limit cumulative use within a single NDC period – so the EU can still reach sizeable totals (e.g. in the hundreds of Mt CO₂-eq) as long as annual use respects the 5% of 1990 net emissions constraint.

In other words, the no-banking rule helps prevent Kyoto-style surplus carry-over, but also reduces intertemporal flexibility, increasing the importance of careful demand planning and pilot design within each NDC period.

(Greiner, S. 2023)

2. Second, the definition and implementation of “high-quality” or “high-integrity” credits will need to be translated into concrete eligibility criteria. This will involve choices between and within Article 6 tracks, the selection of sectors and baselines, the treatment of removals and permanence, and the articulation of social and environmental safeguards. These choices will determine whether the EU’s Article 6 demand primarily supports transformational mitigation in partner countries or risks re-creating known issues of over-crediting and low additionality from the Clean Development Mechanism experiences.

3. Third, the governance model for purchasing and allocation remains an open design question. A more centralised EU-level procurement architecture could help ensure a consistent quality standard, a level playing field among Member States, and a coherent approach to strategic partnerships. A more fragmented, Member State-led approach could increase flexibility but would also increase the risk of disparate standards, competition for supply and reduced bargaining power vis-à-vis host countries and project developers.

The environmental integrity and distributional outcomes of this framework, however, will depend on the forthcoming implementing acts, the detailed post-2030 climate legislation, and the practical governance arrangements for EU participation in Article 6 markets.

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