climate & company

Berlin, 10 December 2025

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.[1][2]

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 CO_2-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 CO_2-equivalent**. On this basis, **5% = 232 Mt CO_2-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 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 CO_2-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.
A trajectory where the EU uses the full **232 Mt CO_2-equivalent every year from 2036 to 2040** would sum to **1,160 Mt CO_2-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.[3][4]

Combined with the 10 December press releases, 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 CO_2-equivalent, and allows for up to 232 Mt CO_2-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 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 CO_2-equivalent (including LULUCF sinks), 5% corresponds to exactly 232 Mt CO_2-equivalent in 2040. This figure defines the maximum volume of Article 6

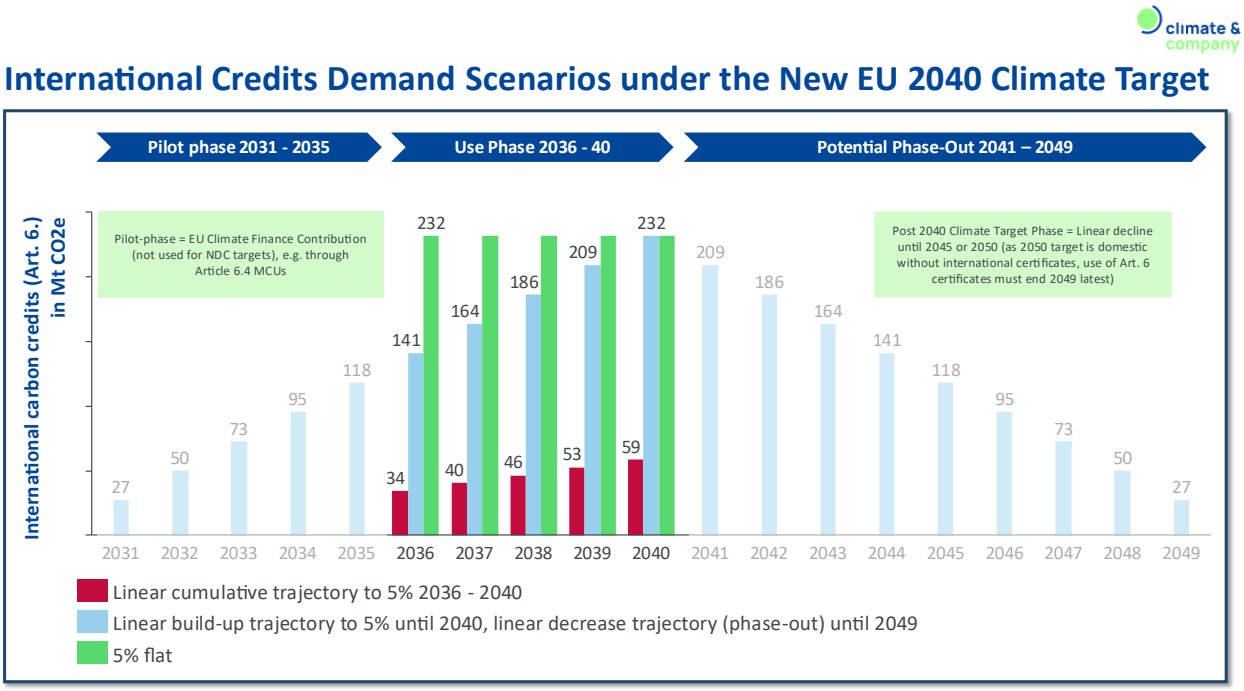
[3] https://www.europarl.europa.eu/doceo/document/A-10-2025-0223_EN.html
[4] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52025PC0524

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 CO_2-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 CO_2-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

Below are three stylised demand trajectories for EU international credits compatible with the 5% ceiling, presented in the infographic "International Credits Demand Scenarios under the New EU 2040 Climate Target" below. These scenarios are illustrative rather than predictive, but they help clarify the potential dynamics of EU demand for international Article 6 credits.

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



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 Parliament Press Release / EU Council Press Release 10.12.2025 (Update will be made upon publication of official texts)

1. The central (and most realistic) scenario[6] is a linear build-up and phase-out: international credit use starts at 27 Mt CO_2-equivalent in 2031, during the pilot phase, and increases in equal annual increments to reach 232 Mt CO_2-equivalent in 2040. After 2040, usage declines symmetrically back to 27 Mt CO_2-equivalent by 2049, reflecting a managed phase-out consistent with the requirement that climate neutrality by 2050 be achieved without continued reliance on international

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

[6] https://www.oeko.de/fileadmin/oekodoc/PB-Council-2040-target.pdf

certificates. Over the use phase 2036–2040, annual volumes in this linear scenario grow from 141 Mt (2036) to 232 Mt (2040), yielding a cumulative use of approximately 932 Mt CO_2-equivalent for compliance with the 2040 target.[5]

2. A second, more conservative scenario is a linear cumulative approach. Here, yearly credit use increases only modestly from 34 Mt to 59 Mt between 2036 and 2040, with the sum over those five years equalling 232 Mt CO_2-equivalent—the same as a single year at the 5% ceiling.
3. A third scenario illustrates the theoretical maximum-use case, in which the EU uses the full 232 Mt CO_2-equivalent annually from 2036 to 2040, for a total of 1,160 Mt CO_2-equivalent over the five-year period. This trajectory is not presented as a realistic forecast but as an illustration of the upper bound permitted by the legal framework.[5]

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.

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.
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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