

# SEI Response: Proposed amendments to the EU framework for achieving climate neutrality

With reference to the European Commission's proposal and the request for input from the Swedish Ministry of Climate and Enterprise under Remissärende: KN2025/01524.

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## Background to this response

**The Stockholm Environment Institute (SEI)** is an international non-profit research and policy organization that tackles environment and development challenges. Headquartered in Sweden, the institute has centres in Estonia, Thailand, Kenya, UK, US, and Colombia. We connect science and decision-making to develop solutions for a sustainable future for all. Stakeholder involvement is at the heart of our efforts to build capacity, strengthen institutions and equip partners for long-term change. Our knowledge and findings are accessible: as our own open access material, in leading academic journals, and repackaged for effective decision support.

## Key Points

- Support host countries in raising ambition
- Specify multi-year emission budgets aligned with the 2040 goal
- Contribute to overall mitigation in global emissions (OMGE) in conjunction with all credit use
- Contribute resources to adaptation in conjunction with all credit use
- Ensure carbon credit quality in line with the Paris Agreement's requirements to promote sustainable development and ensure environmental integrity and transparency

## Response

These comments focus on the proposed use of international carbon credits in achieving the EU's 2040 climate target and complement SEI's earlier comments on the Commission's proposal for a 2040 climate target in response to Remissärende: KN2024/00503, submitted on 30 April 2024.

The proposed amendment to the EU Climate Law includes "Starting from 2036, a possible limited contribution towards the 2040 target of high-quality international credits under Article 6 of the Paris Agreement of 3% of 1990 EU net emissions".

Use of international carbon credits, in line with the rules and accounting requirements agreed by Parties under Article 6 of the Paris Agreement, could allow the EU to achieve its proposed 2040

climate target (a 90% reduction in net greenhouse gas (GHG) emissions) more flexibly, through a combination of domestic and international mitigation measures. This flexibility could be economically beneficial if, for example, the EU finds it difficult or costly to achieve its target through domestic measures alone.

Use of credits would ensure – in principle – that the EU still contributes the same or more to *global* GHG mitigation as it would have through purely domestic actions. However, this outcome can only be met if internationally acquired carbon credits do not compromise selling countries' ability to achieve their own climate targets and, as stated in Article 6.1 of the Paris Agreement, if cooperative approaches involving carbon credits “allow for higher ambition” in countries' mitigation efforts and “promote sustainable development and environmental integrity.”

SEI offers the following recommendations for ensuring that the EU's use of carbon credits will support the broader goals of the Paris Agreement, based on our research and our assessment of policy analysis and scientific knowledge in the research fields in which we work.

- **Support host countries in raising ambition**

One of the stated aims of Article 6 cooperation is to allow for higher ambition in addressing climate change. The proposed regulation amendments clearly support this objective, suggesting that carbon credits “should come from credible and transformative activities, and support third countries with net emission reduction trajectories that are compatible with the Paris Agreement objective to hold the increase in the global average temperature to well below 2 °C and pursue efforts to limit the temperature increase to 1,5 °C above pre-industrial levels while enabling and supporting the creation of net-zero supply chains.” Further, the proposal suggests the EU “should agree with the concerned third countries on the sharing of the mitigation benefits.”

These suggestions are welcome, but should be accompanied by further elaboration of strategies and approaches for ensuring that the acquisition of carbon credits from non-EU countries helps to provide host countries with resources and capacity to enhance their own climate targets and long-term, low-emission development strategies. In addition to sharing mitigation outcomes, such strategies could include, but are not limited to, the following (Johnstone et al. 2025; Spalding-Fecher et al. 2023; Perspectives Climate Research 2023; Spalding-Fecher et al. 2020; Fuessler, Broekhoff, et al. 2019; Fuessler, Kohli, et al. 2019):

- Requiring reporting on how use of Article 6 fosters ambition-raising;
- Requiring host countries to have LT-LEDS;
- Requiring inclusion of emissions targeted by crediting into future climate targets;
- Supporting development of robust national greenhouse gas inventories;
- Procuring credits only from mitigation activities that are surplus to host country climate targets, and unlikely to be implemented in host countries without the support of carbon finance;
- Limiting crediting periods;
- Setting baselines linked to the host country's climate targets;

- Requiring ambitious or (progressively) decreasing crediting baselines (as required under the PACM); and
  - Directly funding additional mitigation efforts in host countries.
- **Specify multi-year emission budgets aligned with the 2040 goal**

The EU's proposed 2040 climate target is a 90% reduction in net EU-wide GHG emissions in 2040, compared to 1990 emission levels. The formulation of this target is similar to targets specified by many jurisdictions, which specify an emission level only for a single year. This leaves open the question of emission levels that will be achieved in years leading up to 2040, including during the proposed period (2036-2040) during which carbon credits may be used.

Under the proposed amendments, the EU is now proposing to allow the use of carbon credits up to a maximum amount of 3% of 1990 emissions, equivalent to 140 MtCO<sub>2e</sub>. As observers have pointed out, this could in principle result in significantly higher EU-wide emissions in 2040, compared to a scenario in which the 2040 target is met entirely through domestic mitigation measures (Dossi 2025). To maintain environmental integrity, use of carbon credits must not cause global GHG emissions to be higher than in a scenario in which trading of credits did not take place (Schneider and La Hoz Theuer 2019; Schneider et al. 2017). Yet allowing credits generated over multiple years to be counted towards a target in a single year can have precisely this outcome (Siemons and Schneider 2022; Lazarus et al. 2014).<sup>1</sup>

To maintain environmental integrity in situations where countries engaged in carbon credit trading have adopted single-year targets, the Article 6 rulebook allows for two approaches (UNFCCC 2021a):

1. Averaging, where the average number of credits used over a period (e.g., the 2036-2040 commitment period) is counted in the target year (e.g. 2040); or
2. Multi-year approaches, where countries define an indicative multi-year emissions trajectory or budget over the period and account for credits used in each year of the period.

The proposed amendments indicate that “international credits should be accounted on the basis of a linear trajectory.” The interpretation of a “linear trajectory” is ambiguous (Dossi 2025) and ostensibly would not correspond to either of the approved approaches under Article 6.

To preserve environmental integrity the EU should, at a minimum, clarify that credits will be accounted for on an average basis. Under this approach, no more than 28 million credits would be applied to the 2040 target (i.e., 140 MtCO<sub>2e</sub> averaged over the five years from 2036-2040).

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<sup>1</sup> For example, if domestic EU emissions are higher in the target year (2040) by an amount equal to all credits acquired, this may allow for higher emissions in preceding years (since a slower “ramp down” would be needed). Higher emissions in preceding years would, however, not be compensated, resulting in higher aggregate global emissions.

However, averaging approaches are not a guarantee against violations of environmental integrity (Siemons and Schneider 2022). A preferable approach is to use multi-year emissions budgeting to properly account for credit use over time, and ensure that any excess emissions that occur in the lead up to 2040 (compared to a scenario with no carbon credit use) are fully compensated. We strongly recommend adoption of this approach.

- **Contribute to overall mitigation in global emissions (OMGE) in conjunction with all credit use**

The current Article 6 rulebook, as adopted at COP26 and amended in subsequent CMA decisions, requires all mitigation activities enrolled in the Article 6.4 crediting mechanism (aka the “Paris Agreement Crediting Mechanism,” or PACM) to contribute at least 2% of issued credits towards an “overall mitigation in global emissions” or OMGE (UNFCCC 2021b para. 69). Under this approach, credits are retired but are not counted towards the achievement of any country’s climate target. This helps to ensure environmental integrity because, all else equal, it results in *lower* aggregate emissions compared to a scenario in which PACM carbon credits are not used. Contributions to OMGE can thus also ensure that Article 6 cooperative approaches raise global ambition, by achieving more mitigation than would occur without cooperation (Fuessler, Broekhoff, et al. 2019; Fuessler, Kohli, et al. 2019).

Currently, contributions to OMGE are only required in conjunction with use of the PACM. They are not required for carbon credits that may be issued and traded under Article 6.2. If the EU allows use of carbon credits to help achieve its 2040 target, it should either stipulate that all credits must be Article 6.4ERs (i.e., credits issued under the PACM) or require contributions to OMGE for all credit use (including under Article 6.2) of at least 2% of credits issued, in line with requirements for the PACM. Further, so that the EU’s use of credits will accelerate global efforts to mitigate climate change, the EU should strongly consider OMGE contributions in excess of 2%. This could help to alleviate concerns that use of credits will delay domestic EU climate action.

- **Contribute resources to adaptation in conjunction with all credit use**

The current Article 6 rulebook also requires all mitigation activities enrolled in the PACM to contribute resources to the Adaptation Fund (AF) to help cover climate change adaptation expenses in developing countries. This helps to raise crucially needed funding for adaptation measures in countries around the world. Such contributions are not required for mitigation activities registered under Article 6.2 cooperative approaches.

If the EU allows use of carbon credits to help achieve its 2040 target, it should either stipulate that all credits must be Article 6.4ERs (i.e., credits issued under the PACM) or require equivalent contributions to the AF for credits issued under Article 6.2 approaches. Currently, this means an in-kind contribution equivalent to 5% of all credits issued (“share of proceeds”), plus 3% of all issuance fees. This will help drive additional funding for adaptation, and help ensure that the PACM is not bypassed due to the perceived burden of AF contribution requirements. As with OMGE

contributions, this adaptation funding would generate a global dividend associated with the EU's proposed approach to delay and offset domestic climate action.

- **Ensure carbon credit quality** in line with the Paris Agreement's requirements

The EU proposal commits to “high-quality international credits under the Article 6 of the Paris Agreement”. It states that this would be “based on a thorough impact assessment and subject to the development of Union law setting robust and high integrity criteria and standards, and conditions on origin, timing and use of such credits.” We recommend that the EU should apply as a minimum standard new rules and methodological requirements being elaborated for the PACM.

Carbon credit markets have suffered from prevalent and long-standing concerns about quality. The “quality” of a carbon credit refers to the extent to which it is associated with validly quantified, permanent, and additional mitigation that adheres to robust social and environmental safeguards (Schneider and La Hoz Theuer 2019; Broekhoff et al. 2024). One recent survey found that for a subset of common mitigation activities – representing around one billion tonnes of claimed CO<sub>2</sub>-equivalent mitigation, or 20% of all credits ever issued globally – less than 16% represented actual emission reductions (Probst et al. 2024).

Several aspects of new rules and methodological requirements under Article 6 could help achieve higher levels of quality for PACM credits, including stringent requirements for “additionality” and permanence, and for applying downward adjustments to crediting baselines. If the EU allows use of carbon credits to help achieve its 2040 target, it should stipulate that credits must either be those issued under the PACM, or be at least equivalent in terms of the stringency of methods used to validate them.

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