

EU 2040 target: Home is where the emissions cuts are

Carbon Market Watch's position on the use of international carbon credits to outsource the EU's 2040 climate target

APRIL 2026



The world is heating up at an alarming rate and Europe is the fastest-warming continent. This has resulted in [escalating climate risks that are already](#) endangering energy and food security, ecosystems, infrastructure, water supplies, financial systems, and public health. This situation demands immediate and decisive action.

The agreed net 90% emissions reduction target for 2040 compared with 1990 levels today already sits at the lower end of what [the European Scientific Advisory Board on Climate Change](#) recommends, and remains a full 10% off the climate neutrality the EU [could](#) and [should](#) achieve by 2040 to equitably contribute to the Paris Agreement goals. Nevertheless, the EU Climate law has been amended to the effect that several 'flexibilities' were resorted to which undermine the headline target of -90% further. These flexibilities include potential reliance on international credits, which may substitute much needed and possible domestic climate action. Politics must confront climate sense once more.

Principles for a No to international credits

Higher emissions in the EU

Any reliance on international carbon credits to achieve the EU's 2040 climate target will result in higher emissions in the EU than would have occurred had the 2040 target remained entirely domestic. Under a situation in which the EU uses Article 6 credits to offset 5% of its 1990 net emissions, [emissions would be 50% higher](#) in 2040 than they would be with a fully domestic approach.

Introducing international credits [undermines the 2040 target](#) and will delay essential emissions reductions, potentially contributing to escalating the climate crisis beyond critical tipping points. Relying on international credits instead of investing in domestic decarbonisation only postpones the inevitable transition and makes the domestic climate neutrality goal the EU has for 2050 harder to achieve, imposing an unfair burden on future generations.

This is illustrated by the [case of New Zealand](#), where the 2030 climate target was set on the assumption that international credits would cover at least part of its obligations. However, when the actual purchase of such credits became necessary, the current government has shown considerable reluctance to commit substantial public expenditure to the task, putting the achievement of the country's climate target, and overall climate ambition, at risk.

Shifting climate responsibility

The reliance on international carbon credits shifts responsibility for part of the EU's domestic emissions to communities in the Global South who did little or nothing to create the climate crisis, potentially [exacerbating existing inequalities](#).

Purchasing credits for use toward EU targets is not guaranteed to benefit the seller country and may actually make it harder for those countries to reach their own climate goals, given they have to subtract sold credits from their greenhouse gas accounts to ensure they are only counted by the buyer country. In addition, purchasing international credits to meet the EU's climate target does not constitute [international climate finance](#) since these are transactions that will benefit the buyers. In addition, these purchases risk being used as an excuse to diminish member states' actual climate finance expenditure, further harming developing countries.

Bad for competitiveness

The international credit use would cost the European Union some €50 billion, [according to CMW estimates](#). This is a quarter more than the [ETS Innovation Fund budget](#) between 2020 and 2030 (40 billion). The cost of international credits could be even higher than this if the conservative price of €70 per credit we assumed in our calculation is exceeded.

All these billions spent to buy international credits are better invested in the EU to reduce the bloc's dependence on fossil fuels, safeguard the competitiveness of EU industries, and support the green transition.

In addition, relying on credits to achieve climate targets requires a constant financial commitment. Since a credit can only be used once towards an annual climate target, relying on credits requires recurring yearly expenditure, whereas investments in domestic emission reductions generally need to be made only once and generate long-lasting benefits.

Insufficient quality and supply

In [most cases](#), current carbon credits do not reliably reflect real emission reductions or removals. There is plenty of empirical evidence ([see our response to the call for evidence for an impact assessment](#)) that highlights the poor quality of carbon credit

markets, including inadequate climate, environmental and social impacts. These shortcomings underscore why carbon credits simply cannot be used to offset emissions.

Given that the Article 6 framework of the Paris Agreement does not adequately address these concerns, it remains plagued by the same problems as the voluntary carbon market .

[CMW's assessment of the Article 6 rulebook](#) found that current rules are not robust enough to ensure the transparent trade of high-quality carbon credits, with troubling ramifications for global climate action. Developed countries must thus prioritise domestic emission reductions and should not use Article 6 to achieve their climate targets.

Principles for the eventuality of international credit use

Action begins at home

In view of the above, the EU should rely solely on domestic emissions reductions to achieve its 2040 and future climate targets. The policy package to implement the EU's headline 2040 target should focus exclusively on domestic action. If any international credits are to enter the EU climate framework, that inclusion should be appropriately justified and utilised only as a potential last resort, and come as late and in as limited a way as possible.

Quality criteria for credits

Carbon Market Watch strongly opposes relying on international credits to meet the EU's 2040 climate target for the reasons explained above, yet the reviewed EU Climate Law opens the door to this approach. If EU policymakers decide to go ahead with this unnecessary and ineffective policy option, strong quality criteria for these international credits have to be respected. The EU must set collective quality criteria that are environmentally and socially robust and prevent a race to the bottom.

These pan-EU criteria must be put in place for units, activity types, methodologies and projects that are better than existing substandard practices under Article 6 of the Paris Agreement, the voluntary carbon market and, especially, the EU's Carbon Removals and Carbon Farming (CRCF) framework. Besides being [weak](#) and having methodologies that set a [lower standard](#) than requirements under Article 6, the CRCF relies on EU

legislation in critical areas such as sustainability, additionality and permanence, which cannot apply to projects in other jurisdictions.

Criteria under Article 6.4 can, at best, only serve as a starting point and reference. They must be complemented and improved, especially in the context of the permanence of the climate benefits and human rights.

International credits should be limited to permanent carbon dioxide removals, avoiding lock-in of continued fossil fuel production and use. In 2025, the remaining carbon budget for 1.5°C was [170 gigatonnes](#), equivalent to roughly four years at 2025 emission levels. This leaves no room for crediting emission reductions as a justification for continued domestic emissions, and is a reason for the EU to purchase exclusively permanent removal credits from partner countries.

These credits must also:

- Employ methodologies which align with the Paris Agreement objective to limit the increase in the global average temperature to 1.5°C above pre-industrial levels
- Originate from credible and transformative activities which are difficult or impossible to finance through other means than carbon crediting, which go well beyond business as usual, and which do not lock in fossil fuel production and use or other technologies and practices that are incompatible with the 1.5°C temperature goal of the Paris Agreement
- Originate from methodologies guaranteeing that the net removal benefit generated by these credits is genuine, measurable, verifiable, additional and permanent, in a way that ensures no double counting through the application of corresponding adjustments, full transparency and traceability, and full accounting of associated emissions
- Not lead to biodiversity loss and must deliver additional environmental and social co-benefits
- Originate from projects with robust social, environmental and human rights safeguards, with equitable and transparent benefit sharing arrangements as well as with an independent and accessible grievance mechanism
- Be issued through robust and transparent crediting programmes with strong independent third-party validation and verification processes, whereby the auditor is independently attributed to projects (not directly contracted by projects) and must be certified by the EU;

- Ensure credits in the pipeline are trustworthy and accountable, with full disclosure of all project documentation and UNFCCC reporting before any trades take place
- Ensure equitable benefit sharing in any bilateral agreement between the EU and a host country such that: at least half of the mitigation benefits are retained by host countries from which the international credits are acquired; at least 5% of credits are delivered to the UN Adaptation Fund (Share of Proceeds for Adaptation); at least 2% of credits are cancelled without anyone claiming the mitigation (overall mitigation of global emissions)
- Ensure that host countries' climate targets align with the Paris Agreement's 1.5°C goal, as judged by independent scientific analysis like the Climate Action Tracker, and that the trade of credits does not undermine host countries' target achievement (e.g. higher costs to deliver additional domestic mitigation due to over-selling).

These quality criteria must be applied at both the methodological and project levels. They set the high bar we expect of the EU as a climate policy actor.

Centralised purchasing mechanism

Any optional purchasing of international credits by the EU should be through an EU central purchasing platform. Purchasing should be funded directly by interested member states, depending on their specific quantified demands, up to national limits based on an EU-wide distribution key.

Starting from 2031, member states should communicate annually to the Commission if they intend to use any international credits after 2036. Member states should justify their intention to use international credits, explaining why and how far off track they are with their emissions reduction targets and why they would not be able to meet them with domestic mitigation efforts alone.

If the member state presents a strong case, the Commission would arrange bilateral agreements with host countries that respect the quality criteria stated in the previous section. The Commission should only be able to buy a capped amount of credits per year starting from 2032, but credits could only be used towards target achievement when bought after 2036, in line with Article 6 rules. Any credits bought before 2036, as well as any surplus of credits bought after 2036 on the basis of forecasted shortfalls

which did not materialise, should be cancelled and accounted for as overall mitigation of global emissions, rather than be used towards any targets.

Developed properly and employing the standards outlined above, a centralised approach to purchasing would make it easier to monitor the quality of the credits and the agreements with host countries, ensuring that credits are in line with robust criteria and facilitating scrutiny from civil society. Basing purchasing on member states' demand upon presentation of a credible, transparent justification and asking them to pay for the credits is critical, given the extent of the investment at the expense of EU decarbonisation.

Exclusion from use in EU ETS and reserve as a last resort for national targets

The package to implement the EU's 2040 climate target must be based on a net domestic emissions reduction of 90% in the EU. International credits should not be eligible for any direct or indirect use or accounting in the EU Emissions Trading System.

They must be used as a last resort, and be limited as an option for member states to achieve their targets only in unavoidable cases (for example, in cases of demonstrated shortfalls in the Land Use, Land Use Change and Forestry sector only due to climate change impacts).

EU member states should not be able to use international credits towards their targets without demonstrating and credibly justifying that domestic mitigation efforts were insufficient.

Credible impact assessment

When presenting its proposal, the Commission must accompany it with a robust impact assessment which examines:

- The impact of relying on international credits on the EU's overall emissions as compared to a fully domestic target and to the EU's ongoing and historical responsibilities
- The impact on domestic climate action and associated challenges to meet the EU's 2040 and future climate targets, including the domestic climate neutrality target by 2050
- The likelihood of sufficient current and future supply of international credits sourced from methodologies guaranteeing:

- Genuine, measurable, verifiable, additional and permanent climate benefits, originating from credible and transformative activities
- Positive social impact and respect of human rights
- The avoidance of environmental harm and biodiversity loss
- The estimated cumulative cost of international credits for the EU and its member states
- The impact of displacing investments in the decarbonisation of the Union's economy, including any harm to investment certainty and competitiveness
- The impact on international climate finance by the EU and its member states, including a detailed overview of current and projected sources of climate finance and noting that [the purchase of international credits should not be considered climate finance](#)
- Wider environmental and social impacts.

Conclusion

The EU should not rely on international credits to achieve its 2040 climate target. A domestic reduction of 90% in net emissions by 2040 already sits at the lower end of the target range recommended by the ESABCC, and is not in line with the EU's historical responsibility and potential to address climate change.

As global warming continues to advance at alarming rates, the EU cannot relax its climate action. This would not only mean imposing the burden of reversing global temperature rises unfairly on future generations and vulnerable countries, but also would represent a direct threat to EU industrial competitiveness and the green transition, while inflicting potential damage on the EU's international reputation.

The post-2030 climate architecture must be made up of policies that can lead the EU to reduce net emissions by 90% domestically, before finally achieving climate neutrality and net-negativity by mid-century at the latest. The EU and its member states must plan ahead and remain accountable towards these objectives. Any reliance on international credits towards the 2040 target must be appropriately justified, used as a last resort, kept minimal, respect strict quality criteria, and be informed by a thorough assessment of its environmental, social and economic impacts.

The EU and its member states have the potential to do much more. Responsible policymakers must act urgently.



2040 target and its implementation package must be based on 90% domestic net emissions reductions



2040 damage control: minimum safeguards for international credits

Quality criteria	Purchasing mechanism	Credits use	Impact assessment
<ul style="list-style-type: none"> - Pan-EU criteria for units, activity types, methodologies and projects - Complement and improve Article 6.4 criteria - Limited to permanent removals - From methodologies aligned with Paris Agreement, guaranteeing strong quality - 50% sharing of mitigation benefits 	<ul style="list-style-type: none"> - EU central purchasing platform. - Funded by interested member states depending on their demands up to national limits. - From 2031, member states to communicate annually intentions for credits use upon proper justification - Bilateral agreements by the Commission, capped amount of credits bought per year 	<ul style="list-style-type: none"> - No use towards or in EU ETS - Last resort for shortfalls in member states' target in unavoidable cases - Proper justification by member states regarding insufficient mitigation efforts - Surplus of credits bought based on forecasted shortfalls which did not materialise must be cancelled 	<ul style="list-style-type: none"> - The impact on EU overall emissions compared to fully domestic target and EU's ongoing and historical responsibilities - Extent of current and future supply of high-quality credits - Impact on EU climate action and meeting future targets - Economic, environmental and social costs and impact on international climate finance





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