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EBF response to the Commission's consultation on the possible use of international carbon credits towards the 2040 EU Climate Law Targets.

Introduction

The European Banking Federation supports the European Union's climate policy objectives, in particular climate neutrality by 2050 and the envisaged reduction of greenhouse gas emissions by 90% by 2040 compared to 1990 levels. Achieving these ambitious goals will require profound structural change across the European economy and massive investment in new technologies, infrastructure and business models. Mobilizing private capital is therefore indispensable.

Credit institutions play a key enabling role in financing the transition. While banks are not directly subject to climate targets by Climate Law, they are crucial for steering capital towards climate-friendly investments and supporting transformation in the real economy. Banks play a critical role not only as financiers but also as enablers of market infrastructure, supporting liquidity, tradability and risk management. These functions are essential to scale international carbon markets to the volumes required. Without sufficient liquidity and robust market design, the envisaged mechanism risks remaining ineffective in practice.

Primacy of European decarbonisation

The structural decarbonization of the European economy must remain the cornerstone of EU climate action. Capital must be directed to European climate innovation and solutions that reduce emissions, strengthen energy security and support the creation of green jobs in Europe.

In this context, a solid and rigorous development of voluntary carbon credits has a role to play in the global transition to carbon neutrality, with specific attention to several sensitive aspects:

- **emission reduction actions should always be a priority** over using of carbon credits;

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- the greenhouse gas reductions linked to these voluntary carbon credits should be **effective and permanent**;
- the carbon credits must be based on high integrity and **robust principles, standards and methodologies**;
- the use of carbon credits should be **strictly limited, secondary, and quality-assured, and confined to clearly defined residual emissions** that are difficult to avoid in the short to medium term as opposed to their use as a speculation tool.

In this context, their use could be considered in sectors where the transition to net-zero remains particularly challenging, as well as in specific cases such as compensating for natural disturbances in the land use, land use change and forestry sector.

In parallel, an **early and predictable regulatory framework** is needed to enable the financing of future carbon credits within and beyond the EU. Legal certainty and **prevention of the greenwashing risk** is essential at an early stage in order to mobilize private capital and build scalable removal and reduction capacities in line with the European Climate Law.

Environmental and financial integrity as a prerequisite

International carbon credits can only contribute meaningfully to EU climate objectives if **both environmental and financial integrity are ensured** from the outset. From the perspective of the financial sector, international credits increasingly exhibit characteristics of financial instruments, including long maturities and complex risk profiles. **Beyond environmental risks**, technology, regulatory, political, counterparty and permanence risks become relevant once credits are used for financing, accounting or risk management purposes.

Environmental and financial integrity are therefore inseparable. Fragmented or illiquid market structures increase risks and raise capital costs - ultimately constraining supply and undermining the effectiveness of the mechanism. A credible EU framework should address these risks through **clear and legally binding eligibility and governance requirements**. In particular, the framework should require:

- (i) demonstrable **additionality**,
- (ii) **conservative crediting and baselines**,
- (iii) **robust measurement, reporting and verification system**,
- (iv) **sufficient durability/performance and reversal risk management**,
- (v) **clear rules on liability/accountability** and corresponding adjustments,
and
- (vi) **appropriate risk management safeguards**.

To further strengthen the credibility of the system, **validation and verification bodies should be fully independent** from project developers and any entities involved in the issuance of carbon credits. These bodies should be accredited by

public authorities at national or European level, and institutional arrangements should prevent direct interactions that could generate conflicts of interest.

International credits as a complementary and stabilizing instrument

Against this background, a well-functioning international carbon market can serve as a **complementary instrument** within an ambitious European climate framework. A clear and coherent European legal framework for the limited use of international emission credits can increase investment certainty, support global decarbonization as well as economic development and ecosystem protection of third countries and help maintain the operability, investability and political durability of the EU climate regime.

Subject to **strict quality safeguards** (integrity, transparency, robust governance & independent verification), international carbon credits can support global decarbonization by channeling additional private investment into high-quality emission reduction and removal projects outside the EU. At the same time, they can serve a **stabilizing function within the EU climate framework**, including as a market-based stabilizing mechanism for ETS-covered sectors. Any such role would need to be designed in a way that operates **alongside the EU ETS without undermining the ETS cap or price signal**. Properly structured and used in a constrained manner, international credits can help mitigate excessive price volatility, support investment planning and safeguard competitiveness of EU industry in hard-to-abate sectors—without undermining the environmental integrity or price signal of the EU ETS.

Particular attention should be given to **scalable technological solutions**, such as direct air carbon capture and storage (DACCS) and **bioenergy with carbon capture and storage (BECCS)**, alongside **sectors such as agriculture**, which represent a significant source of GHG emissions but also offer important mitigation and removal potential.

These purchases could also serve as a **strategic instrument to strengthen ties with EU trading partners**.

The currently discussed cap of up to five per cent constitutes a reasonable starting point.

While the five per cent cap is considered appropriate, a pragmatic approach that allows for **different high-integrity credit types**, including nature-based solutions and engineered removals, is essential. Where consistent with high integrity criteria, activities that safeguard existing carbon sinks should also be considered to strengthen deliverability and supply. An overly narrow focus on a limited set of credit types risks supply bottlenecks, low liquidity and rising costs, thereby weakening the intended stabilizing effect.

Alignment with the Paris Agreement and market architecture

To avoid fragmentation and double counting, any European framework for international credit should be **aligned with the market mechanisms of the Paris Agreement**. For accounting towards EU or Member State climate targets, international credits should be aligned with criteria under Article 6.2 or 6.4 of the

Paris Agreement and accompanied by corresponding adjustments to safeguard integrity. Such alignment would **facilitate the integration of European market participants into global carbon markets**.

A **standardized and transparent market architecture** is equally crucial. Clearly defined credit categories, interoperable registries, harmonized verification procedures and clear rules for trading and accounting are prerequisites for a liquid and investable market.

Phased introduction and level playing field

We support the use of **well-designed pilot mechanisms** to gain practical experience prior to any broader application. A phased approach, perhaps starting with pilot partner countries, allows quality standards, governance structures and market infrastructure to be tested and refined before potential use from 2036 onwards

A uniform European level playing field is essential. Beyond rule-setting, the EU should consider a stronger coordinating and supervisory role at European level to ensure consistency, transparency and stability across Member States and to reduce regulatory and market fragmentation.

Divergent national rules on quality requirements, acquisition or accounting would undermine investment certainty and market confidence. The EU framework should therefore establish **harmonised eligibility criteria, clear safeguards against double counting and coherence with existing climate and accounting rules**. Voluntary carbon market practices and infrastructure can potentially serve as a reference point for standards, registries and risk management.

Audit-Proofness of international carbon credits used by counterparties

It needs to be ensured that in a scenario where counterparties use international carbon credits to offset their emissions, it **does not fall to the bank to verify credibility, integrity, governance or other elements of the carbon credits**. Any future EU framework must ensure that all credits that are eligible within the EU are accepted by supervisors, auditors and all relevant counterparties, based on a **rigorous verification process** verifying veracity of third countries' local carbon prices and the robustness of the standards, methodologies and principles on which such credits are based and priced.

Inclusion of carbon credits issued by non-EU emissions trading schemes.

Finally, we would like to suggest that the Commission also considers **allowing the purchase of certificates** (provided those are subject to robust standards as described above) from foreign ETS with strict framework closely aligned with the EU ETS.

Conclusion

We support the development of a European legal framework for the limited and complementary use of international emission credits in pursuit of the EU's 2040 climate target.

International credits can support global decarbonization financing and contribute to a cost-efficient and politically durable European climate framework - provided they **remain strictly supplementary, meet the highest integrity standards and are embedded in a transparent, standardized and liquid market architecture.**

Addressing interacting system risks, particularly market fragmentation and supply constraints, is essential to ensure that the mechanism delivers real climate impact and functions effectively in practice.
