

Working Paper

Using international carbon credits towards the EU 2040 target –
Options for the timing credit purchases, the choice of the method for
applying corresponding adjustment, and a flexible use of credits
towards the EU NDC or climate finance purposes

Oeko-Institut Working Paper 7/2026

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Disclaimer

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Abstract

This working paper explores specific matters for the possible use of international carbon credits towards the EU's 2040 climate target. This includes when international carbon credits would need to be generated, transferred and used in order to be used towards the target, which of the methods for applying corresponding adjustments the EU should choose for applying corresponding adjustments, and whether and how the EU could pursue a flexible approach towards using international carbon credits by deciding at a later stage whether international credits would be used towards achieving the EU's 2040 climate target or reported as climate finance contribution.



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1 Introduction

With the amendment of the European Climate Law¹, which entered into force in April 2026, the European Union has set its climate target for 2040. This target is expressed as a binding reduction of net greenhouse gas (GHG) emission by 90% compared to 1990 levels by 2040. Unlike the EU's 2030 climate target, the 2040 target is envisaged to include a contribution of high-quality international credits under Article 6 of the Paris Agreement of up to 5% of 1990 Union net emissions, corresponding to an 85% reduction domestically. In addition to setting its EU-internal climate target for 2040, the EU will also communicate a 2040 target as part of its next nationally determined contribution (NDC) to be submitted in 2030 under the Paris Agreement. The possible use of international carbon credits to achieve the EU-internal climate target for 2040 means that such carbon credits may also be used to achieve the EU's 2040 NDC target.

Many questions regarding the implementation of the European Climate Law are still open and will be discussed as part of legislative proposals that will further specify the implementation of the Law ('post-2030 climate framework'). How the EU may implement the European Climate Law must align with the internationally agreed rules under the Paris Agreement. This includes, in particular, rules adopted under the enhanced transparency framework (ETF) under Article 13 of the Paris Agreement and rules governing Article 6 of the Paris Agreement. Article 6.2 establishes a framework for countries on how to engage in international carbon markets. Four decisions on Article 6.2 have been adopted so far (decisions 2/CMA.3, 6/CMA.4, 4/CMA.6 and 19/CMA.7)² but additional guidance may still be adopted in the future. A core element of these rules are the accounting and registry provisions governing the generation, authorization, transfer and use of internationally transferred mitigation outcomes (ITMOs) and the avoidance of double counting through the application of corresponding adjustments in the emissions balances of Parties (also referred to as 'structured summary'). These rules also have implications for the timing of acquiring and using ITMOs towards NDCs or climate finance purposes.

This working paper discusses the following specific matters that arise from these international rules:

1. What options are available to the EU for the timing of ITMO purchases, i.e., when ITMOs would need to be generated, transferred and used in order to be used towards the EU's 2040 NDC;
2. Which of the methods for applying corresponding adjustments the EU and its partner countries should choose, including what amount of ITMOs would the EU need to purchase in each year from 2036 to 2040 under each method respectively; and
3. Whether and how the EU could pursue a flexible approach towards using ITMOs by deciding at a later stage whether the international credits would be used towards achieving the EU NDC, whether they could be reported as a climate finance contribution or how they could be sold on.

The international Article 6.2 rules enable ITMOs to be generated using carbon crediting programmes or to be verified mitigation outcomes without use of an underlying carbon crediting programme. The

¹ Regulation (EU) 2026/667 of the European Parliament and of the Council of 11 March 2026 amending Regulation (EU) 2021/1119 as regards the setting of a Union intermediate climate target for 2040, <http://data.europa.eu/eli/reg/2026/667/oj>

² Decision 2/CMA.3, Guidance on cooperative approaches referred to in Article 6, paragraph 2, of the Paris Agreement, <https://unfccc.int/documents/460950>; Decision 6/CMA.4, Matters relating to cooperative approaches referred to in Article 6, paragraph 2, of the Paris Agreement, <https://unfccc.int/documents/626570>; Decision 4/CMA.6, Matters relating to cooperative approaches referred to in Article 6, paragraph 2, of the Paris Agreement, <https://unfccc.int/documents/644937>; Decision 19/CMA.7, Implementation of the guidance on cooperative approaches referred to in Article 6, paragraph 2, of the Paris Agreement, <https://unfccc.int/documents/655275>

analysis assumes that ITMOs are generated using an underlying carbon crediting programme. This may include the Paris Agreement Crediting Mechanism (PACM) established by Article 6.4 of the Paris Agreement or non-governmental, governmental or bilateral carbon crediting programmes.

2 Options for the timing of ITMO purchase

A number of steps have to be followed for the generation, acquisition and use of ITMOs, from the generation of the carbon credits to the reporting on NDC achievement in the biennial transparency report (BTR). This first chapter provides an overview of the steps required (section 2.1) and discusses the implications for the timing of ITMO purchase by the EU (section 2.2).

2.1 From carbon credit generation to final NDC accounting

The main steps required for using international carbon credits towards the achievement of an NDC comprise the following:

- Submission of an “initial report” by the Parties involved in a cooperative approach which sets out how the Parties will engage in Article 6;
- Generation of the mitigation outcomes (i.e., the emission reductions or net removals);
- Issuance of any underlying carbon credits using either the Paris Agreement Crediting Mechanism established under Article 6.4 or other carbon crediting programmes;
- Authorization of the mitigation outcomes underlying the carbon credits by the host Party;
- Transfer of the carbon credits to the buyer Party;
- Documentation of the transfer of carbon credits in the ITMO registries of the Parties as a first transfer by the host Party and an acquisition by the acquiring Party;
- Use of the ITMO by the acquiring Party towards the achievement of its NDC or cancellation for other purposes;
- Annual reporting of ITMO transaction by both Parties using the agreed electronic format (AEF);
- Accounting for first transfer of ITMOs (host Party) and the use of ITMO towards NDC achievement (acquiring Party) in their respective BTRs, through the application of corresponding adjustments (i.e. additions to reported emissions by the host Party and subtractions from reported emissions by the acquiring Party); and
- Establishment of the final emissions balance after the end of the NDC period.

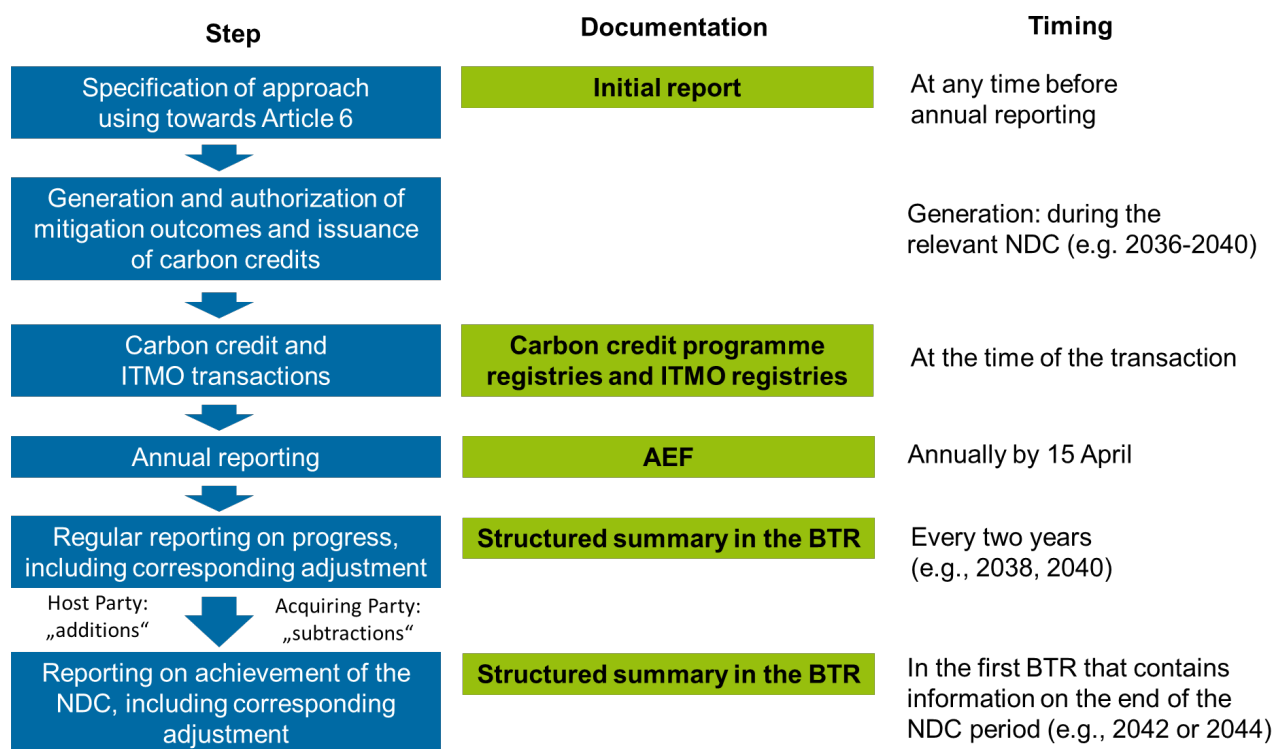
These steps are shown in **Figure 2.1** and described in the following sections, including with regard to their timing. It should be noted that the sequence of some steps may be changed. For example, the authorization of mitigation outcomes could occur before or after the issuance of carbon credits.

2.1.1 Initial reports

Each Party engaging in a cooperative approach under Article 6.2 of the Paris Agreement has to submit an initial report. The report sets out how the Party makes use of Article 6. This includes key issues for ensuring robust accounting, such as how the NDC will be quantified and expressed in tonnes of CO₂ equivalents, how the Party accounts for single-year targets, and what registry arrangements it chooses. The initial report must be submitted before annual information on ITMO transactions is being reported (paragraph 26 of decision 4/CMA.6). As of 18 August 2026, 23 countries have submitted an initial report.³

³ See <https://unfccc.int/process-and-meetings/the-paris-agreement/article-6/article-62/carp/reports>

Figure 2.1: Process from carbon credit generation to final NDC accounting



Source: Own illustration based on relevant CMA decisions

2.1.2 Generation of mitigation outcomes and issuance of carbon credits

Mitigation outcomes, i.e., emission reductions or net removals, can be generated using the PACM established by Article 6.4, under other carbon crediting programmes or through other approaches, provided that they comply with EU rules on high quality (yet to be defined at EU level). The PACM and carbon crediting programmes issue carbon credits into their registries. The issuance of carbon credits occurs ex-post, after the emission reductions or net removals were generated and verified, based on monitored data. This means that mitigation outcomes generated until 31 December 2040 can at the earliest be issued in 2041.

In practice, the duration from the end of monitoring period (e.g., 31 December 2040) until the issuance of the carbon credits varies strongly, from a few months to several years, depending on whether the data is readily available or needs to be collected ex-post (e.g., using remote sensing data to determine carbon stocks) and how long verification by third-party auditors takes. For complex activities, this can last up to 2-3 years, for example for activities crediting the reduction of deforestation at jurisdictional scale.

Carbon credits are, however, issued in batches, often for a period of one year. This means that mitigation outcomes generated in 2036 could be issued as early as in 2037, mitigation outcomes generated in 2037 could be issued in 2038 and so forth. This means that considerations with regard to the closure of accounting are particularly relevant for mitigation outcomes generated towards the end of the NDC period.

2.1.3 Authorization of mitigation outcomes for use towards NDCs

Under Article 6.2 of the Paris Agreement, host Parties need to authorize mitigation outcomes for use towards NDCs in order for them to become ITMOs that can be used towards the NDC of the acquiring Party. This step can either occur prior or after the issuance of the respective carbon credits. Authorization can be granted with respect to specific batches of and quantities of carbon credits.

2.1.4 Transactions of carbon credits and ITMOs

Carbon credits are transacted in the relevant registries of the carbon crediting programmes. The acquiring Party can open accounts in the relevant registry and receive the relevant carbon credits and subsequently retire them for the purpose of achieving its NDC.

For tracking of ITMOs, Parties shall have, or have access to, a registry or may use the international registry operated by the UNFCCC secretariat (decision 2/CMA.3, paragraph 29). Where Parties use the PACM to generate carbon credits, they can directly use the PACM registry as their ITMO registry. Parties can also build their own ITMO registry or use a registry of a third-party provider. Depending on the model used, different relationships seem possible between carbon crediting programme registries and ITMO registries:

- **ITMO registries reflecting transactions in underlying carbon crediting programme registries:** ITMO registries could operate independently of carbon crediting programme registries. In this case, the ITMO registry by a Party involved in a cooperative approach would reflect the transactions in the underlying carbon crediting programme registries. The “agreed electronic format” (AEF) through which Parties report on their ITMO transactions explicitly enables for this model. It allows Parties to report the serial numbers of “underlying cooperative approach registries” together with the serial numbers of the respective ITMO (decision 4/CMA.6, Annex II).
- **Carbon crediting programme registries serving as the ITMO registry of the Parties:** As with the PACM registry, it is conceivable that carbon crediting programmes amend their registries to cover the functions of an ITMO registry. In this case, carbon credits transacted within the registry could be flagged once they have become ITMOs.
- **Carbon crediting programme registries transferring carbon credits to ITMO registries:** It is also possible that carbon crediting programme registries are connected to the ITMO registries of Parties. In this case, carbon credits, when they become ITMOs, could be transferred to the ITMO registry of the Parties.

In the context of using ITMOs towards NDCs, authorized mitigation outcomes become ITMOs once they are internationally transferred for the first time (decision 2/CMA.3, Annex, paragraph 2a). According to version 1.0 of the procedure “International Registry and Additional Registry Services” (A6.2-PROC-REGS-001)⁴ released by the secretariat and the procedure “Article 6.4 mechanism registry” (A6.4-PROC-REGS-001)⁵ adopted by the Supervisory Body of the PACM, the first transfer occurs when mitigation outcomes are transferred from an account owned by the host Party, or entities authorised by the host Party, to an account of another Party. This transfer is recorded in the ITMO registry as a “first transfer” of the host Party and an “acquisition” of the acquiring Party.⁶

⁴ See <https://unfccc.int/sites/default/files/resource/A6.2-PROC-REGS-001.pdf>

⁵ See <https://unfccc.int/sites/default/files/resource/A6.4-PROC-REGS-001.pdf>

⁶ Note that the „first transfer“ may also be recorded earlier in special cases. This holds if the host country has authorized mitigation outcomes in the authorization letter for either use towards NDC or other international mitigation purposes (OIMP) and has specified that the „first transfer“ is the „issuance“ or „authorization“ of the mitigation outcomes. In this instance, the first transfer would already be recorded

Following the acquisition of an ITMO by the acquiring Party, the acquiring Party may transfer the ITMOs to an account for use towards the NDC. In doing so, the Party must specify the calendar year (e.g. 2038) within the NDC period (e.g. 2036 to 2040) for which the ITMO is used (paragraph 8 in the Annex to decision 2/CMA.3).⁷ The international rules under Article 6 of the Paris Agreement further require that ITMOs are used within the same NDC implementation period as when the mitigation outcomes occurred (paragraph 8 in the Annex to decision 2/CMA.3). To facilitate the implementation of this requirement, all ITMOs have a unique identifier for the calendar year in which the mitigation outcome occurred, which is referred to as “vintage” (paragraph 5 in Annex II to decision 6/CMA.4). As international rules do not establish any further limitations on when ITMOs are used within an NDC period, Parties have flexibility to use ITMOs of different vintages in different years, as long as this falls within the same NDC period. For example, for the NDC period from 2036 to 2040, the EU could use an ITMO with a 2036 vintage towards NDC achievement in the year 2040 or an ITMO with a 2038 vintage towards NDC achievement in the year 2037. Section 2.2 below addresses when these transactions must be finalized.

2.1.5 Documentation of the transaction in ITMO registries and reporting in the AEF

As a next step, information on ITMO transactions is reported by Parties to the UNFCCC secretariat as part of their ‘annual information’, using the agreed electronic format (AEF) (decision 4/CMA.6, paragraph 19). The AEF is filled automatically from registry data and has to be reported by 15 April of each year for information on the previous year. For example, all ITMO transactions that occurred between 1 January and 31 December 2038 would need to be reported to the UNFCCC secretariat in the AEF submitted on 15 April 2039.

2.1.6 Application of corresponding adjustments in BTR reporting

Under the Paris Agreement, Parties must submit BTRs to the UNFCCC secretariat by 31 December of every even year; the first submission was due on 31 December 2024. As part of the BTR, each Party must provide detailed information on the Party’s emission balance in the form of a ‘structured summary’. The reporting provisions for the ‘structured summary’ were defined in the ‘modalities, procedures and guidelines’ (MPGs), specifically in paragraph 77 of the annex to decision 18/CMA.1)⁸.

While the buyer Party uses ITMOs to adjust its emissions balance downwards to achieve its NDC, the host Party has to adjust its emissions balance upwards for all ITMOs which it first-transfers, in order to prevent that emission reductions or removals are double counted. This is implemented through application of “corresponding adjustments”. The host Party applies an “addition” to its reported emissions for every ITMO that has been first transferred, and the buyer Party applies a “subtraction” for each ITMO that has been used towards its NDC (paragraph 8 in the Annex to decision 2/CMA.3).

when the issuance or authorization has taken place (see paragraph 12 of decision 4/CMA.6) and not only when the mitigation outcomes would be internationally transferred.

⁷ See also the column „Calendar year for which the ITMOs are used towards the Party’s NDC“ in Table 3 of the draft version of the agreed electronic format contained in Annex II to decision 4/CMA.6).

⁸ Decision 18/CMA.1, Modalities, procedures and guidelines for the transparency framework for action and support referred to in Article 13 of the Paris Agreement, <https://unfccc.int/documents/193408>

The specific format for the structured summary has been defined in annex II to decision 5/CMA.3⁹. Table 4 in this annex provides information for the tracking of progress towards implementing and achieving the Party's NDC. The information in this table includes the following key elements:

- **GHG emissions and removals** in the scope of the NDC of the reporting Party in each year of the NDC implementation period. This information is available from the national GHG inventory, which forms part of the BTR submission, and must be reported by all Parties;
- **Annual quantities of ITMOs used towards achievement of the NDC**, for which a subtraction is made from the GHG emissions and removals. This information is only reported by Parties that acquire and use ITMOs towards NDCs;
- **Annual quantities of ITMOs first transferred**, for which an addition is made to the GHG emissions and removals. This information is only reported by host Parties;
- **Annual adjusted emissions and removals** which correspond to the emissions plus any additions minus any subtractions. This information must be reported by all Parties engaging in Article 6.

Besides these elements which are of particular interest here, the structured summary contains additional elements. For example, Parties that make use of multi-year emissions trajectories have to provide such trajectories in their structured summary.

According to paragraph 14 of decision 19/CMA.7, each participating Party shall ensure that information included in the annex to its BTR reflects the most recent annual information reported in its AEF submission. This means that the information on corresponding adjustments is reported with some time delay. For example, ITMO transactions in the year 2036 would be reported in the AEF due on 15 April 2037. Information on the respective corresponding adjustments would then be reported in the BTR submission due on 31 December 2038.

2.2 Reporting on NDC achievement – timing issues

After the end of each NDC period, each Party reports on the achievement of its NDC. More specifically, according to paragraph 70 of the annex to decision 18/CMA.1, each Party shall provide an assessment of whether it has achieved its NDC target(s) in the first BTR “that contains information on the end year or end of the period of its NDC”.

As stated above, the key information required for assessing NDC achievement includes GHG emissions and removals and information on ITMO transactions and respective corresponding adjustments. It is important to note that this information will become available only after some time. Therefore, in the following discussion of an NDC period that ends in 2040, the availability of information will be considered separately for (i) information on GHG emissions and removals (section 2.2.1) and (ii) information on ITMO transactions and respective corresponding adjustments (section 2.2.2).

2.2.1 Timing of the information on GHG emissions and removals

Information on GHG emissions and removals is compiled from a wide range of national data sources and is subject to internal quality control processes. Hence, national GHG inventories, which form part of the BTR submission, are available with a delay only. According to paragraph 58 of the annex

⁹ Decision 5/CMA.3, Guidance for operationalizing the modalities, procedures and guidelines for the enhanced transparency framework referred to in Article 13 of the Paris Agreement, <https://unfccc.int/documents/460951>

to decision 18/CMA.1, ‘for each Party, the latest reporting year shall be no more than two years prior to the submission of its national inventory report’. This means that for the NDC period which ends in 2040, Parties will report GHG emissions and removals for the whole NDC period in the BTR which is due by 31 December 2042.

However, there are exceptions for specific developing countries:

- Those developing country Parties that need flexibility in the light of their capacities may have their latest reporting year as three years prior to the submission of their national inventory report (paragraph 58 of the annex to decision 18/CMA.1). This means that these Parties may not report GHG emissions and removals up to 2040 in their 2042 BTR, but in their 2044 BTR only. However, information on ITMO transaction still has to be taken from the most recent AEF submission.
- In addition, Parties that are Least Developed Countries (LDCs) and/or Small Island Developing States (SIDS) may submit BTRs at their discretion (paragraph 4 of decision 18/CMA.1). As corresponding adjustment are reported as part of BTR submissions, this means that there is no obligation for these Parties to report on their corresponding adjustments.

For some Parties, GHG inventory data is available earlier: According to the reporting requirements under the Convention, Parties listed in Annex I to the Convention report their national GHG inventories by 15 April of each year. For those countries, GHG inventory data up to 2040 will be available by 15 April 2042. The EU is a special case as its GHG inventory is based on the national GHG inventories of its Member States. According to Article 26(3) of the Governance Regulation¹⁰, Member States shall report to the European Commission preliminary GHG inventory data by 15 January and final GHG inventory data by 15 March of each year. These data are used for compiling the EU’s GHG inventory, which becomes available by 15 April of each year.

Importantly, GHG emissions and removals up to the end of the NDC period are needed to inform the Party about any differences between reported emission levels and its NDC target. Only at the time when GHG emissions and removals are available for the last year of the NDC period, buyer Parties know the exact amount of ITMOs they need to acquire and use towards their NDC targets and host Parties know whether and to what extent they have over-achieved their NDCs.

In practice, this means that **buyer Parties such as the EU will only know in the course of 2042 the final number of ITMOs** they need to use to close any gap between their reported emissions and the NDC target. For **host Parties, this information also becomes available during 2042** when the countries prepare their BTR **or even later if the host Party makes use of the flexibility provided under the Paris Agreement** to provide emissions with a three-year time lag (see above).

2.2.2 Timing of the information on ITMO transactions

The timing of information on ITMO transactions, and the application of the respective corresponding adjustments, poses particular challenges. A key challenge is that all ITMO transactions for an NDC period should be made and reported before the emissions balance for an NDC period is finalized. If the host country would conduct any first transfer of ITMOs thereafter, the respective additions would no longer be reported in the emissions balance, which would lead to double counting.

International rules have not yet specified for how long ITMOs may be transacted with respect to an NDC period. The rules under Article 6.2 specify that additions and subtractions for an NDC

¹⁰ Regulation (EU) 2018/1999 on the Governance of the Energy Union and Climate Action, <http://data.europa.eu/eli/reg/2018/1999/oj>

implementation period shall be considered final, prior to the initiation of the review of the first biennial transparency report that contains information on the end year or end of the period of the NDC, by a date to be determined by the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) (paragraph 12 in the Annex to decision 2/CMA.3). This date has not yet been confirmed.

As mentioned above, according to decision 19/CMA.7, each participating Party shall ensure that information included in the annex to its BTR reflects the most recent annual information reported in its AEF submission. This means that the BTR submitted at the end of 2042 can only reflect the AEF submission of April 2042, which contains information on ITMO transactions conducted until 31 December 2041. Similarly, the BTR submission at the end of 2044 would be based on the AEF submitted on 15 April 2044 which contains information on ITMO transactions conducted until 31 December 2043.

After the submission of the last BTR for an NDC period, two different reviews will be conducted by experts that are appointed by Parties and have passed qualification requirements by the UNFCCC secretariat: an Article 6 technical expert review to assess specific matters related to Article 6 and a technical expert review of the entire BTR under Article 13 of the Paris Agreement. Given that the findings of the Article 6 technical expert review should feed into the review under Article 13, these two review cycles may also take time. For a BTR submitted on 31 December 2042, the outcomes of the reviews may therefore only be available by the end of 2043 or even in 2044. For a BTR submitted on 31 December 2044, this could be 2045 or 2046. While this would be relatively late, this timeline would align with the agreed international rules.

2.2.3 Key considerations for the timing of the final emissions balance and demonstration of achievement

Parties to the Paris Agreement still need to determine the final date until which additions and subtractions shall be made to the emissions balance for an NDC period before the expert review process is started (paragraph 12 in the Annex to decision 2/CMA.3). In determining this date and providing any further international guidance on the timing of ITMO transactions with respect to the final emissions balance, several issues and trade-offs may need to be considered:

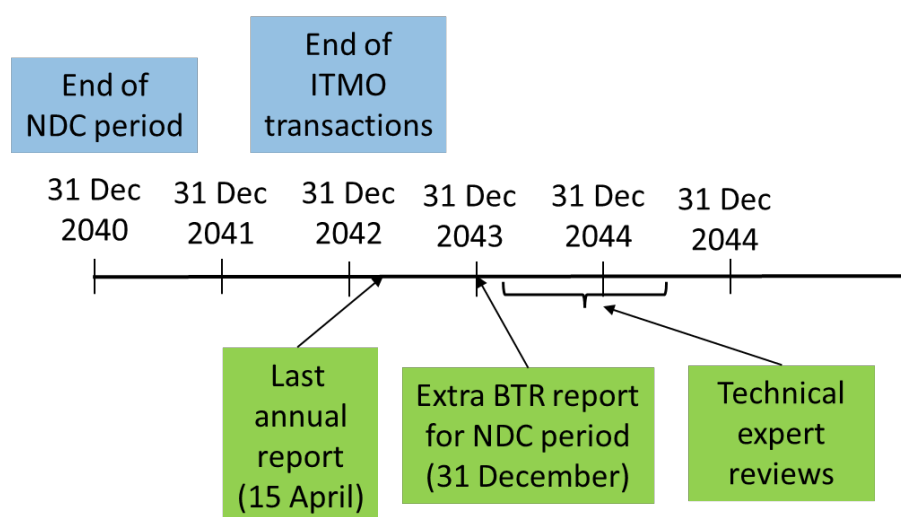
- For transparency purposes, it may be important to ensure that the final emissions balance and demonstration of achievement of NDCs is reported as early as practical. If it is reported only several years after the last year of the NDC period, it may undermine trust in the international rules governing the Paris Agreement. For example, if final information on the achievement of NDC were only available in 2046, as indicated above, this would be very late.
- Countries may wish to have information on their emissions and removals in the last year of the NDC period available in time before the window of making ITMO transactions is closed. This would enable buyer Parties to purchase ITMOs to close any gap between reported emissions and removals and the target level, and host Parties may be able to assess whether they can still authorize some mitigation outcomes for use towards NDCs.
- The international review processes for a specific Party under Article 6 and 13 of the Paris Agreement can only start when information from all Parties participating in the various cooperative approaches of this Party is available. If the review would start before that, then any possible inconsistencies in the reporting could not be resolved. Such inconsistencies would, for example, arise if a buyer Party has already reported its final balance and made respective subtractions whereas the host Party has not yet reported its final balance and not made the corresponding adjustments. This poses challenges for finalizing the emissions balance in a

timely manner, as some countries may make use of the flexibility provided under the Paris Agreement to report emissions with a three-year delay, rather than a two-year delay. In this case, the final emissions balance would according to the normal reporting cycle only be provided on 31 December 2044.

To address these challenges, different options could be pursued. One potential option that balances the different trade-offs could be that Parties report, on an exceptional basis, an additional BTR in the second half of 2043. This report could be limited to information that is needed to demonstrate achievement of the NDC. This would enable to conduct ITMO transactions until the end of 31 December 2042 – a point in time when countries should also have sufficient information on their GHG inventory available and by when carbon credits can reasonably be expected to have been issued. This timeline is illustrated in **Figure 2.2** below.

The EU could also engage bilaterally with partner countries to support and enable them to prepare their GHG inventory information in a timely manner so that they do not need to make use of the flexibility provided under Article 13. The timeline for submitting respective information could also be part of carbon credit purchase agreements or respective memorandums of understanding between the EU and partner countries.

Figure 2.2: Possible timeline for an NDC period ending in 2040



Source: Own illustration

2.3 Recommendations for the timing of ITMO purchase for the EU

As explained above, the final amount of ITMOs needed by the EU to meet its NDC target will be known in 2042 only. However, it will be critical for the EU to engage with partner countries early to ensure that a sufficient amount of high-quality ITMOs is available. The generation of mitigation outcomes typically has lead times of several years. This implies that projects that would only start towards the end of an NDC implementation period would most likely need to have buyers also for the subsequent NDC implementation period for them to become financially feasible and be implemented at all. If EU is only buying in a single NDC implementation period, the EU would need to send the demand signal several years before 2036, so that the entire period 2036-2040 could be used to generate sufficient volumes of mitigation outcomes from activities that have started their development well before 2036. The short purchase window means that the window for launching the development of activities for EU demand effectively closes much earlier than when the end of the

NDC period. As ITMOs from the period 2036 to 2040 can be used towards the 2040 NDC target, such engagement should start well before 2036.

In order to ensure that corresponding adjustments can be completed in due time after the end of the NDC period, it is important that the host countries report information on the NDC period as soon as possible after the end of the NDC period. Therefore, the EU may decide to cooperate with Parties that report their GHG inventory within two years after the end of the NDC period and support them through capacity building to achieve this. Furthermore, the EU should ensure in its arrangements with LDCs and SIDS that they also report a BTR in a timely manner, noting that these countries may submit BTRs at their discretion under the Paris Agreement.

The period when the EU will need to make the necessary arrangements for ITMO transfer and use and to conduct the corresponding adjustments is still several years in the future. The exact timing of these steps depends on future decisions of the CMA, in particular the determination of the date when additions and subtractions to an emissions balance shall be deemed final. In this context, the review and possible update of the MPGs, scheduled for 2028, is particularly important. In the process of this review, the CMA may decide to update certain reporting provisions, such as the contents of the structured summary or the timing for the reporting of specific information. Such updates can be expected to apply to the NDC periods after 2030.

3 Choice of the method for applying corresponding adjustments

The basic process for applying corresponding adjustments is laid out in chapter III of the Annex to decision 2/CMA.3. According to paragraph 7(a) of this annex, Parties with single-year NDC targets have the following two options:

- **Multi-year accounting:** Using an indicative emissions trajectory or a budget for the NDC implementation period, corresponding adjustments are applied annually for the total amount of ITMOs first transferred, and the total amount of ITMOs used in each year. As an example, for the use of ITMOs towards achieving an NDC target, if the gap between actual net emissions and the indicative trajectory is 0, 5, 10, 15 and 20 Mt CO₂eq, respectively, in the five years of the NDC period, then 0, 5, 10, 15 and 20 million ITMOs, respectively, have to be used in these years.
- **Averaging:** The cumulative amount of ITMOs first transferred, and the cumulative amount of ITMOs used over the NDC period is divided by the number of elapsed years in the NDC period, resulting in an average annual amount of ITMOs transferred and an average annual amount of ITMOs used. These amounts are used for indicative corresponding adjustments in each year in the NDC implementation period, and for a corresponding adjustment in the NDC target year. As an example, for the use of ITMOs towards achieving an NDC target, if the gap between actual net emissions and the NDC target is 20 Mt CO₂eq in the target year, then 20 million ITMOs have to be used for each of the five years of the NDC period, irrespective of the actual emissions in the years 2036-2039.

In considering these approaches, the following aspects are of particular importance:

- Implications for global GHG emissions (section 3.1);
- Risks arising from year-on-year fluctuations in net GHG emissions (section 3.2); and
- Implications of the accounting approaches for the number of ITMOs required to be purchased by the EU (section 3.1);

These aspects are discussed in the following.

3.1 Implications for global GHG emissions

The choice of the method for applying corresponding adjustment can affect the aggregated emissions by the two countries. Under multi-year accounting approaches, aggregated emissions do not change as a result of applying corresponding adjustments. In contrast, average can lead to an increase or decrease in aggregated reported emissions. The exact implications depend on whether the number of ITMOs that are used or sold increases or decreases over time (Siemons and Schneider 2022).

Under averaging, the amount of ITMOs to be used and the amount of ITMOs that can be transferred depends on net emissions in the NDC target year only:

- To achieve its NDC, the acquiring Party has to use an amount of ITMOs which is five times the gap between actual net emissions in the target year and the NDC target. If the emissions gap increases over time, the buyer Party has to use a larger amount of ITMOs than under the multi-year accounting approach. In a case in which the emissions gap decreases over time, the buyer Party has to use a smaller amount of ITMOs.
- Conversely, the transferring Party may transfer an amount of ITMOs which is five times the level of over-achievement of its NDC target in the target year (before the application of corresponding adjustments) to still achieve its NDC. If this over-achievement increases over time, the transferring Party can transfer a larger amount of ITMOs than under the multi-year accounting approach. If this over-achievement decreases over time, it can generate a smaller amount only.

Hence, depending on the circumstances, the choice of the accounting approach may make it easier or more difficult for a Party to achieve its NDC target. If all Parties chose the approach which makes NDC achievement easier for them, this will result in less ambitious mitigation actions and an increase in global GHG emissions.

This is illustrated with the following example: A host country uses the averaging approach and sells an increasing number of ITMOs over the NDC period from 2036 to 2040: starting from 1 million ITMOs in 2036, 2 million in 2037, and so forth, and ending with 5 million in 2040. In aggregate, 15 million ITMOs are sold over the NDC period, which corresponds to an average of 3 million. In 2040, the country thus applies a corresponding adjustment of 3 million. However, through the engagement in ITMOs, it observes 5 MtCO₂ fewer emissions in the single-target year of 2040. This means that due to the selling of the ITMOs, the country could adopt fewer climate policies and increase its emissions by 2 MtCO₂ in 2040, while the emissions performance in the period 2036 to 2039 is not considered to assess the achievement of the NDC. If the acquiring country uses an accounting approach that appropriately reflects the impacts of the ITMOs, such as multi-year accounting, then this would, in aggregate, lead to higher emissions from the two countries compared to a situation where both countries would meet their NDCs with domestic measures only, or compared to a situation where the countries would engage in ITMO cooperation but both of them would apply a multi-year accounting.

3.2 Risks arising from year-on-year fluctuations in net GHG emissions

Net GHG emissions in the EU fluctuate considerably in the energy and LULUCF sectors. Year-on-year fluctuations in the energy sector are due to changes in the weather conditions, such as colder winters which require more heating and hence increase GHG emissions, or longer periods of wind or sunshine, which allow for an increase in renewable power generation and hence decrease GHG emissions. While fluctuations of GHG emissions in the buildings sector are expected to decrease over time due to the decarbonisation of this sector, GHG emissions in the energy sector can vary from year to year, e.g. due to varying levels of natural gas used or changes in energy demand due

to external shocks. During the global economic crisis in 2009, the COVID pandemic in 2020 and the energy crisis in 2023, GHG emissions from the energy sector in the EU decreased by more than 200 Mt CO₂e compared to the previous year (European Environment Agency 2026). These changes are at the same order of magnitude as the maximum number of carbon credits introduced by the amendment to the European Climate Law (5% of the EU's net emissions of 1990, i.e. approximately 236 million ITMOs).

Fluctuations in the LULUCF sector can be expected to remain at the same order of magnitude or may even increase due to the impacts of climate change. From 2014 to 2024, absolute year-on-year fluctuation of net GHG emissions from the LULUCF sector in the EU amounted to approximately 14 Mt CO₂eq on average, and reached 53 Mt CO₂eq between 2016 and 2017 (European Environment Agency 2026). An amount in this order of magnitude corresponds to roughly 20% of the maximum number of credits introduced by the amendment to the European Climate Law.

Under the **averaging approach**, any deviations between reported and targeted emissions in the single-year target magnify the number of ITMOs needed over the NDC period by a factor of 5, and hence year-on-year fluctuations in emissions involve considerable uncertainty (Siemons and Schneider 2022). As an example, if net GHG emissions in 2040 are 50 Mt CO₂eq higher than expected based on the trend from previous years, then an additional 250 million ITMOs would have to be used towards the NDC in 2040.

By contrast, under the **multi-year accounting approach**, year-on-year fluctuations have a much smaller impact on the total amount of ITMOs needed. In the above example, a net increase in GHG emissions of 50 Mt CO₂eq in 2040 would mean that only 50 million additional ITMOs would have to be used. Hence, the use of a multi-year accounting approach reduces the risks from uncertainty associated with year-on-year fluctuations in GHG emissions and facilitates the achievement of the EU's NDC target. Similarly, multi-year accounting approaches may also provide higher certainty with regard to the number of ITMOs that host Parties are able to sell. This reduces the risk emissions in the target year.

3.3 Implications of the accounting approaches for the number of ITMOs required to be purchased by the EU

The two accounting approaches – averaging and multi-year accounting – have different implications on the number of ITMOs that the EU needs to use to achieve its 2040 target. We here illustrate the implications for two possible interpretations of the European Climate Law with regard to the contribution of international carbon credits of up to 5% of 1990 emissions. We show the implications:

- a) if the ceiling is interpreted to correspond to the total amount of international carbon credits that may be used over the period 2036 to 2040; and
- b) if the ceiling is interpreted to correspond to the amount that may be used in 2040.

As explained above, the **averaging approach** would require the EU to use over the period 2036 to 2040 an amount of ITMOs corresponding to five times the emissions gap in the target year. As an example, if the EU were to achieve a domestic net GHG emissions reduction of 89% compared to 1990 in 2040, then approximately 47 million ITMOs must be used in 2040 to achieve the 90% target. According to the averaging approach, the EU would then need to use a total amount of 235 million ITMOs over the five-year period from 2036 to 2040.

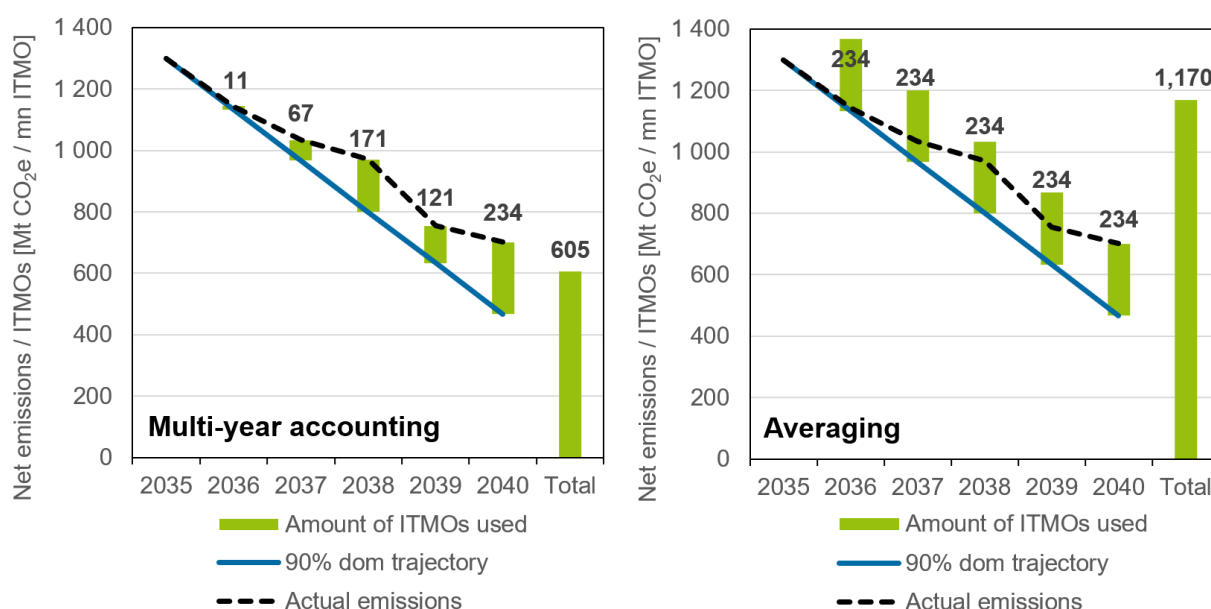
However, under the **multi-year accounting approach**, the EU would need to purchase an amount of ITMOs corresponding to the gap between actual emissions and the trajectory over the five-year period. In the example of a domestic net GHG emission reduction of 89%, approximately 47 million

ITMOs must be used in 2040 to achieve the 90% reduction target. In the years prior to 2040, a smaller amount of ITMOs may be sufficient, depending on the gap between actual emissions and the trajectory in these years.

This effect is shown in **Figure 3.1** for two scenarios: Under the multi-year accounting approach, the amount of ITMOs fills the gap between actual emissions and the trajectory in each year. Under the averaging approach, the amount of ITMOs which has to be used exceeds this gap in several years. The implications are illustrated for the two possible assumptions of what 5% of 1990 emissions could mean. It is important to note that the actual amount of ITMOs needed would depend on the actual emissions, and hence the gap to the trajectory, over the period 2036 to 2040.

Furthermore, it should be noted that international rules under Article 6 of the Paris Agreement are **not explicit on how the emissions over the period are compared to the trajectory and the emissions in the target year**. While a work programme on this matter was originally envisaged, it was dropped at COP29 in Baku. One possible interpretation is that the adjusted emissions level needs to be at or below the trajectory for **each year** of the NDC period. In this case, an overachievement of the trajectory in one year would not compensate for an overshoot in another year. Another possible interpretation is that the cumulative adjusted emissions over the period 2036 to 2040 must be below the trajectory. This approach would be similar to accounting under Kyoto Protocol where budgets were calculated for commitment periods. This matter might be reconsidered as part of the review of the rules of Article 6 taking place in 2028.

Figure 3.1: Example of multi-year accounting, and averaging, for the use of ITMOs from 2036 to 2040 (assuming that 236 million ITMOs are be used in 2040)



Source: Own illustration, based on targets of the European Climate Law, and using a fictitious example of GHG emissions from 2035 to 2040.

3.4 Recommendations on the accounting method

The EU and its partner countries should both use multi-year accounting approaches. Averaging poses the risk of leading to higher global GHG emissions and creates considerable uncertainty on the total amount of ITMOs that can be sold or must be purchased for an NDC period. The EU should therefore establish an own trajectory or budget for the NDC period from 2036 to 2040. This trajectory or budget should be based on its 2035 and 2040 NDCs and the emissions pathways under its

domestic policies. The EU should also support developing countries to establish credible emission trajectories and agree with these countries on how emissions will be accounted for against the trajectory (e.g., ensuring that cumulative adjusted emissions are below the cumulative trajectory).

4 Flexible use of carbon credits towards the EU NDC or climate finance purposes

International carbon credits could be used in different ways by the EU. One option is to plan from the outset to achieve a certain share of the 90% emission reductions through international carbon credits. In this case, EU climate policies would be designed to achieve a lower emission reduction level. Another option is using international carbon credits as a safety or contingency reserve, which can be used to compensate for any shortfall in domestic GHG emission reductions (see, for example, Schneider et al. 2026; Bart and Barata 2025).

This approach may address situations where domestic policies do not deliver the expected emission reductions. This may be particularly relevant for the LULUCF sector where there is large uncertainty about its future contribution. Regardless of the approach chosen, it is important that the EU secures sufficient quantities of ITMOs at an early stage (Ahonen et al. 2023). Otherwise, there might not be sufficient supply of high-quality ITMOs available once there is clarity on the EU's net GHG emissions up to 2040 (i.e., in 2042).

This raises the question whether ITMOs not needed to achieve the EU NDC can be used in another way. One option could be transferring these ITMOs to other Parties who may use them towards their NDC target, but the demand and potential prices for such transfers are rather uncertain. Another option could be cancelling these ITMOs. This requires that host countries authorize the mitigation outcomes not only for use towards NDCs but also for other purposes.

Cancellation ensures that ITMOs can no longer be used and hence is a way of contributing to global mitigation of GHG net emissions above and beyond the mitigation levels delivered by the achievement of NDCs. As an example, during the second commitment period under the Kyoto Protocol, some Parties purchased more carbon credits than they needed to achieve their targets and cancelled the remaining credits (Ahonen et al. 2023). If ITMOs are cancelled, this also raises the question whether payments for these ITMOs can be counted as climate finance in the context of the new collective quantified goal (NCQG) and official development assistance (ODA) reported under the OECD.

International rules specify that ITMOs used towards NDCs cannot count as climate finance. According to paragraph 121 (m) (iii) of the MPGs, Parties have to explain 'how double counting was avoided between the resources reported as provided or mobilized, and the resources used under Article 6 of the Paris Agreement by the acquiring Party for use towards the achievement of its nationally determined contribution.' In other words, reporting payments for ITMOs used towards an NDC as climate finance would be against the MPG's guiding principle of 'ensuring that double counting is avoided' (Greiner et al. 2025). There are, however, ongoing discussions whether the part of ITMO purchases that support the Adaptation Fund or the sharing of mitigation outcomes with the host Party could be counted as climate finance (Schneider et al. 2026). The respective rules by the OECD for the context of the Clean Development Mechanism have not yet been updated to the context of the Paris Agreement (OECD-DAC 2004).

When ITMOs are cancelled, the picture is less clear. In principle, activities implemented under the Article 6 qualify as climate finance in a broad sense. The NCQG should support "the implementation of developing country Parties', inter alia, NDCs (...); contribute to increasing and accelerating ambition; and reflect the evolving needs and priorities of developing country Parties (...)" (decision

1/CMA.6, paragraph 5). Similarly, according to the Standing Committee on Finance (Standing Committee on Finance 2024), “climate finance

- aims at reducing emissions and enhancing sinks of greenhouse gases [...] and
- includes financing for measurable actions for implementing and achieving the goals of the Paris Agreement and the objective of the Convention, including those identified in a country’s nationally determined contribution, adaptation communication, national adaptation plan, long-term low-emission development strategy or other national plan.”

Payments for ITMOs clearly fulfil the requirement of “aiming at reducing emissions and enhancing sinks of GHG” and “financing for measurable actions for implementing and achieving the goals of the Paris Agreement”. Furthermore, there is also no risk of double-counting with resources used for the achievement of the NDC because once ITMOs have been cancelled, they can no longer be used towards NDC achievement. In that sense, payments for ITMOs that are cancelled fulfil the SCF’s definition of climate finance and do not involve a risk of double counting.

The generation of ITMOs, however, creates an obligation for host Parties to apply a corresponding adjustment. This means that the host Party can no longer use the underlying mitigation outcomes to achieve its own NDC. The resources which the host Party receives for the transfer of ITMOs come with a liability for the country. This is different from a situation where a developing country receives financial support for mitigation actions which result in GHG emission reductions or removals and hence help achieve the developing country’s NDC target.

This raises the question whether actions that the host country cannot use towards its NDC should count as climate finance. On the one hand, Greiner et al. (2025), for example, argue that “there should be no counting of expenditures where a proportional liability is created for developing countries in the form of corresponding adjustments”. The German International Climate Initiative takes a similar approach. Under the initiative, seed funding for Article 6 pilot projects is possible only if mitigation credits are credited towards the host country’s NDC rather than transferred internationally (International Climate Initiative 2026).

On the other hand, one could argue that even though the host Parties cannot use the mitigation to achieve their NDCs, the cancellation of ITMOs contributes to “increasing and accelerating ambition” as referred to in the decision on the NCQG, and constitutes “financing for measurable actions for implementing and achieving the goals of the Paris Agreement”, as referred to in the definition of climate finance by the SCF. Given that current NDCs are insufficient to achieve the goals of the Paris Agreement, the cancellation of ITMOs would leverage mitigation above and beyond current NDCs and may thus contribute to achieving the goals of the Paris Agreement. A further consideration is to what extent the corresponding adjustments create a liability. If the mitigation outcomes are truly additional and conservatively quantified, and a sharing of mitigation outcomes is established with the host Parties, then host Parties would still overall benefit from the cooperation, despite the obligation of applying corresponding adjustments. Some countries have also considered counting the cancellation of unused ITMOs towards climate finance.¹¹ In conclusion, there is currently no clarity on whether and how the cancellation of ITMOs may be counted towards climate finance under the UNFCCC and in the context of ODA reporting.

Based on these considerations, one option could be exploring arrangements between the EU and host Parties that enable the host Party to count the mitigation outcomes towards its own NDC in the

¹¹ For example, Sweden considered this in 2020 but it is not clear whether this is still considered to date. See https://www.regeringen.se/contentassets/e5369df3a1374d3789addf21e7128539/sou-2020_4-vagen-till-en-klimatpositiv-framtid.pdf

case that the EU does not need the ITMOs. This could be implemented in different ways. One model could be that the generated mitigation outcome generated are apportioned for use towards different purposes. One portion could remain with the host country to ensure that mitigation outcomes are appropriately shared and the host country can use part of the mitigation outcomes to achieve its own NDC. Another portion could be transferred to the EU and be used as ITMOs to achieve the EU's NDC target. A third portion could be used in a flexible manner. This portion could only become ITMOs to the extent to which the carbon credits are needed to fulfil the EU's NDC target. If these carbon credits are not needed to fulfil the EU's NDC target, this portion of carbon credits would not be first transferred, and thus no ITMOs would be generated and no corresponding adjustment would need to be applied by the host country. Under this model, the EU would use part of the carbon credits to provide financial support to the developing country to cover the costs associated with the generation of the mitigation outcome. This provision of financial support could then be reported as climate finance. This approach would have the benefit that the host country and project developers would have upfront certainty on the funding provided, irrespective of whether the carbon credits would be used by the EU to achieve its NDC. A disadvantage of this approach is that it may have implications on when the EU would own the carbon credits that are used in a flexible manner. If a first transfer is understood, consistent with in relevant registry procedures under the Paris Agreement, as the transfer of the underlying carbon credits from the host Party to the EU, this could imply that the carbon credits would be transferred to the EU rather late in the process. Until such a transfer has taken place, the EU does not own the carbon credits. This may create risks whether the credit purchase agreements will actually be executed. For example, due to political changes or other unforeseen developments, some host Parties may step back from purchase agreements.

5 Conclusions and recommendations

This paper discussed specific questions that arise if the EU will use international credits under Article 6 of the Paris Agreement included in the EU's 2040 target.

Options for the timing of ITMO purchase

The EU should engage with partner countries early on. This is important to ensure that a sufficient amount of high-quality ITMOs can be authorized and transferred to the EU. The generation of mitigation outcomes typically has lead times of several years. As ITMOs from the period 2036 to 2040 can be used towards the 2040 NDC target, such engagement should start several years before 2036.

The EU should engage with partner countries to ensure they report information in a timely manner. The Paris Agreement provides flexibility to developing countries regarding the timing of reporting information, in particular for LDCs and SIDS. In order to ensure that corresponding adjustments can be completed in due time after the end of the NDC period, it is important that the host countries report information on the NDC period as soon as possible after the end of the NDC period.

The CMA should provide further clarity and guidance on the timing of the final accounting. International rules do not yet provide full clarity until when ITMOs can be purchased. Information on national GHG emissions and removals and information on the transfer of ITMOs becomes available with a delay of several years. As a consequence, it will not be possible to complete the reporting and review of corresponding adjustments within two years after the end of the NDC period. In order to provide clarity, it will be important to specify a date by which corresponding adjustments for an NDC implementation period shall be considered final (as provided by paragraph 12 of the annex to decision 2/CMA.3). Moreover, the CMA may update previous guidance on the timing and content of

report as part of the update of the MPGs, scheduled for 2028. *Choice of the method for applying corresponding adjustments*

The EU and its partner countries should both use multi-year accounting approaches. This avoids a possible increase in global GHG emissions that can occur if averaging were used. It also reduces the risks for both countries associated with fluctuations in net GHG emissions during the NDC period.

The EU should establish a trajectory or budget for the NDC period from 2036 to 2040. This trajectory or budget should be based on its 2035 and 2040 NDCs and the emissions pathways under its domestic policies.

The EU should support partner countries to establish credible emission trajectories and agree with these countries on how emissions will be accounted for against the trajectory. This should ensure that cumulative adjusted emissions are below the cumulative trajectory.

Flexible use of ITMOs towards NDCs or climate finance

The EU should explore approaches where unused carbon credits could be cancelled and the payments be counted as climate finance. Further consideration is necessary of how this could be implemented, given that there is no clarity whether the cancellation of ITMOs may count as climate finance.

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