INTERNATIONAL CREDITS IN THE EU:

Opportunities for Climate Diplomacy

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Contents

1 Key Messages 5

2 Preface 6

3 Introduction: A Policy Framework under Development 6

4 International Credits Diplomacy: An Opportunity to Raise Global Ambition 8

5 Climate Diplomacy Through Bilateral Crediting Agreements 9

5.1 Hard vs. Soft Climate Diplomacy Strategy 9

5.2 Assessing the EU's Diplomatic Leverage 10

5.3 Finding the Middle Ground Between Competing Objectives 14

5.4 A Two-Stage Diplomacy Framework 15

6 System-wide Crediting and Nation-scale Programs 17

6.1 The Potential of Large-scale Crediting Approaches for Unlocking Supply 17

6.2 Additionality Under Article 6 – the Case for Large-scale Approaches 18

6.3 Three Large-scale Crediting Approaches 19

7 Host Country Criteria – Legal, Policy, Political 22

7.1 Legal Criteria 22

7.2 Policy Criteria 23

7.3 Political Criteria 24

7.4 The Evaluation Process 25

8 Harmonizing Quality Criteria with Other Buyers 26

9 Beyond Credit Purchases: Complementary Levers to Secure Ambition from Trading Partners 27

9.1 The Carbon Border Adjustment Mechanism 28

9.2 Trade and Sustainable Development Provisions in Trade Agreements 29

9.3 Unilateral Trade Preferences 29

9.4 Product and Supply-Chain Regulation 29

9.5 Partnership, Investment and Offtake Frameworks 30

9.6 Plurilateral Cooperation on Carbon Pricing and Standards 30

9.7 Combining the Levers 31

10 An idea: NDC Performance-Linked Agreements 32

10.1 What to Condition On: KPI Design 32

11 Five Instrument Architectures 33

11.1 4.1 Ambition Escrow 33

11.2 4.2 Host Sovereign Ambition-Linked Bond 34

11.3 4.3 Buyer Accountability Commitment 34

11.4 4.4 Ambition Reserve of Units 34
11.5 4.5 Pooled Facility through a Multilateral Development Bank..... 34
12 Concluding Remarks *34*

1 Key Messages

- **The EU's credit purchasing program is an opportunity for climate diplomacy, but the EU should take a realistic view of its leverage.** Large developing countries like Indonesia already receive considerably more financing from China than EU carbon credit revenues are likely to provide. For most major emitters, the incentive to prioritize EU credit negotiations is likely to be limited, particularly if demanding conditions are attached. The EU likely has more leverage in smaller countries, but agreements with them contribute less to the goal of making the Paris Agreement a success.
- **The EU should avoid searching for ideal partners that may not exist.** Few countries are simultaneously major emitters, have an ambitious climate plan, have credits available at competitive prices and are willing to accept policy conditions. An overly demanding framework risks leaving the EU with few or no partners. Thus, the EU needs to prioritize among its objectives.
- **A two-stage approach to bilateral agreements could be a practical way forward.** In the first stage, the EU could sign simple agreements that set up the basic accounting rules and confirm that a country is eligible to sell credits — with limited additional conditions. In the second stage, it should sign deeper agreements with its best partners, combining climate policy commitments, development finance and large-scale crediting programs. These agreements should be embedded in the EU's current climate diplomacy efforts.
- **Large-scale crediting programs are likely to be essential, both for quality and for quantity.** While the quality of the carbon credit market is improving, Individual projects may not produce enough high-quality credits at the scale the EU needs. Crediting that covers entire sectors or economies could be a viable alternative. The EU should explore three options: i) buying allowances from national emissions trading systems with binding caps which could be used as credits to offset emissions from non-ETS sectors in the EU; ii) jurisdictional forest crediting programs for reduced deforestation like ART-TREES; and iii) bilateral agreements on actual programs for decarbonization in third countries that need financial support and capacity building to succeed with their clean energy transition.
- **A clear three-part test should determine which countries are eligible as credit suppliers.** The legal test checks whether a country meets the basic Paris Agreement requirements for Article 6 participation. The policy test assesses whether a host country's NDC has adequate ambition and whether its crediting policy is supporting that ambition — as opposed to making targets harder to reach. Finally, the political test considers a country's geostrategic position and the compatibility of its values with those of the EU.
- **The EU should strive to harmonize credit quality standards with other buyers.** The EU is currently only to buy credits for five years (2036–2040). This window is likely to be too short to make many crediting projects financially viable. If other major buyers adopted the same quality standards,

the market would become larger and more durable. The Open Coalition on Compliance Carbon Markets or the Coalition to Grow Carbon Markets could be fora for such cooperation.

- **Credit purchases should be part of a broader, coherent offer to trading partners.** The EU's trade and regulatory instruments — CBAM, trade and sustainable development provisions in trade agreements, GSP conditionality, product and supply-chain rules, and partnership and offtake frameworks — may offer more leverage over large emitters than credit revenues alone. Combining these levers, while safeguarding additionality and avoiding the perception of unilateral conditionality, could help the EU secure ambition from partners where credit diplomacy on its own would have limited influence.

2 Preface

This paper is one of a series of policy papers authored or co-authored by Environmental Defense Fund that aim to explore the possible details of how international credits should be purchased by the EU. The present paper covers the climate diplomacy aspects of credit purchasing. The other papers on the use of international credits covering the funding of credit purchases and quality criteria can be found on the https://www.edf.org/international-credits-eu webpage.

3 Introduction: A Policy Framework under Development

The 2024 Amendment of the European Climate Law[1] entered into force in March 2026 (the Climate Law). The Climate Law determines that the EU's climate target for 2040 will be 90% of 1990 net emissions, of which 85% will be achieved through domestic action and "*up to 5% of 1990 EU net emissions*" will be contributed by high-quality international credits under Article 6 of the Paris Agreement. These credits would be purchased from 2036 onward, with a potential pilot period starting in 2031.

The Climate Law does not regulate the importing of credits in detail; it only gives guidance to the Commission as to the topics the Commission's legislative amendments on the implementation of the 2040 target should cover. Thus, the actual conditions for importing credits will only emerge from the implementing legislation and the review of the EU ETS that will be conducted throughout 2026 and 2027.

The Climate Law sets out (in Article 4(5) (a)) a list of thirteen criteria that international credits will need to meet in order to be eligible for purchase by the EU. Thus, the credits will need to:

i) Support the host country in meeting Paris-compatible reduction trajectories
ii) Have environmental integrity
iii) Promote the EU's technological leadership
iv) Be based on credible and transformative activities in the host country
v) Avoid double counting

[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. https://eur-lex.europa.eu/eli/reg/2026/667/oj/eng

vi) Ensure additionality
vii) Ensure permanence
viii) Ensure transparent governance
ix) Have strong MRV methodologies
x) Have economic, social and environmental co-benefits
xi) Have human rights safeguards
xii) Have high ambition for the share of proceeds for adaptation
xiii) Have high ambition for the sharing of mitigation benefits

Most of these requirements are well covered in already existing international standards and good practice definitions. One criterion that is specific to Europe is the one on technological leadership. In addition, there is the requirement that credit use should be "*both ambitious and cost-efficient,*" which is not a credit quality requirement *per se*. The Climate Law considers Article 6.4 requirements as a baseline, which can be "*complemented,*" where appropriate.

In addition to deciding on how the above criteria should be met, Member States still need to decide on:

- How to fund credit purchases
- Where credits would be used: in the ETS, outside the ETS or both?
- Is credit use a mandatory element of the EU's climate target or just an optional mechanism to meet targets?
- What kinds of credits should be purchased? (e.g., nature-based, engineered removal or mitigation, etc.)
- How to set the quality criteria for credit purchases

These issues are discussed in greater detail in EDF's other papers on international crediting, and many of them are directly relevant in the climate diplomacy angle that this paper is covering. At the time of writing (May 2026), we can only make assumptions on how the EU will resolve these issues. In particular, we are assuming the following:

- Credit use will be split up: both ETS installations and Member States will be allowed to use some credits, and some of the credit use will be predetermined and pre-funded, while some of it will remain optional for many years to come.
- The average cost of an international credit will be between EUR 50 and EUR 100.
- The EU will have a centralized process for setting quality requirements
- There will be a centralized EU-level credit purchasing agent that will do most or all the purchases.

The present paper covers the climate diplomacy aspects of credit purchase, i.e., the diplomatic strategy the EU should follow, the evaluation of host country criteria, the possible scope for system-wide crediting approaches and the role of credit purchasing in multilateral climate policy cooperation.

4 International Credits Diplomacy: An Opportunity to Raise Global Ambition

By opening for purchases of international credits, the EU has the chance to achieve multiple objectives. The EU can contribute to raising global ambition and accelerate mitigation in countries that have large mitigation potential but need support in raising capital, as well as building technical and institutional capacity. Trade of high-integrity international credits can raise the ambition and cost-effectiveness of EU climate action by leveraging comparatively lower-cost mitigation potential in partner countries while still ensuring real mitigation outcomes.[2] International credit purchases could also align with goals beyond climate impact alone, such as supporting the EU's technological leadership globally. The prioritization by the EU amongst these potential goals should shape the form that EU credit purchases may ultimately take, from the types of credits pursued, to the choices of partner countries, as well as the formats of bilateral and multilateral agreements.

The EU has signaled that it is looking to use Article 6 and its purchases of international credits to increase ambition both in the EU and globally and enable more ambitious climate targets and policies compatible with the temperature goal of the Paris Agreement. Credit purchases—particularly when part of comprehensive bilateral programs that build institutional capacity and enable conditions for accelerated decarbonization that increases the capital leverage ratio of credit revenue — could also contribute to closing the climate finance gap in emerging and developing economies, an outcome essential for meeting the temperature goal of the Paris Agreement. .[3] At the same time, the largest volumes of cost-effective opportunities for mitigation are expected to be in low- and middle-income countries.[4] Large-scale credit purchases from such countries could therefore help the EU achieve more mitigation for a given level of spending and thereby meet the cost-efficiency criteria in the Climate Law.

The European Commission has signaled its ambition to enable partner countries to exceed their NDCs by providing a new source of finance through international credits: this implies that the EU will need to play a leading role in developing a new model for implementation of international crediting programs under Article 6.

A key element of such a model should be international cooperation on the assessment of NDC quality and credibility. While no formal UN system currently exists to evaluate NDCs against common criteria, effective scaling of international carbon markets may require countries to work together to develop transparent evaluation frameworks. Harmonization of credit quality criteria cannot be fully achieved at the project level alone, as the environmental integrity of credits is intrinsically linked to the quality of the host country's NDC and broader policy frameworks.

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[2] Piris-Cabezas, P., Lubowski, R.N., Leslie, G. (2023) Estimating the potential of international carbon markets to increase global climate ambition, *World Development*, Volume 167, 106257, ISSN 0305-750X, https://doi.org/10.1016/j.worlddev.2023.106257.

[3] Kerr, S., Hu, X. (2025) Filling the climate finance gap: holistic approaches to mobilise private finance in developing economies. *npj Clim. Action* **4**, 16. https://doi.org/10.1038/s44168-025-00220-x

[4] See e.g.:
Dagnachew, et al (2025) Emission pathways and climate targets. Exploring the emission gap and financing needs in low- and middle-income countries. https://www.pbl.nl/en/publications/emission-pathways-and-climate-targets; and
Glennerster, R., and Jayachandran, S. (2023) "Think Globally, Act Globally: Opportunities to Mitigate Greenhouse Gas Emissions in Low- and Middle-Income Countries." *Journal of Economic Perspectives* 37 (3): 111–36. DOI: 10.1257/jep.37.3.111

The development of common criteria covering legal, policy and political dimensions could help ensure consistency across jurisdictions and reduce the need for purchasing countries to independently assess the robustness of partner countries' NDCs. Integrating NDC evaluation into broader credit quality frameworks would improve transparency, facilitate mutual recognition of credits across countries and support the emergence of a more coherent and credible international carbon market.

5 Climate Diplomacy through Bilateral Crediting Agreements

For any internationally traded mitigation outcomes to be counted toward the EU NDC, the EU will need to sign bilateral agreements with the host countries. The Climate Law specifies that the purchased credits will need to conform to the Paris Agreement Article 6 framework. The Climate Law also states that the credits should use the Article 6.4 quality criteria (but not article 6.4 itself, necessarily — an important distinction) as a basis, but that these criteria could be "complemented." This implies that the EU is in principle open to using both Article 6.2 and 6.4, but the implementation rules of Article 6.4 would need to emerge in time to remain a viable option for the EU

The Climate Law does not expressly set out the reasons for buying credits. However, recital 13 of the Climate Law does state that "*In operationalizing the use of international credits, the Commission should take into account … the opportunity to support strategic Union partnerships in line with the interests of the Union*." This implies that the credit purchasing enterprise does have a diplomatic angle. The Commission's communications indicate that the "*interests of the Union*" in this regard should be understood to include the desire to support the Paris Agreement and to increase global ambition, in addition to building global diplomatic and commercial ties.

5.1 Hard vs. Soft Climate Diplomacy Strategy

Thus, the EU's agreements with host countries could usefully go beyond purchasing credits alone and provide additional foreign policy benefits. There are different ways to achieve this. In order to clarify the EU's options, we will describe two options. We should note in advance, however, that these choices are not binary; they rather represent the two ends of a range.

The option we will call the **hard climate diplomacy strategy** is the idea that the EU should only import credits from countries that commit to substantial domestic climate policy measures, e.g., introduce a domestic emissions trading scheme. This approach is clearly articulated in a 2026 EUI paper, which states that: "*The EU should prioritize the acquisition of high integrity carbon credits from countries that engage in establishing, over time, systems of mandatory carbon pricing. As an intermediate step, the EU could envisage acquiring such credits originating from investments in low-carbon technology. This could be specified in bilateral agreements between the EU and host countries. The host country should develop a policy plan outlining the transition from crediting to a cap-and-trade system, or to carbon taxation. In other words, the plan should indicate how to move from relying*

on external financing to a domestic system of carbon incentives. This policy plan should also be included in their next NDC."[5] This approach sets up the host countries' future climate policy measures as a form of quid-pro-quo and presumably intends to use these diplomatic achievements as a justification of the EU's expenses in purchasing credits.

By contrast, a **soft climate diplomacy strategy** would be one where the EU is initially aiming to sign agreements in order to ensure credit supply from the highest possible number of host countries. These agreements would be fairly short and limited to determining credit types, corresponding adjustments and similar technicalities. (This is well-established practice: Switzerland has signed around twenty agreements[6], while Singapore has twelve[7].) Once such an agreement is in place, the cooperation thus established could be used to develop projects or more comprehensive system-wide approaches, potentially combined with some kind of development support funding. In this strategy, the agreement itself would already anchor the host country in the Paris Agreement framework by making it a stakeholder.

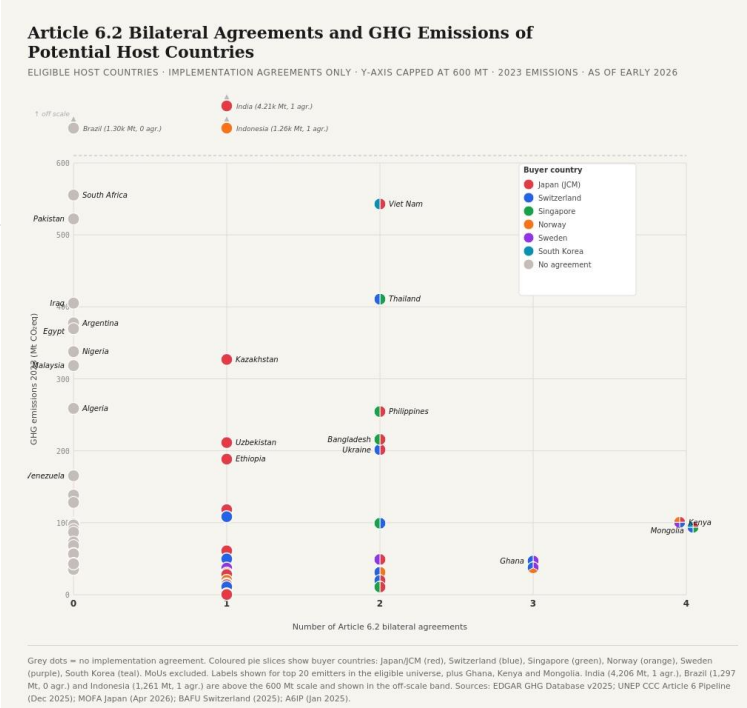


Figure 1: Article 6 agreements tend to be signed by smaller states

5.2 Assessing the EU's Diplomatic Leverage

The risk of the soft strategy is that the EU ends up with many agreements that demonstrate goodwill but deliver few credits or do not deliver an increase in ambition. Also, Article 6 agreements to date were typically signed by smaller states with small credit supplies and limited diplomatic clout, as demonstrated by Figure 1.

[5] "Towards an EU strategy in international carbon credits," European University Institute, 2026 (https://cadmus.eui.eu/entities/publication/ed98aea0-1b1a-48c0-af6a-d0922dc40385)
[6] https://www.bafu.admin.ch/en/bilateral-climate-agreements
[7] https://www.carbonmarkets-cooperation.gov.sg/introduction/

The hard strategy does make the host country more of a stakeholder and delivers more in terms of global climate ambition. Whether it can be implemented successfully depends on how strong the EU's negotiating position is. The EU should be careful not to overestimate its actual leverage on host countries as this could undermine its diplomatic efforts or even prove counterproductive. Assessing the EU's diplomatic leverage over the next decade is largely a matter of judgment, but we can enumerate the factors that will need to be weighed:

- *The EU's own policy choices*: the number of credits the EU aims to buy, the amount of funding it dedicates to it, the regulatory certainty on credit criteria, purchase volumes, funding and governance.
- *Global credit demand and supply*: the number of countries looking to buy and the reduction volumes available for sale (as opposed to being part of an NDC), all of which influence prevailing credit prices
- *Alternative sources for development support*: the options that host countries have for attracting foreign development or investment funding. This could either mean funding from other EU policy sources (e.g., the EU's Global Gateway program), or funding from other countries, e.g., the USA or China, both for expressly climate-related investments and for generic infrastructure and industrial development.

The effectiveness of the EU's diplomatic efforts in this arena are limited by three important issues: i) the more important a country's economy and hence its emissions, the harder it is to influence it; ii) the EU is one of several sources of development finance; iii) the more developed a country is, the fewer credits it is likely to have available for sale. These points are discussed below.

Important countries are harder to influence: The European Commission does not have limitless capacities for climate diplomacy. Thus, if it wants to strengthen the implementation of the Paris Agreement, it needs to focus its efforts on countries that are "important." There are no exact rules for determining which countries count as important; relevant factors could include a mix of high emissions, large GDP, strong leadership position in climate negotiations, etc.

To simplify our analysis, we use total emissions as a proxy to identify the relatively small group of countries that are most relevant from a climate diplomacy perspective. If we take lower- and middle-income countries, and exclude OECD members and China, Iran and Russia (for geostrategic reasons), the EU will potentially have 133 countries to trade with, accounting for 30% of the world's emissions. These emissions are distributed very unevenly: India accounts for over a quarter, the top five account for half, and the top 10 countries cover about two-thirds of the emissions in this group. (*see* Figure 2 for a detailed list of countries). Thus, if the EU wants to boost global mitigation efforts, it would need to focus primarily on the top 10–15 countries.

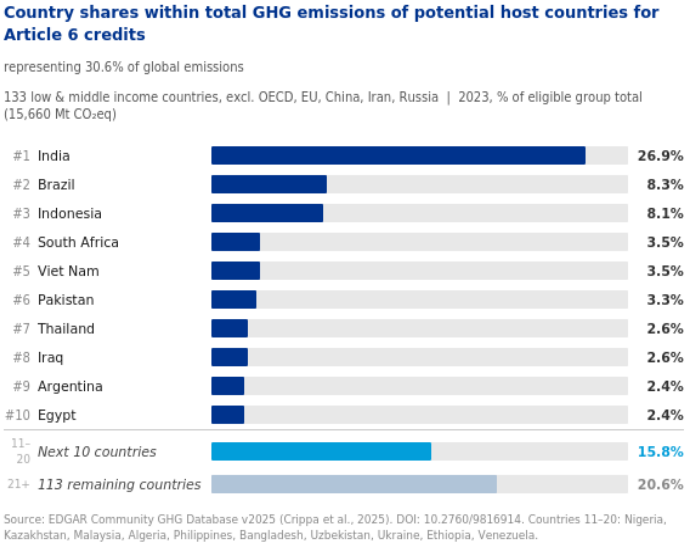


Figure 2: Only a handful of countries are responsible for most of the potential credit supply

However, the larger and wealthier a host country is, the less likely it is that it will be swayed by the EU's diplomatic efforts. The opportunity to sell credits for the EU would not of itself justify the move toward a domestic carbon pricing regime (albeit it can be a small nudge toward that process). The incentive the EU can offer is moderate in size, especially for large countries; in addition, selling credits entails significant costs and obligations for any country, regardless of size. Unlike in the days of the CDM/JI, selling ITMOs represents a real opportunity cost to the host country because of the required corresponding adjustments to the host countries' Nationally Determined Contributions (NDCs). There are also the administrative and governance requirements of becoming a host country. Large developing countries, however, have many more options to obtain development funding: they have large markets, and they are diplomatically important, so more money flows to them, as we will see in the next section.

The EU is not the only source of development funding: From the perspective of the host country, revenues from EU carbon credits compete with other sources of development funding. As the USA has abandoned most of its development finance and the EU is also cutting back on earlier commitments, demand for alternative sources of such funding is likely to grow. At the same time, significant development finance is available in the form of loans, without the need for corresponding adjustments. In particular, loans from China represent significant competition in several respects: they provide greater amounts, have fewer administrative requirements and they support investments that have greater political salience. This means that the political interest in — and bureaucratic bandwidth for — setting up an Article 6 crediting program is comparatively lower, especially if there is the additional "price" of committing to ambitious domestic climate policies. While there are exceptions, generally speaking, the larger the potential host country, the more finance is available.

This can be demonstrated with Indonesia, which is the third largest emitter in our above-defined group of 133 potential host countries, accounting for 8% of the group's emissions. If we assume that the EU will spend EUR 20 billion on credits between 2036 and 2040 and that Indonesia captures 20% of these funds, this amounts to a revenue of EUR 4 billion over 5 years, i.e., EUR 0.8 billion per year, starting a decade from now. (Note that this also means about 8 million credits per year assuming an average credit price of 100 euro, or about 0.6% of annual Indonesian emissions, which would in itself be an ambitious volume). This compares with almost EUR 8 billion received from China just in 2024 as part of the Belt and Road Initiative, of which 0.8 Bn was spent on renewables.[8] There is also a Memorandum of Understanding from 2023 between Indonesian and Chinese companies covering renewable and smart grid investments worth EUR 46 billion[9], although many of these projects may not ultimately be funded. We should also mention the EUR 17 billion Just Energy Transition Partnership for Indonesia, launched in 2022 with the aim of transitioning the country away from coal, although progress under the framework has been slower than anticipated.[10] In sum, when it comes to funding decarbonization, Indonesia has a large pipeline of potential and more immediate international funding opportunities than looking to get Article 6 credit-related funding in a decade from now, especially if it comes with significant strings attached.

The more developed a country, the fewer credits it will sell: The EU should be buying credits from countries that have set out clear requirements for the selling of international carbon credits, demonstrating an awareness of the opportunity cost to their own commitments that arises from selling credits, i.e., that they are not over crediting, have an NDC with sufficient ambition and there is a functioning domestic policy framework. Section 7 will discuss in more detail how this is to be evaluated, but this description is more likely to fit the more developed end of potential trading partners. However, there is a likely inverse relationship between readiness and supply: the more advanced a country is — both economically and in terms of climate governance — the fewer surplus credits it is likely to have available for sale. Most cost-effective reduction opportunities would be expected to contribute to achieving the country's own NDC.

India illustrates this point well: the Indian government has set up a specific list of activities that are eligible for generating Article 6.2 credits to be sold abroad.[11] These activities are mostly high-tech, high-investment activities such as CCUS, green hydrogen, or sustainable aviation fuels where India does not have either the domestic capital or domestic technology yet to start investing in the short to medium term.[12] The list notably does not include any nature-based removals, or any methane avoidance (agriculture, waste or oil and gas). It may be difficult for the EU to purchase significant quantities of low-cost credits within this scope.

[8] https://www.intellinews.com/china-s-green-capital-powers-indonesia-s-100-gw-solar-ambition-410500/
[9] https://dialogue.earth/en/energy/chinese-energy-projects-take-off-in-indonesia-as-western-financing-falters/
[10] https://ieefa.org/resources/building-credibility-indonesias-energy-transition-insights-etm-and-jetp-indonesia
[11] https://www.pib.gov.in/PressReleasePage.aspx?PRID=1900216&reg=3&lang=2
[12] The full list of activities is: 1) Renewable energy with storage (only stored component), 2) Solar thermal power, 3) Off-shore wind, 4) Green Hydrogen, 5) Compressed biogas, 6) Emerging mobility solutions like fuel cells, 7) High-end technology for energy efficiency, 8) Sustainable Aviation Fuel, 9) Best available technologies for process improvement in hard to abate sectors, 10) Tidal energy, Ocean Thermal Energy, Ocean Salt Gradient Energy, Ocean Wave Energy and Ocean Current Energy, 11) High Voltage Direct Current Transmission in conjunction with the renewal energy projects ,12) Green Ammonia, 13) Carbon Capture Utilization and Storage.

5.3 Finding the Middle Ground between Competing Objectives

Overestimating diplomatic leverage risks leading the EU to search for partners that meet all of its objectives at once: few countries are likely to be i) relevant in terms of global emissions; ii) has a decent NDC but still has meaningful amounts of credits to sell; and iii) is ready to make meaningful commitments toward the EU on its climate policy. This trilemma is shown on Figure 3.

One alternative would be to remove all conditions from crediting agreements. However, as indicated earlier, a soft climate strategy does not guarantee a relevant volume of credits. Singapore has 12 bilateral agreements, and no credit deliveries so far; Switzerland has signed 20 bilateral agreements since October 2020 but has only taken delivery of about 14 thousand credits.[13] (It is too early to assess the eventual performance of these programs, and deliveries may increase over time.)

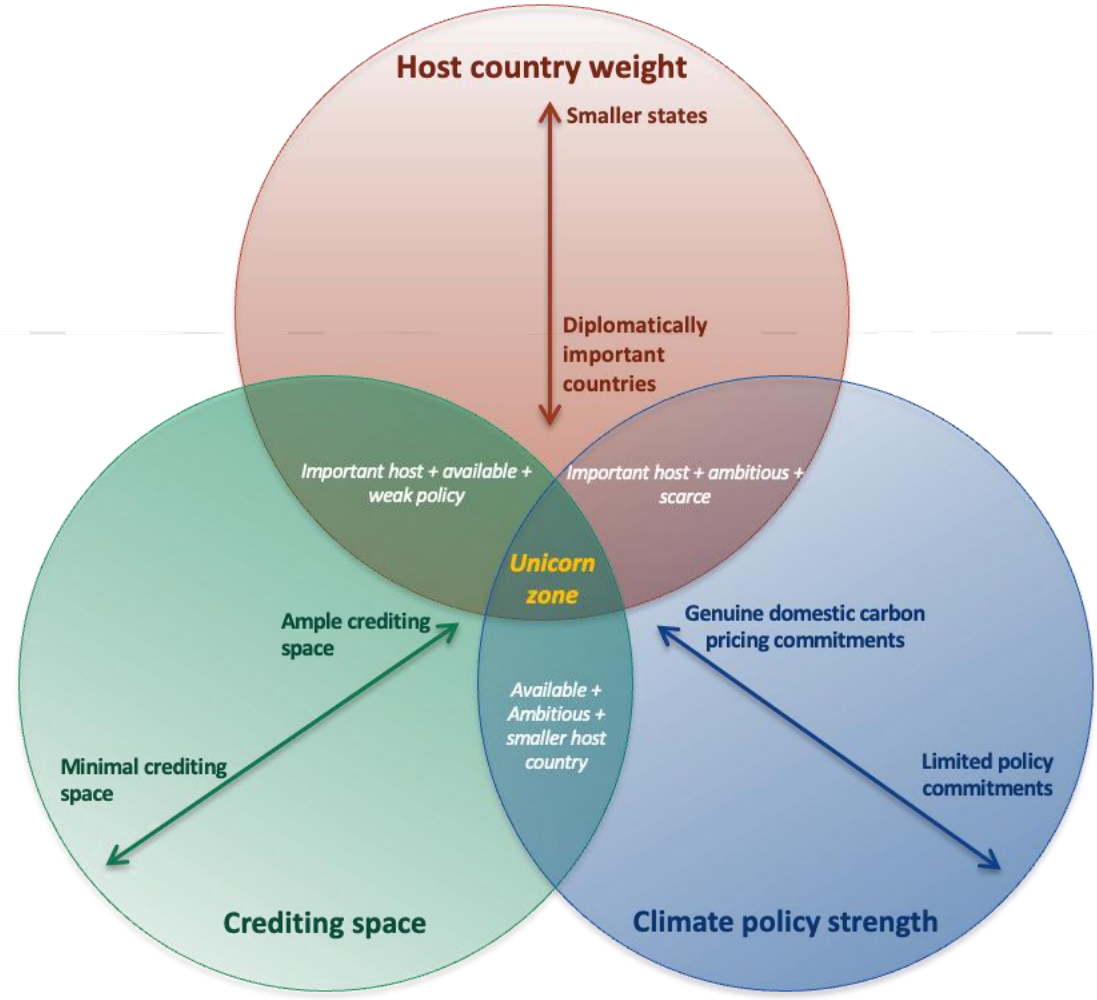


Figure 3: The diplomatic trilemma for international credits

Thus, the EU needs to find some kind of middle ground between its diplomatic ambitions and its constraints. This is likely to mean that some part of the "large host

[13] https://article6pipeline.unepccc.org/global-data/countries/switzerland

country — carbon pricing commitments — affordable credits" trilemma needs to be relaxed. Thus, the EU could:

- Lower expectations on host country carbon pricing commitments: the EU could accept that any commitments made by host countries to introduce emissions trading or other forms of carbon pricing will not generate domestic policy action but will rather serve to reinforce existing initiatives. Several developing countries are considering carbon pricing policies (e.g., Thailand, Malaysia or the Philippines) and high-level EU support could help advance these initiatives toward earlier adoption by strengthening the hand of local climate officials. A drawback of this approach is that it inadvertently limits potential host countries to those that are already thinking of carbon pricing.
- Focus on non-pricing policies: In many host countries there might be other, more readily implementable measures to introduce that could meaningfully support decarbonization, e.g., a domestic HFC-collection system, better performance standards on air conditioners, giving preference to EVs in imports, electrification measures and so on. Emissions trading schemes require advanced government capabilities, and carbon taxes often face political resistance. The EU might have more success with advocating other policies.
- Prioritize smaller countries with system-wide reduction opportunities: the EU could also generate the large amount of credits it requires by adopting a system-wide approach in smaller countries. Coal transition credits could generate large volumes even in small countries — for example, Kinetic's pilot power system transformation project in the Dominican Republic is expected to yield credits in the range of millions of tonnes per year. Nature-based crediting might also be used in a system-wide manner. (The questions around system-wide crediting will be explored further under Section 6.) The advantage of this approach is that the EU carries greater diplomatic weight in smaller countries which are thus likely to be more eager to cooperate. Smaller countries have also often been strong supporters of ambitious multilateral frameworks such as the UNFCCC.
- Blend credit purchases with development finance: if crediting is coupled with development finance funds, this could make the EU's offer interesting even for large developing countries. Research suggests that it is unlikely that the purchase price of credits would be enough on their own to catalyze systemic changes.[14] In this case, however, the objective of cost-effective credit purchases becomes secondary. An important caveat to blending development finance funds with credit purchase funds is that such funding should not be deemed climate finance.

5.4 A Two-Stage Diplomacy Framework

It appears that the EU needs to serve multiple objectives with its diplomatic strategy:

[14] Kerr, S., Hu, X. (2025) Filling the climate finance gap: holistic approaches to mobilise private finance in developing economies. *npj Clim. Action* 4, 16. https://doi.org/10.1038/s44168-025-00220-x

- The EU needs to go ***deep***, i.e., build relationships that result in significant climate policy gains and possibly a large amount of credits,
- The EU also needs to go ***wide***, i.e., ensure that it has a broad supply base for its credit market. This is a fallback strategy in case the deeper approach is unsuccessful.

This need not be a dilemma; it can instead be addressed through sequencing: the EU could adopt a two-stage approach:

- In the first stage, the EU would sign a number of basic agreements which are merely accounting frameworks, and a set of allowed project types and methodologies, similar to those signed today by Switzerland and Singapore. The objective here is to recognize and acknowledge the ambition level enshrined in the host country NDC and agree on the basic terms of trading (share of proceeds, review cycle and termination, etc.) While this enables sources of credit supply, details of actual transactions would be worked out later. As a follow-up, the EU could launch open calls for credit procurements to buy from these countries; project development would be a market-driven, private sector affair, preferably delivering commoditized credits.

- In the second stage, the EU could sign fewer, enhanced agreements with those countries where they have already signed the first agreement and cooperation appears to be the most promising. These agreements could be more ambitious, containing i) host country climate policy commitments; ii) a development aid and/or loan component; iii) arrangements for large-scale projects or system-wide crediting.

- To support countries in their journey all the way to the second stage, the EU could develop an NDC development road map that sets out the EU's expectations for NDCs. This tool would live outside the bilateral agreements, but — similarly to the Copenhagen criteria for EU accession — would inform potential partners about the EU's expectations. As we will see under Section 7, the Paris Agreement framework does not formally evaluate NDCs, so there is no benchmark for potential host countries on how their NDCs should look like to be eligible for cooperation with the EU. This road map could set out the minimum requirements for both the basic and the enhanced agreements

The enhanced agreements have parallels with the Just Energy Transition Partnerships (JETP), agreements aiming to promote renewables and coal phase out. JETPs were signed between 2021 and 2023 with Indonesia, South Africa, Senegal and Vietnam,[15] and they are supposed to help clean energy investments, with mixed results thus far.[16] There are a few important differences: i) the JETPs have multiple donors, not only the EU; ii) there are no climate policy obligations; iii) there are no credit transfers. A new, purely EU initiative that could serve as an umbrella for such "deeper" agreements are the new Clean Trade and Investment Partnerships, the first of which was signed with South Africa in November 2025.[17]

[15] https://international-partnerships.ec.europa.eu/policies/global-gateway/climate-and-energy_en?f%5B0%5D=landing_page_title%3Ajust%20energy#oe-list-page-filters-anchor
[16] https://www.iseas.edu.sg/articles-commentaries/iseas-perspective/2024-40-just-energy-transition-partnerships-jetps-in-indonesia-and-vietnam-implications-for-southeast-asia-by-melinda-martinus/
[17] https://cadmus.eui.eu/server/api/core/bitstreams/21280dd3-c283-4315-b5a5-b61545234c26/content

The EU should build on existing initiatives and frameworks to leverage existing relationships and lower transaction costs. There exist already multiple partnership and dialogue frameworks in the field of climate and clean energy:[18] beyond the already mentioned JETPs and CTIPs, there are the Green Alliances/Green Partnerships, the EU Climate Dialogues and the High-level Dialogues. At the same time, too much complexity can itself be a barrier to progress. Partner-country officials have at times contrasted the complexity of EU offers with the simpler and faster offers available from other partners.

6 System-wide Crediting and Nation-scale Programs

6.1 The Potential of Large-scale Crediting Approaches for Unlocking Supply

As part of its effort to ensure sufficient future supply of high-integrity credits, the EU can help set an important precedent for the rest of the world. But doing so will likely require a new approach for crediting at a larger scale.

Almost all current standards and methodologies to date have originally been developed by project developers and approved by the CDM Executive Board before being taken over by the independent standards. Most credits are created by non-state developers acting at "project" scales (i.e., scales typically well below the potential reach of a whole political jurisdiction). However, this project-based approach is unlikely to be sufficient to generate high-quality credits at the scale the EU would need to cover 5% of projected emissions (see EDF's two accompanying reports on funding options in Section 3.1 and on credit quality criteria in Section 6.1). As other advanced economies follow the lead of the EU and begin to purchase high-integrity mitigation credits, this supply gap is likely to widen further. The EU should therefore make use of existing approaches to generating high-quality credits while also supporting the development of *large-scale crediting approaches* to create sufficient supply in the future. In addition to expanding the potential supply of high-quality international credits, this two-pronged strategy could help establish a new model for public policy in this space.

The scale and integrity required for success implies that the large majority of these high-quality credits will likely not come from individual projects, unless nested under wider jurisdictional or standardized approaches. These credits could come either in the form of allowances from formal compliance markets with binding caps, or from jurisdictional programs like JREDD+ for which additionality may be established with sound program design and evaluation. Both of these credit types could be used to offset emissions in non-ETS trading sectors in the EU. In addition to these options, the EU also has an opportunity to innovate and significantly expand scale by engaging in bilateral agreements under Article 6.2, where the European Commission and/or Member States would enter into agreements with third-country governments on actual programs for decarbonization in the third country.

The key rationales for large-scale crediting approaches are to:

[18] https://climate.ec.europa.eu/eu-action/international-action-climate-change/eu-engagement-climate-action-non-eu-countries/cooperation-climate-action-non-eu-countries_en

- Enable support for all actions needed for accelerated decarbonization — e.g., transmission permitting, facilitating new grid connections, electricity pricing reform, carbon pricing, training programs for new skills sets — whether they are led by the private sector or government.

- Improve additionality and overall credibility of the credits, particularly since they are being used to compensate one-for-one for emissions in the EU. This could include allowing credit purchases from formal ETS programs in third countries due to their inherent high-integrity by virtue of their binding cap — these allowance credits could then be used to offset emissions in non-EU ETS sectors.

- Develop a model for cooperation under Article 6 that can also be applied by other geographies on both the demand and supply side and thereby create a new model for supporting the generation of high-quality international credits at scale.

6.2 Additionality Under Article 6 – the Case for Large-scale Approaches

As is well documented, a large share of the project-based credits issued under the Clean Development Mechanism (CDM) suffered from issues surrounding credit integrity and additionality.[19] Based on lessons learned, the standards being developed by the Supervisory Body for the Paris Agreement Crediting Mechanism (PACM) under Article 6.4 and the Integrity Council for the Voluntary Carbon Market (ICVCM) are designed to address the shortcomings of the CDM.

Any project-based crediting is however subject to asymmetric information between certifiers and project developers, which means that such crediting is vulnerable to the problem of "adverse selection" where those who opt-in to participate and implement a project are the ones who are most likely to have taken the mitigating actions anyways. Large-scale approaches based on jurisdictional or sectoral crediting addresses such adverse selection because they account for all emissions sources within the jurisdiction, not only those that are opted in voluntarily.[20] Such large-scale approaches quantify emissions reductions relative to a baseline for an entire economy or economic sector across a jurisdiction with any smaller scale or project-based crediting integrated or "nested" within the larger jurisdictional accounting.[21] This nesting process is meant to ensure alignment with the jurisdiction's NDC and any other national reference levels, to avoid double counting at the international level.[22]

Additionality, leakage and permanence are generic challenges to crediting approaches that all benefit from "upscaling." At a large enough spatial and temporal scale, additionality can be more credibly demonstrated by reducing emissions below

[19] See e.g.,: Cames, M., et al (2016) "How additional is the Clean Development Mechanism? Analysis of the application of current tools and proposed alternatives." Oko Institut. March, 2016 and Calel, R., Colmer, J., Dechezleprêtre, A. and Glachant, M. (2025) "Do Carbon Offsets Offset Carbon?" *American Economic Journal: Applied Economics* 17 (1): 1–40.DOI: 10.1257/app.20230052

[20] van Benthem, A., Kerr, S. (2013) "Scale and transfers in international emissions offset programs," *Journal of Public Economics*, Volume 107, Pages 31-46, https://doi.org/10.1016/j.jpubeco.2013.08.004.

[21] Stephan Schwartzman, et al 2021 *Environ. Res. Lett.* **16** 091001 **DOI** 10.1088/1748-9326/ac18e8

[22] Ward, J., Gerbode, C., Johnston, B. and Kerr, S. (2024). "Advancing Effective and Equitable Crediting." *Natural Climate Solutions Crediting Handbook*, pgs 61-63. https://www.edf.org/sites/default/files/2022-04/Advancing%20effective%20and%20equitable%20crediting%20for%20Natural%20Climate%20Solutions.pdf

a baseline based on a recent historical *aggregate* trend.[23] This baseline should typically not only reflect a business as usual scenario but also take into account expected developments in policies and technology and potential non-linearities (see e.g., non-linear increases in electric vehicle penetration in recent years). These developments tend to be more stable than market conditions for any one individual project developer. Additionality can be even further strengthened if credits come from purchasing allowances from a compliance market with a binding cap on the assumption that the cap is economically rather than just legally binding.

"Leakage" — where emission reductions in one place cause increases in another — can be viewed as problem of insufficient spatial and temporal scale. Jurisdictional and sector-wide approaches can — in contrast to project-based approaches — account for shifts in emissions inside the jurisdiction or sector. "Permanence" similarly depends on spatial and temporal scale. The larger the spatial scale of estimated reductions, and the longer the program, the more risks of shocks (such as fires, fraud and policy changes) can be pooled. This pooling reduces the likelihood that such shocks over time will impact the net emission reductions under a large-scale program. Moreover, the types of policy and economic changes that would likely be part of successfully implementing a large-scale emissions reduction program are likely more durable than the protections for a single project-scaled effort. These benefits of jurisdictional and sectoral scale crediting in addressing additionality, leakage and permanence concerns apply to both forests as well as to emission reductions in other sectors.[24]

6.3 Three Large-scale Crediting Approaches

When seeking large additional volumes of high-integrity credits beyond those that can be secured through ICVCM and Article 6.4, additionality and permanence concerns are — as explained in the previous section — best addressed by focusing on large-scale pilots and government-level programs based on the following three approaches: 1) expansion of third-country compliance markets with binding caps and subsequent allowance purchases from those markets, 2) jurisdictional programs like JREDD+ and 3) bilateral agreements focused on enabling decarbonization. These are examined in more detail below.

6.3.1 Buying Allowances from Third-Country Compliance Markets

All baseline-and-crediting approaches suffer from the challenge of ensuring additionality because they require establishing a counterfactual baseline of what would have happened without the credit revenue. This baseline can never be known for certain. Compliance markets with a binding cap on emissions largely avoid this problem. A positive price on allowances shows that the cap is binding and that reducing emissions covered by the cap has a real economic cost. In principle, any positive price implies that the marginal ton (or removed allowance) is additional. This does not require a high price on allowances, just a positive price.

Based on this virtue of compliance markets, allowances from third country ETSs with binding caps are strong candidates for providing the EU with high-integrity international units. This could be implemented as a central purchasing program for

[23] Stephan Schwartzman, et al 2021 *Environ. Res. Lett.* **16** 091001 **DOI** 10.1088/1748-9326/ac18e8
[24] Ibid.

cross-border allowance purchases where the allowances would be used as credits to offset emissions in non-ETS trading sectors in the EU.[25] Even if a positive price should be an indicator of a binding cap, a number of preconditions need to be fulfilled in order to ensure "a ton is a ton" and the allowance indeed additional:

1. Robust Monitoring, Reporting and Verification (MRV).
2. Credible registry practices
3. Effective monitoring and enforcement

These are all dimensions of ETS best practice where EU is well positioned to contribute with capacity building in third countries which are now developing their own ETSs or in countries that have not yet started to implement one. Working toward common standards on MRV and registries would also be well aligned with the planned focus of the Open Coalition for Carbon Compliance Markets of which the EU is a lead member.

To contribute to the goal of raising global ambition, central programs for large-scale allowance purchases would ideally also focus on providing support to expand ETS coverage — including for nature-based emissions and sinks — and/or to establish new ETSs. Large-scale purchases of allowances from ETSs in third countries may however be politically sensitive and lead to unwelcome impacts from a host country perspective if it risks causing major upward price pressure on domestic allowance prices. Any program to buy third-country allowances should therefore carefully consider potential distributional impacts.

Buying third-country ETS allowances/credits also comes with potential risks on the buyer country side. As there are no projects behind the credits, such credits may be considered less tangible by the general public in buyer countries and therefore harder to justify. Some may see purchases of ETS credits as just "sending money abroad for nothing" — making these purchases harder to justify than project-based crediting, even if they may in fact be more reliable.

6.3.2 Jurisdictional Crediting

Jurisdictional carbon crediting refers to carbon credits that are quantified and issued for mitigation activities aggregated across a whole jurisdiction. Jurisdictional crediting could involve mitigation from several sectors within the jurisdiction, but the vast majority of jurisdictional approaches have so far been implemented in the forest context and for REDD+ activities (which means Reducing Emissions from Deforestation and Forest Degradation where the '+' stands for additional forest-related activities that protect the climate and conserves and enhances forest carbon stocks).[26]

Jurisdictional crediting offers an improvement over project-based crediting through improved integrity of accounting practices like jurisdictional scale monitoring and baselines, built-in uncertainty and buffer pools, and other design features that lead to a conservative estimate of emissions impact per credit. An important distinction to

[25] This would be different than direct linking of ETSs which is typically mostly relevant between advanced economies and regulated under the EU ETS Directive's Article 25.
[26] See World Bank. 2025. Carbon Crediting: A Results-based Approach to Mobilizing Additional Climate Financing. https://openknowledge.worldbank.org/entities/publication/99fe2d7c-ecee-4f55-8794-65aef6dd0d1b and https://unfccc.int/topics/land-use/workstreams/redd/what-is-redd

project-based crediting is also that the jurisdiction's government operates the program and is the seller of credits instead of credit project developers. This feature means that the selling jurisdiction's government is able to control how any revenue from the sale of credits is distributed.

A prominent example is the Architecture for REDD+ Transactions (ART) and its REDD+ Environmental Excellence Standard (TREES) which has established comprehensive requirements for MRV, accounting and crediting, mitigation of leakage and reversal risks, avoidance of double counting, assurance of robust environmental and social safeguards and transparent registry practices for crediting REDD+ activities at jurisdictional scale.[27] Another example is the Jurisdictional and Nested REDD+ (JNR) Framework under VERRA coupled with the new VM0048 project-level, jurisdictional baseline. Both these crediting frameworks are eligible under ICVCM and CORSIA.

Jurisdictional crediting examples like ART-TREES may also offer synergies with programs to strengthen and expand compliance markets in third-countries by providing a framework for establishing the technological and administrative infrastructure needed, such as large-scale monitoring technologies, enforcement capabilities, and public consultation processes.

6.3.3 Bilateral Agreements Focused on Sectoral Decarbonization

The "enhanced agreements" referred to under Section 5.4 would be the appropriate vehicles for laying out sectoral decarbonization frameworks. Through these agreements, the EU and/or individual EU Member States could support a broader package of policies, investments and institutional reforms led by the host country. Credits could be created relative to an agreed sectoral baseline — or in the case of an ETS-based agreement, the projected ETS cap. Such packages could include carbon pricing policies as well as other activities that enable decarbonization, such as electricity pricing reform, transmission planning and permitting, facilitating new grid connections, MRV and registry capacity, and training programs for new skill sets. By combining partner-country support with a more comprehensive host-country decarbonization strategy, these agreements could improve the overall investment environment in the targeted sector, reduce risks for investors and make additional low-carbon projects more financially viable. In this way, Article 6 cooperation could help mobilize more investment for sectoral decarbonization than project-by-project crediting alone.[28]

Crediting programs like the Kinetic Coalition are one related example of how carbon credits can be leveraged by host countries to unlock financing needed to decarbonize their energy sector. The Kinetic Coalition is still piloting their approaches but targeted actions could include early retirement of coal plants, accelerated renewables deployment, improvements in grid and storage, and/or the development and implementation of enabling policies. Similar approaches could be developed for the industrial sector and for example be piloted as part of the recent agreement with

[27] https://www.artredd.org/trees/
[28] Kerr, S., Hu, X. (2025) Filling the climate finance gap: holistic approaches to mobilise private finance in developing economies. *npj Clim. Action* **4**, 16. https://doi.org/10.1038/s44168-025-00220-x

India to collaborate on industrial decarbonization of hard to abate energy intensive industries.[29]

7 Host Country Criteria – Legal, Policy, Political

In addition to their diplomatic and emissions "value," the EU also has to examine legal and policy/political criteria when deciding whether to engage with a potential partner. The Climate Law[30] offers limited guidance on this issue as it focuses on credit-level requirements, although it does say that credit purchases should take place under Article 6, which implies that the Paris Agreement conditions for using Article 6 need to be met. The Climate Law also states that credit purchases should support "*third countries in achieving net GHG reduction trajectories compatible with the Paris Agreement objective*" and that they should be subject to "*human rights safeguards*" (Art 4 (5) (a)). These requirements can be construed as country-level criteria. In addition to these, there are also broader political considerations that need to be taken into account.

Although the Climate Law provides limited guidance on country-level criteria, the EU should take care to define them properly, as they can considerably simplify credit-level evaluations. There are three distinct groups of criteria to consider: i) legal; ii) policy; and iii) political criteria. Each group is examined in turn below.

7.1 Legal Criteria

The basic legal criteria for being able to participate in Article 6 transactions are set out in a 2021 COP Decision.[31] According to this, a country can participate in Article 6 transactions if:

(a) It is a Party to the Paris Agreement;
(b) It has prepared, communicated and is maintaining an NDC in accordance with Article 4, paragraph 2;
(c) It has arrangements in place for authorizing the use of ITMOs toward achievement of NDCs pursuant to Article 6, paragraph 3;
(d) It has arrangements in place that are consistent with this guidance and relevant decisions of the CMA, for tracking ITMOs;
(e) It has provided the most recent national inventory report required in accordance with decision 18/CMA.1;
(f) Its participation contributes to the implementation of its NDC and long-term low-emission development strategy, if it has submitted one, and the long-term goals of the Paris Agreement.

(Note that the Decision also calls for the "special circumstances" of LDCs and SIDS to be recognized in relation to NDCs, and potentially in relation to "other aspects." The exact terms of such special recognition are still yet to be adopted by the UNFCCC.)

Compliance with points (a) to (e) can be demonstrated in a relatively objective way; several organizations[32] which track compliance with these. Point (f) is more of a qualitative evaluation. However, the Paris Agreement framework does not establish a third-party assessment method for this; countries need to demonstrate compliance

[29] https://ec.europa.eu/commission/presscorner/detail/en/statement_26_224
[30] https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=OJ:L_202600667
[31] Decision 2/CMA.3 (Glasgow, COP26, November 2021) Annex, Chapter II, paragraphs 3–5, https://unfccc.int/sites/default/files/resource/cma3_auv_12a_PA_6.2.pdf
[32] see e.g.: https://www.ieta.org/ndc-3-0-article-6-tracker, or https://a6partnership.org/a6-implementation-status/about

with this requirement on their own.[33] This leads us to the next category of criteria, the policy criteria.

7.2 Policy Criteria

The policy criteria can be reduced to a single overarching question: Is the host country's NDC sufficiently robust, i.e., does the sale of credits help the country reach its climate targets, or does it make it more difficult?

The Paris Agreement framework does not assess or evaluate the quality of NDCs and also does not make any material determination on whether a particular Article 6.4 project is in line with the host country NDC. It merely requires the host country to explain how Article 6.4 activities will help meeting climate goals.[34] (The lack of any meaningful evaluation or review of NDCs may be one of the reasons behind the mandatory downward adjustment of baselines for Article 6.4 credits, required by the PACM's baseline standard.[35] Downward adjustment in effect adopts a conservative assumption about NDC ambition and seeks to address it through a methodological adjustment. As we will argue in the next section, this downward adjustment is not in our view the correct mechanism to compensate for lack of NDC ambition).

As there is no central evaluation of NDCs, the buyer countries will need to carry out their review on their own. Indeed, the Climate Law requires that the credit purchases should be "*compatible with the Paris Agreement objective*."

Several potential weaknesses of an NDC are relevant in this context:

- the targets could be too vague to allow for meaningful corresponding adjustments.
- there could be overcrediting; i.e., a government might offer to sell more credits than it can afford to[36]; or allow the sale of "low-hanging fruit" abatement options that could be better used to meet domestic reduction objectives. In addition, the relevant crediting space is not that of today, but that of a decade from now, which makes the assessment even more difficult.
- flawed assumptions underlying the NDC could undermine its credibility
- there could be a lack of coherence with other policies adopted by the government — implying that the government is not "serious" about its intention to reduce emissions. A proper NDC should be buttressed by the country's long-term low emissions development strategies.

If the EU has to make its own determination on these matters, it needs to decide on the yardstick to use for this. At present, there are several initiatives underway to assess NDCs in a qualitative way:

- Climate Action Tracker[37] is offering evaluations on 40 NDCs (according to them, none are compatible with the Paris Agreement; 11 are almost sufficient, while the rest are at various levels of insufficiency).

[33] https://unfccc.int/sites/default/files/resource/Article_6.2_Reference_Manual.pdf
[34] https://unfccc.int/sites/default/files/resource/A6.4-FORM-GOV-001.pdf
[35] https://unfccc.int/sites/default/files/resource/A6.4-SBM014-A05.pdf
[36] https://cacecarboncredittransfers.netlify.app/
[37] https://climateactiontracker.org/countries/

- Some rating agencies (e.g., Bezero) are also offering country evaluations[38]; however, instead of judgments, these usually limit themselves to identifying risks, and even among those, they are usually not evaluating the risk of overcrediting.
- There are also research papers focusing on certain countries: e.g., Qatar's Centre for Carbon Excellence has published a paper evaluating Colombia's carbon crediting space.[39]
- Finally, we should mention the Oxford Principles for Responsible Engagement with Article 6.[40] As the name indicates, this is not an evaluation of actual countries, but a standard to measure them against.

As mentioned in Section 5.4, the EU could choose to draw up an NDC Development Road Map, which would make the EU's requirements and conditions for bilateral agreements public for all potential host countries. This Road Map could have a time dimension, i.e., different requirements could be formulated for 2025 NDCs and for 2035 NDCs. The Road Map could also take into account countries' track record in actually meeting their NDCs.

A corollary of the choice of methodology is the matter of whether the EU should establish its own internal team for this evaluation process or rely on one of the entities above. In addition to lower cost, the advantage of using independent assessments is that it makes the EU's choices more defensible politically. The drawback is that it delegates significant influence to entities that have their own agenda and own interpretation of what is an adequate NDC.

7.3 Political Criteria

The third category of criteria are those are not connected to climate issues but related to i) the overall values of the host country, i.e., its approach to human rights, democratic freedoms and the rule of law; ii) geopolitical and economic considerations. While the EU would presumably not import credits from North Korea, Iran or Russia as a corollary of its various sanctions against these states, there are less obvious situations where these issues will need to be expressly considered.

Geopolitical and economic considerations are more complex. For example, China is an important partner to the EU in an economic and political sense, it is also technically a developing country, there are no overarching sanctions in place, and there is a lot of climate policy-related cooperation between the EU and China. And yet, mainly due to the economic competition between the EU and China, it appears unlikely that the EU would want to purchase Article 6 credits from China. Moreover, China has now moved into the space of being a prospective buyer itself of Article 6 credits and presumably at much higher levels of demand than that spurred by the

[38] https://bezerocarbon.com/insights/bezeros-article-6-country-profiles-introduction
[39] https://cace.gord.qa/wp-content/uploads/2026/04/CACE_Assessing-Colombias-Article-6-Crediting-Space_01.pdf
[40] Johnstone, I., Schneider, L., Michaelowa, A., Grandpré, J., Kuci, S., Ahonen, H., Probst, B.S., Lezak, S., Hale,T., La Hoz Theuer, S., Omukuti, J., Reséndiz, J.L., Fankhauser, S., Abebe, S., and Hepburn, C. *Oxford Principles for Responsible Engagement with Article 6 (2025).* Oxford: Smith School of Enterprise and the Environment, University of Oxford. (https://www.smithschool.ox.ac.uk/sites/default/files/2025-06/The_Oxford_Principles_for_Responsible_Engagement_with_Article_6.pdf)

current provisions of the European Climate Law, even in its most expansive interpretation.

Notwithstanding the above, the political criteria are probably the easiest to manage. The EU is free to choose its Article 6 partners; it is not obliged to explain why it is not dealing with a particular country. The fact that a country was deemed to have met the legal and policy criteria should be enough. Of course, the EU could give some advance notice of its preferences; it could give preferential treatment to LDCs, SIDS or countries in the EU neighborhood. (It should be noted though that the Climate Law does not mention any such preferred country groups.)

7.4 The Evaluation Process

Beyond setting the legal and political criteria for choosing host countries, there are also procedural questions the EU will need to consider. The most important questions are as follows:

Which countries fit the EU criteria?

The EU is pursuing several objectives when seeking to purchase credits: i) to access cost-effective credit purchases; ii) to make the Paris Agreement a success; iii) to build ties in climate diplomacy. As we have seen in earlier chapters, these goals are in conflict to some extent and set up dilemmas in host country selection. Should we focus on diplomatically relevant — i.e., large — countries? Are we prioritizing cost-effectiveness or development? Do we prefer advanced countries with sophisticated NDCs or we would rather want LDCs and SIDS? Answering these questions would considerably help in calibrating the evaluation process.

What is the outcome of the evaluation?

At the most basic level, the evaluation of the host country criteria could yield a simple, binary "yes/no" decision. However, the EU could come up with more complex classifications:

- The evaluation could set out qualitative limits, e.g., that it is ready to buy credits of a certain type in a particular country, but not others. This is already standard practice in current Article 6.2 agreements, which usually determine a subset of eligible credit types, and this subset is different for each country.[41] Going forward, the EU could establish e.g., that technological removal projects are eligible even if the EU is otherwise not entirely convinced by a country's NDC, given that such projects are more likely to be additional to national efforts under any circumstances. The drawback of such qualitative limits is the time dimension — something that is clearly additional today may not be so in ten years' time. Such assessment would therefore require periodic review.

- The evaluation could also establish quantitative limits: it could decide that it would buy credits from a host country until a certain volume of overall credit sales in a given period is met — regardless of what the host country's own NDC says. This would mean that the EU's assessment effectively replaces the

[41] e.g., Singapore is ready to buy credits from projects that use of the Gold Standard methodology for improving cattle methane emissions through improving the feed mix when they come from Ghana, but not ready to do so when they come from Rwanda. (https://www.carbonmarkets-cooperation.gov.sg/introduction/)

host country's evaluation of its own crediting space. This is a politically sensitive matter, as it can be seen as an infringement of the host country's sovereign rights to determine their climate policy.

Both qualitative and quantitative limits are likely to be more acceptable if they are defined in advance and outside of a bilaterally agreed framework. In the past, both quantitative (e.g., no more than 5% CDM import) and qualitative limits (no nuclear, no large hydro) were set unilaterally by the EU with limited controversy.

How is compliance maintained and regularly examined?

Evaluations will probably need to be re-examined periodically. This is true for the basic criteria (e.g., future NDCs can also be late or missing), and for political criteria (e.g., a friendly partner country can become politically unacceptable in a decade). Thus, the agreements will need to have a regular (e.g., biennial) review mechanism. This mechanism should be as rules-based as possible (e.g., failure to submit an NDC on time results in termination of the agreement 6 months after the deadline). A bilateral agreement with the prospect of credit deliveries means a strong commitment — without strict rules on review and termination, there will be a strong political incentive to try to ignore negative developments. As we have discussed above, some criteria will always require judgment, and it could become highly controversial for the EU to determine that one of its crediting partners has now become unfit to deal with. This risk can be mitigated by involving third-party reviewers to ensure the fairness of the process.

The regular review should also be relevant for the possible termination of the agreement. The EU will need to provide clarity on what happens in the case of termination with credits already issued, or with projects already approved or funded and expecting to deliver credits to the EU in the future.

8 Harmonizing Quality Criteria with Other Buyers

An important weakness of the EU's credit purchasing policy framework is that it is only planning to buy credits for five years, i.e., between 2036 and 2040. (There might be credit purchases after 2040, but no policy decision will be taken on this at this moment.). A five-year credit purchase window poses significant challenges from a developer's perspective: most projects deliver credits for ten or fifteen years and sometimes even multiple decades. It is difficult to establish financial viability for a project that is tailored to the quality criteria of a system that is only buying five years' worth of supply.

This problem could be mitigated by "*harmonizing*" the credit quality criteria with other buyers, or at least a part of them, potentially also including NDC evaluations. If other potential credit buyers would agree to follow the same credit criteria as the EU, this would lower the risk for developers and thus mitigate the five-year problem. Such cooperation is also in the interest of other buyers — and the smaller they are, the less they can afford to set out their own quality criteria. (The need for such cooperation is a further argument for our recommendation in our earlier paper on credit quality that the EU should not write its own credit quality rules but rather endorse existing criteria.)

Brokering a broad multinational consensus around the types of crediting that are acceptable for meeting Paris Agreement commitments could be an important contribution from the EU toward the success of the Paris Agreement. It would allow smaller buyer countries to start purchasing at a lower political and administrative cost through providing guidance and ensuring a common understanding of what "high-quality" is.

One possible venue for agreeing on common credit quality criteria could be the Open Coalition on Compliance Carbon Markets. (OCCCM)[42] The OCCCM was launched at COP30 in November 2025 with a declaration[43] endorsed by the EU, Brazil, China, UK, Canada, Mexico, Singapore, Norway and others. The OCCCM is open to all countries with compliance carbon markets and carbon taxes. The work will focus on strengthening MRV, improving carbon accounting and exploring the potential use of high-integrity credits.[44] The OCCCM appears well suited to the purpose of developing common credit criteria: it has mostly buyer or potential buyer countries, but not exclusively so; Brazil is an important potential credit supplier. The EU will be one of the co-chairs which will allow it to shape the agenda of the OCCCM. Not being an exclusive buyer's club could make it more difficult to adopt criteria, but also makes the outcomes more robust, as they will not be criticized for making decisions without the host countries at the table.

Another potential forum for harmonization could be the Coalition to Grow Carbon Markets (CGCM)[45], although this formation is currently focused on stimulating corporate (and not government) demand for credits. The CGCM has a balanced membership across developed (Canada, France, Switzerland, UK, New Zealand, Singapore) and developing countries (Indonesia, Kenya, Panama, Peru, Zambia). Significantly however, neither the EU, nor China nor Brazil are members. In 2025, the CGCM issued its Shared Principles on the use of carbon credits,[46] which require the application of rigorous quality standards.

9 Beyond Credit Purchases: Complementary Levers to Secure Ambition from Trading Partners

Section 5 concluded that the revenue from EU credit purchases, on its own, is likely to give the EU limited leverage over the climate policies of large emitters. However, credit purchases are only one of several channels through which the EU interacts with its trading partners. The EU is one of the world's largest markets and among the main trading partners of many potential host countries, and it increasingly sets product and regulatory requirements that exporters need to meet. Taken together, market access, regulatory requirements, finance and partnership frameworks may offer considerably more influence over partner-country ambition than credit revenues alone. This section reviews these complementary options. They are not mutually exclusive, and several of them could be combined with the two-stage framework set out in Section 5.4. Moreover, beyond trade and regulatory pulls, the EU may consider implementing within bilateral agreements a set of explicit

[42] https://icapcarbonaction.com/en/news/countries-endorse-new-multilateral-coalition-compliance-carbon-markets-cop30
[43] https://www.gov.br/mre/pt-br/canais_atendimento/imprensa/notas-a-imprensa/declaracao-sobre-a-coalizao-aberta-de-mercados-regulados-de-carbono/OpenCoalitiononComplianceCarbonMarkets.pdf
[44] https://icapcarbonaction.com/en/news/eu-brazil-and-china-formally-launch-open-coalition-compliance-carbon-markets
[45] https://coalitiontogrowcarbonmarkets.org/
[46] https://coalitiontogrowcarbonmarkets.org/shared-principles/

incentives towards higher ambition, in the form of linked incentives conditioned on milestones within NDCs.

Two general caveats apply. First, trade-related climate measures are often perceived by developing countries as unilateral and as inconsistent with the principle of common but differentiated responsibilities and respective capabilities of the UNFCCC, and they have been raised as a concern in UNFCCC negotiations. The more the EU relies on trade-related leverage, the more important it becomes that its approach is transparent, non-discriminatory, compatible with WTO rules and accompanied by support. Second, there is an important interplay with additionality: where EU regulation itself drives abatement in a partner country, the resulting reductions would generally not be additional and should not also be credited for sale to the EU.

9.1 The Carbon Border Adjustment Mechanism

The definitive period of the Carbon Border Adjustment Mechanism (CBAM) started on January 1, 2026, covering imports of iron and steel, aluminum, cement, fertilizers, hydrogen and electricity. Under Article 9 of the CBAM Regulation, importers can claim a reduction of their CBAM obligation for a carbon price effectively paid in the country of origin.[47] This creates a direct incentive for exporting countries to introduce or strengthen explicit carbon pricing, since carbon revenues that would otherwise accrue to the EU can be retained domestically. For the export-oriented sectors concerned, this incentive may be more immediate than the prospect of revenues from credit sales a decade from now.

In May 2026, the Commission published draft implementing rules on the deduction of third-country carbon prices for public feedback. According to the draft, eligible carbon pricing mechanisms would need to be mandatory and non-discriminatory, free allocation and other rebates would be deducted from the effective carbon price, and Article 6 credits used for compliance within a third-country mechanism would be recognized only up to 10% of covered emissions.[48] The EU could use CBAM more deliberately as a diplomatic lever by: i) providing early clarity to partner countries on how carbon pricing systems under development would be recognized; ii) offering capacity building on MRV and registries to exporting countries, which would also support the ETS-based crediting option discussed in Section 6.3; and iii) coordinating CBAM-related dialogues with credit diplomacy, since several countries with significant exposure to CBAM (for example India, South Africa or Egypt) are also potential host countries. The main limitations are that CBAM covers only a small share of most partners' exports and emissions, and that it is widely perceived as a protectionist measure by the countries concerned. The relevance to climate diplomacy stems from both the spur CBAM is already putting onto the development of new ETS, but also to the potential for offset systems, if properly developed and with the adequate additionality provisions, to count as one form of acceptable carbon pricing under CBAM. This in turns is likely to enhance the development of article 6-ready crediting systems.

[47] Regulation (EU) 2023/956 of the European Parliament and of the Council of 10 May 2023 establishing a carbon border adjustment mechanism, Article 9. https://eur-lex.europa.eu/eli/reg/2023/956/oj

[48] European Commission, "Carbon price paid in third countries," 13 May 2026, https://taxation-customs.ec.europa.eu/news/carbon-price-paid-third-countries-2026-05-13_en; see also https://www.globalelr.com/2026/06/european-commission-publishes-draft-implementing-rules-on-cbam-carbon-price-deductions/, The final rules may differ from the draft.

9.2 Trade and Sustainable Development Provisions in Trade Agreements

Following its 2022 review of the trade and sustainable development (TSD) approach, the Commission has sought to make respect for the Paris Agreement an essential element of new EU trade agreements and to allow trade sanctions as a last resort in cases of serious violations of core TSD commitments.[49] The EU–New Zealand agreement, in force since May 2024, was the first to apply this approach. These provisions provide a legal anchor for climate commitments, but they are generally designed to address withdrawal from the Paris Agreement or actions that defeat its object and purpose, rather than the level of ambition of an NDC. The EU could make fuller use of the regular TSD committees and implementation dialogues to discuss NDC implementation, carbon pricing and Article 6 cooperation, and it could include dedicated cooperation provisions on carbon markets in new or modernized agreements. However, negotiating timelines are long, and trade agreements are unlikely to be the main vehicle for securing ambition within the 2036–2040 purchasing window.

9.3 Unilateral Trade Preferences

The revised Generalized Scheme of Preferences (GSP) Regulation, adopted by the Council in May 2026 and applicable from January 1, 2027, adds the Paris Agreement to the list of international conventions relevant to the scheme, replacing the Kyoto Protocol, and provides for faster procedures for the temporary withdrawal of preferences in cases of serious violations.[50] The GSP, and GSP+ in particular, therefore offers leverage primarily over lower-income and vulnerable countries — the group in which, as discussed in Section 5.2, the EU already has more influence but which accounts for a smaller share of emissions. Its main value may lie in reinforcing basic Paris Agreement obligations, such as the timely submission and implementation of NDCs, which overlap with the legal criteria set out in Section 7.1, rather than in driving higher ambition.

9.4 Product and Supply-Chain Regulation

A growing body of EU product and supply-chain regulation sets requirements that exporters must meet to access the EU market, with effects that extend beyond the EU's borders. Relevant examples include:

- The EU Deforestation Regulation (EUDR), which requires that relevant commodities (including cattle, cocoa, coffee, palm oil, rubber, soy and wood) placed on the EU market are deforestation-free. Following a targeted revision agreed in December 2025, its application was postponed to the end of 2026 for large operators.[51] The associated country benchmarking, which classifies producer countries by risk level, gives governments an incentive to address deforestation at jurisdictional level.
- The EU Methane Regulation, which subjects imports of oil, gas and coal to MRV equivalence requirements from 2027, methane intensity reporting from

[49] European Commission (2022) The power of trade partnerships: together for green and just economic growth, COM(2022) 409 final.
[50] https://globalimportblog.bakermckenzie.com/2026/05/26/eu-council-adopts-revised-gsp-regulation-strengthening-conditionality-of-trade-preferences; https://trade.ec.europa.eu/access-to-markets/en/news/eus-renewed-gsp-scheme-key-updates-2027
[51] https://www.consilium.europa.eu/en/press/press-releases/2025/12/18/deforestation-council-signs-off-targeted-revision-to-simplify-and-postpone-the-regulation/

2028 and maximum methane intensity values from 2030. A Commission recommendation of July 2026 suggested that Member States refrain from imposing penalties during an initial period, which may weaken the signal in the near term.[52]

- Carbon footprint and sustainability requirements for specific products, such as those under the Batteries Regulation and the eco-design framework, which may increasingly reward low-carbon production in exporting countries.

These measures create incentives at the level of sectors and jurisdictions rather than individual projects, and can therefore complement the large-scale crediting approaches discussed in Section 6. For example, jurisdictional REDD+ programs that reduce deforestation could also help producer countries improve their EUDR risk classification, and support for methane MRV in exporting countries could serve both the Methane Regulation and future crediting activities. At the same time, abatement required to meet EU market-access rules would in most cases not be additional and should not generate credits for sale to the EU. Clear rules at this interface would help the EU avoid purchasing credits for outcomes that its own regulation already requires.

9.5 Partnership, Investment and Offtake Frameworks

The EU's partnership instruments — Global Gateway, the Clean Trade and Investment Partnerships, the Green Alliances and Partnerships, strategic partnerships on raw materials and renewable hydrogen, and the JETPs — combine finance, investment facilitation and market access. For many partner countries, access to the EU market for low-carbon products, such as renewable hydrogen and its derivatives, green iron and steel, or critical raw materials processed with low emissions, may be more valuable than credit revenues, and it is closely aligned with their own industrial development objectives. Offtake arrangements and demand-side instruments, including the international dimension of the European Hydrogen Bank and lead markets for low-carbon products, could therefore be linked to partner-country policy commitments.

Such frameworks could serve as the umbrella for the enhanced agreements envisaged in the second stage of the framework described in Section 5.4. A package combining preferential market access or offtake for clean products, Team Europe finance and credit purchases is likely to carry more weight with large emerging economies than credit purchases alone, while also reducing the risk, noted in Section 5.4, that the EU's offer is perceived as overly complex.

9.6 Plurilateral Cooperation on Carbon Pricing and Standards

Finally, the EU can pursue ambition through plurilateral fora in addition to bilateral channels. The Climate Club, launched at COP28 with a focus on industrial decarbonization, and the OCCCM discussed in Section 8 offer venues to promote convergence of carbon pricing, MRV and product carbon accounting standards. Over time, this cooperation could extend to the mutual recognition of carbon pricing for CBAM purposes or, for countries with robust emissions trading systems, to linking

[52] Regulation (EU) 2024/1787 on the reduction of methane emissions in the energy sector; see https://www.mayerbrown.com/en/insights/publications/2026/08/regulation-of-methane-emissions-in-the-oil-and-gas-industry-european-commission-recommendation-and-brazils-progress-on-the-regulatory-agenda

arrangements under Article 25 of the EU ETS Directive. Plurilateral approaches reduce the perception of unilateral conditionality and spread the diplomatic effort across several buyers, although they tend to progress slowly and may converge on less demanding common denominators.

9.7 Combining the Levers

Table 1 summarizes the main features of each lever. None of them is sufficient on its own, and their relevance differs considerably across partner countries.

TABLE 1: COMPLEMENTARY LEVERS TO SECURE AMBITION FROM EU TRADING PARTNERS

Lever	Main mechanism	Partners most likely to respond	Main limitations
Article 6 credit purchases	Revenue for verified mitigation outcomes	Smaller countries; countries with surplus mitigation potential	Modest scale relative to other finance; purchases start only in 2036
CBAM (Article 9 deduction)	Carbon revenue retained domestically if carbon is priced at home	Exporters of CBAM goods to the EU	Narrow sectoral coverage; perceived as protectionist
TSD provisions in trade agreements	Paris Agreement as essential element; cooperation dialogues	Current and future FTA partners	Addresses participation more than NDC ambition; long timelines
GSP / GSP+	Tariff preferences conditional on international conventions	Lower-income and vulnerable countries	Small share of global emissions
Product and supply-chain rules	Market-access requirements for commodities, fuels and products	Commodity and fossil fuel exporters	Implementation delays; overlap with crediting raises additionality issues
Partnership and offtake frameworks	Finance, investment and demand for clean products	Large emerging economies	Requires coordination across EU and Member State instruments
Plurilateral fora	Convergence of standards; recognition of carbon pricing	Countries with carbon pricing systems	Slow progress; risk of lowest common denominator

The main implication is that the EU's leverage is likely to lie less in any single instrument than in the coherence of its overall offer. This would call for: i) mapping, for each priority partner, the relative weight of trade and CBAM exposure, available finance and crediting potential; ii) coordination between the Commission services responsible for climate, trade, energy and international partnerships, as well as with Member States under a Team Europe approach; iii) consistent messaging, so that incentives (market access, finance, credit revenue) and requirements (CBAM, product standards) are presented as parts of a single partnership offer rather than as unconnected conditions; and iv) clear rules at the interface between regulation and crediting to preserve additionality. Used in this way, trade-related levers could help the EU address the trilemma described in Section 5.3, by supporting higher ambition in large emitters without requiring credit purchases to carry the full weight of the EU's diplomatic objectives.

10 An idea: NDC Performance-linked Agreements

Taking a leaf from the finance world, where outcome-linked bonds have recently been held up as a promising type of instrument that could better align, in the field of sustainability, borrowers and lenders, by conditioning the interest rate and premia on bonds on the performance in relation to a concrete metric linked to the sustainability of the operation of the borrower, the EU should, through either a combination of the trade and other policy instruments described above or through a special purpose instrument, consider implementing through its partnership agreements.

Outcome-linked instruments tie financial terms to measurable results. Sovereign sustainability-linked bonds (SLBs) are the closest precedent. Chile's 2022 SLB was linked to national emissions and renewable electricity targets. Uruguay's 2022 SLB introduced a two-way coupon, which falls if emissions-intensity and native-forest targets are over-achieved and rises if they are missed.

Applied to Article 6, the principle is simple: part of the value of an ITMO transaction should depend on the ambition of the next NDC, for both parties. The host gains when it raises ambition in the sectors that generated ITMOs, and the buyer pays when ITMOs displace domestic effort beyond an agreed limit. The instrument prices the intertemporal externality that CA accounting leaves out. Today's transfer reduces tomorrow's cheap domestic abatement.

Timing favors action now. Units transferred in 2026–2030 fall in the period when parties prepare the NDCs due in 2030, with a 2040 horizon. The 2030 submission, followed by Biennial Transparency Reports (BTRs) and technical expert review, provides a natural and already-scheduled checkpoint.

10.1 What to Condition On: KPI Design

The credibility of any outcome-linked instrument rests on its KPIs. They must be measurable, hard to game and ideally verified through the Enhanced Transparency Framework (ETF) so that no parallel MRV system is needed.

10.1.1 Host-side KPIs

Headline ambition against an anchored reference. The next NDC target is assessed against ex-post inventory emissions or a modeled pathway agreed at signing, not a self-declared BAU that can be inflated.

Coverage and no carve-outs. Sectors that generated ITMOs remain within the next NDC's scope. The technologies deployed by Article 6 activities are built into future sectoral targets, in the same spirit as the downward baseline adjustment required under Article 6.4.

Conditional-to-unconditional conversion. An agreed share of the conditional NDC component moves into the unconditional target, which reflects the finance received through trading.

Buyer-side KPIs

ITMO-use cap. The share of the buyer's NDC met through ITMOs stays below a pre-agreed ceiling.

Domestic trajectory. Domestic emissions, as reported in BTRs, remain on the pathway declared at the time of the agreement.

Net mitigation contribution. A voluntary OMGE cancellation share under 6.2 (the 2% floor applies only under 6.4), which rises automatically if other buyer KPIs are missed.

11 Five Instrument Architectures

The options below range from light contractual terms to new financial vehicles. They are complementary rather than mutually exclusive. Some may be within the range of options that can be considered by the European Commission or its procurement facility, others would require multilateral or DFI involvement.

Instrument	Mechanism	Who carries the risk	Complexity
1. Ambition escrow	15–30% of the ITMO price held in trust; released to the host on an NDC meeting agreed criteria, otherwise paid to a host climate or adaptation fund.	Host (deferred revenue); buyer (capital tied up)	Low: contract clause in bilateral agreement
2. Host ambition-linked sovereign bond	Host SLB with NDC-ambition KPIs; buyer or its DFI anchors or guarantees; coupon step-down funded by a buyer "ambition premium."	Host (cost of capital); buyer (premium, guarantee)	Medium–high: sovereign issuance
3. Buyer accountability commitment	Pre-committed payment or bond step-up to the host if the buyer exceeds its ITMO-use cap or misses its domestic trajectory.	Buyer	Low–medium
4. Ambition reserve of units	A tranche of authorized units with deferred first transfer; kept by the host if ambition criteria met, canceled for OMGE if not.	Host (unit value); buyer (supply)	Medium: registry and authorization terms
5. Pooled MDB facility	Multilateral facility holds escrows, issues bonds and verifies KPIs across several buyer–host pairs.	Pooled across participants	High: new vehicle, but lowest political friction

11.1 4.1 Ambition Escrow

The simplest design. A share of the ITMO purchase price is held in trust and released to the host when its next NDC meets the agreed criteria. If the criteria are missed, the funds do not return to the buyer. They are paid into a host-country climate or adaptation fund instead. The design works as an incentive rather than a clawback, and it removes any buyer interest in the host failing. It needs only a clause in the bilateral agreement or authorization terms.

11.2 4.2 Host Sovereign Ambition-Linked Bond

The host issues an SLB whose KPIs are the NDC ambition metrics above, and the buyer or its DFI acts as anchor investor or guarantor. The coupon step-down on success is funded by an "ambition premium" the buyer adds to the ITMO price. The host's cost of capital falls when it raises ambition, which directly offsets the higher cost of later, harder abatement. This option suits hosts with large programs and market access.

11.3 4.3 Buyer Accountability Commitment

If the buyer exceeds its ITMO-use cap or its domestic emissions deviate from the declared trajectory, a pre-committed payment or a coupon step-up on a buyer-issued green bond flows to the host's transition or adaptation fund. This gives buyers real exposure and answers the political charge that Article 6 lets wealthy countries buy their way out.

11.4 4.4 Ambition Reserve of Units

The host authorizes a tranche of units whose first transfer is deferred until the next NDC is assessed. If ambition criteria are met, the host keeps the tranche to sell or retire. If not, the tranche is cancelled for OMGE. Structurally this resembles a permanence buffer, but it insures against ambition risk rather than reversal risk.

11.5 4.5 Pooled Facility through a Multilateral Development Bank

Several buyer–host pairs channel escrows and premiums through an MDB-hosted facility that issues bonds, holds reserves and verifies KPIs. Pooling spreads risk, lowers transaction costs for smaller hosts, and replaces bilateral judgment of a sovereign's NDC with a neutral verifier.

12 Concluding Remarks

The EU's decision to start buying international credits represents an opportunity to improve the EU's position in global climate diplomacy, i.e., increase its influence and help partner countries advance toward the shared goal of making the Paris Agreement a success. However, making the right diplomatic pitch toward international partners is a careful balancing act: the EU needs to avoid both overloading negotiations with demands on host country domestic climate policy, and setting conditions that are too weak to make a difference. This paper proposes a two-stage negotiation strategy to address this problem, where the initial agreements are simple accounting frameworks, while deeper second-level agreements with suitable countries would contain host country policy commitments, development finance and potentially system-wide crediting.

The paper also argues for the consideration of three types of system-wide crediting approaches: third-country ETS allowances, jurisdictional forest crediting, and bilateral agreements focused on enabling sectoral decarbonization. Finally, it emphasizes that the EU should seek — to the extent possible — to harmonize credit

criteria with other credit buying nations, as this would increase demand certainty for developers and thus make credits more affordable.

The paper suggests that credit diplomacy should be embedded in the EU's broader set of trade, regulatory and partnership instruments — including CBAM, trade agreements, the GSP, product regulation and offtake frameworks — which together are likely to offer more leverage over large emitters than credit purchases alone.

Finally, the paper recommends that the EU consider embedding into its procurement process a set of financial incentives that are baked in at the government-to-government level that would dissuade host countries to not increase their ambition in expectation of higher carbon revenue. Tying such revenue to contractual sovereign-bound agreements conditional on NDC performance would de-risk project developer involvement, lower development costs for projects (assuming that the downward adjustment now being considered under article 6.4 modalities would not apply), maintain a coherent set of incentives for increased ambition and pave the way to more structured linking between Parties to the Paris Agreement.