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European Climate Law amendment

Carbon Market Watch's feedback to the European Commission's proposal to amend the European Climate Law

Europe is currently the fastest-warming continent, with escalating climate risks already endangering its energy and food security, ecosystems, infrastructure, water supplies, financial systems and public health. This situation demands immediate and decisive action.

As it stands, the European Commission's proposed 2040 target **is inadequate** to set the EU on a clear path to climate neutrality and ensure climate action over the coming decades.

1. Climate neutrality by 2040

The proposed net 90% emissions reduction target for 2040 compared with 1990 levels today sits at the lower end of the range recommended by the European Scientific Advisory Board on Climate Change. For Carbon Market Watch and EU environmental NGOs, the net 90% still remains a full 10% off the climate neutrality the EU could and should achieve by 2040 to increase its fair contribution to the Paris Agreement goals.

The adopted legislation should not use any of the flexibility mechanisms suggested by the Commission, including reliance on Article 6 carbon credits, the integration of carbon removals into the EU Emissions Trading System (EU ETS) and enhanced flexibilities between sectors.

2. Domestic climate action

Opening the door to international carbon credits goes against the domestic nature of the EU's 2040 climate target. The EU's own scientific advisors warned against using Article 6 carbon credits. Moreover, the European Commission has departed from its own impact assessment, which included no analysis of the possible role of international carbon credits. This means the EU is flying blind by opening up this possibility, and it appears driven by hopes of accessing cheap credits rather than being grounded in concrete analysis.

Regarding the quantity of carbon credits potentially eligible under the 2040 target, the proposal implies that between 140 and 430 million carbon credits may be used by 2040 (own calculations). In the latter case, this means the EU's 2040 net emissions would be a whopping 30% higher than if the EU achieved its target domestically.

The explanatory memorandum also states that the 3% threshold can be revised, based on the upcoming co-legislation process, introducing further uncertainty on the exact quantity that could be eligible, which could potentially even increase, considering the appetite of climate-sceptical politicians in various member states to do so.

Regarding the quality of carbon credits, the proposal provides only a vague commitment that credits will be of high quality, without defining specific criteria. As the rules stand now, the Article 6 framework is not robust enough to ensure the transparent trade of high-quality carbon credits that can lead countries to increase their climate ambition.

The EU might be spending billions (between €7 and €30 billion over the 2036-2040 period, depending on the amount of credits bought, according to our own calculations) to buy international credits, diverting resources away from domestic decarbonisation and real climate finance for developing countries.

International carbon credits must definitely not be allowed to enter the EU ETS, which proved disastrous in the past.

3. No substitute for emissions reductions

The net 90% reduction proposal is also a missed opportunity to enshrine three separate targets for gross emission reductions, net carbon sequestration in the land sector and permanent removals into law. Separate climate targets enhance the transparency and accountability of the EU's pathway to climate neutrality, provide clarity on emission reduction plans, determine the role of removals and natural sinks, and avoid an unrealistic reliance on storing carbon from the atmosphere (naturally or through technical processes).

Finally, the use of domestic permanent removals under the EU ETS risks undermining the integrity of the system. It also does not create a business case for costly but high-quality removals, and it is not technically necessary to solve the expected tight supply of emissions permits under the system (see these reports from Carbon Market Watch and Sandbag).

Recommendations

As it stands, the proposal is severely lacking. The Commission should work together with the European Parliament and Council to ensure that the final legislation:

1. Guides the EU towards domestic climate neutrality by 2040 at the latest, and negative emissions thereafter.
2. Sets three separate targets for gross emissions reductions, net land sequestration and permanent removals.
3. Establishes a domestic net 90% reduction target by 2040 as the bare minimum, and avoids that the policy architecture and package to be proposed in 2026 are based on lower ambition.
4. Does not include any reliance on Article 6 credits to achieve the EU targets. If engagement under Article 6 is to be considered in any way, despite the significant risks, it should only be to increase the EU's ambition by providing climate contributions to support climate action outside the Union. Such contributions should be in addition to proper climate finance to the most vulnerable countries.
5. Excludes any integration of Article 6 credits or carbon removals in the EU ETS and in any other policies aiming to slash emissions.

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