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Article 6 after Belém and Brussels: the EU's 5% credit window, a member-state decarbonisation level playing field and Spain

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Elcano Policy Paper

October 2026

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ISSN 2255-5293
Depósito Legal: M-8692-2013

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Executive summary[1]

Article 6 of the Paris Agreement introduces three key pathways for international cooperation:

a. Article 6.2 establishes market-based cooperative approaches through binding accounting and reporting rules, enabling bilateral or multilateral transfers of internationally transferable mitigation outcomes (ITMOs). Article 6.2 mandates countries to apply corresponding adjustments, when internationally transferring mitigation outcomes, to avoid double counting of the underlying mitigation and preserve atmospheric integrity.

b. Article 6.4 creates the Paris Agreement Crediting Mechanism (PACM), a UN-supervised system for generating verified emission reductions (A6.4ERs) that can be traded under Art. 6.2 (as ITMOs).

c. Article 6.8 promotes non-market approaches, such as technology transfer, capacity building and policy cooperation, which support sustainable development without involving carbon trading.

Nine years after Paris, COP29 in Baku finally delivered the full Article 6 rulebook. Art. 6.2 and the PACM are now legally operational, but registry infrastructure, methodology approvals and enforcement mechanisms remain works in progress. Article 6 markets are young and the data thin.

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The EU's amended Climate Law allows up to 5% of 1990 net emissions –up to 230-240 Mt CO_2e per year– in international credits in line with the accounting rules under Article 6 from 2036-40 (with a pilot phase from 2031-35), implying at most 85% domestic net reductions. This directly contradicts the European Scientific Advisory Board on Climate Change (ESABCC), which recommended a 90%-95% domestic target. The gap: domestic emissions in 2040 could be up to 50% higher (465 Mt CO2e + international credits) than the accounted net 2040 target (465 Mt CO2e) by allowing international credits.
The European Commission is tasked to create a level playing field in operationalising the use of international credits. One of the biggest questions in this regard is how the international credits will be sourced, procured, allocated and used under the EU 2040 Climate Target architecture: without diligence, 27 member states may fragment EU purchasing power and possibly open the door to driving a race to the bottom on quality, rewarding those that have invested least in domestic decarbonisation by allowing them to buy cheap offsets, while penalising member states like Spain that have already borne the cost of structural transformation in key sectors such as renewable electricity deployment.
Article 6.1 of the Paris Agreement recognises that countries choose Article 6 to allow a higher ambition in their mitigation and adaptation actions. Whether the EU 5% credit window allows a higher climate ambition depends entirely on the design choices to be taken by the EU legislature. Quality criteria of the international credits and how the EU will use the credits internally will be decisive in this regard.

1. Introduction: why Article 6 matters now, in the EU and globally

In April 2026 the EU formally enacted its amended Climate Law, enshrining a binding target of 90% net greenhouse gas-emission reduction by 2040. Tucked within that legislation is a provision that may prove as consequential as the headline figure itself: from 2036, the EU may use international carbon credits under Article 6 of the Paris Agreement to meet up to 5% of the 1990 baseline, between 230 and 240 million tonnes of CO_2 per year depending on accounting methodology. The other 85 percentage points must be achieved domestically.

The timing of this decision is not coincidental. November 2024 saw the conclusion of COP29 in Baku, where nine years of negotiations on the Paris Agreement's carbon market provisions finally produced a complete, operational rulebook. Under Art. 6.2, the accounting and reporting framework for bilateral and multilateral credit transfers between governments, the rules have been operational since Glasgow in 2021 and were further refined in Baku. Under Art. 6.4 the centralised UN-supervised Paris Agreement Crediting Mechanism (PACM) –the multilateral successor to the Clean Development Mechanism– became legally operational only at COP29, when the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) adopted the methodological and removal standards the Supervisory Body required. International carbon trading under Article 6 is no longer a hypothetical architecture but a functioning, if still nascent, system.

This Policy Paper traces the journey from the nine paragraphs of Article 6 agreed in Paris in 2015 to the operational framework in place today. It examines the EU's decision to re-enter the international carbon market and the scientific controversy it has generated, considers what the 5% provision means in practice both quantitatively and politically, and discusses what Spain's situation in the EU's Effort Sharing Regulation (ESR) tells us about the level playing field of the architecture of the post-2030 climate framework with potential international credit integration. The paper concludes with what the Commission could consider to ensure the 5% provision passes the

foundational test Art. 6.1 of the Paris Agreement demands. That test is simple in its formulation and demanding in its application: international cooperation must enable higher ambition in achieving the EU's NDC, not substitute for the domestic effort on which that ambition depends.

2. Article 6: nine years in the making, from Paris to Baku

Article 6 of the Paris Agreement, adopted on the last morning of COP21 in December 2015, is nine paragraphs long. In those paragraphs, Parties established three tracks for voluntary international cooperation: Art. 6.2, which provides an accounting framework for bilateral and multilateral transfers of Internationally Transferred Mitigation Outcomes (ITMOs); Art. 6.4, which establishes a centralised, UN-supervised crediting mechanism now known as the Paris Agreement Crediting Mechanism (PACM); and Art. 6.8, which provides for non-market approaches. The foundational principle governing all three tracks is laid down in Art. 6.1: that such cooperation shall allow for higher ambition in Parties' nationally determined contributions. This is not merely aspirational language, it is the legal and ethical test against which any use of Article 6 must ultimately be judged.

The journey from those nine paragraphs to an operational rulebook was anything but swift. COP24 in Katowice (2018) and COP25 in Madrid (2019) produced negotiated texts that were 'noted' but not adopted, technically inconclusive outcomes that nonetheless advanced the understanding of what the rules would eventually need to say. The first binding decisions arrived only at COP26 in Glasgow in November 2021.

The no-banking rule (or 'no carry-over' rule) under Article 6 of the Paris Agreement

Under Art. 6.2, ITMOs cannot be 'banked' across NDC periods: mitigation outcomes must be used for compliance within the same NDC implementation period in which they are generated. Unlike under the Kyoto Protocol or the EU ETS, countries cannot carry surplus units forward to the next period or stockpile them as long-lived compliance assets.

For the EU's 5% Article 6 window, this has two main implications:

- The rule was introduced by the EU in the Article 6 negotiations at COP26 in Glasgow (2021), aiming to avoid technological lock-ins and low-ambition legacy projects that are non-additional and do not raise the ambition of host countries' NDCs.
- No stockpiling from the pilot phase: ITMOs generated and used in 2031-35 cannot simply be carried over and counted towards the 2036-40 use of the 5% window.
- But high volumes are still possible within one period: the rule does not limit cumulative use within a single NDC period, so the EU can still reach sizeable totals (eg, in the hundreds of Mt CO_2-eq) as long as annual use respects the 5% 1990 net emissions constraint.

In other words, the no-banking rule helps prevent Kyoto-style surplus carry-over, but also reduces intertemporal flexibility, increasing the importance of careful demand planning and pilot design within each NDC period (S. Greiner, 2023).

Decision 2/CMA.3 and Decision 3/CMA.3 established the full *Guidance on cooperative approaches* for Art. 6.2 including elements on what are internationally transferable mitigation outcomes (ITMOs), participation, reporting, recording and tracking as well as lesser known but important Article 6 technical nuances such as the 'no banking-rule' (see Box above) and the *Rules, Modalities and Procedures* for Art. 6.4. Glasgow defined corresponding adjustments under Art. 6.2 –the mechanism preventing double counting of mitigation by two parties of the Paris Agreement towards their NDCs– and for Art. 6.4 embedded Overall Mitigation in Global Emissions (OMGE) as a mandatory 2% cancellation requirement,[2] established a 5% adaptation levy for the Adaptation Fund and created the Art. 6.4 Supervisory Body. From Glasgow, Art. 6.2 was operationally live but Art. 6.4 was still lacking final guidance to be fully implemented.

COP27 in Sharm el-Sheikh (2022) added further guidance on Art. 6.2, advancing the registry infrastructure and refining reporting templates. COP28 in Dubai (2023) produced no Article 6 decisions, negotiations stalled on the timing of authorisation and on the methodological standards the PACM Supervisory Body needed to approve.

The breakthrough came at COP29 in Baku (2024). Decisions 4/CMA.6, 5/CMA.6 and 6/CMA.6 fully completed the rulebook of all three Article 6 mechanisms[3]. Most significantly, the PACM's methodological and removal

2 What is OMGE and the 2% cancellation requirement? Imagine the global carbon market as a pie. Every time a carbon credit is traded between countries, there is a risk that the market simply 'reshuffles' emissions reductions on paper without actually making the atmosphere 'better-off overall'. To operationalise OMGE, Glasgow mandated that 2% of every credit issued under Art. 6.4 must be automatically 'cancelled', meaning it can never be used by any country or company to offset their emissions.

3 For further explanations, see COP29 Comprehensive Article 6 Debrief (Pfluger, 2024).

standards were adopted[4] on the first day of the conference, eliminating the last legal barrier to the Art. 6.4 activity. The authorisation framework was clarified, additional reporting elements introduced increasing transparency, the 'first transfer' rule was tightened to prevent 'zombie ITMOs' arising from mitigation that occurred years before its corresponding adjustment, and a dual-layer registry system was established. Crucially, Baku fine-tuned the Mitigation Contribution Unit (MCU) framework that was introduced at COP27 in Sharm el-Sheikh: Art. 6.4 credits issued without authorisation for international transfer, which do not trigger corresponding adjustments and can be counted by the host countries towards their NDC. Host countries may authorise MCUs for international use at a later stage, provided they have not yet been transferred out of the mechanism registry, giving both governments and project developers important flexibility in managing their mitigation outcomes[5].

COP30 in Belém (2025) continued the implementation momentum. Two decisions each were adopted for Arts. 6.2 and 6.4. For the PACM the COP provided guidance to the Supervisory Body on its 2025-26 work programme and formally agreed the end of the Clean Development Mechanism by 2026. For Art. 6.2 implementation guidance on cooperative approaches was adopted. One structural challenge that COP30 again could not resolve was the absence of binding enforcement when inconsistencies are identified in Art. 6.2 reporting. Parties remain only 'requested' not to use flagged ITMOs rather than legally prohibited from doing so.

The rulebook is now locked in for implementation until CMA.10 in 2028, when the first formal revision cycle begins. What exists today is technically sophisticated: corresponding adjustments prevent double counting; the PACM offers multilateral governance under the authority and guidance of the CMA, with the Supervisory Body supported by a Methodological Expert Panel and an Accreditation Panel that together provide multi-level quality control over both methodologies and the Designated Operational Entities that validate and verify activities.

Yet the system carries structural challenges. Under Art. 6.2, host countries retain wide discretion: they may authorise credits under independent voluntary carbon market standards of their own choosing. Such standards

4 The PACM (the UN-supervised Art. 6.4 crediting mechanism) required two agreed technical rulebooks before it could issue credits: methodological standards, defining how emissions reductions are measured and verified; and removal standards, governing projects that actively extract carbon from the atmosphere, the harder-fought of the two. Their adoption unlocked the mechanism operationally.

5 The MCU 'ex-post authorisation feature' could become especially important for the EU's procurement strategy for international Article 6 credits and carbon pricing and market diplomacy efforts. Specifically, during its international credit pilot phase (2031-35), the EU could procure MCUs and subsequently request their authorisation only when needed for NDC accounting from 2036 onwards, preserving optionality while building a pipeline of high-quality credits. Beyond procurement, this staged approach opens space for a cooperative dividend: by allowing a defined share of credited mitigation to count towards the host country's own NDC, the EU can structure its international carbon partnerships as genuinely mutual, supporting partners' climate targets rather than simply extracting mitigation outcomes from them. However, the no-banking rule (see box above) has to be considered in this regard.

are not inherently problematic and many have made genuine progress on environmental integrity; however, unlike the PACM, they do not come with multilateral quality assurance, Art. 6.4 Supervisory Body oversight or the integrated registry infrastructure that Art. 6.4 provides. Host countries can also inflate conditional NDC targets to create artificial headroom for additionality claims and determine unilaterally what counts as ambitious domestic action. There is no binding mechanism to block the use of ITMOs flagged as inconsistent during consistency checks by the Art. 6.2 Technical Expert Reviewers, COP30 attempted but could not resolve this. The 'if known' compromise on entity disclosure in Baku creates a transparency loophole for private sector actors. And neither the PACM nor the Art. 6.2 infrastructure is yet self-financing: both depend on voluntary contributions to the UNFCCC trust funds, creating a real operational risk as activity scales up. At the June Climate Meetings of the UNFCCC (SB64), negotiations took place with an expected decision by COP31 in November 2026 at Antalya, Turkey. The transition of afforestation and reforestation projects from the CDM –where additionality checks were relaxed for transitioning activities– carries a further risk of diluting the PACM's credibility with legacy credits of questionable environmental integrity. The architecture of Article 6 is now complete. Whether it functions as designed will be determined by political will, technical capacity, and the rigour of supply- and demand-side quality requirements.

3. The EU NDC, international credits and the ESABCC warning

The EU's Nationally Determined Contribution, submitted ahead of COP30, references 'an adequate contribution of high-quality credits' under Article 6 as a component of its pathway towards net emission reductions in the range of 66.25%-72.5% by 2035. The amended European Climate Law, which received the Council's final green light on 5 March 2026 translated this into binding domestic law: the 90% net reduction target for 2040 may be met through up to 5% of 1990 Union net emissions in international credits –between 230 and 240 Mt CO_2e per year– with domestic net reductions required to reach at least 85% compared with 1990 levels. The quality criteria, governance architecture and conditions for acquisition are entirely deferred to future legislative proposals.

This decision was taken against the explicit advice of the European Scientific Advisory Board on Climate Change (ESABCC). In its May 2025 report the ESABCC reaffirmed its 2023 recommendation of a 90%-95% domestic net reduction target and stated unambiguously: 'the Advisory Board does not recommend using international carbon credits to replace domestic emission reductions when meeting the 2040 target'. The ESABCC's reasoning was multi-dimensional. Using credits 'could undermine domestic value creation by diverting resources from the necessary transformation of the EU's economy, including investments in infrastructure, skills and innovation', framing this not merely as an environmental integrity concern but as an industrial competitiveness argument. The ESABCC catalogued six categories of systemic risk: additionality and over-crediting; carbon leakage; perverse incentives for host countries to maintain emissions in order to sell future reductions; market distortion effects on domestic carbon prices; forgone domestic investment; and governance gaps in third countries that the EU cannot remedy.

The additionality concern is supported by striking empirical evidence. A systematic review by Probst et al. (2024) estimated that only 16% of credits issued under various carbon crediting programmes to date have delivered genuine emission reductions. This is not a historical artefact of the CDM alone, it applies across crediting programmes.

The ESABCC is not, however, opposed to international engagement under Article 6. Its Recommendation 3 explicitly endorses EU participation in Article 6 mechanisms 'provided these are not counted towards the EU 2040 or 2035 domestic emission reduction targets'. The distinction is precise: credits used above the domestic target, cancelled as climate finance, or directed towards post-2050 net-negative emissions through high-quality carbon dioxide removal are not only acceptable but recommended. The EU has a responsibility to support global climate action beyond its borders –even a 95% domestic reduction would leave a gap relative to the EU's fair share of the global carbon budget– but that responsibility is better discharged through climate finance, technology transfer and Art. 6.8 cooperation than through the purchase of compliance offsets.

What does 5% mean in practice? Climate & Company analysis, based on the 1990 EU net GHG baseline of 4,635 Mt CO_2e[6], places the ceiling at 232 Mt CO_2e per year from 2036 to 2040. Under a trajectory accounting approach –where corresponding adjustments ramp up linearly from the start of the pilot phase– cumulative credit use over 2036-40 could reach approximately 932 Mt CO_2e[7]. Under an averaging approach, back-loaded credit use can be structured to achieve the same NDC compliance with higher volumes in later years. Both approaches are consistent with Article 6.2 accounting rules; neither is superior in legal terms, but they send very different signals to the market. Under either scenario, domestic net emissions in 2040 could be one-third to 50% higher than the accounted net target, figures corroborated by independent analysis from Öko-Institut, which found that at the Council's 5% level, domestic net emissions in 2040 are 50% above the accounted net target of 473 Mt CO_2e, with domestic net emissions reaching 709 Mt CO_2e[8]. Cumulatively, international credits could produce the equivalent of the combined annual emissions of Germany, Austria and Greece transacted through Article 6 over the five-year implementation period.

6 Official Annual EU greenhouse gas inventory 1990-2023 and inventory document 2025 (1990 net GHG levels 4635 Mt CO2 equivalent, gross, not including LULUCF sinks).

7 The 932 Mt CO_2e figure reflects a *trajectory NDC accounting* scenario, not the legal maximum of 232 Mt × 5 years = 1,160 Mt. Under a trajectory approach (consistent with Art. 6.2 Decision 2/CMA.3), corresponding adjustments ramp up linearly (non-linear would also be allowed, in theory, the CMA did not specify this) from the start of the pilot phase (2031), reaching the full 232 Mt ceiling only in 2040. Over the 2036-40 implementation period specifically, annual volumes rise in equal steps from approximately 141 Mt (2036) to 232 Mt (2040), yielding a cumulative total of around 932 Mt CO_2e, materially below the 1,160 Mt upper bound. The 1,160 Mt figure (232 Mt × 5 years) represents the theoretical maximum under a constant-use or averaging NDC accounting scenario, where the full ceiling is applied or back-loaded across all five years. A. Siemons & L. Schneider (2022) thus recommend multi-year approaches (eg, linear trajectory) instead of the averaging approach for NDC accounting with Article 6, to avoid aggregated emissions to increase.

8 The Öko-Institut figures are derived as follows. The 1990 net GHG baseline (including LULUCF) is 4,635 Mt CO_2e, giving a -90% accounted net target of 473 Mt CO_2e in 2040. Under the EU amended Climate Law (5% Article 6 credits), the domestic net reduction required is only 85%, meaning domestic net emissions in 2040 would be 709 Mt CO_2e (4,635 × 0.15 = 695 Mt, at 709 Mt in the Öko-Institut calculation using inventory figures from a report to the EU Council/Parliament not yet included in the official EU GHG inventory). The gap between domestic net emissions (709 Mt) and the accounted net target (473 Mt) represents the volume of international credits: 236 Mt CO_2e ≈ 5% of 4,635 Mt. The 50% figure follows directly: 709 ÷ 473 ≈ 1.50, ie, domestic net emissions in 2040 are 50% above the accounted net target. See Graichen *et al.* (2025), 'The EU's 2040 climate target: assessment of the proposal by the European Council', *Öko-Institut Policy Brief,* Figure 1.

Figure 1.

International Credits Demand Scenarios under the New EU 2040 Climate Target



Source: Pfluger, Climate & Company Analysis, 2025.

These are not abstract numbers. They translate into real-world decisions –or their absence– about buildings insulation, transport electrification and industrial decarbonisation. The ESABCC's concern is that the political economy of climate ambition within EU member states will, in the presence of a well-priced international credit option, systematically favour the cheaper imported tonne over the harder domestic one. The amended EU Climate Law does not resolve this tension, it institutionalises it.

4. Ensuring EU ambition, not accounting tricks: Art. 6.1 and the 5% question, and the design choices that answer it

The question the EU legislature has not yet answered –and must answer before 2031– is whether the 5% provision is designed to pass the foundational test of Art. 6.1 of the Paris Agreement: that international cooperation allows for higher ambition in achieving NDCs, not its substitution. This preambular condition –prior to the operative provisions of Article 6 (6.2, 6.4 and 6.8)– applies on both sides of the transaction. For host countries, the principle is relatively well-operationalised: activities receiving Article 6 financing should fall under the conditional portion of the NDC, the part a country has indicated it cannot deliver without external support. For the EU as a procuring party, the principle is less codified but no less present: use of international credits should, at minimum, be consistent with –and ideally productive of– a level of ambition that would not otherwise have been achievable. The ESABCC has raised a pointed challenge to this reading: its concern is that the 5% provision does not enable higher ambition but substitutes for it, by offering the EU a cheaper compliance pathway that systematically crowds out the domestic structural investments on which long-term decarbonisation depends. This is a serious objection and not yet answered in the Climate Law as agreed. At the same time, the counterfactual question –whether a 90% target would have been politically feasible without the Article 6 flexibility– remains genuinely open. The two positions are not necessarily irreconcilable: it is possible that the credit window was necessary to secure the headline target while simultaneously being, in its current design, insufficiently conditioned to guarantee that higher ambition is the result. Resolving that tension is precisely the task the EU legislature has deferred to the implementing acts and governance choices that must be settled before 2031. In this regard, the Commission just completed a public consultation is expected to provide a first draft for an implementing act on the use of international credits within the EU Climate Target 2040 by 4Q26.

Whether the 5% provision passes or fails that test is therefore not determined by the figure itself. It is determined by the design choices that have been explicitly deferred to implementing legislation. Five are outlined below, each of which the Commission must address before 2031:

a. The first –and most foundational for the Article 6.1 test– is the additionality standard. To pass the Art. 6.1 test, credits must represent mitigation that would not have occurred in the absence of EU demand, genuine additionality, not CDM legacy repackaging. The amended Climate Law requires quality criteria to be established in Union law and specifies that Art. 6.4 standards are the floor rather than the ceiling: *the Commission shall consider, where appropriate, complementing those criteria to ensure the highest quality*. In practice, this means drawing on established frameworks –the ICVCM Core Carbon Principles, the Carbon Credit Quality Initiative, the Tropical Forest Credit Integrity Guide, the San José Principles or the Oxford Principles for Responsible Engagement with Article 6– as interim reference standards until Art. 6.4 has approved methodologies for the relevant activity types. Once a PACM methodology exists for a given sector, it should become the binding reference. Critically, the EU should require that eligible credits come from activities that represent a country's conditional NDC commitments, actions a host country has stated it will undertake only with external support. This is the operationally cleanest test of additionality in the Paris Agreement context.

b. The second design choice is the pilot phase architecture. The amended law 'may consider' a pilot phase from 2031 to 2035 –notably weaker language than the post-2036 provisions– and is silent on its purpose. The strategic choice is between a contribution-type climate finance approach and an operational dry-run for compliance offsetting. The former is considerably more coherent: during 2031-35, the EU could purchase Art. 6.4 Mitigation Contribution Units (MCUs). MCUs are Art. 6.4 credits issued without authorisation for international transfer: they do not trigger corresponding adjustments and therefore do not affect the host country's carbon budget or NDC. This makes them a genuinely additive instrument using the quality standard of Art. 6.4: the host country retains its own mitigation outcomes, while the EU provides financial support for transformative activities and the EU's 2031-35 NDC remains unaffected. Institutional capacity, bilateral partnerships, quality infrastructure and project pipelines would be built during the period. There is also a strategic fit with the EU's carbon pricing diplomacy: MCUs purchased from countries that are developing or operating domestic carbon pricing schemes could count towards CBAM-related cooperation frameworks, creating a virtuous link between EU credit procurement and the broader objective of pushing partner countries towards compliance carbon pricing. If the no-banking rule under Art. 6.2 is revised at CMA.10 in 2028, those MCUs could potentially be authorised as ITMOs and held in reserve for use from 2036. This is the most strategically coherent interpretation of the pilot phase, and one the Commission should explicitly adopt in its implementing legislation.

c. The third design choice concerns the question of sectoral conditionality in credit use and avoiding sector substitution arbitrage. Under current accounting rules, all Article 6 credits denominated in CO_2e are formally interchangeable[9]: a tonne of avoided deforestation in a partner country counts the same as a

9 Under current accounting rules, internationally transferred mitigation outcomes under Article 6.2 –which can represent emission reductions or removals of any greenhouse gas covered by the Paris Agreement, across all sectors, expressed in CO_2e– are formally interchangeable for compliance purposes: a tonne of avoided deforestation counts the same as a tonne of industrial methane reduction, regardless of the domestic shortfall it is compensating.

tonne of industrial emission reduction, regardless of the domestic shortfall it is compensating. This formal equivalence, however, conceals a structural risk. If, for example, a member state uses international credits to meet obligations under the LULUCF Regulation –obligations tied to the behaviour of forests and soils– there is a reasonable case that those credits should come from comparable land-based activities: afforestation, sustainable forest management or avoided deforestation. Similarly, if credits are used toward ESR targets in agriculture and waste, sourcing them from comparable sectoral activities in partner countries would at least ensure that the type of mitigation being imported bears some relationship to the type of domestic effort it is replacing. This is not the like-for-like principle as developed in the carbon removal literature –which addresses the permanence question, specifically whether fossil emissions can be neutralised by temporary biological removals– but a related and distinct concern: that unrestricted cross-sector credit use enables a form of accounting substitution in which cheap imported tonnes, whatever their provenance, systematically displace the harder, sector-specific domestic investments on which genuine decarbonisation depends. Whether such sectoral conditionality is legally required or merely prudent is a design question the EU implementing acts have yet to address.

d. The fourth, and perhaps the most direct expression of the Art. 6.1 test in institutional form, is the governance and procurement architecture. The analysis by Bart & Barata for the Environmental Defence Fund identifies three purchasing models: direct use by obligated entities; using credits to raise future caps; and a reserve-and-safety-valve mechanism[10]. The third is the most consistent with environmental integrity and market stability: a central EU body purchases credits into a reserve and releases them only when domestic compliance costs reach predetermined thresholds. This prevents automatic commitment to a fixed credit volume, captures the price differential between credits and allowances for the public purse, and gives the Commission real-time flexibility to adjust. What model the EU chooses matters enormously for the Art. 6.1 test: a system that automatically replaces domestic effort whenever allowance prices rise fails the test, or one that uses credits as a true safety valve while maintaining domestic ambition as the default passes it.

e. The fifth is urgency, which is itself an Art. 6.1 question, since a credit window that arrives in 2036 populated by low-quality supply has already failed the test before a single tonne is transferred. Article 6 projects take years to develop, validate and register. Quality supply chains do not materialise because a legislature passes a law stating that credits must be of 'high quality'. The Commission must establish quality criteria, governance arrangements and strategic partnership frameworks

10 Bart & Barata (2025) identify three basic models for how the EU could structure credit purchase and use. Under the first model –direct use by obligated entities– regulated companies or member states purchase and surrender credits directly for compliance. This is administratively simple but difficult to control for quality, creates windfall profits for early buyers and offers no mechanism to limit total volumes or respond to market conditions. Under the second model –using credits to raise future caps– purchased credits are converted into additional allowances, effectively lifting the ceiling on domestic compliance instruments. This ensures a predictable credit supply channel but locks in future purchases regardless of whether domestic ambition is on track, creating a structural ceiling on effort rather than a floor. Under the third model –a reserve and safety-valve mechanism– a central EU body purchases credits into a dedicated reserve and releases them only when predetermined thresholds are met, such as allowance price spikes or sectors falling behind their reduction trajectories. Crucially, purchasing credits under this model does not automatically commit them to compliance use: if domestic performance is sufficient, unused credits could be cancelled and counted as results-based international climate finance rather than as substitutes for domestic reductions. Bart & Barata conclude that this third model, combined with credit use across all sectors, offers the best balance of cost containment, environmental integrity and market stability. For the institutional architecture, they suggest a centralised management entity –potentially housed within the Commission, CINEA, EIB or a new dedicated 'Carbon Central Bank'– coordinating procurement, quality assurance and reserve operation, financed through ETS auction revenues.

well before 2031. Every year of delay reduces the probability that the credits available in 2036 will actually meet the standards the Climate Law envisions, as there is global demand for international Article 6 credits from other sovereigns such as Switzerland, Singapore, Japan, South Korea and compliance mechanisms (CORSIA), as well as China having signalled interest in Article 6 for its domestic compliance market recently, which would add significant demand to the scarce supply.

The EU ETS reform proposal of 17 July 2026 — operationalising the 5% window for ETS sectors

After this paper was finalised, the European Commission published its proposal to reform the EU ETS for Phase V (2031 to 2040),COM(2026) 616 final. The proposal provides the first concrete operationalisation of the EU Climate Law's 5% international credits window, allocating up to 260 million ETS allowances between 2036 – 2040 to fund the purchase of high-quality, high-integrity international credits specifically for ETS-covered sectors. This represents one route through which the 5% envelope analysed in this chapter will be used in practice, alongside the member state flexibility under the ESR and LULUCF frameworks.

The mechanism is conditional. By 31 January 2033, the Commission must report to the European Parliament and Council on the development of a high-quality and high-integrity international credit market, assessing environmental integrity, accounting robustness, verification requirements, market supply and demand, and sector-specific risks including carbon leakage and mitigation deterrence. Subject to that report, the ETS Linear Reduction Factor is set at 1.7% from 2036 if credits are available and purchased, reflecting a domestic ambition of 85%, and reverts to 2.7% if the review concludes that sufficient high-quality, cost-effective credits are not available, returning to a strict domestic effort.

This proposal reinforces the urgency of the design choices outlined in this chapter: the 2033 review effectively functions as a market integrity test for the ETS integration, and the conditions under which it succeeds or fails will be determined by the quality criteria, governance architecture and procurement frameworks the Commission must establish well before 2031.establish well before 2031.

5. Spain under the ETS, ESR and Article 6: power sector frontrunner in a new credits framework that could favour laggards

The member state dimension of the EU's Article 6 decision warrants particular attention, and Spain offers a sharp analytical lens. Spain's position in the EU's climate architecture is genuinely ambivalent: the second-largest renewable electricity economy in Europe by installed capacity (88 GW, IRENA 2025) and a consistent outperformer on solar and wind deployment relative to its grid size, yet facing structural gaps in transport, buildings, land use and fossil fuel phase-out. Crucially, the architecture of EU climate policy matters here: the power sector falls under the EU ETS, not the Effort Sharing Regulation (ESR). Spain's renewable electricity achievements reduce ETS compliance pressure –and the cost burden borne by Spanish power-sector installations– rather than contributing directly to ESR compliance. This difference is material: Spain's power sector emitted approximately 27 Mt CO_2e in 2024, a record low (REE, 2025), compared with Germany's approximately 152 Mt from power generation alone in 2024 (Ember, European Electricity Review 2025), roughly six times higher, despite both countries generating a similar share of electricity from renewables. The ESR governs the sectors where Spain faces its genuine challenges: domestic transport, buildings, agriculture and waste. Understanding what the international credits provision means for Spain therefore requires holding both dimensions in view: the ETS dimension, where Spain is a relative frontrunner facing structurally lower carbon cost pressure, and the ESR dimension, where significant gaps remain.

The EU's climate architecture rests on two complementary pillars. The EU ETS covers the power sector, large industrial installations and aviation: it sets an EU-wide cap on emissions and lets a carbon price drive reductions across covered sectors. Spain's green power system means Spanish ETS-covered power installations face lower carbon cost exposure than member states that are more fossil-fuel dependent: a greener grid generates fewer

ETS compliance obligations per unit of electricity produced and, over time, reduces the price signal needed to displace remaining fossil generation. The ESR operates entirely separately: it sets binding national targets for emission reductions in sectors outside the EU ETS: domestic transport, buildings, agriculture, small industry and waste. Spain's ESR 2030 target –a 37.7% reduction compared with 2005– is one it expects to exceed. Transport and Environment analysis from 2024 identified Spain as one of only eight member states with a credible National Energy and Climate Plan (NECP) to meet their ESR target. In renewables, Spain is a genuine European leader: it hosts around 20% of Europe's announced renewable hydrogen projects and has set one of the most ambitious electrolyser capacity targets in its National Energy and Climate Plan. Wind and solar deployment is broadly on track with pathways consistent with the ESABCC's recommended 90%-95% EU target. A more granular picture, however, emerges from OTEA's annual tracking of Spain's progress against its NECP indicators, which reveals significant underperformance beneath the headline: renewable energy's share of total final energy consumption stood at around 25% in 2024 against an NECP target of 48%; electrification of the economy remains stalled at under 25% of final energy consumption against a 35% target; and transport emissions have been rising rather than falling, making transport the single biggest obstacle to NECP compliance[11].

Thus, the picture is not uniformly positive. Spain requires additional policy measures to meet its ESR target, since current measures alone are insufficient. More significantly, Spain shows a large LULUCF policy gap in the EU: according the EU's Climate Action Progress Report 2025, Spain expects to miss its 2030 land use target by approximately 14 Mt CO_2, the third-largest shortfall of any member state (see Figure 2 below for a comparison). Fossil fuel subsidy phase-out plans remain unclear in Spain's National Energy and Climate Plan. Despite Spain being the second-largest renewable electricity economy in Europe by installed capacity and a frontrunner in the ETS-covered power sector, it is behind in the ESR sectors proving hardest to move: transport, where emissions have been rising rather than falling, buildings, land use and fossil fuel subsidy reform.

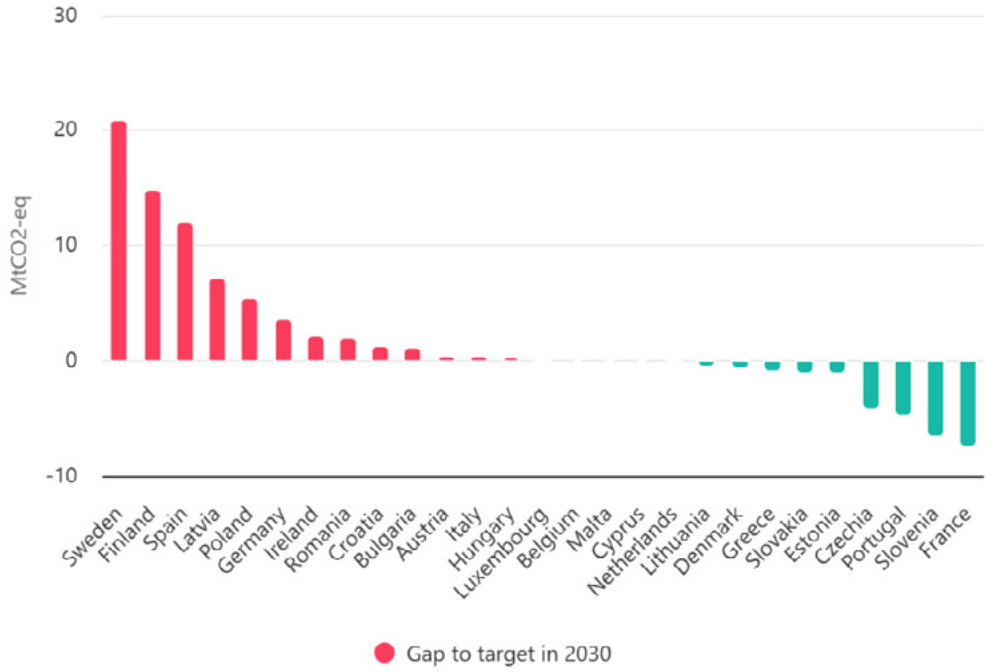
Therefore, the EU international credit architecture and its fair use among member states must be assessed through both ETS and ESR lenses. For example, Germany's renewable share was virtually identical at 55.9% in 2025 (Fraunhofer ISE), yet its power sector emitted approximately 152 Mt CO_2 from electricity generation in 2024 (Ember, European Electricity Review 2025) –roughly six times Spain's total– because its residual fossil mix remains far

11 Observatorio de la Transición Energética y la Acción Climática (OTEA), Annual Report 2024, BC3 Basque Centre for Climate Change, otea.info; and FEDEA (2025), Estado actual y perspectivas de la descarbonización en España. The PNIEC's electrolyser and green hydrogen targets –cited in the main text as a headline ambition– have been independently assessed as unachievable by 2030, with no realistic prospect of first commercial plants operating before the final years of this decade. The T&E finding that Spain has a credible ESR compliance plan reflects the relative modesty of Spain's 37.7% ESR target rather than broad sectoral outperformance.

heavier. Spain's ETS advantage is therefore not primarily a matter of headline renewable share but of the structure and trajectory of its transition: near-zero coal, no nuclear phase-out complications, and a generation fleet in which wind and solar together already dominate. This reduces ETS pressure on the Spanish economy in a structurally durable way but does not translate automatically into ESR headroom.

Figure 2.

EU Climate Action Progress Report 2025, Chapter –Land use sector, Figure 20– Projected gap to the national 2030 targets with additional measures based on member states' projections for 2030



Note: The gaps to the 2030 LULUCF target have been calculated taking into account the latest Member Sates' GHG inventories data and projections (both submitted in 2025), including a re-adjustment to take into account possible discrepancies between the inventory data and projections. As Member States continuously improve their methologies for GHG inventory data and projections in terms of accuracy, the gap calculations are susceptible to changes in the future.

Source: European Commission, 2025.

This nuanced profile of a member state such as Spain matters acutely for how the EU designs its international credits architecture and how it establishes a level playing field, ensuring a fair share to each member state to reach its climate targets. The amended Climate Law adds a provision –in Article 11(i)– that the Commission's five-yearly review must take into account 'the flexibility for member states to use high-quality international credits to fulfil up to 5% of their post-2030 targets and efforts'. This member-state-level flexibility is not separate from the EU-wide 5% cap; it is nested within it. Öko-Institut's analysis estimates that, assuming an ESR-like post-2030 national target structure, around 38 Mt CO_2e in 2040 and 113 Mt over 2036-40 could be earmarked for

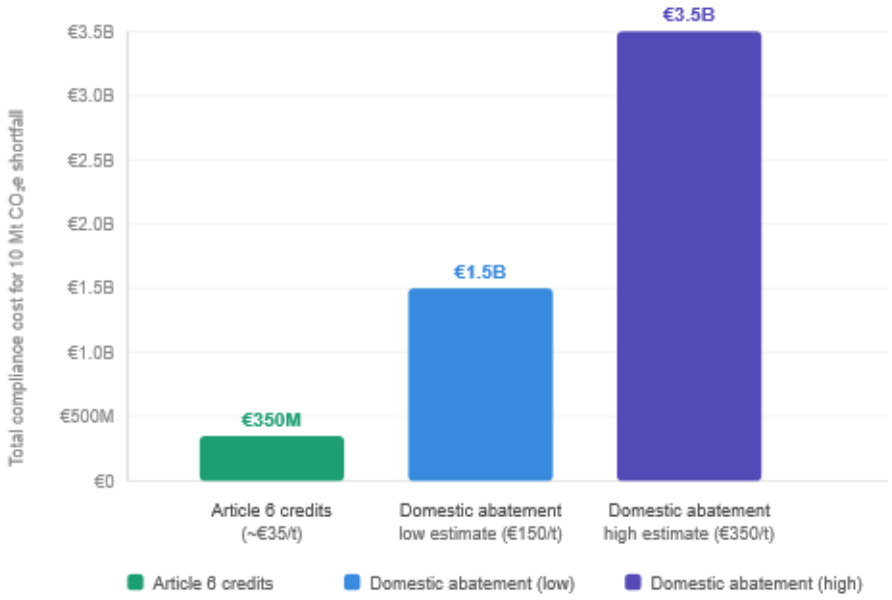
member-state national compliance under this flexibility: 16% of the total 5% EU Article 6 envelope. Adding LULUCF national targets, a further 14 Mt in 2040 and 43 Mt over the period accounts for roughly 6% more. In total, nearly one quarter of all EU Article 6 credits could flow through national ESR compliance channels.

The distributional implications of this are significant. Consider two member states: one that has made large domestic investments in renewables, transport electrification and buildings efficiency, and one that has done little. The two-pillar architecture of EU climate policy adds an important nuance: in the ETS, member states with greener power sectors already face lower carbon compliance costs, since their installations generate fewer emissions per unit of output. In the ESR, where international credit flexibility is most directly in play, a laggard member state could purchase inexpensive international credits to demonstrate compliance at a fraction of the cost of the domestic investments the frontrunner, eg, Spain in renewable electricity deployment, has made. The frontrunner's investments could then generate no comparative advantage in compliance terms; indeed, the political economy of the EU's international credit climate framework could shift in a direction that reduces domestic pressure on laggards by allowing them to offset their lack of investment with cost-efficient international credits.

The price differential that makes this distortion concrete is significant. High-quality Article 6 credits currently trade in the range of €30-40 per tonne: Switzerland, the most active sovereign buyer, is paying close to €35-40 per tonne for its ITMO pipeline, according to Fastmarkets and Carbon Pulse reporting on active Art. 6.2 transactions. By contrast, independent multi-model analysis estimates that the carbon price signal needed to drive the emission reductions required in ESR sectors –transport, buildings and agriculture– ranges from €150 to over €350 per tonne, with the Commission's own impact assessment modelling ETS2 prices for buildings and road transport at around €70 per tonne in 2030 and rising thereafter, and Ariadne's multi-model analysis finding that carbon prices of €175-350 per tonne would be required if pricing alone were used to drive the necessary ESR reductions. A member state facing a 10 Mt CO_2e ESR compliance shortfall could therefore cover it with international credits at a cost of roughly €350 million at today's ITMO prices. Closing the same gap through domestic transport electrification or building renovation would (or already required by frontrunners) require public investment in the range of €1.5-3.5 billion for the same volume of abatement: a four- to ten-fold differential (see Figure 3 below). It should be noted that domestic investments generate co-benefits –energy savings, reduced import dependence and local job creation– that pure credit purchases do not, meaning the net societal cost differential is somewhat smaller than these gross figures suggest. But that qualification reinforces rather than weakens the point: even accounting for co-benefits, the compliance cost differential may be large enough to create a systematic incentive for member states to substitute international credits for domestic action wherever the governance architecture permits it.

Figure 3.

Illustrative compliance cost comparison scenarios: Article 6 credits vs domestic ESR-sector abatement for a 10 Mt CO_2e shortfall



Source: the author[12].

Spain is in a paradoxical position here. In the ETS-covered power sector, where Spain has made its most significant investments –renewable electricity deployment and ambitions in renewable hydrogen– its green grid means lower carbon compliance costs for Spanish power installations relative to more fossil-dependent member states; but this ETS advantage does not translate into ESR credit flexibility. The ESR governs a different universe of sectors entirely, and Spain's ESR position, while relatively strong, still requires additional domestic measures in transport and buildings. In the LULUCF sector, where Spain faces its most acute compliance gap, credits could provide relief, but those credits should come from land-based activities abroad, which are precisely the credits most subject to permanence and additionality risks. The international credits use options analysis by Bart & Barata is instructive: Option 2, in which credits flow only to ESR and LULUCF sectors, creates uneven effort sharing precisely because member states with strong ESR performance in certain subsectors receive no flexibility benefit, while those with agricultural or land-use compliance deficits can import their way to target. Option 5, in which a central reserve is drawn on across all sectors according to pre-defined cost or target-deviation thresholds, is considerably fairer: it delays the sector-allocation decision until actual compliance trajectories are known, allowing a member state like Spain –which may face a LULUCF gap but benefits from a

12 Conservative own scenario based on current Article 6 credit price estimates from Fastmarkets and EU abatement cost range from Ariadne Research Consortium (2023), 'Optimal allocation of the EU carbon budget: a multi-model assessment', which finds that carbon prices of €175-350/t would be required to drive the necessary reductions in energy-related ESR sectors by 2030.

renewable surplus– to be assessed holistically rather than disadvantaged by an architecture that pre-assigns credits to sectors before the distribution of compliance burdens is clear.

The Commission's level playing field mandate in Recital 13 of the amended Climate Law currently lacks operational definition, institutional home and timeline, though a public consultation on the use of international credits in the EU was open until 4 May 2026[13], signalling that the Commission is actively working to fill this gap. Therefore, Spain, as a member state that has made real domestic investments and faces a legitimate but bounded LULUCF gap, has a direct interest in the Commission's task to enable a fair level-playing field for international credit use distribution within the EU 2040 Climate Target.

13 The public consultation closed on 4 May 2026 and feeds directly into legislative proposals due in 4Q26, covering national targets, sectoral eligibility, procurement architecture and quality criteria for international credits. A revision of the EU ETS is also expected in July 2026. The implementing legislation must be substantially settled before 2031, when the pilot phase begins, leaving less than five years to resolve questions that will determine whether the 5% provision functions as a genuine ambition enabler or as a structural substitute for domestic action.

6. What high integrity must mean abroad: global implementation challenges ahead

The amended EU Climate Law lists the quality requirements it will impose on international credits: additionality, permanence, avoidance of double counting, robust measurement, reporting and verification (MRV), environmental and social co-benefits, human rights safeguards and a high share of proceeds for adaptation. It also requires that when establishing quality criteria, the Commission 'shall consider, where appropriate, complementing the criteria laid down under Article 6(4) of the Paris Agreement to ensure the respect of those safeguards and the highest quality of international credits, in particular with regard to permanence and human rights'. This is a layered architecture –PACM standards as the floor, EU-specific additions above them– that is conceptually sound. The question is whether it will be implemented with sufficient rigour and speed.

The structural challenge is that PACM methodologies are still being developed. The Supervisory Body had 34 methodological items to process within four meetings as of mid-2025. Many relevant activity types –sustainable agriculture, electric mobility and industrial energy efficiency– do not yet have approved PACM methodologies. In the interim, the Commission may wish to draw on established voluntary frameworks as provisional reference standards: the ICVCM Core Carbon Principles and the Carbon Credit Quality Initiative may be among the more credible candidates. Carbon credit rating agencies and other quality initiatives can similarly complement the emerging PACM framework. The EU's own Carbon Removal Certification Framework (CRCF) may also offer relevant methodological precedents for removal activities. Importantly, such standards and frameworks should be understood as complements to PACM methodologies, not substitutes or overrides: once a PACM methodology exists for a given activity type, it should automatically become the binding reference standard for EU procurement, to give clear signals to market actors and avoid fragmentation. This sequencing –CRCF

framework as interim floor and PACM methodology as mandatory reference once available– prevents regulatory vacuum without locking in permanently lower standards.

Three additional EU-specific criteria may deserve explicit incorporation into implementing legislation. The 'Oxford Principles for Responsible Engagement with Article 6' provide a useful starting reference:

a. Credits used for a given sectoral compliance obligation should come from comparable sectoral activities in the host country: LULUCF credits for LULUCF compliance; sustainable agriculture reductions for ESR agriculture targets; and permanent removal credits for hard-to-abate industrial residuals. This principle reduces the risk that the cheapest available credits are systematically purchased to meet compliance obligations in sectors requiring genuine long-term transformation.

b. Conditional NDC alignment: eligible credits should come from activities that the host country has listed in its conditional NDC as requiring external support, Article 6's own operationalisation of additionality.

c. Transformation over cost-efficient offsetting: credit eligibility criteria should reward activities that accelerate the host country's structural green transformation embedded in the long-term goals of the Paris Agreement, these are the credit types most consistent with Art. 6.1 of the Paris Agreement's higher ambition request.

The post-2040 demand signal is a structural problem the EU has not yet addressed. The 2050 climate neutrality target is explicitly domestic, international credits may not be used towards it. This creates a structural cliff edge: from 2036 to no later than 2049, the EU is a buyer; beyond 2050 it is not. What happens between 2041 and 2049 is not yet regulated at all, a legal vacuum that adds further uncertainty for project developers. Those considering high-quality, long-duration investments –sustainable forestry, ecosystem restoration and industrial transition– face a demand horizon of roughly five to 15 years from the EU. Most such projects have investment periods of 20 to 40 years. Without a credible demand signal beyond 2040, developers will not invest in the quality and scale the EU requires. The Commission should begin consulting on the post-2040 credit architecture –specifically whether ESABCC-endorsed high-quality CDR credits can contribute to EU net-negative emissions after 2050– in its post-2030 policy package, not in 2031.

Finally, the Art. 6.2 enforcement problem requires honest acknowledgement. The PACM provides considerably stronger governance guarantees than bilateral Art. 6.2 approaches: multilateral oversight, Supervisory Body review, a public registry and Designated Operational Entities accredited through a rigorous multilateral process rather than self-selected by project developers. When the EU purchases PACM credits, it has access to a multi-level quality assurance chain that bilateral ITMOs cannot match. There is also an equity dimension worth noting: host countries where credits may be most additional

–Least Developed Countries and Small Island Developing States– benefit from PACM support infrastructure that bilateral approaches do not provide, including registry services directly interlinked with the international registry and the mechanism registry, reducing the technical and institutional burden of participation. The EU should strongly prefer PACM credits –A6.4ERs– in its procurement and should use its purchasing power to incentivise host countries to channel their most ambitious activities through the PACM rather than through bespoke bilateral approaches. This is not only an environmental integrity argument: it is a market-building argument, and an equity one. A strong EU buyer anchored in the PACM will accelerate the development of the global benchmark carbon crediting standard.

Conclusions

Nine years after Paris, the international carbon market architecture established by Article 6 is operational. Baku delivered the last missing pieces of the rulebook; Belém continued the implementation work. The EU, after nearly a decade of deliberate absence from international carbon markets, has decided to return, with a 5% credit window that the amended Climate Law enshrines and that the ESABCC explicitly advised against.

The tension between the scientific advisory body's recommendation and the political outcome is real and analytically important. But it is not irresolvable. The 5% provision can pass the Art. 6.1 of the Paris Agreement higher ambition test, but only if the Commission moves quickly on quality criteria, designs the pilot phase around mitigation contribution units (MCUs) rather than compliance offsetting, adopts Art. 6.4 as the quality standard, and integrates the international carbon credits with scientific rigour into its EU 2040 Climate Architecture, ensuring its own sectors are not falling behind in domestic decarbonisation. None of these things are written into the amended law. All of them are essential to its integrity and yet have to be detailed by implementing acts.

For Spain, the lesson is that member states that have made real domestic investments cannot afford to be passive about the governance architecture of the instruments that will define the post-2030 EU Climate Target period. A poorly designed international credits system –fragmented, weakly enforced and dominated by legacy CDM assets repackaged under new labels– will not merely fail to deliver additional mitigation. It will actively undermine the political economy of domestic ambition by offering laggards a cheaper path to paper compliance. These are not abstract governance questions. They will determine whether the up to 232 million tonnes the EU is permitted to import annually from 2036 actually represent additional real mitigation or simply a very expensive accounting entry.

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Recommended citation:

Pfluger, S. (2026), "Article 6 after Belém and Brussels: the EU's 5% Credit Window, a Member-State Decarbonisation Level Playing Field and Spain," *Elcano Policy Paper*, Real Instituto Elcano.

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