

Statement

on the potential use of international carbon credits under the European Climate Law

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The **German Banking Industry Committee** is the joint committee operated by the central associations of the German banking industry. These associations are the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR), for the cooperative banks, the Bundesverband deutscher Banken (BdB), for the private commercial banks, the Bundesverband Öffentlicher Banken Deutschlands (VÖB), for the public-sector banks, the Deutscher Sparkassen- und Giroverband (DSGV), for the savings banks finance group, and the Verband deutscher Pfandbriefbanken (vdp), for the Pfandbrief banks.

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Starting point

The German Banking Industry Committee supports the European Union's climate policy objectives, in particular the goal of climate neutrality by 2050 and the envisaged reduction of greenhouse gas emissions by 90% compared to 1990 levels by 2040. Transforming the European economy will require substantial investment in new technologies, infrastructure, and business models. Therefore, the mobilisation of private capital is a key factor in successfully implementing the European climate targets.

Credit institutions play a decisive role as financiers of the ecological transition. While banks are only indirectly subject to climate policy targets, such as those set out in European climate legislation, they are instrumental in directing capital towards climate-friendly investments and facilitating transformation processes within the real economy.

Against this backdrop, developing a robust, transparent and liquid international carbon market is of great importance. A clear and coherent European legal framework for the use of international emission credits could provide investment certainty and encourage private investments in global decarbonisation projects. At the same time, such a framework must ensure that the environmental integrity of European climate policy is maintained, and that domestic transformation remains a priority.

Beyond their role as a complementary climate policy instrument, international carbon credits should also be understood as a systemically relevant element for ensuring the functional scalability of the EU climate framework, where domestic mitigation pathways face temporal or structural constraints. Given the ambition and scale of the EU's 2040 targets, a limited and well-designed use of international carbon credits can contribute to maintaining system operability, investment certainty and political durability, in particular where domestic mitigation alone may not be sufficient in the short to medium term.

The German Banking Industry Committee therefore supports the examination of a legal framework for the limited use of international credits within the context of European climate policy. However, it is crucial that such a framework sets clear requirements regarding environmental integrity, market transparency and financial stability.

Primacy of European decarbonisation

The structural decarbonisation of the European economy must remain the cornerstone of the European climate strategy. The transition to a climate-neutral economy requires far-reaching changes in industry, energy supply, mobility, and the building sector within the European Union.

Thus, international emission credits cannot substitute for domestic mitigation efforts. Their use must not primarily replace decarbonisation within the EU in a cost-effective manner. Rather, international

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credits should only be used in a strictly limited, secondary and quality-assured way. From the perspective of the German Banking Industry Committee, their use should be restricted to residual emissions that are difficult to avoid. Such an approach helps to maintain the credibility of European climate policy whilst enabling an economically viable transformation.

In parallel, a predictable regulatory framework is needed to support the early financing of future carbon removals within and beyond the EU. Providing legal certainty at an early stage is crucial for mobilising private capital and developing scalable removal capacities that will be required to address residual emissions in line with the European Climate Law.

Environmental and financial integrity as a regulatory prerequisite

International carbon credits can only contribute meaningfully to European climate objectives if both environmental and financial integrity are ensured from the outset. From a regulatory perspective, international credits are not solely climate policy instruments but may also have characteristics of financial instruments - including long-term maturities and complex risk structures.

Once credits or removal commitments become relevant for accounting, financing or risk management purposes, financial risks emerge in addition to environmental aspects. These include technology-related risks, political and regulatory uncertainties, counterparty risks as well as default and reversibility risks.

From a system perspective, environmental integrity and financial integrity are closely interlinked and mutually reinforcing. Fragmented, illiquid or overly restrictive market structures increase financial risks, raise capital costs and delay investment decisions. This, in turn, constrains supply and undermines the effectiveness of the mechanism. A credible EU framework must therefore address environmental and financial risks jointly, rather than treating them as separate dimensions.

The German Banking Industry Committee therefore considers it is crucial that the European legal framework should define clear, legally binding eligibility criteria and governance requirements, including in particular:

- demonstrable additionality of the emission reduction or removals,
- sufficient durability and permanence,
- conservative crediting methods,
- robust systems for monitoring, reporting and verification (MRV),
- clear rules on liability, accountability and corresponding adjustments, and
- appropriate collateralisation and risk management mechanisms, where relevant.

Beyond standard setting, the functional role of financial institutions for market operability should be explicitly recognised. Banks contribute not only as providers of financing, but also as enablers of market infrastructure, supporting liquidity, tradability and risk management. These functions are essential for transforming carbon credits into a scalable, investable market instrument that can

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reliably deliver the intended climate impact. Without sufficient liquidity, tradability and robust risk management, scaling an investable carbon credit market to the required volumes is unlikely.

In this context, the EU's role should not be limited to defining quality criteria alone. Consideration should also be given to a more active central supervisory and coordinating function at European level, ensuring consistency, transparency and stability across the market architecture, while safeguarding the integrity of existing EU climate instruments. This is particularly important to avoid regulatory and market fragmentation across Member States.

International credits must not displace emission reductions within the EU but should serve exclusively to address clearly defined residual emissions.

The German Banking Industry Committee advocates for various forms of international credits, including nature-based credits and engineered removals, provided they adhere to the established standards for quality and reliability. In this regard, high-integrity preservation of existing carbon sinks should explicitly be considered to boost supply and strengthen the deliverability of the five percent mechanism.

Contribution of international carbon markets to global decarbonisation

Subject to the integrity safeguards outlined above, a well-functioning international carbon market can support global decarbonisation by channelling additional investment into high-quality emission reduction and removal projects outside the EU.

Beyond this contribution effect, international carbon credits should also be understood as a systemically relevant scaling instrument within the EU climate framework. Given the ambition and scale of the EU's 2040 targets, international credits can help ensure that the system remains functional, investable and politically durable by providing flexibility and additional supply where domestic mitigation alone is insufficient in the short to medium term. Simultaneously, projects should in principle be developed where they can deliver the greatest additional climate impact. This should be complemented by continued efforts to strengthen resilience within the EU itself. In particular, nature-based solutions that enhance ecosystem resilience, support climate adaptation, and safeguard long-term carbon sinks remain highly relevant within Europe and should continue to be promoted alongside the use of international credits.

A liquid, transparent and reliable market for carbon credits is essential for the financial sector. Banks have already begun developing suitable business models and supporting the development of capital flows towards international and European climate protection projects as the market continues to develop and scale. A clear European legal framework would strengthen these market structures and help mobilising private capital on a larger scale for global and European decarbonisation efforts.

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At the same time, the European framework should recognise the role of the Voluntary Carbon Market, as an important source of standards, methodologies and market practices while ensuring full consistency with EU climate objectives and accounting rules. Clearly defined rules for the use of high-quality voluntary credits can improve market stability by broadening access to credible projects and reduction pathways. In particular, legal clarity on eligibility criteria, additionality, corresponding adjustments, and interaction with national and EU targets is essential to avoid regulatory uncertainty and build long-term market confidence.

International credits as a stabilising market element

Within an ambitious European climate regime, international credits can also serve a stabilising function, notably acting as a market-based safety valve within instruments such as the EU Emissions Trading System.

Used in a limited manner, international credits can cushion extreme price volatility, facilitate investment planning, and safeguard competitiveness in sectors facing hard-to-abate emissions. This is conditional on their use not undermining the environmental integrity or the price signal of the European Emissions Trading System.

For the practical implementation of such a mechanism, a clear and transparent conversion and eligibility framework is essential. It must define under which conditions international carbon credits can be recognised for compliance within the EU ETS, including the required volume equivalence (i.e. how many tonnes of reductions or removals correspond to EU ETS obligations), the eligible project types, and the minimum standards regarding quality, permanence, additionality and verification. Only such a robust transfer logic can ensure legal certainty, preserve market confidence and safeguard the environmental integrity of the system within the envisaged cap of up to five percent.

At the same time, it should be explicitly acknowledged that the envisaged volume of up to five per cent is unlikely to be deliverable through carbon removals alone within the relevant timeframe. Given current supply projections and competing global demand, a framework that relies exclusively on a narrow subset of credit types would risk creating supply bottlenecks, reduced liquidity and increasing cost pressure. Such constraints would undermine the stabilising function international credits are intended to provide. If supply constraints persist, the five percent mechanism risks becoming ineffective in practice and failing to deliver its intended stabilising function.

From the perspective of the German Banking Industry Committee, a cap of up to five per cent on international credits, as currently discussed at the European level, constitutes an appropriate starting point, subject to sufficient flexibility for sectors where emissions are especially difficult to reduce. This stabilising role is strictly conditional on international credits remaining quantitatively limited and not altering the long-term decarbonisation incentive embedded in the ETS price signal.

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Alignment with the rules of the Paris Agreement

To prevent fragmentation of international carbon markets and ensure environmental integrity, the European legal framework should be closely aligned with existing international regulations. Thus, the German Banking Industry Committee advocates consistent alignment with the market mechanisms of the Paris Agreement, in particular Articles 6.2 and 6.4. Such alignment prevents double counting, strengthens the international comparability of credits, and facilitates the integration of European market participants into global carbon markets.

A clear regulatory framework and well-defined allocation of responsibilities under Article 6.2 are essential, with the European Union ideally taking the lead in negotiating delegation agreements directly with host countries.

Standardised and transparent market architecture

A standardised and transparent market architecture is crucial for the functioning of an international carbon market. Fragmented offset approaches or complex individual claims hinder investment and increase transaction costs. The European framework should therefore provide for:

- clearly defined and standardised credit categories,
- transparent and interoperable registry structures,
- harmonised verification and certification procedures, and
- clear rules for the trading, use and accounting of credits.

In addition, it should be considered that clear rules alone may not be sufficient. A functioning market could also benefit from dedicated institutional and infrastructural support. Such support could include, in particular:

- further strengthening registry governance and interoperability standards,
- exploring clearing and settlement arrangements to enable efficient transactions, improve transparency and support price discovery, and
- a coordinated European approach to oversight and supervision, ensuring consistent application of standards and helping to reduce fragmentation across Member States.

From a system-level perspective, market architecture and risk dynamics are closely interlinked. Fragmentation and insufficient infrastructure increase financial and operational risks, raise transaction and capital costs for project developers, and ultimately constrain supply. These effects reinforce each other and may undermine market liquidity and investment certainty. Addressing such interacting system risks through coherent market design is therefore essential for ensuring that international carbon credits can function effectively at scale.

Such a market architecture increases transparency and liquidity and facilitates the integration of international credits into existing financial markets. Long-term commitments to CO₂ removal could,

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in the long term, be supported by public or supranational institutions, while banks primarily assuming a financing and intermediary role within clear regulatory frameworks.

Pilot mechanisms and phased introduction

The German Banking Industry Committee supports the introduction of well-designed pilot mechanisms to gain practical experience with international credits within the European climate regime. The implementation of a pilot phase in the near term can help to test market mechanisms, advance quality standards, and progressively establish institutional governance structures. The pilot option provided for in European climate legislation prior to the potential use of international credits from 2036 onwards provides an appropriate framework for this.

Ensuring a European level playing field

A key prerequisite for the integration of international credits into the European climate regime is the establishment of a uniform European level playing field. Given that international credits can have a material impact on investment decisions, financing structures, and competitive conditions, a coherent European legal framework is essential. Divergent national rules on acquisition, quality requirements or accounting treatment of international credits would undermine investment certainty and market confidence. To ensure a level playing field in the use of international carbon credits, price differences should be addressed through appropriate alignment mechanisms, such as pro rata adjustments or corresponding adjustments to relevant cost components, where justified.

The EU framework should therefore establish uniform eligibility criteria, harmonised rules governing acquisition and use, and clear safeguards against double counting and overlap with public support schemes. A holistic approach that takes into account ongoing developments in the Voluntary Carbon Market is necessary to ensure legal certainty and protect existing investments.

Conclusion

The German Banking Industry Committee supports the development of a European legal framework for the limited and complementary use of international emission credits to achieve the EU's 2040 climate target.

Such a framework can support global decarbonisation financing while enabling an economically viable transformation of the European economy. This is conditional on international credits being used exclusively as a supplement, subject to strict quality requirements, and embedded in a transparent and standardised market architecture, and governed by clear and harmonised EU-level rules. Addressing interacting system risks—such as market fragmentation that raises transaction and capital costs, constrains supply, and weakens liquidity—is essential to safeguard the effectiveness and credibility of the five percent mechanism.