



# Presentation on EU and carbon markets

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# Outline

- Taking stock of EU voluntary carbon market regulation: units and claims
- EU-specific considerations for Article 6 cooperation
- Overview of EU's climate framework and its flexibility mechanisms (“part 1”)

# EU legislation relevant to Voluntary Carbon Markets

## - Overview

### *Supply side*

- Carbon Removals and Carbon Farming Framework, CRCF (Regulation adopted H2, 2024)
  - An EU certification framework for permanent carbon removals, carbon farming and carbon storage in products

### *Demand side*

- Empowering Consumers for the Green Transition Directive (adopted H1, 2024):
  - Shall protect consumers by regulating against misleading information in marketing
    - Products
    - Business-to-consumer situations
  - Amends the main consumer protection legislation, the Unfair Commercial Practices Directive
- Green Claims Directive (Political agreement expected 2025)
  - Complements existing anti-greenwashing legislation with further guidance on communicating and substantiating green claims
    - Including claims based on carbon credits
  - Covers organisational-level claims

# CRCF

## Carbon Removals and Carbon Farming Framework

- Aims to **enhance the environmental integrity and transparency** of permanent carbon removals, carbon farming and carbon storage in products and promote trust in their certification
  - Existing and new public and **private crediting programmes** that seek to certify emission reductions and removals under the CRCF framework **can apply for recognition by the Commission under the CRCF Regulation**
  - However, **they can operate in the EU even without such recognition**
  - The **activities should take place within the EU**
  - The Commission will **establish certification methodologies** in close consultation with the Expert Group on Carbon Removals.
    - Clear liability mechanisms in case of **reversals** and the consequences of incomplete monitoring
  - Units generated under the CRCF **shall contribute to the EU NDC and its climate objectives**, and not to third party NDCs or international compliance schemes
- Permanent carbon removal units
  - Carbon farming sequestration units
  - Carbon storage in products units
  - Soil emission reduction units

# Empowering Consumers for the Green Transition Directive

- Introduces a ban on offsetting claims for goods and services

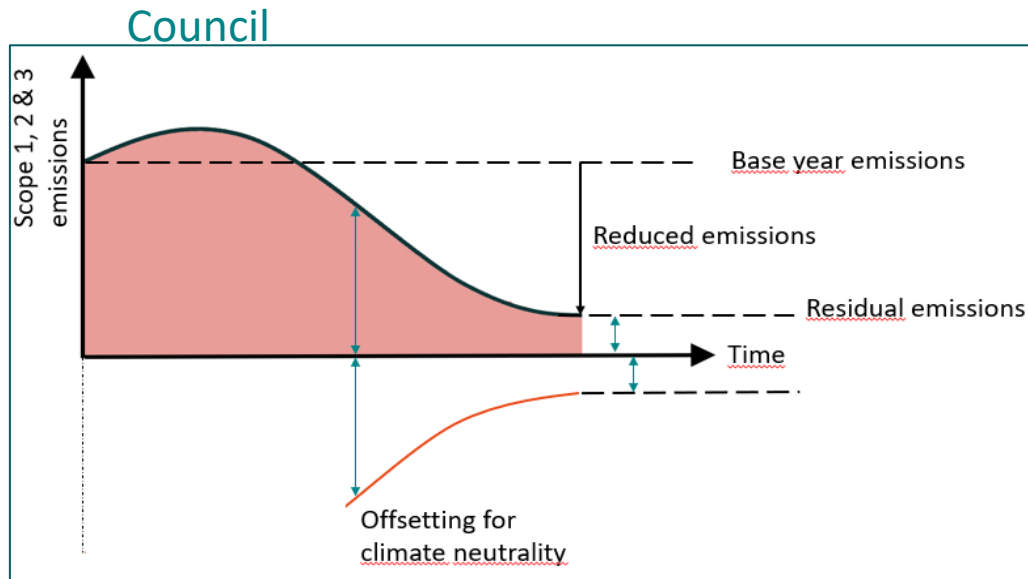
- “ ...‘**climate neutral**’, ‘CO<sub>2</sub> neutral certified’, ‘carbon positive’,
- ‘climate net zero’, ‘climate compensated’, ‘reduced climate impact’ and
- ‘limited CO<sub>2</sub> footprint’ ..... should **only be allowed when they are based on**
- **the actual lifecycle impact of the product** in question, and not based on
- **the offsetting of greenhouse gas emissions outside the product’s value chain...**”

- Lacking guidance regarding the definition of “actual lifecycle impact of the product”

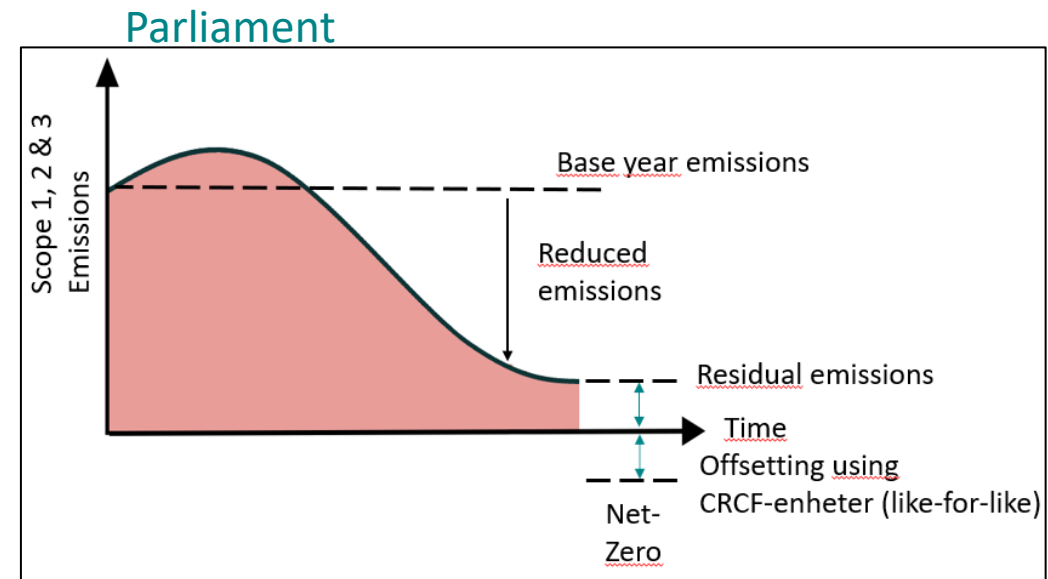


# Green Claims Directive

- Refers to ECGTD for product-level claims
- Regulates offsetting claims on the organisational level
- Parliament's and Council's positions are far apart, but some commonalities
  - Climate-neutrality claims only for organisations with mitigation targets aligned with science
  - Must report GHG emissions and carbon credits separately (reductions vs removals)
  - Important details are delegated to COM to decide through delegated acts
- Ready for "trilogues" since June -24.



- COM to adopt more detailed rules on demonstrating quality and integrity of the credits used, considering different types of claims

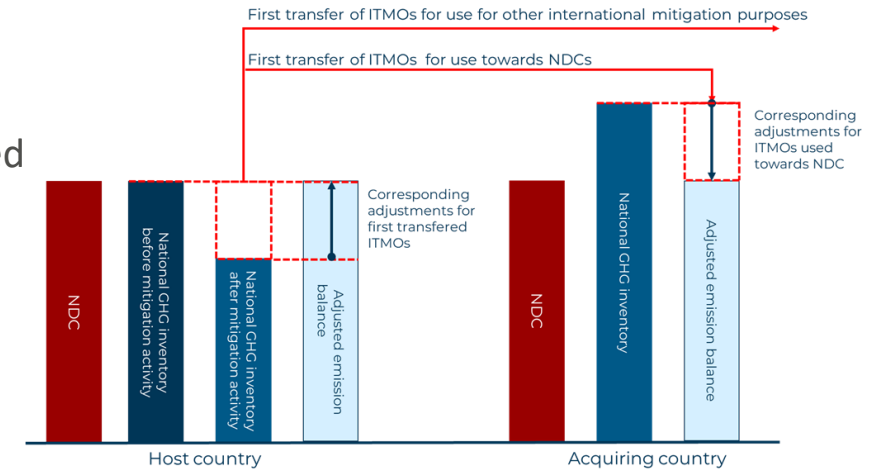


- Definition of residual emissions – COM, 1 year after adoption



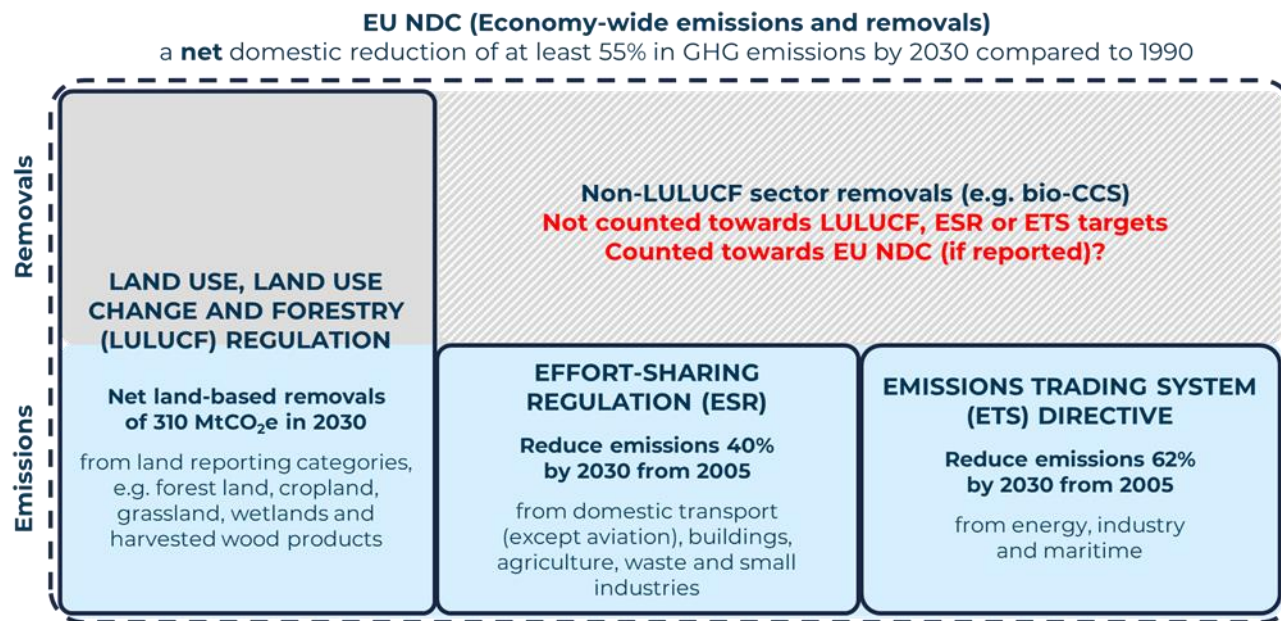
# EU-specific considerations for Article 6 cooperation

- **In principle**, the EU and its Member States could engage in cooperation involving ITMOs on the demand and/or supply side. Corresponding adjustments would need to be applied in the EU emissions balance if
  - The EU or its Member States wish to use ITMOs towards the EU NDC, or
  - Authorise and first-transfer ITMOs based on mitigation that is achieved within their boundaries.
- The current EU NDC explicitly states that the EU target for 2030 is to be achieved domestically, i.e. without international credits
- To engage in ITMO trading for compliance purposes, EU-level arrangements that are currently not in place would be needed for
  - Authorising and tracking ITMOs
  - Applying corresponding adjustments in the EU emissions balance
  - Reporting ITMO-related information
- Member States may establish their own national arrangements for authorising and tracking ITMOs, but they are not in the position to apply corresponding adjustments to the EU emissions balance



Source: Ahonen et al, "Promoting biogenic CCS in the Nordic region through carbon markets", forthcoming

# EU's climate framework and its flexibility mechanisms



Source: Ahonen et al, "Promoting biogenic CCS in the Nordic region through carbon markets", forthcoming

## LULUCF and ESR

### Domestic flexibility

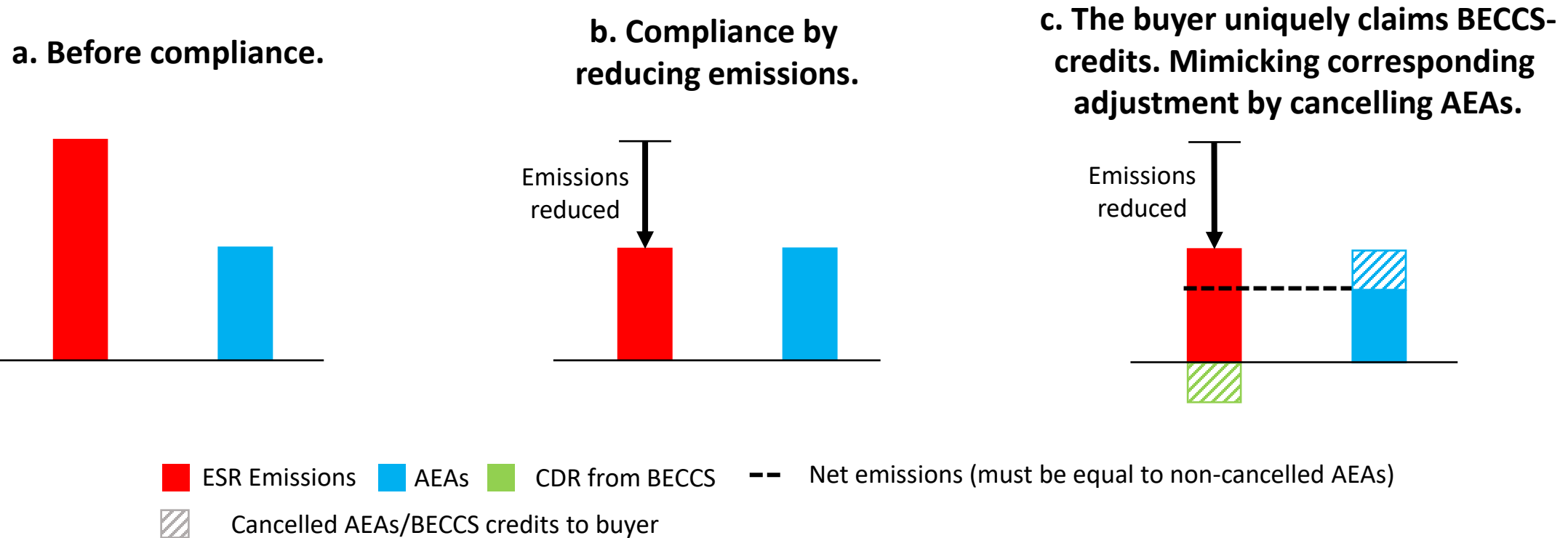
- Banking and borrowing between years
- Limited quantity of excess allocations from LULUCF can be used for ESR
- Use of excess Annual Emission Allocations from ESR for LULUCF fairly unconstrained

### Trading between MS

- Countries can buy and sell excess allocations among themselves



# A corresponding adjustment workaround



Source: Dufour, M., Möllersten, K., Zetterberg, L. (2024) "How to maintain environmental integrity when using state support and the VCM to co-finance BECCS projects - a Swedish case study", *Frontiers in Environmental Science*, 12. <https://doi.org/10.3389/fenvs.2024.1387138>