



An emerging tetrad of EU policies driving climate finance

6th JRC Summer School on Sustainable Finance

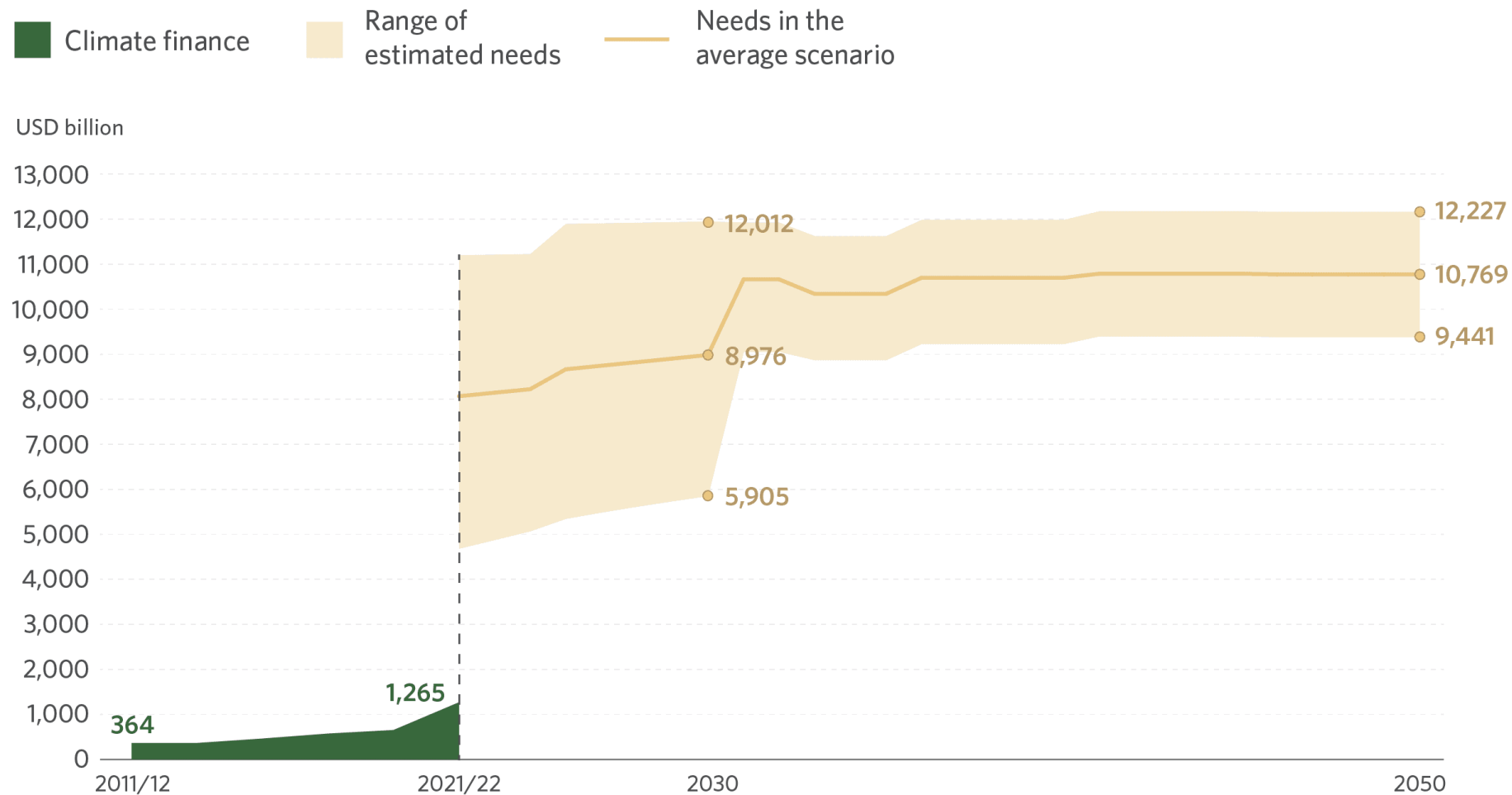
Panel on Climate Finance: Approaches from policy, industry & research

Own views of

Tilmann MORATA LIEBERT – DG Climate Action Climate Finance Unit

Climate finance - trends & needs

Global tracked climate finance and average estimated annual needs through 2050



Source: Climate Policy Initiative

A tetrad driving the transition



Corporate Sustainability Reporting Directive (CSRD)



- All large/listed companies & certain non-EU ones
- As of 2025 (on FY2024)
- *Double materiality* principle
- Audited
- Green competitiveness
- Requirements in European Sustainability Reporting Standards

European Sustainability Reporting Standards

ESRS E1 Climate Change – 220 data points to be reported on unless not deemed *material* (relevant).

Main disclosure requirements:

- **Transition plan** for climate change mitigation
- **Impact, risk and opportunity management**
- **Policies** related to climate change mitigation and adaptation
- **Actions and resources** in relation to climate change policies
- **Targets** related to climate change mitigation and adaptation
- **Energy consumption** and mix
- **Energy intensity** based on net revenue
- Gross **Scope 1, 2, 3** and Total **GHG emissions**
- **GHG Intensity** based on net revenue
- GHG removals and GHG mitigation projects financed through **carbon credits**
- **Internal carbon pricing**
- Potential **financial effects** from material physical and transition **risks** and potential climate-related opportunities

DRAFT EUROPEAN SUSTAINABILITY REPORTING STANDARDS

ESRS E1 Climate change



November 2022

ESRS E1 Climate – Disclosure Requirement E1-7 – GHG removals and GHG mitigation projects financed through carbon credits – CLAIMS

Net-zero target (Para. 60 & Glossary)

- residual GHG emissions (after approximately 90-95% of GHG emission reduction with the possibility for justified sectoral variations in line with a recognised sectoral decarbonisation pathway) to be neutralised by permanent GHG removals
- in addition to gross **GHG emission reduction targets** [...]
- explain the scope, methodologies and frameworks applied

GHG neutrality claims involving carbon credits (Para. 61), transparency on:

- (a) Whether and how claims accompanied by GHG emission reduction targets;
- (b) whether and how these claims and the reliance on carbon credits neither impede nor reduce the achievement of its GHG emission reduction targets, or, if applicable, its net zero target; and
- (c) the credibility and integrity of the carbon credits used, including by reference to recognised quality standards.

ESRS E1 Climate – *Disclosure Requirement E1-7 – GHG removals and GHG mitigation projects financed through carbon credits* - TRANSPARENCY

The undertaking shall disclose:

56 a) GHG **removals** and storage in metric tonnes of CO₂eq resulting from projects it may have developed in its own operations, or contributed to in its upstream and downstream value chain;

58. [above] shall include, if applicable:

- (a) the total amount of GHG removals and storage in metric tonnes of CO₂eq disaggregated and separately disclosed for the amount related to the undertaking's own operations and its upstream and downstream value chain, and broken down by removal activity; and
- (b) the calculation assumptions, methodologies and frameworks applied by the undertaking.

56 b) the amount of GHG emission reductions or removals from climate change mitigation projects outside its value chain it has financed or intends to finance through any purchase of **carbon credits**.

59. [above] shall include, if applicable:

- (a) the total amount of carbon credits outside the undertaking's value chain in metric tonnes of CO₂eq that are **verified against recognised quality standards** and **cancelled in the reporting period**; and
- (b) the total amount of carbon credits outside the undertaking's value chain in metric tonnes of CO₂eq planned **to be cancelled in the future** and whether they are based on existing contractual agreements or not.

ESRS E1 Climate – *Disclosure Requirement E1-7 – GHG removals and GHG mitigation projects financed through carbon credits*

Application Requirements (AR)

Transparency (AR 62) on:

- (a) *the share (percentage of volume) of reduction projects and removal projects;*
- (b) *for carbon credits from removal projects, an explanation whether they are from biogenic or technological sinks;*
- (c) *the share (percentage of volume) for each recognised quality standard;*
- (d) *the share (percentage of volume) issued from projects in the EU; and*
- (e) *the share (percentage of volume) that qualifies as a corresponding adjustment under Article. 6 of the Paris Agreement.*

Separation of credits from emissions / targets reporting (AR 63):

- (e) *[shall] not disclose carbon credits as an offset for its GHG emissions under Disclosure Requirement E1-6 on GHG emissions;*
- (f) *[shall] not disclose carbon credits as a means to reach the GHG emission reduction targets disclosed under Disclosure Requirement E1-4; and*

ESRS ANNEX II - ACRONYMS AND GLOSSARY OF TERMS

Recognised quality standards for carbon credits

- Quality standards for carbon credits that are **verifiable by independent** third parties, make requirements and project reports **publicly available** and at a minimum ensure **additionality, permanence**, avoidance of **double counting** and provide rules for **calculation, monitoring, and verification** of the project's GHG emissions and removals.

European Sustainability Reporting Standards

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ESRS E1 Climate change



November 2022

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CSRD/ESRS Transition Plans

- Detailed in ESRS E1-1, basic requirement already in Directive:

*...plans, including implementing actions and [investments], to ensure that its **business model and strategy are compatible with the transition** to a sustainable economy and with the limiting of global warming to **1,5 °C** in line with the Paris Agreement [...] and the objective of achieving **climate neutrality** by 2050 [as per Climate Law], and, where relevant, the exposure of the undertaking **to coal-, oil- and gas-related activities**;*

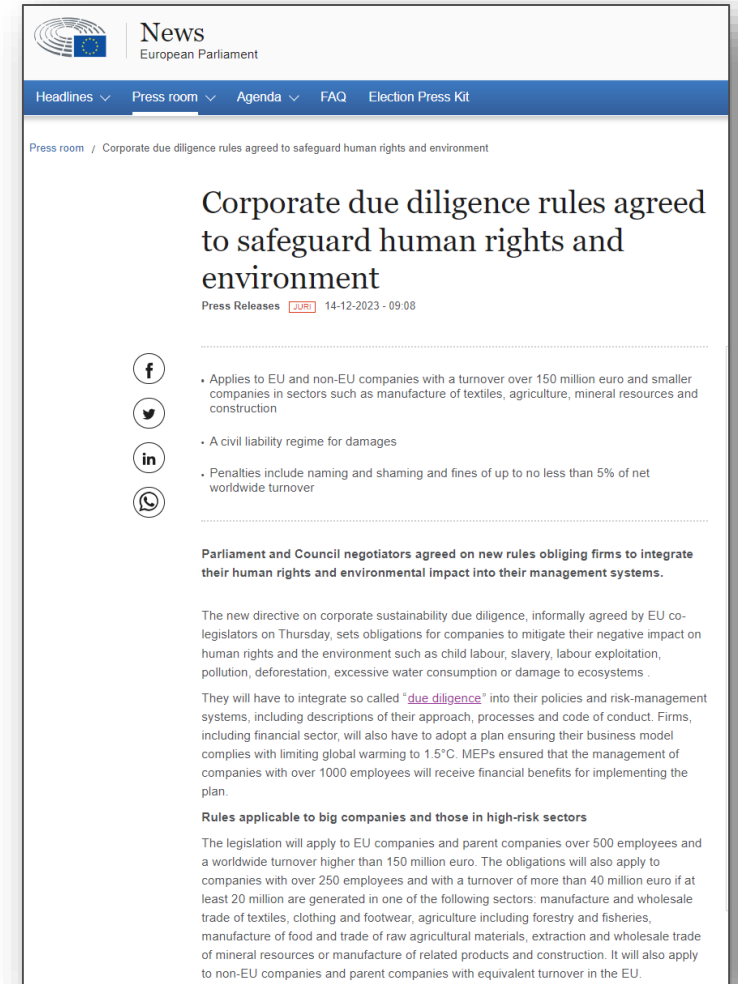


Corporate Sustainable Due Diligence Directive

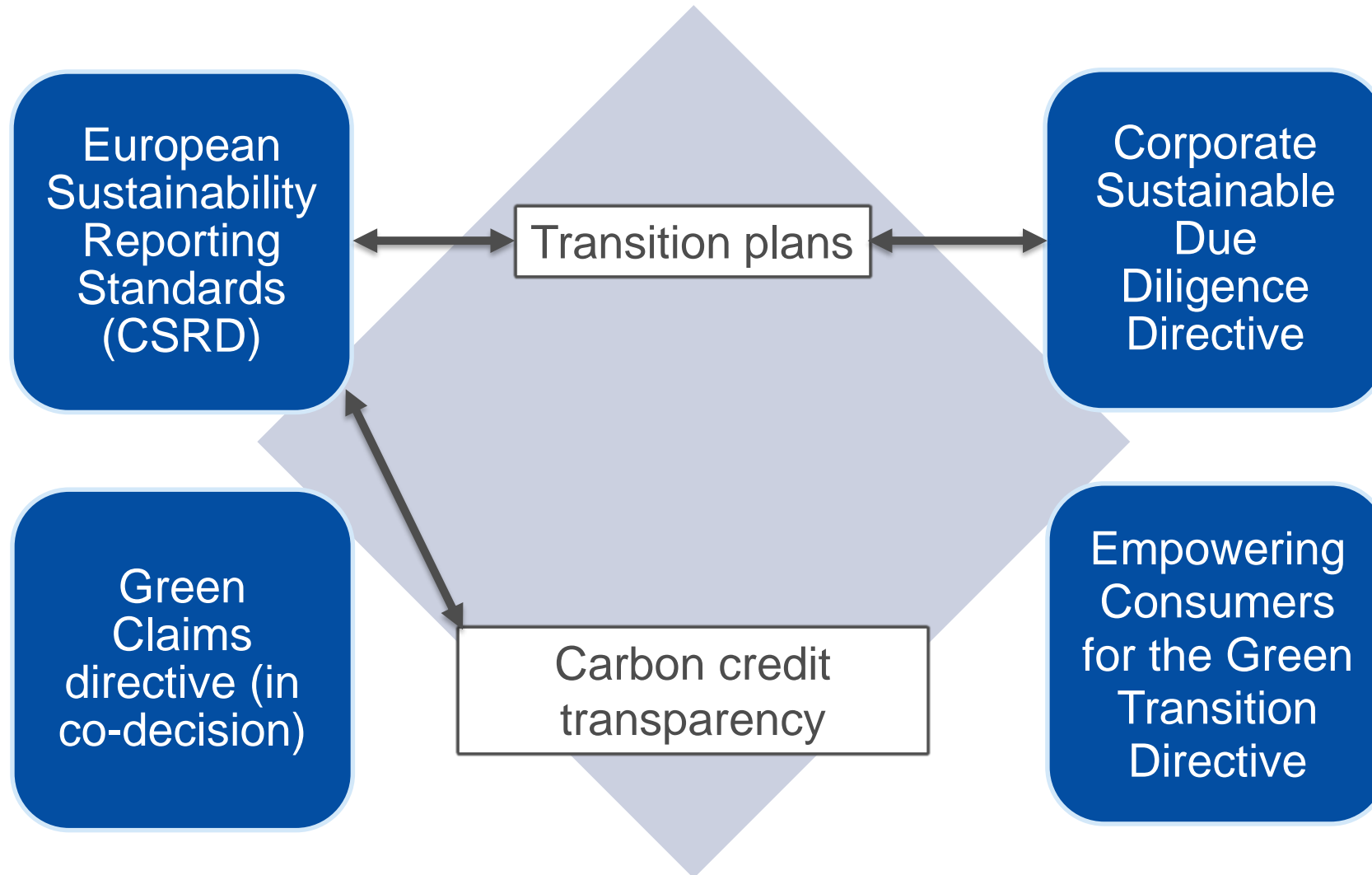
- Agreed June 2024
- No climate due diligence across supply chains
- But transition plan:

...to ensure that the business model and strategy of the company are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5 °C in line with the Paris Agreement.

- Obligation of means to adopt & put into effect – best effort-basis



A tetrad driving the transition



Empowering Consumers for the Green Transition Directive

Objectives

Unlock opportunities for the circular and green economy by empowering consumers

Better consumer protection against commercial practices not compatible with Green Deal objectives

Ensure consumers can make informed choices via better information

More effective enforcement of consumer law provisions on the green transition

Empowering Consumers for the Green Transition Directive

Claims on “Future Environmental Performance” to be supported by:

- ***clear, objective, publicly available and verifiable commitments** set out in a detailed and realistic **implementation plan** that includes **measurable and time-bound targets** and other relevant **elements necessary to support its implementation**, such as allocation of resources, and that is regularly **verified by an independent third party expert**, whose findings are **made available** to consumers; → Art. 1.2(b) / Recital 4*

Ban on claims on products based on offsetting:

- *Claiming, based on the offsetting of greenhouse gas emissions, that a product has a neutral, reduced or positive impact on the environment in terms of greenhouse gas emissions.’ → Annex Para. 2, 4c*
- *only allowed when they are based on the actual lifecycle impact of the product in question (without offsetting) → Recital 12*

Green Claims directive - Main Elements

Substantiation

- ▶ Backed by scientific evidence
- ▶ Reveals significant impacts from a life-cycle perspective
- ▶ Transparency on offsets

Communication

- ▶ Clear, unambiguous & transparent claims
- ▶ Information to be made available to consumers

Labelling schemes

- ▶ Based on certification schemes with robust governance
- ▶ Ban their proliferation

Verification

- ▶ Ex-ante verification by independent & accredited verifiers
- ▶ Certificate of conformity recognised in the EU

Enforcement & Monitoring

- ▶ Empowering competent authorities to enforce (i.e. penalties)
- ▶ Annual monitoring will define further priorities

The issues with climate claims

Spelled out in Recital 21:

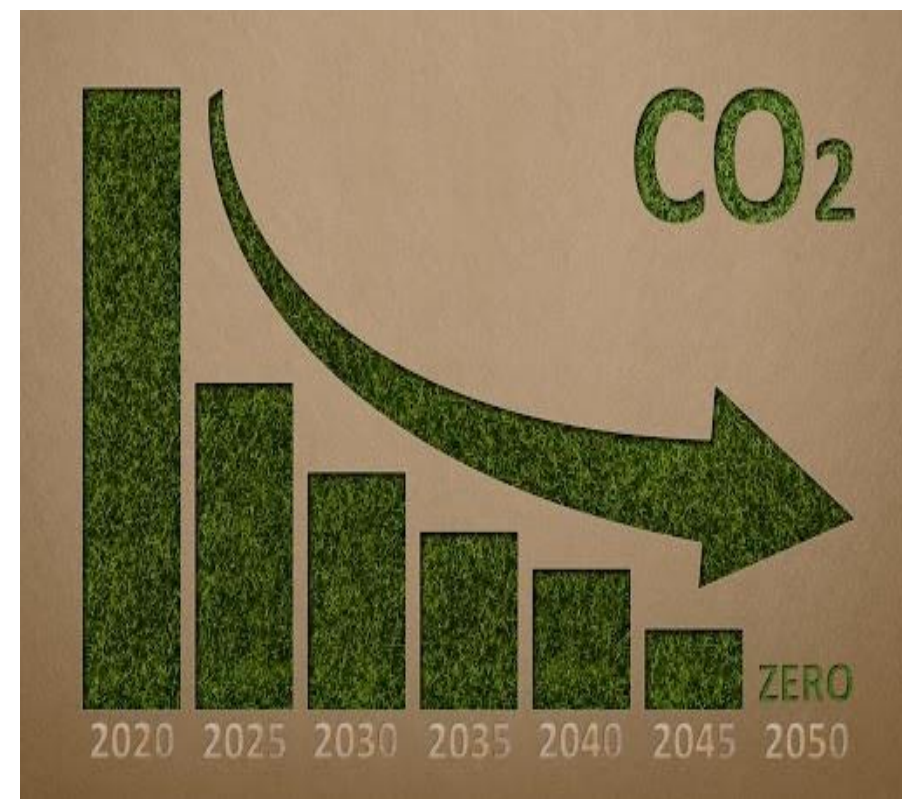
- Particularly prone to being unclear and ambiguous and to mislead consumers;
- Often based on offsets with varying/
problematic methodologies:
 - Overestimations and double counting;
 - Mitigation deterrence.



Tackling the issues

- Instead of offsets: effective reductions of emissions across own operations and value chains;
- Address residual emissions through removals;
- If offsetting nonetheless:
 - Transparency & quality

Objective: reflect coherently and transparently the resulting impact on the climate.



Co-legislators' positions

EP

- Compensation claims:
 - ONLY for residual emissions & EU certified removals (or equivalent)
 - Fossil emissions only through permanent removals
- Contribution claims:
 - No restrictions

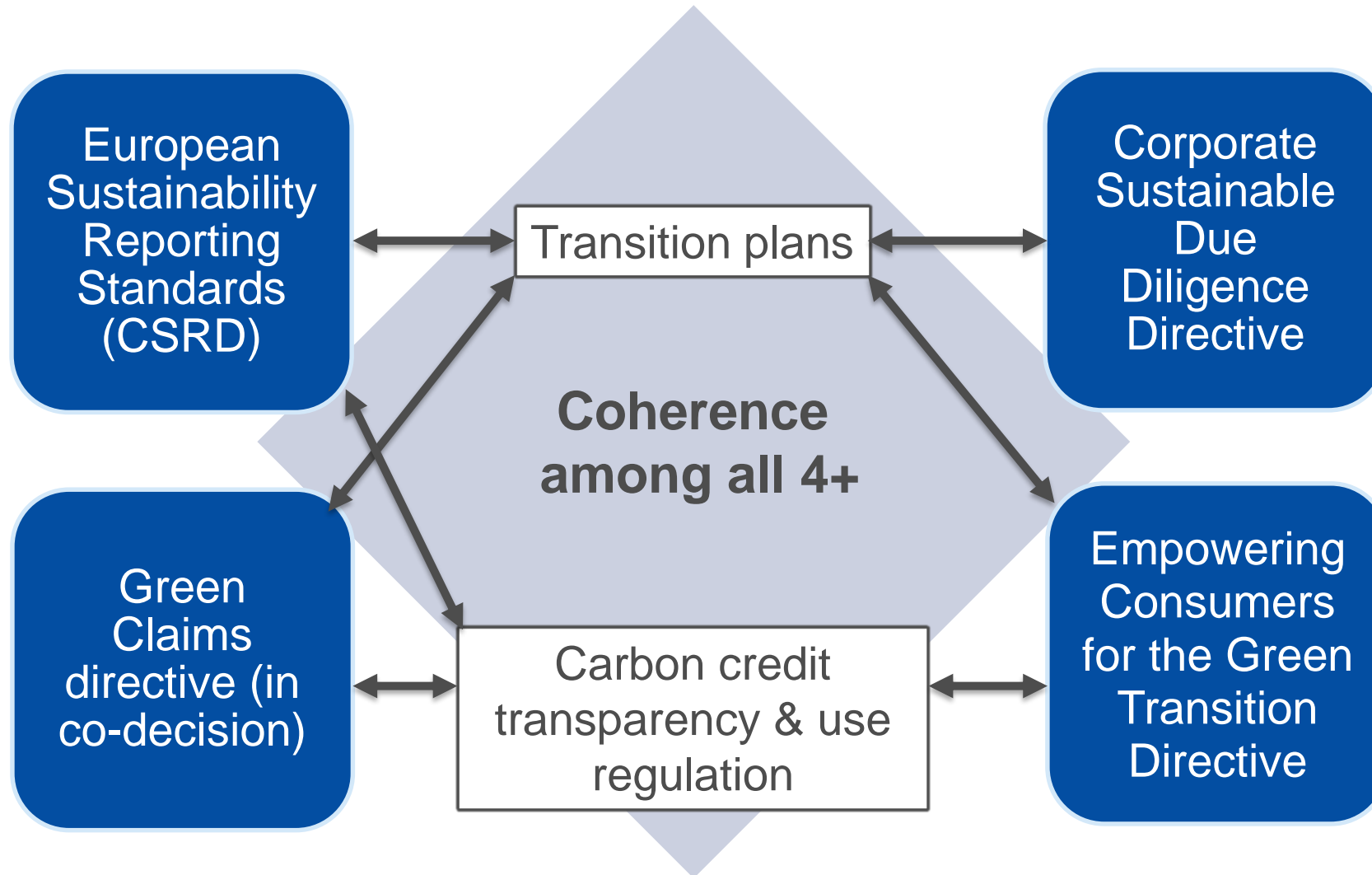
Council

- Increased transparency
- Offset claims:
 - ONLY if ESRS *net zero target* set AND ON corresponding pathway
- Contribution claims
- *Future env. performance claims*
- *ESRS Recog. quality standards for carbon credits*



Commission empowered to define details

A tetrad driving the transition



An emerging EU tetrad



Regulation of carbon credit use

- Organisation-level claims only
- Transparency & integrity
- Preventing *mitigation deterrence*

Credible & ambitious transition plans

- Avoid *transition-washing*
- Align with 1.5°C & EU climate targets
- Economy wide \leftrightarrow company-level targets
- Enable 'transition proficiency' of preparers, auditors, users

Thank you

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