

# Temporary decarbonisation fund

## CONTEXT

The carbon border adjustment mechanism (CBAM) is being implemented to create a level playing field on carbon pricing of specific goods within the EU single market. For CBAM-covered goods, free allowances under the EU's emissions trading system (ETS) will be progressively phased out by 2034.

With the phase-out of free allowances in CBAM-covered goods, EU operators producing goods for export will be at a disadvantage in markets without similar carbon pricing.

The European Commission is proposing a temporary decarbonisation fund to support certain goods in the aluminium, fertilisers, iron and steel sectors. Other energy-intensive industries at continued risk of carbon leakage could also benefit. The fund would provide short-term support as a temporary bridge solution, pending a review in the context of the forthcoming revision of the EU ETS due in 2026.

## LEGISLATIVE PROPOSAL

[2025/0418\(COD\)](#) – Proposal for a regulation establishing the temporary decarbonisation fund – [COM\(2025\) 990](#), 17 December 2025.

## NEXT STEPS IN THE EUROPEAN PARLIAMENT

For the latest developments in this legislative procedure, see the Legislative Train Schedule: [2025/0418\(COD\)](#)

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## Issue

Since 1 January 2026 the carbon border adjustment mechanism (CBAM) applies in its definitive regime. Simultaneously, free allowances will start to be phased out for CBAM sectors covered under the EU emissions trading system (ETS), with full phase-out planned for 2034. The mirrored CBAM phase-in determining the phase-out trajectory of EU ETS free allowances for CBAM-covered goods is called the CBAM factor.<sup>1</sup>

In the European Commission's presentation of the new CBAM-related proposals on 17 December 2025, the Commissioner for Climate, Net Zero and Clean Growth, Wopke Hoekstra, [addressed](#) compensation for heavily exporting sectors that will need to buy ETS allowances, as they would lose free allowances with the CBAM phase-in. Since competitors in international markets may not be subject to carbon pricing, the loss of free ETS allowances would put European producers of carbon-intensive goods for export outside of the EU at a competitive disadvantage. The matter was also [highlighted](#) in the 2024 Draghi report, which pointed to an increased risk of carbon leakage,<sup>2</sup> as production may relocate to third countries. It is intended to be addressed in the revision of the [EU ETS Directive \(EU\) 2023/959](#) planned for mid-2026, or potentially in related legislation. Commissioner Hoekstra made additional [comments](#) on this topic, including the question of free allowances, in a press conference following the 17 December presentation of the initiatives.

In the meantime, to support decarbonisation efforts of producers of goods identified at high risk of carbon leakage, the Commission proposes the temporary decarbonisation fund (TDF). The proposal [recognises](#) that the emissions decrease under the EU ETS has been largely driven by the electricity sector, whereas energy-intensive industries have not had the same options for emissions abatement, or cost of abatement. Investing in decarbonisation measures would reduce the carbon cost due under the EU ETS and thus reduce the carbon leakage risk.

## Main points of the proposal

The legislative proposal seeks to establish a temporary decarbonisation fund to support certain energy-intensive industries during the transition period where free allowances under the EU ETS are being phased out and the CBAM is being phased in. The proposal presents the fund as a time-limited and targeted solution to a specific transitory heightened risk of carbon leakage. The fund would support specific operators of EU ETS installations. According to the proposed articles, the fund would have the following key features.

- **Time limitation:** a call for application would be launched in 2028, for support to be provided in 2029 for specific carbon-intensive goods produced in the period from 2026 to 2027 (Article 1).
- **Financing:** the TDF would be financed by the Member States through 25 % of revenues collected at Member State-level from the sale of [CBAM certificates](#) for embedded emissions for the years 2026 and 2027. A derogation from [Article 21\(5\)](#) of the EU Financial Regulation ([Regulation \(EU, Euratom\) 2024/2509](#) on the financial rules for the general budget of the Union) is specified to ensure that those resources constitute external assigned revenue. The amounts would cover both the Commission's administrative costs and the payments to beneficiaries.
  - A further derogation from [Article 12\(4\)\(c\)](#) of the Financial Regulation is included, resulting in any unused funds being returned to the Member States in proportion to their contributions (proposed Article 3(4)).
- **Targeted eligibility:** definitions of 'installations' and 'operators' and their specific 'activities' follow those of the EU ETS Directive. The definition of 'goods' follows [Annex 1](#) to the CBAM Regulation (proposed Article 2), with identification based on combined nomenclature ([CN](#)) specifications. With these definitions, the proposed Article 6 outlines eligibility according to the operators of installations producing goods listed in the [annex](#) accompanying the proposal.

- The goods listed in the annex to the proposal are more restricted than the CBAM annex. Whereas the CBAM annex includes entire product groups with all subheadings, the annex to the proposed fund only includes subheadings (four-digit versus eight-digit [CN codes](#)). The goods included under the subheadings are linked to *aluminium, fertilisers, iron and steel* manufacturing. The annex to the proposal does not include goods in the electricity, cement and hydrogen sectors, while they are included in the CBAM annex.
- Member States would be able to make reasoned requests for the inclusion of other goods with a low value-to-weight ratio and an increased risk at national level of carbon leakage (Article 6(2)). The Commission requests power of delegation to supplement the regulation with delegated acts (Article 6(3)) in order to define an indicator and conditions to be met by operators falling under the proposed Article 6(2).

While the fund is intended to directly compensate for the carbon leakage risk for exporters, applicants would apply based on their production of the specific goods listed in the annex, independently of whether those goods were subsequently exported or not. A presentation of the TDF by a representative of the Commission's Directorate-General for Taxation and Customs Union (DG TAXUD) referred to a **decarbonisation fund carbon leakage (DFCL) indicator** for selecting the eligible goods in the annex. This indicator follows the principle of the carbon leakage indicator specified in [Article 10b](#) of the EU ETS Directive, considering emissions intensity and trade intensity. For the DFCL indicator, the goods covered under CBAM are, a priori, considered high emission-intensity goods; the second aspect – trade intensity<sup>3</sup> – has thus a key role in targeting eligibility towards products that are very often exported. According to the DG TAXUD representative, the eligible goods in the annex include around 25 % of the CN codes covered under CBAM.

- **Conditionalities:** to receive support, the proposed Article 7 on conditionalities states that operators subjected to mandatory energy audits or using energy management systems frameworks must demonstrate one of the following.
  - All audit recommendations have been implemented, with reference to Article 11 of the Energy Efficiency Directive (EU) 2023/1791 (EED) on energy audit requirements.
  - The investment payback time for remaining recommendations exceeds five years.
  - Owing to disproportionate costs of implementing recommendations linked to Article 7(a), the operator has made a legal investment commitment to implement other measures delivering equivalent emissions reductions to those initially recommended.
    - According to the proposed Article 7(2), the above conditionalities also apply to operators not subject to energy audit obligations, if the voluntary energy audits meet the minimum audit requirements, in line with [Annex VI](#) to the EED.
    - Beyond the above conditionalities, linked to energy audits or energy management system recommendations, the proposed Article 7(3) would allow operators who can demonstrate a legal investment commitment, linked to the achievement of a climate neutrality plan's targets and milestones, to apply for support. The investments committed to must be at least equivalent to the support applied for.

In the case of the proposed Article 7(1)(b), the Commission confirmed that in the current text, if operators can prove a payback time of more than five years for recommendations not implemented, there would be no additional conditionality requirements. The text of Article 7(1) does not provide any alternative option between point b – the investment is not made due to a long payback period – and point c – a commitment towards other measures with equivalent emissions reductions. There is

no consideration in relation to point b as to when the latest decarbonisation investment should have been made, or that support should then initiate progress or further analysis of the outstanding recommendations.

- **How to apply:** to reduce complexity and administrative burden, only one call for applications would be opened, aligned with operators' EU ETS reporting calendar, in 2028 (Article 8). Operators would use the same emissions data – for the production reference period 2026–2027 – in their applications for support, to be submitted to the national competent authority (NCA) designated by each Member State (Article 5). The proposed Article 8(2) outlines details of an initial list of documentation to be submitted, linked to verified activity levels of production and to proof of meeting the conditionality requirements.
  - The Commission requests powers to adopt implementing acts further specifying procedural steps and documentation needs (Article 8(3)). An initial assessment of applications would be carried out by the NCAs (see below).
- **Calculation of support:** the NCAs would have a key role in assessing that applicants meet the eligibility and conditionality criteria (proposed Article 8(4)). The NCAs are to submit a list of applicants meeting those conditions, outlining their installations and the NCA's own calculation of the level of support the applicant is eligible to receive (Article 8(5)). The calculation of support, outlined in Article 9 of the proposal, would be based on free allocations phased out, adjusted to the share of production of goods listed in the annex, and the annual average of the EU ETS allowances' closing price on the auction platform in 2026 and 2027 respectively. There is no proof-of-export requirement. Article 9(2) defines that support cannot exceed the resources of the fund, reduced by its administrative costs.

As outlined above, TDF support would be based on the eligible operator's loss of free allowances under the EU ETS, financed from a 25 % share of CBAM revenue. It is estimated that the resources received from CBAM revenue for the TDF would amount to some [€633 million](#).

Based on meetings with the Commission, some further details on the financing and expected demand of the TDF are available. The annex limits eligible operators, and thereby demand for the TDF, to specific goods. The total value of phased-out free allowances over the 2026–2027 period is estimated at just below €1.5 billion. For the goods listed in the annex, the Commission estimates a loss of free allowances due to the CBAM factor of around €190 million over the two-year period. The option for Member States to request inclusion of additional goods is estimated to add a potential €75 million to the eligible goods, although the Commission itself considers this figure likely to be an underestimation. The legislative, financial and digital statement accompanying the TDF proposal also provides details on administration costs (see Table 1 for an overview of estimates).

Table 1 – Estimates of TDF resources, costs and support demand (in € million)

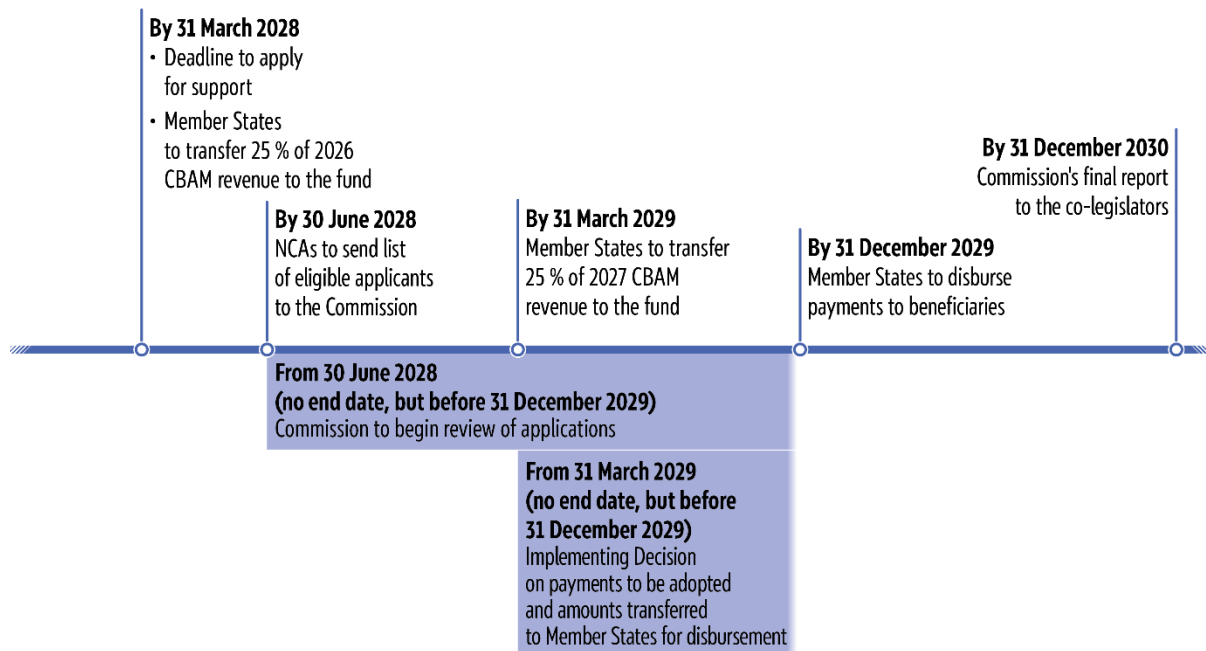
Potential eligible demand (high uncertainty)	265
Administrative costs (European Commission)	2.8
TDF resources from CBAM revenue	633
Administrative costs under current budget (2021–2027)	2.1

Source: Commission proposal, [COM\(2025\) 990](#). Demand estimate received in meeting with DG TAXUD.

- **Operational aspects:** the Commission would implement the fund under direct management (Article 4), with the NCAs carrying out key roles, as well as being responsible to retrieve unjustly received support, potentially bringing legal action (Article 8(4)). The Commission would make a final assessment of applications based on national lists received from NCAs (Article 10(1)). Following the final CBAM revenue

transfer by March 2029, the Commission would adopt an implementing decision regarding payment of support (Article 10(3) and 10(4)). Funds would subsequently be disbursed to the NCAs, who would have to pay out the support within one month, or by 31 December 2029 at the latest. The Commission would prepare a report to co-legislators by 31 December 2030, specifying how much support was provided and to which operators, along with an overall evaluation of the TDF's implementation. Figure 1 presents the envisaged operational timeline of the TDF.

Figure 1 – Temporary decarbonisation fund proposed operational timeline



Source: Visualisation based on legislative proposal; graphic by Samy Chahri, EPRS, 2026.

The proposed Article 12 contains provisions to protect the EU's financial interests, in line with [Article 129](#) of the Financial Regulation, and notes the obligation on Member States to record data and take measures and appropriate steps to prevent and detect fraud, corruption, conflicts of interest and other irregularities. Article 13 outlines the obligation of beneficiaries in terms of allowing access in case of audits, responsibility for their submitted data and keeping appropriate records. A derogation from [Article 196\(3\)](#) of the Financial Regulation on non-retroactivity is added in the proposed Article 11(1), to allow the Commission to pay support for already completed investments and productions.

## Parliament's prior position

On 28 January 2026, Commissioner Hoekstra [presented](#) the proposal to the European Parliament's Committee on the Environment, Climate and Food Safety (ENVI), with subsequent questions and reactions from committee members. The proposed fund had not been debated ahead of that meeting. The cost issue for exporters was noted in Parliament's April 2025 [resolution](#) on energy-intensive industries, asking the Commission for an effective solution. In its [resolution](#) on the Clean Industrial Deal of 19 June 2025, Parliament called for 'a workable export solution to address the risk of carbon leakage for CBAM goods exported from the EU', a call repeated in the October 2025 [resolution](#) on the United Nations Climate Change Conference 2025 (COP30) in Belém, Brazil.

## Prior positions of other EU institutions

On 20 January 2026, the proposal was on the [agenda](#) of the Council's Ad Hoc Working Party on the CBAM, with a presentation by the Commission and an initial exchange of views. At time of publication, no Council position is available on the proposal.

On 3 February 2026, the European Committee of the Region (CoR) Commission for Environment, Climate Change and Energy (ENVE) decided [not to draw up an opinion](#) on the proposal.

On 9 February 2026, European Economic and Social Committee (EESC) Section on Agriculture, Rural Development and the Environment (NAT) held a [hearing](#) for their study group, focusing on the CBAM revision files. The topic is on the agenda of the NAT section meeting at the end of February. In its July 2025 opinion on the [economic impact of ETS implementation](#), the EESC pointed to the lack of provisions concerning exports in the CBAM implementation process, identifying the need for thorough impact assessment on non-action, or initiatives to remedy effects. On 18 September 2025, the EESC adopted an [opinion](#) on the Commission's steel and metals action plan. In it, the EESC called for maintaining free allowances for exports for sectors covered under CBAM to third countries without comparable climate targets in their domestic steel industries.

## Preparation of the proposal

The issue facing carbon-intensive industry based in the EU, with high a share of exports, has been identified in several key documents focused on European competitiveness. The proposal for a fund is presented as a temporary bridge solution, while the EU ETS review, expected mid-2026, would put forward a more permanent solution. The TDF proposal was not envisaged specifically; however, the July 2025 communication, 'Delivering the Clean Industrial Deal I', [announced](#) a proposal by end-2025 for using CBAM revenue to support EU production at risk of carbon leakage.

The Commission proposal [refers](#) to an accompanying staff working document (SWD). However, that document has not yet been adopted, and no timeline regarding its adoption is available. An impact assessment has not been carried out due to time constraints.

According to the proposal, the SWD specifies how targeted eligibility is to ensure proportionality and avoid market distortion, and it provides details on the Commission's efforts to lower the fund's administrative burden.<sup>4</sup>

## Points of view

As specifics of the legislative proposal were not known ahead of its publication and no public consultation has been held, stakeholder positions are limited, and no academic or think tank analysis on the proposed fund has been identified. The immediate reactions upon publication of the proposal in December included criticism from both industry and environmental organisations.

In a [press release](#) of 17 December 2025, the European Steel Association, Eurofer, expressed disappointment with the limited scope of eligible products and the temporary nature of the fund. Eurofer also point out the uncertainty regarding the expected CBAM revenue for the fund. In their January 2026 action plan, European Aluminium [called](#) for an export solution tailored to the aluminium sector.

In an [article](#) of 5 February 2026, the Director General of EUMICON, a European-wide platform for the mineral resources and metals industries value chain, argues for the necessity of free allowances for energy-intensive sectors as long as CBAM does not address export competitiveness.

Climate Action Network Europe expressed criticism on [LinkedIn](#), with [further analysis](#) provided by their Senior Industrial Policy Coordinator, that the fund is a temporary fix to compensate exporters but risks undermining the EU's carbon pricing integrity, suggesting other ways to spend CBAM revenue. [Bellona Europe](#) had a similar reaction, while appreciating the TDF's decarbonisation focus.

[Carbon Market Watch](#) also criticises the proposed fund as one that would compensate polluters, undermining competitiveness of clean producers, and warns that using CBAM revenue to subsidise EU producers may be in conflict with World Trade Organization rules.

In a 2025 publication, the European University Institute [identifies](#) the option of using CBAM revenue to support the EU industry's decarbonisation efforts. A more recent [paper](#) from Institut Montaigne think tank argues the need for further support measures for the European industry's decarbonisation journey, beyond the cost approach of the EU ETS. While the analysis provides evidence that CBAM is spurring an increase in global carbon pricing initiatives, they warn of the current crossroads in EU climate policy, with EU ETS revision and the CBAM factor coming into effect. Three policy scenarios are presented, with the conclusion that the EU should remain assertive on climate policy, with the EU ETS as a core driver, but seek to amplify decarbonisation incentives.

## EUROPEAN PARLIAMENT SUPPORTING ANALYSIS

López Hernández, J. F., [Revision of the EU emissions trading system](#), EPRS, European Parliament, January 2026.

Morgado Simões, H., [Carbon border adjustment mechanism](#), EPRS, European Parliament, 2023.

## ENDNOTES

- <sup>1</sup> The CBAM factor is set in Article 10a(1a) of the EU ETS Directive, equal to 97.5 % in 2026, 95 % in 2027, 90 % in 2028, 77.5 % in 2029, 51.5 % in 2030, 39 % in 2031, 26.5 % in 2032 and 14 % in 2033, with 0 % meaning no free allocation by 2034.
- <sup>2</sup> Carbon leakage occurs when carbon pricing creates an incentive to transfer production or investment to, or to import goods from, jurisdictions with lower climate ambition. Such a situation can result in an increase in global carbon emissions.
- <sup>3</sup> Trade intensity indicators consider the sum of a country's or goods' export and import values against the total market value, in this case the European Economic Area.
- <sup>4</sup> EPRS received key details of the forthcoming SWD in meetings with the representatives of the Commission's DG TAXUD and DG CLIMA (Climate Action), as well as in the EESC hearing. These are, where relevant, integrated under 'Main points of the proposal'.

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