

Establishing the Temporary Decarbonisation Fund

2025/0418(COD) - 17/12/2025 - Legislative proposal

PURPOSE: to establish the temporary decarbonisation fund to temporarily support EU producers of carbon border adjustment mechanism (CBAM) goods and mitigate carbon leakage risks.

PROPOSED ACT: Regulation of the European Parliament and of the Council.

ROLE OF THE EUROPEAN PARLIAMENT: the European Parliament decides in accordance with the ordinary legislative procedure and on an equal footing with the Council.

BACKGROUND: the European Green Deal commits the EU to achieving climate neutrality by 2050, with the European Commission proposing in 2025 a target of a 90% reduction in net greenhouse gas emissions by 2040 compared to 1990 levels. This target reflects current economic, security, and geopolitical conditions and aligns with the EU Competitiveness Compass and the Clean Industrial Deal, aiming to provide predictability for clean-energy investments and strengthen industrial competitiveness.

The EU Emissions Trading System (EU ETS) remains the EU's primary tool for reducing industrial emissions through carbon pricing and a progressively tightening emissions cap. This is complemented by the Carbon Border Adjustment Mechanism (CBAM), which addresses the risk of carbon leakage by applying a carbon price to the embedded emissions of certain imported goods, ensuring equal treatment between EU and non-EU producers.

CBAM currently covers key basic materials, including aluminium, cement, electricity, fertilisers, hydrogen, and iron and steel. However, as free allocation under the EU ETS is gradually phased out between 2026 and 2034, residual **carbon leakage risks may persist** for specific sectors and products. Such risks could undermine EU climate objectives if emission reductions within the EU are offset by increased emissions abroad.

The proposal complements the EU ETS and CBAM frameworks. It does not alter but complements the mechanisms established by those instruments by providing a transitional, targeted financial measure addressing certain risks pending the long-term solution which will be found in the proposal for a revision of the EU ETS in 2026.

CONTENT: therefore, this Commission proposal establishes the **Temporary Decarbonisation Fund** and lays down its governance, the financial rules for its implementation, its resources, and the scope of its support. The Fund will provide financial support in the period **2028-2029** to address the remaining risk of carbon leakage associated with carbon intensive goods produced by eligible operators of installations in the period 2026-2027.

Resources of the Fund

The Fund will be financed through Member State contributions equal to **25% of the revenues** each Member State collects from the sale of CBAM certificates for embedded emissions declared in 2026 and 2027.

Member States must notify the Commission of their exact annual contribution amounts by 31 December 2027 (for 2026 revenues) and 31 December 2028 (for 2027 revenues). The corresponding payments must be transferred to the Fund by 31 March 2028 and 31 March 2029, respectively.

The contributions will be allocated to the Fund as assigned revenue and, by derogation from the general rule, will be treated as external assigned revenue.

Revenues remaining after the full disbursement of funding to final beneficiaries and payment of administrative costs of the Fund will not be automatically carried over to be used by the Fund. The Commission will return the excess revenues to the Member States in proportion to their financial contribution to the Fund.

It should be noted that the Fund merely **reduces the existing unequal treatment** in terms of carbon price paid for goods which have been identified of being at remaining risk of carbon leakage.

Limited support

By limiting the initial support period to two years, the Fund should provide short-term support pending a comprehensive review of how best to address the issue of the remaining risk of carbon leakage from 2028 onwards, in the context of the scheduled review of the EU ETS. The transitory character of the Fund precludes any interpretation that it may constitute a precedent, a model or a reference point for the EU ETS review.

Eligibility and conditions

The proposal defines which goods are to benefit from support. It limits eligibility to the production of specific goods subject to heightened remaining risk of carbon leakage. It also sets out conditions under which Member States can request the production of further goods to be eligible for support. Furthermore, it outlines the types of decarbonisation activities that an eligible operator will need to carry out in order to receive support, such as investments in low-carbon technologies.

Competent authorities

The proposal lays down that each Member State will designate the competent authority to carry out the functions and duties under the proposed Regulation and inform the Commission thereof. The Commission will make a list of all competent authorities available to the public.

The competent authorities will **assess and calculate the amount of financial support** to be provided to eligible operators, for the production of each of the goods listed in the Annex to the Regulation, based on the amount of free allocation phased out.