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MEETING DOCUMENT

From:	General Secretariat of the Council
To:	Delegations
Subject:	TDF - presentation by the European Commission

Delegations will find attached the presentation made by the European Commission at the AHWP CBAM meeting on 26 February 2026.



Proposal for a Temporary Decarbonisation Fund

26 February 2026 – Council AHWP CBAM

Presentation by DG TAXUD/CLIMA

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A. Subject matter, eligibility and opt-in (Art. 1,2,6)



Overview

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What is the problem?

- CBAM phase-in and FA phase-out act in tandem.
- However, CBAM ensures protection against carbon leakage on the EU internal market only.

What is the solution?

- Decarbonisation support as additional measure to address remaining carbon leakage risk
- For the production years 2026 and 2027 only
- Temporary 'bridge' solution until permanent solution is found in ETS review (proposal mid-2026)
  - aim to provide swift solution with limited admin burden and adequate budget

Eligibility (1/5)

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- Who will be eligible?
  - Operators of EU ETS installations producing
    - CBAM goods identified as being at remaining risk of carbon leakage – full production of those goods will receive support, **DELETED**
    - fulfilling **decarbonisation** conditions

Eligibility (2/5)

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- General approach for the identification of goods at risk of carbon leakage: emission intensity and trade intensity
  - Derived from carbon leakage assessment in EU ETS phase III and phase IV
- Emission intensity
  - All CBAM goods are deemed to have a high emission intensity - no additional assessment required
- Trade intensity
  - All EU ETS installations producing an eligible good will benefit from the measure, **DELETED** - a trade intensity indicator is thus crucial for making the instrument targeted to the products most affected

Eligibility (3/5)

PUBLIC

- How were goods identified as being at remaining risk of carbon leakage?

  - To consider the specific remaining risk of carbon leakage **DELETED**, the Decarbonisation Fund Carbon Leakage (DFCL) indicator was assessed.

  - The indicator was calculated using the PRODCOM dataset.

Eligibility (4/5)

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Eligibility threshold: based on the DFCL indicator + emission intensity based on previous carbon leakage list

- 142 CN codes covered (of 570, 25%)

	# CN codes	% of CN codes
Iron & steel	127	27%
Aluminium	7	12%
Cement	0	0%
Fertilisers	8	30%
Hydrogen	0	0%

- Around 14% of phased-out free allowances covered
- Estimated EUR 190 million for 2026-2027 (30% of assumed max. available budget)

Eligibility (5/5)

PUBLIC

- If also new entrants should be eligible for compensation, would it be necessary to also refer to Art. 18?
  - It could be explored to assess an additional reference to Article 18 of Delegated Regulation (EU) 2019/331.

Eligibility (5/5)

PUBLIC

- Could all CBAM goods be covered by the fund, except for electricity?
  - Covering all CBAM goods except electricity would imply that most funding is provided for the production of goods that will never leave the internal market which can lead to distortions on the internal market. On the internal market, CBAM ensures that there is no carbon leakage risk. This instrument is meant to specifically target the remaining carbon leakage risk occurring outside of the internal market. It would also imply a budget of 1.4 billion EUR, i.e. 768 million EUR above the expected budget of the fund.

Opt-in (1/2)

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- Some goods have a comparatively low value/weight ratio and might as a result have exceptionally high trade intensities in some Member States (in particular cement)

- Solution: Opt-in for Member States
  - for any CBAM goods below a certain value/weight ratio
  - **and**, at national level, above the defined DFCL indicator threshold

Opt-in (2/2)

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- For a preliminary threshold of 150 EUR/ ton, the following goods would be eligible for the opt-in:

CN code	Description
25070080	Kaolinic clays (other than kaolin)
25231000	Cement clinkers
25232100	White portland cement, whether or not artificially coloured
25232900	Portland cement (excl. white, whether or not artificially coloured)
25233000	Aluminous cement
25239000	Cement, whether or not coloured (excl. portland cement and aluminous cement)
26011200	Agglomerated iron ores and concentrates (excl. roasted iron pyrites)

- The calculation is based on the average 2022-2024 production data (in value and volume) from the PRODCOM dataset.

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B. Conditionality (Art. 7)



Conditions

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- The TDF is an **evironmental measure**, with decarbonisation conditionalities as its cornerstone.
- Operators can choose between:

1

Demonstration of the implementation of all **energy audit recommendations** under Article 11 EED or measures leading to equivalent GHG emissions reductions.

2

Demonstration of a legal commitment made for investments to achieve the targets and milestones referred to in a **climate neutrality plan (CNP)**.

- **IAs** will further define these requirements, drawing on FA conditionality where applicable (incl. cut-off dates for recommendations to be fulfilled, documentary evidence requirements, CNP eligible investments)

Conditions

PUBLIC

- TDF conditionality **differs from FA conditionality** esp. as follows:
  - Implementation of energy audit recommendations: obligation to demonstrate relevant investments exceeds to those of up to a pay-back time of five years (≠ three years).
  - Demonstration of a legal commitment made for investments to achieve the targets and milestones referred to in a climate neutrality plan: TDF conditionality requirement is forward-looking, i.e., the investment has yet to be made.

    (!) This conditionality is not applicable to DH operators as they are not producers of Annex goods.
- This provides **additionality** while **limiting the additional administrative burden**:
  - Incentivises the conduct of energy audits and fulfilment of recommendations as well as the establishment of a CNP and initiation of investments to fulfil 2030 CNP targets.
  - Allows for an *ex-ante* assessment of conditionality to reduce admin burden (no spending target to be assessed after the disbursement of funds).
  - Estimated > 5000 EU ETS installations already covered by EED energy audit requirements.
  - Estimated > 300 EU ETS installations already covered by CNP conditionality.

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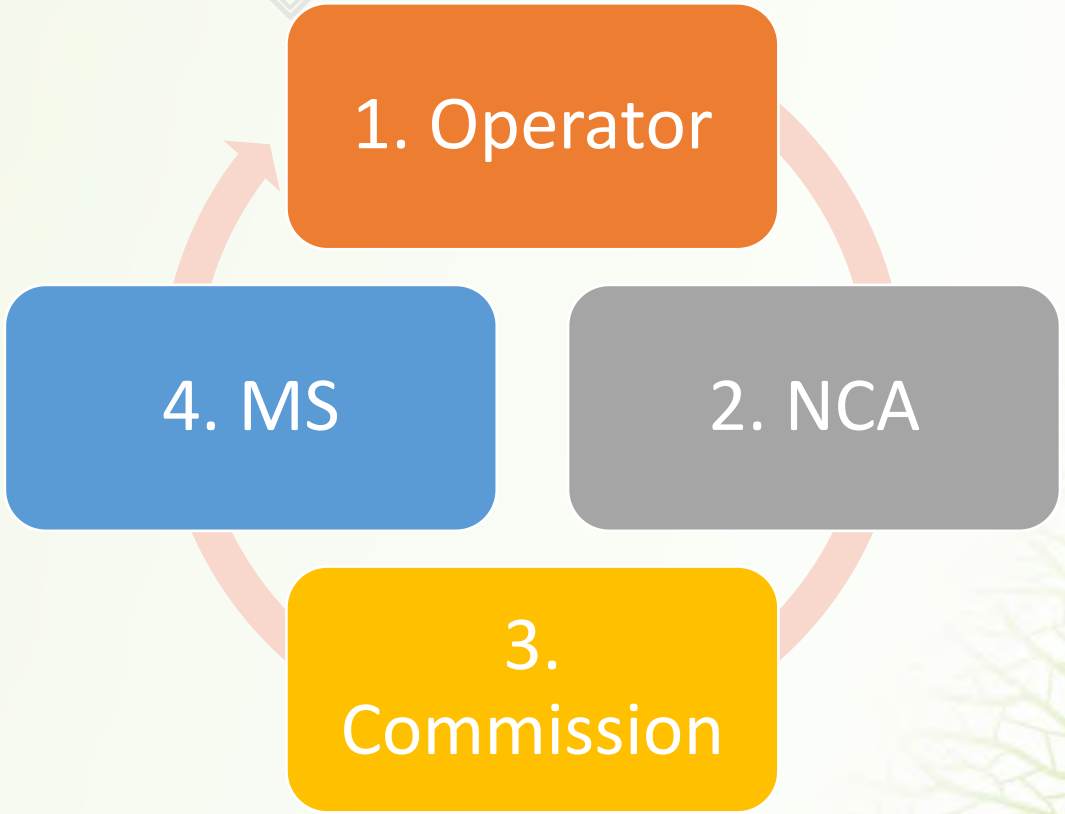
C. Governance (Art. 4, 5, 8, 9, 10, 11, 13)



Governance

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- **Direct management** by the Commission, in close cooperation with MS
- Management relies on **existing ETS infrastructure and processes:**
  1. Operators apply to NCAs
  2. NCAs assess applications, calculate support, provide necessary information to Commission
  3. Commission reviews calculations and takes disbursement decision
  4. MS disburse support to operators



Competent authorities and roles

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- The governance of the fund makes maximum use of existing EU ETS procedures to reduce administrative burden for operators and public authorities. This makes the EU-ETS NCAs best placed to handle applications for funding, calculation of support, and checks on conditionality
  - We would therefore strongly recommend that the NCA appointed for the Fund be the same as for the EU ETS. (Art. 2,5)

- The objective of the fund – addressing a remaining carbon leakage risk in relation to the phase-out of free allocation under the EU-ETS – can be best achieved at EU level, hence the set-up of the fund at EU level.

Administrative burden

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- Application and approval process be based on **ETS procedures & processes**:

Timeline	Conditionality: Application Procedure and Assessment
The application deadline aligns with existing **activity level change reporting** deadlines.	The production data reporting can be **integrated into existing templates**, requiring more granularity regarding sub-installations and eligible goods produced. NCA, verifiers and ETS operators are – in principle – **already familiar with the assessment of conditionalities** due to FA provisions.

- Further details to be defined in secondary legislation.

Calculation of support

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- The free allocation at a sub-installation level would be considered.
- The support would only be given to installations which produce products listed in the Annex (≠ heat exporting installations, whose heat is being used for the production of Annex goods)[1]
- The term “share of production” will further be defined in an implementing act.
- Only the free allocation actually received should be considered.
- More details will be defined in an implementing act (e.g. exact data requirements)

[1] Opt-in to be considered separately

Timeline from application to disbursement

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ETS timeline

31 March: Deadline for operators to send their ETS emission reports (ALC). Same emission reporting as in ETS calendar.

2028 | 2029

TDF timeline

31 March: Deadline for operators to apply to NCAs (based on ALC report)

30 June: NCAs send list of applicants and calculated level of support to COM

Commission checks data to prepare implementing decision on support to operators

Commission takes implementing decision on support to operators ([1])

Commission transfers relevant amount for support to MS

31 December: deadline for MS to disburse support to operators

([1]) Following MS' last transfer of contributions to TDF by 31.3.2029 and taking into account available resources of the TDF

Timeline for disbursing funds

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- The fund can only disburse support once it has received the necessary contributions
  - MS contributions corresponding to 2027 CBAM revenues will only reach the fund by 31 March 2029
- 2 rounds of applications would double administrative burden for Member States, operators and the Commission
- Once the TDF is agreed by the co-legislators, operators can factor it into their investment decisions, as they will know about
  - eligible goods as per Annex
  - support to be expected in relation to the phase-out of free allocation

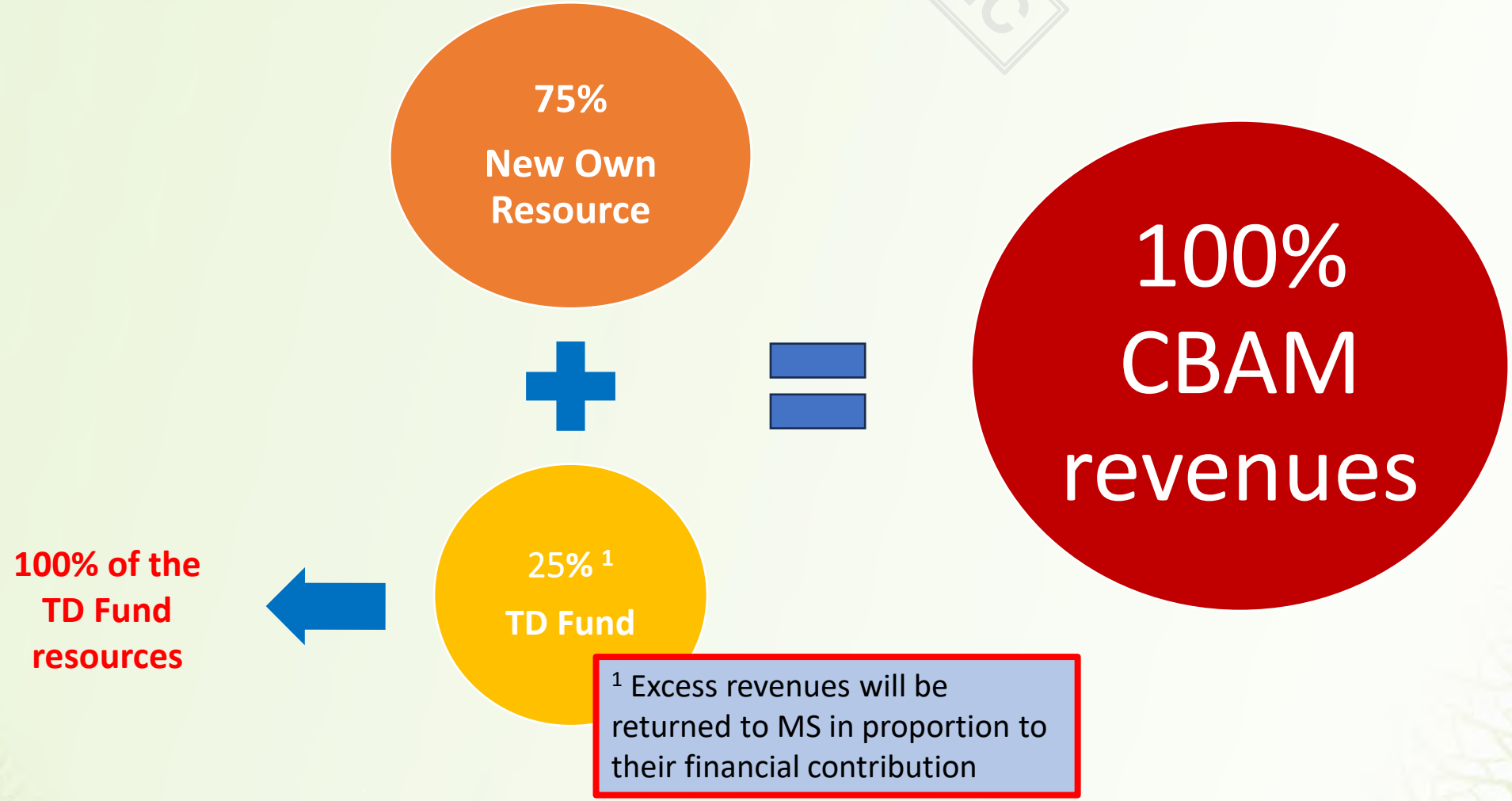
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D. Expenses and resources (Art. 3, 12)



Resources

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[1] Excess revenues will be returned to MS in proportion to their financial contribution

Relation to own resources proposal

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- The TDF proposal is without prejudice to the Commission's proposal proposing that 75% of the CBAM revenue would accrue to the Union budget (COM(2025)574).
- The modalities of the collection of those [75%] revenues will be established in the Council Regulation on the methods and procedure for making available the own resources (MAR).
- In line with the principle of universality, it is not possible to earmark to specific cost items any part of an own resource. It accrues to the general budget.

- The 25% of the CBAM revenues, proposed to be treated for the purpose of the TDF as external assigned revenue, constitutes the so-called 'other revenue' as referred to in Article 311(2) TFEU and not an own resource. Article 21(5) of the Financial Regulation allows for a basic act to create assigned revenue. The Financial Regulation itself does not restrict this possibility to "exceptional circumstances and as source of additional funding", leaving such decision in the hands of the co-legislator.
- TDF is temporary and proposed volume of external assigned revenue is limited, i.e. TDF remains consistent with additional and complementary nature of assigned revenue.

Resources vs expenses (1/2)

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- The underlying estimates for the TDF proposal are
  - EUR 633 million overall TDF budget, corresponding to 25% of expected CBAM revenues in 2026 and 2027 (i.e. not “25% of the 25%”; see section 3.2.7 of the legislative financial and digital statement)
    - the latest CBAM revenue estimates have been taken into account for this
  - EUR 190 million expenses for support to production of products in Annex I
  - plus expenses for opt-in

- For the estimation of expenses, NIMs data was used to estimate the 14% of phased-out free allowances. This is based on past production and free allocation data. To estimate the cost of 190 Mio. EUR the eligible phased-out free allowances were multiplied with a carbon price of 95 EUR/ton

Resources vs expenses (2/2)

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- Overall we expect less than half of the budget to be needed for support to operators
- Haircut clause: if – despite conservative budget – demand for support is beyond resources of the fund, support to be reduced proportionally
- Excess revenues to be returned to MS in proportion to their contribution; modalities to be determined in delegated act

Expenses (1/2)

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- The TDF aims to provide support for decarbonisation to EU ETS operators producing goods found to be at an increased remaining carbon leakage risk in relation to the CBAM factor.

- Therefore, eligibility for support depends on the carbon leakage risk, and not on the location of an operator.

- The proposed decarbonisation support will correspond to the amount of free allocation lost
  - due to the CBAM factor
  - for the production of an eligible good
  - in the production years 2026 and 2027.
- **DELETED**

Expenses (2/2)

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- We expect management costs for the Fund to be limited for NCAs and operators, as it will build heavily on existing EU-ETS processes.

- The expected administrative costs for the Commission are explained in the Legislative Financial and Digital Statement:
  - The Commission will reassign budget for work on the fund in the years 2026 and 2027, as the Fund will not yet have received Member State contributions. The administrative budget (staff cost included) is estimated at 2.117mln EUR at current prices.
  - In 2028-2030 the operating budget financed from the revenue of the Fund is estimated at the level of 2.833mln EUR at current prices (0.5% of the Fund revenue).

- In total, 2026-2030 the total administrative cost is estimated at 4.950mln EUR at current prices, which constitutes 0.8% of Fund revenue.

Timeline for 2026 revenues

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2026

No revenues

Importers declare emissions but do not buy CBAM certificates

2027

Revenue collection in MS

1 Feb: sale of CBAM certificates starts

30 Sep: Deadline for declarants to surrender CBAM certificates (for 2026)

31 Oct: Deadline for declarants to ask for repurchase of certificates

1 Nov: Cancellation of CBAM certificates for 2026 emissions

Nov: MS have stable overview of 'net' CBAM revenue for 2026

31 Dec: MS to communicate exact amount of contribution to TDF to the Commission

2028

Transfer to EU budget

31 March: transfer of 25% of revenues corresponding to 2026 emissions to the TDF

Timeline for 2027 revenues

PUBLIC

2027

No revenues

Importers declare emissions, (can) buy certificates, but

do not surrender CBAM certificates for 2027 embedded emissions

2028

Revenue collection in MS

30 Sep: Deadline for declarants to surrender CBAM certificates (for 2027 emissions)

31 Oct: Deadline for declarants to ask for repurchase of certificates

1 Nov: No cancellation of CBAM certificates

Nov: MS have preliminary overview of 'net' CBAM revenue for 2027 ([1])

31 Dec: MS to communicate exact amount of contribution to TDF to the Commission

2029

Transfer to TDF

31 March: transfer of 25% of revenues corresponding to 2027 emissions to the TDF

([1]) CBAM certificates purchased in 2027 may still be repurchased in 2029

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E. Other provisions (Art. 14, 15, 16, all recitals)



Secondary legislation and report

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- Empowerments
  - ✓Delegated Act on collection of revenue (Art. 3(6))
  - ✓Delegated Act on Fund implementation (Art. 4(2))
  - ✓Delegated Act on opt-in conditions and procedure (Art. 6(3))
  - ✓Implementing Act on application procedure (Art. 8(3))
  - ✓Implementing Act on monitoring obligations (Art. 13(2))

Secondary legislation to be put in place well ahead of application deadline (31March 2028)

- Amendments
  - ✓Implementing Act on ALC
  - ✓Implementing Act on AVR

- Evaluation report by 31 December 2030



Thank you!

26 February 2026

Council AHWP CBAM