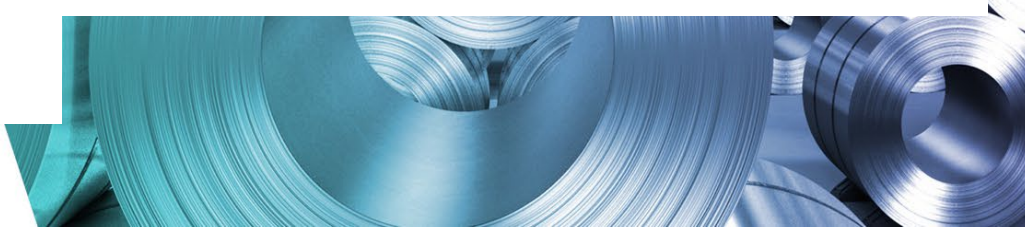
CBAM TEMPORARY DECARBONISATION FUND PROPOSAL

POSITION PAPER



Brussels, 17 February 2026

The European Commission's proposed Regulation to establish a temporary decarbonization fund does not adequately address exports exposure to the competitive disadvantages caused by CBAM and presents significant challenges that will weaken the competitiveness of the European Aluminium value chain. To achieve its goal of preventing carbon leakage, the fund will require several changes, including both preserving ETS-free allocation for exports and compensating for the increase in raw material costs caused by the CBAM's impact on the Aluminium European Premium Duty-Paid (EDP).

Please see also our latest position paper on the Commission's proposal for the CBAM scope extension and anti-circumvention measures here.

Compensate for both the ETS and raw material cost increase related to the CBAM

The current proposal further highlights that financial support shall be based on the amount of free allocation phased out, adjusted to the share of production, and multiplied by the annual average closing price of EU ETS allowances (Article 9). **Yet, as the entire value chain faces cost increases beyond those stemming from the loss of ETS free allocation, the fund should accordingly compensate for both increased ETS and raw material costs.**

Unlike steel, aluminium prices are set globally at the London Metals Exchange and supplemented regionally through the European Duty-Paid Premium based on the marginal importer. Because European demand is structurally import-dependent, this premium will fully cover the CBAM-related charges. As such, CBAM-induced cost increases systematically affect all aluminium transactions on the European market, including scrap, regardless of whether the metal is imported or domestically sourced.

Accordingly, downstream producers and those relying on CBAM precursor goods, remain heavily exposed to rising metal input costs due to CBAM. For products intended for export, however, these additional costs cannot be passed on, as regional premiums outside the EU are not affected by CBAM. Therefore, dedicated support to address the CBAM-related impact on raw material prices is urgently required to avoid further undermining the competitiveness of the European aluminium industry in export markets.

Expand Eligibility to More Aluminium-Exporting Installations

The fund prioritises eligibility for operators of EU ETS installations producing goods listed in the Annex[1], selected based on their emissions and high carbon leakage exposure, using the ETS methodology for

[1] Annex I of the CBAM regulation complemented by the Commission's proposal on CBAM downstream scope extension.

determining carbon leakage as a starting point (Article 6 and Recital 12).[2] As such, the fund excludes most aluminium-exporting installations, particularly in transformation and recycling, as the vast majority do not fall under the EU ETS. **Therefore, the 'and' in Article 2(b) should be amended to 'or', enabling non-ETS installations producing CBAM goods to be eligible under the future fund.**

The annexe further excludes the mostly exported goods from key parts of the aluminium value chain that fall under the ETS Directive and CBAM Regulation. Therefore, these goods should be included in their entirety: aluminium bars, rods, and profiles (CN code 7604), unwrought aluminium (CN Code 7601), aluminium wire (CN Code 7605), aluminium structures (CN code 7610), aluminium plates, sheets, and strips (CN Code 7606), and foil (CN Code 7607).

The proposal also provides for an opt-in mechanism that further expands eligibility to installations producing goods with a low value-to-weight ratio, which will be defined in secondary legislation (Article 6). **This mechanism should, at a minimum, be amended to allow more goods that are exposed to carbon leakage to be eligible on a case-by-case basis.**

To this end, the high carbon-leakage risk should be recognised as an independent eligibility requirement, taking into consideration the expected CBAM related raw material cost increase for aluminium transformation and recycling plants exporting CBAM goods (Article 6 and Recital 12).[3] The criteria and modalities for quantifying the raw material cost increase due to the CBAM and eligibility requirements should be defined in the upcoming delegated act.[20]

Increase the financial support time frame and budget

The timing of the fund is fundamentally misaligned with the real financial exposure faced by European aluminium exporters. First, such exposure begins with the start of the definitive CBAM period in 2026 and continues beyond 2029, while the financial support will be provided only between 2028 and 2029. Indeed, the procurement contracts normally signed this year are already being delayed due to unforeseen consequences arising from the CBAM definitive period, creating acute cash-flow and competitiveness risks for a capital-intensive sector such as aluminium.

As the CBAM phases in further and the carbon cost fully materialises, the negative impact and these risks will further intensify beyond 2029. Consequently, companies must be compensated for significant compliance costs during 2026–2027. Similarly, they should be compensated beyond 2029, either through the fund or in the long-term solution of the 2026 EU ETS revision (explanatory memorandum).

Additionally, the Fund is financed through 25% of revenues from CBAM certificates declared for embedded emissions between 2026 and 2027. Considering the estimated revenues are only tentative and given actual revenue uncertainty, the available budget is unlikely to provide adequate support as a carbon leakage protection tool.

[2] Covered aluminium goods include CN codes 76069100, 76072010, 76051900, 76071910, 76032000, 76161000, and 76061130.
[3] The current design of the opt-in mechanism is exclusively a viable solution for sectors with a low value-to-weight ratio, such as the cement industry.

Adjusting too stringent conditionalities

Access to this support is conditional on EU producers demonstrating that they have implemented recommendations from energy audits under Directive (EU) 2023/1791 or a similar Directive, or have legally committed to alternative investments delivering equivalent GHG reductions, or to investments to achieve the targets in a climate-neutrality plan (Article 7).

However, these conditionalities are too stringent for a sector that is already struggling to make costly decarbonization investments (e.g., 50% of primary aluminium production has been curtailed since the energy crisis). The climate neutrality plan conditionality further mandates that the investments are "at least equivalent to the support amount applied for under this Regulation" (Article 7(3)). Such a strict one-to-one investment requirement risks excluding financially constrained installations and thereby undermining the Fund's primary objective of preventing carbon leakage.

Without taking these factors into account, the Fund fails to provide an efficient export solution, leaving aluminium producers structurally disadvantaged vis-à-vis international competitors. Indeed, any third country importing aluminium products would have a strong economic incentive to meet its demand with non-EU products (which would be exempt from ETS costs, CBAM charges, or CBAM-induced price inflation of aluminium input metal costs on the European market). **Consequently, European products will become significantly more expensive, due to the additional carbon costs they incorporate.**

This will result in a significant loss of exports by EU aluminium producers, who export between 10% and 15% or around 2.2 million tons of their annual production, worth around 7.5 billion EUR. As such, it undermines the resilience of Europe's aluminium value chain, a critical and strategic raw material for achieving the EU's climate-neutrality and defence targets.

*For more information on European Aluminium's work on CBAM, including our **latest two-pager**, as well as all position papers, external studies and memos, please visit the CBAM part of the "Climate and Energy Section" of our Website.*

Emanuele Manigrassi
Director, Climate Change & Energy
M +32 471 73 53 06
manigrassi@european-aluminium.eu

Jonathan Tavenier
Climate & Energy Policy Officer
M +32 492 90 40 92
tavenier@european-aluminium.eu

Ellyn Guignaud
Climate & Energy Policy Officer
M +32 494 05 86 49
guignaud@european-aluminium.eu