Analysis of current regulatory developments in EU climate policy with the greatest impact on energy-intensive industries

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Executive Summary

This report is an update of the study "Assessment of the Impact of Implementing the 90% CO_2 Emissions Reduction Target in the EU Economy by 2040 and the "Fit for 55" Package Regulations on Polish Industry" presented by the Electricity and Gas Consumers Forum in February 2025. The update aims to discuss the most important regulatory developments at the EU level in recent months that will have the greatest impact on energy-intensive industries in Europe.

Since the publication of the study in question, Brussels has presented a number of initiatives aimed at improving the situation of energy-intensive industries, although so far these have mainly been non-legislative measures. Significant legislative changes were presented in December 2025, together with a review of the CBAM mechanism. In December 2025, the EU institutions also reached an agreement on the EU's target of a 90% reduction in CO_2 emissions by 2040. The adoption of the new reduction target will be reflected in the related reform of the EU ETS, which will begin in mid-2026.

The European Commission's latest non-legislative initiatives, such as the Clean Industry Deal and the Affordable Energy Action Plan presented by Brussels in recent months, seem to be motivated by a desire to improve the situation of European energy-intensive industries and their global competitiveness. **However, in the remedial measures proposed in these documents, EU officials avoid fundamental reforms. The suggested solutions are cosmetic in nature compared to the recommendations in the 2024 report by former Italian Prime Minister Mario Draghi**[1] .

Despite the growing number of pro-development initiatives for industry, it is worth noting that, to a large extent, the corrective recommendations from the Draghi Report have remained unimplemented for over a year, with the exception of some deregulation proposals in the area of CBAM's functioning. The Draghi report emphasised the need for more decisive action to protect the competitiveness of European industry, including through:

(1) mobilising funds to support the decarbonisation of industry in the amount of EUR 750-800 billion per year,

(2) limiting fuel and energy prices,

(3) maintaining the current level of free emission allowances for sectors covered by CBAM until its effectiveness has been verified,

(4) introducing more ambitious measures to support EU industrial exports.

Meanwhile, one year after the publication **of the Draghi Report, the gap between electricity prices and, to a lesser extent, natural gas prices in the EU compared to the US, and China remains significant**. The same can be said about the scale of the burden of climate policy costs, led by CO_2 emission allowances.

[1] Mario Draghi, former President of the European Central Bank and former Prime Minister of Italy, is the author of the flagship report "The future of European competitiveness" from September 2024, in which he identified, among other things, the regulatory reforms necessary to improve the competitiveness of European industry. At the time of writing, most of these reforms have not yet been implemented.

Furthermore, **the pace of phasing out of free allowances for industries covered by CBAM remains unchanged, and the financial resources for industrial transformation proposed in the new EU budget are much lower than those recommended by the former Prime Minister of Italy**.

The legal changes to the functioning of the CBAM mechanism introduced by the European Commission since February 2025 through its simplification should be assessed positively, but to a large extent these measures were not aimed at improving the competitiveness of the industries covered by it, but were focused on reducing administrative burdens and exempting smaller entities.

As part of the CBAM review presented by Brussels at the end of 2025, **the EC decided not to extend the mechanism to new sectors, proposing only to include additional processed products** (so-called downstream products) **in the mechanism**.

Unfortunately, the December review of the CBAM did not bring the export relief for European companies that the industries had been expecting, which had been advocated by EU industry for several years. Industrial sectors expected the introduction of export rebates announced by Brussels for the end of 2025 for European companies covered by CBAM that will lose their free CO_2 emission allowances. These rebates were to be granted in proportion to decarbonisation investments and financed from CBAM revenues. **Instead of this solution, however, Brussels has proposed a temporary decarbonisation fund with a budget of around EUR 600 million for 2028-2029, to be spent across the EU.** This is an alarmingly low amount.

At the same time, CBAM continues to face fierce criticism from both European industries and key trading partners at the WTO. Countries such as China, India, Russia, Turkey, South Africa, and the United States have expressed their reservations, arguing that the mechanism could constitute a trade barrier and discriminate against products imported into the EU.

During the COP-30 summit in Brazil, the CBAM mechanism became one of the main topics of contention. Countries such as China, India, Russia, and Arab states, led by Saudi Arabia, strongly criticised the mechanism, considering it a form of economic protectionism and a threat to their own development. The European Union defended CBAM at the summit, emphasising its role as a climate policy tool, but failed to reach an agreement on this issue with its key trading partners. The dispute over CBAM highlighted the deep differences between the countries of the Global North and South in their perceptions of climate justice and the distribution of the costs of economic transformation. Thus, the effectiveness of CBAM in protecting the competitiveness of the European industries covered by it remains a big question mark.

On the other hand, the EU's long-term reduction targets are being boosted by the European Commission's July 2025 proposal to set a 90% CO_2 emissions reduction target by 2040 (compared to 1990 levels) – in a formula that does not allow for much flexibility for industrial sectors. Among other things, there was no provision for cheaper settlement of emissions in the EU ETS using carbon credits generated through investments in decarbonisation outside the EU.

The EU institutions have already adopted the EC's proposal with only minor adjustments. **EU environment ministers and MEPs have adopted a target of a 90% reduction in GHG emissions by 2040** (vs. 1990), of which 85% is to be achieved exclusively through internal measures, and **an additional "up to 5%" through carbon credits generated outside the EU**. According to the final compromise, **carbon credits are to facilitate the achievement of the target only from 2036, but the content of the agreement does not clearly determine**

whether they will be redeemable in the EU ETS system, which was a key demand of EU energy-intensive industries.

In turn, CO_2 emission allowance prices on the EU market have been fluctuating around EUR 85/t at the end of 2025, with analysts expecting an upward trend in 2026 to over EUR 100/t due to a steady decline in their supply in the EU ETS. Forecasts by the Polish government analytical centre KOBiZE even suggest an expected price of around EUR 200/tCO_2 in 2030.

The European Commission is already planning to revise the EU ETS to align the emissions trading system with the target of a 90% reduction in emissions by 2040. **Public consultations conducted in the summer of 2025 indicated the need to continue free allocation of allowances after 2030, but this will likely be conditional on reinvesting their market equivalent value in decarbonisation**.

A positive development was the publication of the **amended State aid measures in the context of the system for greenhouse gas emission allowance trading post-2021** in December 2025 to counteract carbon leakage in other energy-intensive industries, where **Brussels allows selected industries covered by the CBAM mechanism to continue to benefit from electricity cost compensation** (indirect carbon leakage). The guidelines also allow new sectors to benefit from price support. The favourable modification of the guidelines came at the final stage of negotiations, as earlier leaks suggested the complete elimination of compensation for industries covered by CBAM.

In the near future, more financial instruments supporting decarbonisation will appear on the EU forum, including in the form of the new European Competitiveness Fund (ECF) and the Industrial Decarbonisation Bank operating within its framework. This is linked to the current process of setting the new EU budget for 2028-2034. **However, expenditure strictly earmarked for energy-intensive industries will only account for a small part of the total ECF budget – EUR 67.4 billion – including approximately EUR 40 billion from the Innovation Fund – for clean technologies.** It will be crucial for Polish industries to earmark as much of these funds as possible for domestic needs in order to avoid the risk of most of them being absorbed by more technologically advanced EU countries and companies, as is currently the case, for example, with the Innovation Fund under the EU ETS.

The proposed new EU support instruments for industry are still inadequate to meet investment needs. Some of them – such as tax breaks, the introduction of carbon contracts for difference to promote new technologies, or energy price caps for industry – **will also depend on the level of prosperity of a given EU country and may cause internal distortions of competition between companies operating in Europe**.

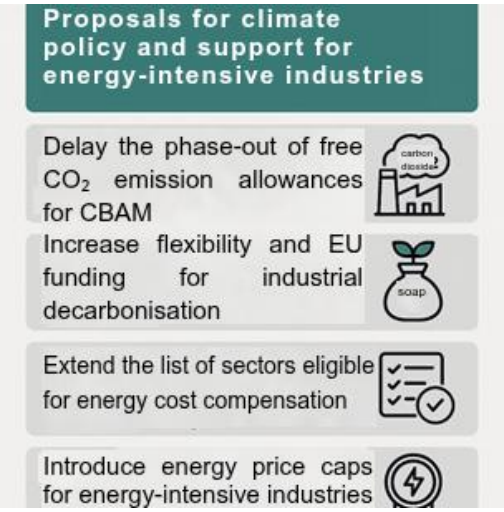
In the area of relief for energy-intensive companies, at the end of 2025, the European Commission introduced a significant element of electricity price support under the CISAF aid scheme, limited in time and volume, but not unconditional – functioning in exchange for investments contributing to decarbonisation. **Therefore, it is not possible to talk about relief in energy costs in net terms, as the savings must be automatically redirected to capital expenditure**. The trend of introducing "relief conditional on investments" is evident in all new regulations for industrial sectors, which are intended to alleviate the burden of EU climate policy.

In the area of price relief for energy-intensive companies, it can ultimately be expected that **combined support under CISAF and compensation for indirect emission costs will not be possible and companies will be forced to choose one of these mechanisms**.

The introduction in Germany and other EU countries of a programme of electricity price caps for energy-intensive sectors from 2026 will enable companies there to produce much more cheaply than their competitors in Poland. Thanks to lower electricity bills, these companies will gain a cost advantage, allowing them to offer their products at more attractive prices on both the EU and global markets. **As a result, Polish energy-intensive companies that do not have access to similar support mechanisms may find it difficult to maintain their current sales levels** and may even be forced to reduce production or close some of their production lines.

If Poland does not implement similar instruments, the differences in production costs compared to other EU countries such as Germany or Italy will widen, and domestic industry may gradually lose its share of the European market. In addition, high energy bills may discourage investors from locating new investments in Poland, which will have a negative impact on the country's economic development.

Recommendations for the most urgent regulatory actions



1. **Delay in phasing out free CO_2 emission allowances for sectors covered by CBAM**

   The most urgent task is to influence the European Commission to take into account the proposals[2] from Mario Draghi's report, the position of the largest party in the European Parliament (EPP), the new German government and the European steel industry, and **to delay the phasing out of free CO2 emission allowances for sectors covered by CBAM from 2026.**

   Such a delay should be at least one year and can be implemented quickly, e.g. as part of deregulation initiatives (within the framework of subsequent Omnibus packages). This is justified at least until the effectiveness of this instrument in protecting the competitiveness of European industry has been verified.

[2] Mario Draghi: "The future of European competitiveness", 2024: Part A, p. 51: "The EU should closely monitor and improve the CBAM project during the transition phase and consider postponing the withdrawal of free ETS allowances for energy-intensive industries if implementation proves ineffective."

2. Revision of the EU ETS Directive with flexibilities and increased EU funding for industrial decarbonisation

In the already completed negotiations on the 2040 reduction target, the EU institutions decided on very limited

use of carbon credits, while maintaining uncertainty as to whether they could be used by energy-intensive industries in the EU ETS system.

In further negotiations on the revision of the EU ETS in 2026, it is reasonable to continue the Polish government's proposal, already presented at the EU forum, concerning the **possibility of using carbon credits also by industries covered by the EU ETS**. It is recommended that **an attempt be made to build a broader coalition** around this proposal, **primarily among EU countries with a large share of energy-intensive industry in their GDP**, **such as Germany, France, and Italy**.

At the same time, Poland should strive to ensure **increased compensation mechanisms for poorer countries after 2030** in the form of the Modernisation Fund and the Innovation Fund, and **ensure geographical balance in the use of funds from all EU sources of financing for the decarbonisation of industry, including the European Competitiveness Fund**.

It will also be important to implement **the slowdown in the rate of decline in free emission allowances for industrial sectors**, as announced in the EU agreement on the 2040 reduction target. According to announcements by senior EC officials, the upcoming review of the EU ETS may create an opportunity to obtain more free allowances for export-intensive sectors**,** and **care should be taken to ensure that this declaration materialises in the final arrangements for the modified EU ETS framework.**

3. Extension of the list of sectors eligible for compensation for indirect emission costs

The European Commission expanded the list of sectors eligible for compensation for indirect emission costs in its December revision of the EU ETS aid guidelines[3] in December 2025. In the new guidelines, Brussels proposed to extend the list of industrial sectors eligible for compensation by 20 new sectors and two new sub-sectors, including the production of organic chemicals and certain activities in the ceramics, glass, and battery sectors.

The revision also includes a temporary extension of compensation for indirect emission costs for selected sectors covered by CBAM (point 8 of the Guidelines) - the production of fertilisers and nitrogen compounds (NACE 20.15) and iron ore mining (NACE 07.10).

The EC also increased the aid intensity from 75% to 80% for sectors that were already eligible for compensation before the change, in order to take into account the increased risk of carbon leakage, and allowed Member States to notify sectors or sub-sectors that were not included in the revised list of eligible sectors.

At the same time, a requirement was introduced for large beneficiaries to contribute to the green transition, including by investing part of the aid in projects that contribute to reducing the costs of the electricity system.

It is important that extended compensation for indirect emission costs be applicable in the future to sectors covered by the CBAM until it is proven that

[3] Brussels, 23 December 2025. C(2025) 9298 final COMMUNICATION FROM THE COMMISSION amending the Guidelines on certain State aid measures in the context of the post-2021 greenhouse gas emission allowance trading scheme.

this mechanism fully neutralises the competitive advantages of non-EU producers.

4. Introduction of energy price caps for energy-intensive industries

Poland, following the example of other large EU countries, **should develop its own mechanism for energy price caps, especially for industrial sectors that will not be covered by indirect cost support and will remain without assistance**. One potential source of funding for this could be increased state revenues from the auctioning of increasingly expensive emission allowances under the EU ETS.

The Polish government has taken steps in this direction, but these were subsequently abandoned after the Ministry of Industry was dissolved. The next step should be to quickly notify the European Commission of this mechanism. In order to ensure faster support, the CISAF aid framework introduced by the European Commission and discussed in this report could serve as a reference for the future framework of this system.

Poland's failure to implement appropriate support mechanisms for energy-intensive industries may lead to growing cost differences compared to countries such as Germany or Italy, which will implement such solutions. **As a result, Polish companies may gradually lose their competitiveness and market share in Europe.**

1. Current status of the main regulations of the "Fit for 55" package that have the greatest impact on the competitiveness of energy-intensive industries.

1.1. Changes to the functioning of the CBAM mechanism introduced since February 2025.

Since February 2025, the EC has introduced a number of significant changes to the functioning of the CBAM mechanism[4]. Firstly, in February 2025, the European Commission – as part of a package simplifying regulations (the so-called Omnibus)[5] – introduced a reform of the CBAM in terms of simplifying administrative obligations and exempting smaller entities from it.

Then, on 2 July 2025, Brussels presented the Communication "*Delivering on the Clean Industrial Deal* I"[6], which included a preliminary proposal to extend the application of the CBAM mechanism to exports of goods outside the EU. The EC indicated that by the end of 2025 it would present a detailed proposal for export rebates, i.e. relief for European companies in sectors covered by CBAM that export goods outside the EU.

Finally, on 17 December 2025, as part of its review of the CBAM mechanism, the EC proposed a number of reforms and implementing acts for its full application from 1 January 2026.

According to the latest proposals from Brussels, from 1 January 2026, the scope of CBAM will be extended to include certain processed products with high steel and aluminium consumption, with simultaneous solutions to prevent market participants from circumventing the rules. At the same time, **in its proposals of 17 December 2025, the EC did not propose, despite earlier considerations, to extend the application of CBAM to new industrial sectors**.

As part of the December reform package, **the EU legislator did not propose, despite the expectations of industrial sectors, an export support programme for energy-intensive industries to protect EU producers exposed to carbon leakage**.

The solutions introduced by the Commission in its proposal of 17 December 2025 are described in detail below[7].

[4] CBAM – *Carbon Border Adjustment Mechanism*: a mechanism for adjusting prices at borders to take account of CO_2 emissions .
[5] COM (2025) 80 final: https://commission.europa.eu/publications/omnibus-i_en.
[6] COM(2025) 378 final: https://commission.europa.eu/publications/delivering-clean-industrial-deal-i_en.
[7] The entire package of solutions is available on the EC website: https://taxation-customs.ec.europa.eu/carbon-border-adjustment-mechanism_en#more-information.

➢ Extension to processed products

The Commission plans to extend the scope of the CBAM to 180 products that require high consumption of steel and aluminium, such as machinery and equipment.

The vast majority (94%) of these processed products are industrial goods with a high steel and aluminium content (79% on average), used in heavy machinery and specialised equipment such as base metal fittings, cylinders, industrial heaters, or casting machines. A small proportion (6%) of these products are also household goods. EU manufacturers of such downstream products may incur increased costs for steel and aluminium materials used in the production process, hence Brussels' initiative to extend the safeguard mechanism to further processed products.

➢ Additional measures to combat circumvention

Based on the experience gained during the transitional period, the European Commission is strengthening its strategy to combat the risk of circumvention as set out in the "Action Plan for Steel and Metals" and following consultations with stakeholders.

In promoting the use of scrap to reduce emissions in energy-intensive products, the Commission now includes pre-consumer recycled aluminium and steel scrap in CBAM calculations. According to Brussels, this will ensure fair pricing of emissions for both EU-produced and imported goods.

Key proposals include stricter reporting requirements for better traceability of goods covered by CBAM and countering incorrect emissions intensity declarations. The Commission gains powers to combat abuses aimed at circumventing CBAM financial obligations by requiring additional evidence when actual values are unreliable and applying default national values in such specific cases.

➢ Temporary decarbonisation fund

Brussels will launch a fund to provide temporary support to EU producers of goods covered by the CBAM and to reduce the risk of carbon leakage. This is to counteract the loss of competitiveness in third-country markets, where EU goods may be displaced by cheaper, more carbon-intensive alternatives.

The fund will reimburse part of the emission costs incurred by companies under the EU ETS for goods still exposed to the risk of carbon leakage, with support conditional on demonstrating decarbonisation efforts.

Funding will come from Member State contributions, representing 25% of the revenue from the sale of CBAM certificates in 2026 and 2027, with the remaining 75% coming from the EU's own resources**. However, the budget for the temporary fund, which will apply in 2028-2029, is only around €600 million.** The fund aims to partially offset the impact on the production costs of energy- e goods in 2026 and 2027 due to the phasing out of free CO_2 allowances in the EU ETS emissions trading market.

The fund will operate under the direct management of the Commission, in cooperation with Member States. The management of the fund will be based on the existing reporting infrastructure and processes already in place under the EU ETS in order to minimise additional administrative burdens. This means that **operators will submit applications for support to**

the competent authorities of the Member States, including, inter alia, relevant information on emissions and compliance with decarbonisation conditions. The deadline for submitting applications will be aligned with the reporting cycles under the EU ETS. To meet the decarbonisation conditions, operators can either implement the projects recommended in the energy audit or invest in projects to reduce direct emissions in line with their climate neutrality plan.

➢ CBAM review report

The Commission has also published a report summarising the experience gained from implementing the CBAM during the transitional period from October 2023 to the end of 2025. The report assesses the contribution of CBAM to countering carbon leakage and supporting global carbon pricing, and analyses issues related to governance, administration, and enforcement, as well as the international dimension of the mechanism.

In the report, the EC concludes that CBAM is a key factor in promoting decarbonisation in non-EU countries. The report also sets out an implementation roadmap and accompanying measures necessary to ensure the system is in place from 2026.

➢ CBAM implementing acts

In addition to the above reform proposals, the EC has also adopted a number of implementing acts to operationalise the CBAM. These take into account the CBAM simplifications adopted in early 2025. The rules will apply from 2026 and are intended to ensure the uniform application of CBAM across the EU.

In particular, the Commission has defined or updated:

- **An implementing act on the methodology for calculating emissions**. This act contains provisions for third-country producers on monitoring and calculating emissions related to the production of goods. This includes direct emissions and, where applicable, indirect emissions. If producers do not comply with these provisions, importers of their goods will have to apply default values.
- **Acts on emission verification and verifier accreditation** (one implementing act and one delegated act). If the emissions associated with the production of goods, calculated by a third-country manufacturer, are not verified by an independent verifier, importers will have to use default values. These acts therefore set out the verification rules to be followed by accredited verifiers and the conditions for granting accreditation. The rules are based on the EU ETS and ISO standards. Applicants for accreditation may be established in any third country outside the EU but must be accredited by EU accreditation bodies.
- **Implementing act on CBAM certificate prices**. This act sets out how the price of CBAM certificates is calculated and made available to declarants. The price will reflect the average weekly price of allowances in the EU ETS. As CBAM certificates will only be sold from 1 February 2027 for goods imported in 2026, the price of CBAM certificates will reflect the average price of EU ETS allowances in the relevant quarter.
- **Implementing act on rules for the final CBAM register**. The new rules standardise and secure the register, facilitate access for authorised declarants and persons with

delegated access rights, as well as customs authorities, and streamline the exchange of information between the Commission and the competent authorities.

- **Implementing act on the conditions and procedures related to the status of authorised CBAM declarants**. Following the CBAM simplification package, the authorisation procedure has been reformed by making consultation with other competent authorities voluntary. In addition, the amended act reflects the new rule that importers who have submitted an application for authorisation before 31 March 2026 may temporarily continue to import CBAM goods until the date on which the decision on the application takes effect.
- **Implementing act on default values**: This act sets out the default values for individual codes and individual countries of origin, applicable during the CBAM period from 2026.
- **Implementing act on the scope of communication with customs authorities**. This act specifies what information is to be communicated to the Commission by national customs authorities, how often and by what means.
- **Implementing act on the calculation of the adjustment of free allowances**. While free allowances under the EU ETS will be phased out, the CBAM will be phased in between 2026 and 2034. This implementing act specifies how the number of CBAM certificates to be surrendered should be adjusted to reflect the extent to which allowances are allocated free of charge under the EU ETS. The adjustment of free allocation may be based on actual data or determined on the basis of default CBAM benchmarks.

Further implementing acts are expected to be adopted in early 2026, while the legislative proposals will now be discussed and amended by the European Parliament and the Council of the EU, which must vote on them before they become law.

1.1.1. Expected changes to the rules for allocating free allowances and the introduction of export rebates for CBAM industries.

Along with the proposal to revise the EU Regulation on the European Climate Law, on 2 July 2025, the European Commission presented the Communication "*Delivering on the Clean Industrial Deal* I", which mentioned the option of extending the application of the CBAM mechanism to exports of goods outside the EU. The EC noted in the document that by the end of 2025, as part of the announced review of the CBAM, it would present a detailed proposal known as export rebates.

The EC noted that as free emission allowances for sectors covered by CBAM are phased out, the risk of carbon leakage may increase if third countries do not introduce cost-equivalent obligations for their producers. Export rebates have long been advocated by industries covered by CBAM, which pointed to incomplete protection of their competitiveness without taking into account the element of support for their exports outside the EU.

To address this issue, support is to take **the form of additional remuneration for companies, paid proportionally for allowances lost as a result of CBAM implementation**.

Fig. 1. Simplified diagram of how the CBAM mechanism works.

Source: European Commission infographic.

The subsidies would be financed from CBAM revenues, which are to become a new own resource in the EU budget**.**

In order to benefit from support in the form of export rebates, **energy-intensive industries would be required to carry out decarbonisation investments**. Export rebates would be introduced on a temporary basis, for a given period, e.g. until the next CBAM review in 2027. As senior EC officials pointed out in the summer of 2025, the exact mechanism was still to be worked out and **was to be presented by the end of 2025 in cooperation with the industries concerned – which, however, did not happen**.

The details of the mechanism protecting EU exports have still not been presented by the Commission, although they were expected as part of the CBAM reform package presented in December 2025. This may be due to the fact that the legislator is still looking for solutions that will be acceptable from the point of view of WTO rules.

Energy-intensive industries in the EU are currently moderately positive about the proposed changes, although **some of them point out that it would be better to maintain free allowances for the part of production that is dedicated to exports**. This solution is supported, among others, by an important association of energy-intensive industries in Brussels – BusinessEurope[8] .

In this spirit, following the lead of national corporations, in September 2025 **the new German government began calling for an extension of free emission allowances for selected industries covered by CBAM**, arguing that introducing the mechanism in parallel with the phasing out of free allowances would be detrimental to certain sectors, particularly the steel industry[9].

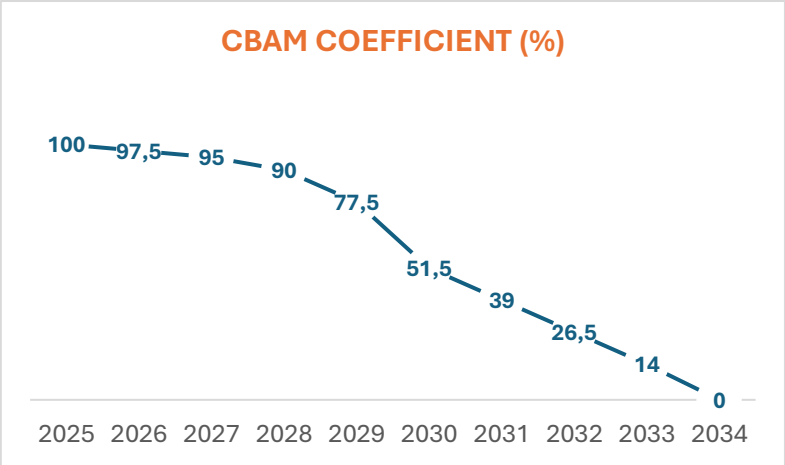
Despite appeals from energy-intensive industries and some EU governments, including Germany and Poland, **as of the end of 2025, the EC had not proposed an initiative to maintain the current level of free allowances** even for selected sectors.

Free CO_2 emission allowances are an important instrument for improving the competitiveness of European energy-intensive industries in an era of rising costs for purchasing missing allowances on the EU ETS market. At the same time, with the full implementation of CBAM,

[8] Article on Carbon Pulse: "EU announces plan to channel CBAM funds in support of industries' exports", 2 July 2025.
[9] https://www.bloomberg.com/news/articles/2025-09-11/germany-to-push-eu-to-extend-industry-free-permits-to-emit-co2.

the sectors covered by it are to gradually lose their free allowances, starting in 2026, according to a path determined by the CBAM factor: 97.5% (2026), 95% (2027), 90% (20. , etc., leading to their complete elimination by 2034.

Fig. 2. Rate of decline in free emission allowances for sectors covered by CBAM in the period 2025-2034.



Source: Own study based on Article 10a(1a) of the EU ETS Directive[10] .

The European Commission is currently in the process of patching up the gaps in the CBAM mechanism, which still does not guarantee full protection for European sectors, e.g. due to its failure to extend to goods exported outside the EU.

Unfortunately, at present there are no binding declarations from the EC on the revision of the process of phasing out free allowances in the EU ETS for sectors covered by CBAM. Meanwhile, according to the recommendations of the Draghi Report, **the reduction of the pool of free allowances for energy-intensive industries covered by CBAM should only take place once all effective modifications to this instrument** aimed at fully protecting European industries from unfair competition from outside the EU **have entered into force**.

Given that this will not happen before 2026, the phasing out of free allocations under CBAM should be delayed, as some EU governments have also pointed out.

1.1.2. Simplifications in reporting and exemptions for small importers.

In February 2025, as part of a package to simplify regulations (the so-called Omnibus), the EC introduced a reform of the CBAM in terms of modifying reporting obligations and exempting smaller entities from it. In June 2025, the proposal was provisionally approved by the Council of the EU, and in September of that year it was adopted by the European Parliament at its plenary session.

[10] Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC 2025.

The document contains detailed regulatory changes and new rules on importers' obligations, emissions verification, and CBAM system management.

The changes introduced mainly consist of the introduction of a de minimis threshold, under which imports of less than 50 tonnes per year of goods covered by CBAM (e.g. iron and steel, aluminium, cement, fertilisers) will be exempt from the obligations of the mechanism[11] . In practice, this solution is intended to exempt as many as 90% of importers to the EU, mainly small and medium-sized companies. Importers whose total imports of goods from sectors covered by CBAM do not exceed this threshold will be exempt from the obligations associated with the mechanism. At the same time, this threshold is intended to ensure that there is no negative impact on the environment and that at least 99% of the emissions contained in imported goods remain within the scope of CBAM.

Importers exceeding the threshold must obtain the status of an authorised CBAM declarant, submit declarations, and purchase the appropriate number of CBAM certificates for emissions contained in all imported goods in a given calendar year. If the threshold is exceeded without having the status of an authorised declarant, importers are subject to financial penalties.

The calculation of emissions contained in goods is to be in accordance with the methodology set out in the annexes to the regulation, excluding emissions from production processes not covered by the EU ETS, which is intended to simplify the application of the mechanism in third countries. For emissions based on actual values, confirmation by accredited verifiers is required. For emissions calculated on the basis of default values, verification is not required.

Authorised declarants may include in their declarations a reduction in the number of CBAM certificates corresponding to the price for CO_2 emissions actually paid in the country of origin of the goods. The European Commission will publish default annual CO_2 emission prices for third countries, based on currently available data.

Operators of installations in third countries must register in the CBAM registry, providing detailed information about their installations and emissions. The information will then be verified and may be made available to authorised declarants. Verifiers accredited by national accreditation bodies must also register in the CBAM registry.

Authorised declarants must submit declarations by 30 September each year and fulfil their obligation to purchase CBAM certificates corresponding to their reported emissions. Financial penalties are provided for failure to comply with these obligations.

The European Commission has been granted the power to adopt delegated acts to update the emission threshold and other elements of the regulation. The legislator will also monitor importers' compliance with the emission threshold by exchanging information with national authorities and monitoring potential circumvention practices.

Exemptions from CBAM for small and medium-sized enterprises greatly simplify the implementation of the mechanism in the European Union by exempting many entities from the obligations of the mechanism. However**, they do not affect larger companies with imports exceeding 50 tonnes of goods per importer per year**.

Nevertheless, **other simplifications introduced by the Omnibus package will also benefit larger companies in sectors covered by CBAM as a result of clarifying the obligations**

[11] Carbon border adjustment mechanism (CBAM): Council and Parliament strike a deal on its simplification – Consilium: https://www.consilium.eurjednapa.eu/en/press/press-releases/2025/06/18/carbon-border-adjustment-mechanism-cbam-council-and-parliament-strike-a-deal-on-its-simplification/

and responsibilities of importers, improving the methodology for calculating emissions and introducing mechanisms to take into account carbon prices in third countries. The management of the register of operators and verifiers and the certificate sales system have also been simplified, which should be considered a positive change.

1.1.3. Current reactions of the EU's main trading partners to CBAM and prospects for its global acceptance.

The EU is facing fierce criticism over the introduction of CBAM, including opposition from key countries articulated within the WTO and resistance from emerging economies in international climate negotiations.

Based on the latest information, the countries complaining about CBAM at the WTO include:

- **China**: has expressed concerns to the WTO that CBAM may constitute a trade barrier and discriminate against products from developing countries.
- **India**: has raised objections, arguing that CBAM could negatively affect its exports to the EU. The parties declared their intention to conclude negotiations by the end of 2025, although progress is limited (due, among other things, to disputes over agricultural products and the automotive sector). The agreement under preparation is to take into account existing CO_2 emission charges in India and thus reduce CBAM charges on imports of goods from that country.
- **Russia**: is currently the only country to have lodged a formal complaint, claiming that CBAM is incompatible with WTO rules. On 12 May 2025, the Russian Federation requested consultations with the European Union and its Member States on measures relating to the EU CBAM and on export subsidies allegedly granted by the European Union under its greenhouse gas emissions trading scheme. On 22 May 2025, the European Union rejected the Russian Federation's request for consultations, stating that they would not produce the expected results and would not lead to a solution to the issue that would be satisfactory to both parties[12].
- **Turkey**: joined the group of countries that opposed CBAM at the WTO, fearing a negative impact on their economies.
- **United States**: In August 2025, the United States and the European Union jointly announced the creation of a framework agreement on reciprocal, fair and sustainable trade, which builds on the previous US-EU agreement on tariffs and trade announced at the end of July 2025. The parties announced that they would work on additional flexibilities in the implementation of the CBAM (including for SMEs).

  The framework agreement is a concise list of political commitments setting out the parameters of trade relations between the US and the EU. Among the 19 commitments contained in the framework agreement is **a commitment by the EU to seek additional flexibility in the implementation of the CBAM**, taking into account US concerns about its impact on small and medium-sized enterprises.
- **United Kingdom**: The Danish Presidency of the EU Council has accelerated work on linking the EU ETS with the UK ETS. One of the main reasons for this acceleration is

[12] https://www.wto.org/english/news_e/news25_e/ds639rfc_19may25_e.htm.

the entry into force of CBAM charges from 2026. The UK wants British goods imported into the EU to be exempt from CBAM charges due to the comparable burdens on entities covered by the ETS. However, this will depend on how the two systems are merged. It should be noted, however, that emission allowance prices in the UK currently remain lower than in the EU.

The main issues concerning the lack of acceptance of CBAM among the EU's global trading partners are multidimensional and stem from various economic, political, and regulatory concerns. **CBAM is perceived as discriminatory by the countries discussed above**. Some of them believe that the mechanism favours countries that choose emissions trading schemes over other instruments for achieving climate policy objectives.

In addition, CBAM imposes proportionally higher costs on producers using more carbon-intensive processes, which are typically found in developing countries. This has raised concerns among these countries about the economic impact of CBAM, as they may incur higher costs and, as a result, see their competitiveness weakened.

At the same time, the administrative requirements associated with CBAM are seen as burdensome. These requirements may pose a particular challenge for smaller exporters and exporters from developing countries, who may not have the resources necessary to comply with the new regulations.

Furthermore, there are concerns that CBAM could disrupt trade flows, increasing the cost of exporting high-carbon goods to the EU by non-EU countries. According to some analysts, this could lead to a shift in trade patterns, with exporters to the EU redirecting their products to markets with less stringent CO_2 emissions regulations.

During the COP-30 summit in Brazil at the end of 2025, the CBAM mechanism became one of the main topics of contention. Countries such as **China, India, Russia, and Arab countries, led by Saudi Arabia**, **strongly criticised the mechanism**, considering it a form of economic protectionism and a threat to their own development. The European Union defended CBAM at the summit, emphasising its role as a climate policy tool, but failed to reach an agreement on this issue with its key trading partners. The dispute over CBAM highlighted the deep differences between the countries of the Global North and South in their perceptions of climate justice and the distribution of the costs of economic transformation.

1.2. The upcoming 2026 revision of the EU ETS Directive and expected changes for energy-intensive industries.

The upcoming EC legislative initiative to change the EU ETS system is intended to ensure that it is adequately adapted to achieve climate neutrality by the EU in 2050, and, earlier, to meet the 2040 greenhouse gas emission reduction target agreed by the Council of the EU and the European Parliament as part of the revision of the European Climate Law[13] .

In Brussels' view, certain aspects of the EU ETS may need to be amended to ensure that it continues to contribute to the Union's long-term reduction targets in a cost-effective and

[13] COM (2025) 524: https://climate.ec.europa.eu/document/download/e1b5a957-c6b9-4cb2-a247-bd28bf675db6_en.

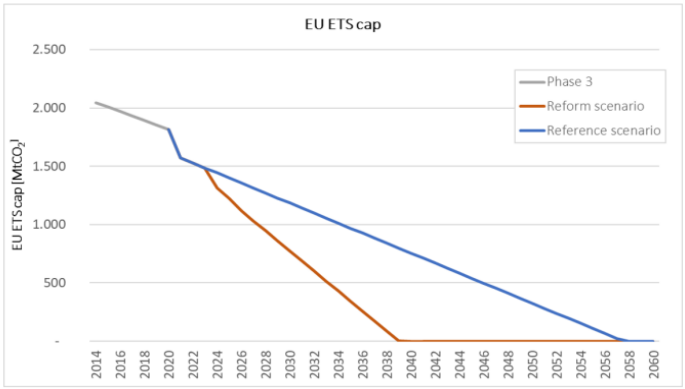
efficient manner. **The legislative proposal**, **together with the accompanying impact assessment and report**, **is expected to be published in the third quarter of 2026.**

In connection with the above process, between 15 April and 8 July 2025, the European Commission conducted a public consultation on the revision of the EU ETS Directive. The consultation is intended to help the EC set the direction for the main changes, so it is important for the EU legislator to review the summary of its results. The main areas for energy-intensive industries that were subject to consultation on potential reforms were:

- counteracting the risk of carbon leakage and production outside the EU by energy-intensive industries;
- possible further extension of the scope of the EU ETS (e.g. to include municipal waste incineration, additional aviation activities, and installations with a thermal capacity below 20 MW);
- financing investments in decarbonisation through instruments linked to the EU ETS;
- the functioning of the stabilisation reserve (MSR) in the EU ETS;
- support mechanisms for carbon dioxide removal, CCUS[14] and CDR[15] (so-called CO_2 sinks).

Recently, EC officials have admitted in informal talks **that the curve of the decline in the supply of allowances in the EU ETS should be flattened in the next revision of the system in 2026** so that allowances are still available in the system in 2040[16] . According to the current trend, the pool of allowances will fall to zero after 2039 due to the continuation of the annual decline in the supply of allowances (*Linear Reduction Factor – LRF*).

Fig. **3**. Projected decline in the EU pool in the EU ETS in the reference scenario (blue – in line with the EU ETS Directive targets prior to the latest revision in 2023) and after the implementation of the EU ETS Directive revision (orange) – in million tonnes of CO_2.



Source: Study: "*The Emerging Endgame: The EU ETS on the Road Towards Climate* Neutrality"[17] , p. 23.

Any relaxation of the LRF curve would begin after 2030, i.e. in the next, fifth phase of the EU ETS. The details of this proposal are to be discussed in the next impact assessment of the

[14] CCUS (Carbon Capture, Utilisation and Storage) is a technology that captures CO_2 from emission sources (e.g. industry) and either utilises it (e.g. for fuel production) or stores it safely underground.
[15] Carbon Dioxide Removals is the process of removing CO_2 that is already present in the atmosphere.
[16] Article on Carbon Pulse: "Annual EU ETS emissions cap, allowance supply cut rate could be relaxed, says senior European Commission official", 17 September 2025.
[17] The Emerging Endgame: The EU ETS on the Road Towards Climate Neutrality, Michael Pahle, Simon Quemin, Sebastian Osorio, Claudia Günther, Robert Pietzcker, April 2024: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4373443.

ETS revision, which will be carried out by the Commission in 2026, taking into account the current National Energy and Climate Plans submitted by Member States.

The following sub-sections discuss the main areas of upcoming changes and their expected directions based on the course of the EC's public consultations and information emerging in the public domain and at informal meetings[18] .

➢ Revision of the rules for the allocation of free CO_2 emission allowances to industry

Most respondents who commented in the public consultation process believe that measures to prevent carbon leakage are moderately effective. Many of them want to continue free allocation after 2030 for industrial sectors not covered by the CBAM, suggesting that it should be based on updated comparative methods and **made conditional on entities' efforts to achieve carbon neutrality.**

It is therefore possible that the EC will propose a rule for the extension of free carbon allowances after 2030 based on benchmark indicators, but only in exchange for beneficiaries investing the market equivalent of the free allocation in decarbonisation measures.

➢ The future of the Modernisation and Innovation Fund

There is strong support for using EU ETS auction revenues to create an Industrial Decarbonisation Bank (IDB – discussed in more detail later in the Report) and to continue financing the Innovation Fund and the Modernisation Fund. These funds are seen as key to supporting decarbonisation in sectors not covered by the new IDB.

Support for the creation of the IDB was very high among respondents to the EC's public consultation, with as many as 83% in favour of the idea.

In addition, there was broad support for extending the Modernisation and Innovation Fund beyond 2030. These funds would continue to support decarbonisation, especially in areas not covered by the new IDB support instrument.

➢ Compensation for indirect CO_2 emissions

There is significant support for maintaining compensation for indirect costs after 2030 in order to protect against carbon leakage resulting from the transfer of CO_2 emission costs to electricity prices.

The European Commission has expanded the list of sectors eligible for indirect emission cost compensation as part of a revision of the EU ETS aid guidelines[19] in December 2025. In the new guidelines, Brussels proposed to extend the list of industrial sectors eligible for

[18] The summary of the public consultation is based on the EC document "Factual Summary Report", Ref. Ares (2025)7111182 - 02/09/2025 and an analysis of selected stakeholder inputs.
[19] Brussels, 23 December 2025 C(2025) 9298 final COMMUNICATION FROM THE COMMISSION amending the Guidelines on certain State aid measures in the context of the greenhouse gas emission allowance trading scheme after 2021.

compensation by 20 new sectors and two new sub-sectors, including the production of organic chemicals and certain activities in the ceramics, glass, and battery sectors.

The revision includes a temporary extension of compensation for indirect emission costs for selected sectors covered by CBAM (point 8 of the Guidelines) - production of fertilisers and nitrogen compounds (NACE 20.15) and iron ore mining (NACE 07.10).

The EC also increased the aid intensity from 75% to 80% for sectors that were already eligible before the change to take into account the increased risk of carbon leakage and allowed Member States to notify sectors or sub-sectors that were not included in the revised list of sectors eligible for aid.

At the same time, a requirement was introduced for large beneficiaries to contribute to the green transition, including by investing part of the aid in projects that contribute to reducing the costs of the electricity system.

Many respondents are in favour of further expanding the list of sectors covered and harmonising the implementation of this compensation at EU level. Member States are free to decide whether and how to implement compensation schemes for indirect emission costs.

This leads to uneven support across the EU, with companies in some countries receiving generous compensation while others receive little or nothing. The aim of some respondents, such as Cefic[20], is to harmonise the approach so that all companies receive comparable support, regardless of their location.

➢ Inclusion of carbon removals in the EU ETS

A significant majority of respondents were in favour of including permanent removals in the EU ETS through the possibility of offsetting carbon emissions avoided permanently but were mostly opposed to the same approach for temporary removals (e.g. afforestation).

Most respondents were of the opinion that removal units should be purchased directly from their suppliers so that they could then be used to offset the emissions of the purchasing entity. There was also broad support for the possibility of deducting from the EU ETS surrender obligation those units that are generated by the trading entity's own activities. At the same time, a significant proportion of respondents believe that the scope of application of sinks should be limited (upper caps).

➢ Functioning of the stabilisation reserve (MSR)

Most respondents called for the continued use of the MSR instrument to reduce price volatility in the EU ETS and counteract the occurrence of oversupply of allowances on the market. However, some of them demand a change in its parameters or the introduction of upper and lower price caps for allowances, which would trigger the MSR in both directions.

➢ Inclusion of municipal waste incineration plants in the EU ETS

Opinions among consultation participants were strongly divided on this issue. On the one hand, the majority of respondents (33%) strongly supported the inclusion of these installations in the

[20] Cefic is the forum for the EU chemical industry.

system. On the other hand, as many as 26% strongly disagreed with their inclusion in the EU ETS.

➢ **Lowering the capacity threshold for installations to be covered by the EU ETS**

The majority of respondents strongly (31%) or somewhat (13%) disagreed with lowering the capacity threshold, while some (27%) somewhat agreed and some (12%) strongly agreed. The remaining respondents were neutral or had no opinion.

1.2.1 Selected positions of major European players

Alliance of Energy-Intensive Industries

An important voice in the discussion on the future shape of the EU ETS was the joint position of many energy-intensive industries – the Alliance of Energy-Intensive Industries (AEIIs)[21] presented in August 2025. The key challenges highlighted by the AEIIs are:

- high energy prices compared to other parts of the world,
- the lack of global pricing mechanisms for CO_2 emissions,
- lack of profitability of investments in decarbonisation,
- infrastructure deficiencies, e.g. in transmission networks and infrastructure for hydrogen, CO_2 and renewable energy,
- insufficient financial support at EU level.

To address these issues, the energy-intensive industries alliance proposes:

- **Strengthening protection against carbon leakage** – increasing the allocation of free allowances to industrial sectors without conditionality and extending the scope of indirect cost compensation.
- **Adopting a realistic pace of decarbonisation** – reviewing and slowing down the rate of decline in the pool of CO2 emission allowances after 2030 to avoid a situation where industry would have to be climate neutral as early as 2040 due to a lack of available allowances in the system.
- **Realistic product benchmarks** – setting allocation benchmarks based on the best technologies available across Europe.
- **Reform of the Market Stability Reserve (MSR)** – stopping the cancellation of allowances going into the reserve and using them to support investments in decarbonisation.
- **Ensuring competitive energy prices** – developing a strategy to ensure access to cheap, secure, and low-carbon energy.

[21] https://cefic.org/resources/joint-statement-alliance-of-energy-intensive-industries-aeiis-shaping-a-competitive-and-sustainable-future-for-european-energy-intensive-industries-under-the-eu-ets-post-2030/.

- **Financial support and simplification of procedures** – the majority of ETS auction revenues should go directly to supporting the decarbonisation of industry – both CAPEX and OPEX.
- **Use of new technologies** – development of international carbon credits, CO_2 removal technologies (DACCS, BECCS) and CO_2 capture and utilisation (CCU). Enabling the settlement of these units in the EU ETS system.
- **Creating a market for low-carbon products** – action is needed on the demand side to make investments in decarbonisation profitable.

MEDEF

One of the key associations that presented its position[22] on the reform was MEDEF, the largest employers' organisation in France. MEDEF advocated stabilising the price of CO_2 allowances. In the association's opinion, the reform of the system should serve four main objectives: (1) strengthening the predictability of CO_2 prices, (2) maintaining protection against carbon leakage, (3) increasing support for low-carbon innovation, and (4) ensuring compliance with broader EU policies (CBAM, NZIA, CSRD, etc.).

According to MEDEF, the current **volatility of allowance prices discourages investment**. Reform of the MSR is therefore crucial – better management and transparent activation rules.

The organisation also calls for **strengthening protection against carbon leakage and maintaining safeguards in the form of free allocation of allowances after 2030 for sectors outside the CBAM**.

At the same time, according to MEDEF, **compensation for indirect emission costs should be maintained.**

In MEDEF's view, the CBAM mechanism needs to be simplified, strengthened, and extended, but **it cannot replace free allocation of allowances in the short term.**

The ETS system must reflect past efforts and enable future decarbonisation: according to MEDEF, sectoral benchmarks should be updated to avoid penalising the most environmentally efficient companies and to reflect the diversity of technologies.

MEDEF also wants to see effective mobilisation of EU ETS revenues for decarbonisation investments. **According to the organisation, the enormous investment needs require a rethinking of support structures: going beyond CAPEX to also cover OPEX** (as in the case of the US IRA); use ETS financing tools such as Carbon *Contracts for Difference* (CCfD) and operating cost-based aid.

According to MEDEF, the Innovation Fund should focus on industrial projects with a high decarbonisation impact, which should be further supported by the creation of a new European Competitiveness Fund.

In turn, the extension of the ETS to new sectors (e.g. waste incineration, small emitters, ETS2) should, in MEDEF's opinion, be preceded by a rigorous cost-benefit assessment.

[22] https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/14549-EU-emissions-trading-system-for-maritime-aviation-and-stationary-installations-and-market-stability-reserve-review/F3573556_en.

In the organisation's opinion, **the EU should allow entities participating in the EU ETS to use carbon credits**, provided that their environmental integrity is ensured.

ThyssenKrupp AG

A position in the consultations was also presented by the German steel industry giant ThyssenKrupp AG[23]. The company currently has a significant influence on the new German government's position on climate policy, e.g. on the issue of delaying the reduction of free CO_2 allowances for sectors covered by CBAM.

According to the company, the EU ETS system must be adapted to protect strategic industries and ensure the economic security of the EU. Without these adjustments, the ETS may contribute to further deindustrialisation instead of the intended decarbonisation.

The company pointed out that **there is currently no business case for investing in industrial transformation in the EU**. **This requires a new set of supporting conditions, such as clean and competitively priced energy, protection of EU exports, and support for both CAPEX and OPEX of new investments**.

According to ThyssenKrupp, revenues from the ETS and CBAM should be prioritised for investment in industrial decarbonisation.

In addition, the MSR should be modified to prevent the permanent removal of allowances and introduce **a price corridor for both the withdrawal and release of allowances from this reserve**.

Permanent CO_2 sinks should, in the company's opinion, be gradually included in the ETS with the possibility of offsetting emissions by sectors covered by the system. In order to correct the imbalance and encourage the use of captured CO_2, **non-permanent CCU sinks should also be included in the ETS**, shifting the obligation to surrender allowances to a later stage of the process, i.e. when carbon is released into the atmosphere.

1.2.2 Final conclusions

At the time of writing this Report, there is no official European Commission document in the public domain describing even a general outline of the proposed changes to the EU ETS system, which will be presented in the third quarter of 2026. It should therefore be emphasised that the forecasts discussed below are subject to a margin of error due to the limited amount of information available and are based on the best current knowledge.

Taking into account the results of public consultations and the positions presented by the EC in various forums, it can be assumed that Brussels may adopt the following assumptions:

- **Protection against carbon leakage – free allocation of allowances**: The free allocation of emission allowances to sectors not covered by the CBAM is likely to continue after 2030. **However, it is possible that it will be based on an updated methodology and may include a condition in the form of investing the market**

[23] https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/14549-EU-emissions-trading-system-for-maritime-aviation-and-stationary-installations-and-market-stability-reserve-review/F3573282_en.

equivalent of free allowances in decarbonisation investments. This solution is already in place, for example, in the heating sector following the recent reform of the EU ETS Directive. A similar support mechanism in exchange for investments has also been introduced by the EC in the new CISAF aid framework. Under the new framework, industry can obtain support from a given EU country in the form of lower energy prices, but only on condition that decarbonisation projects are implemented (more on this in the Report below).

It is also possible that the rules on the annual reduction of free allowances for sectors covered by CBAM will be relaxed if it proves ineffective in protecting the competitiveness of the industries covered by it in the EU. It is unclear whether the current efforts of energy-intensive industries and selected EU governments to achieve such a reform will be successful.

- **Indirect cost compensation**: **Indirect cost compensation is likely to be maintained after 2030.**

  The EC is likely to seek to harmonise this compensation at EU level in order to ensure competitive support conditions between countries.

  However, compensation will certainly be reduced by the aid received by energy-intensive companies under the electricity price caps being introduced by some EU countries.

- **Use of revenues from EU ETS allowance auctions**: It can be expected **that part of the auction revenues will be earmarked exclusively for the creation of the Industrial Decarbonisation Bank** (IDB). **The Modernisation and Innovation Funds should also be increased**. A possible source of additional allowances for this purpose is the MSR reserve.

  These funds would continue to support decarbonisation, especially in areas not covered by the IDB. However, many beneficiaries expect simplification of access to these instruments and an increase in the maximum funding thresholds, especially for non-commercial installations financed from the Innovation Fund. Investors also point to geographical imbalances among beneficiaries due to, among other things, the lack of national pools.

- **Functioning of the stabilisation reserve (MSR)**: most respondents called for the continuation of the MSR in order to reduce price volatility in the EU ETS market and counteract oversupply of allowances on the market. The EC also sees the MSR as a necessary instrument for controlling the supply of allowances**. It is therefore likely to extend its operation beyond 2030. in its current form** – i.e. if the total number of allowances in circulation exceeds 833 million, an amount corresponding to 24% of the number in circulation will be deducted each year from the volumes sold at auctions and placed in the reserve.

  It remains an open question whether, with such a continuation of the MSR, allowances will still be available in the EU ETS after 2039, which the EC has recently begun to pay more attention to. It is possible that in the period after 2030, it will be necessary to adjust the MSR parameters so that allowances remain in the EU ETS for installations that continue to emit.

- **Inclusion of carbon removals in the EU ETS**: **The EC is likely to include permanent removals in the EU ETS by allowing the trading of avoidance credits**, but the same approach is unlikely to be taken for temporary removals.

  The scope of application of removals for the purpose of offsetting emissions in the EU ETS is likely to be limited in terms of volume.

- **Inclusion of municipal waste incineration plants in the EU ETS**: In this area, informal information suggests that **the EC is preparing to include these plants in the system**, despite opposition from industrial sectors submitting their proposals to Brussels.
- **Lowering the capacity threshold for installations to be covered by the EU ETS**: Currently, according to unofficial information, the EC does not plan to lower the capacity threshold below the currently applied 20 MW of thermal capacity.

2. Main elements of the Clean Industry Deal presented by the EC in February 2025 and subsequently updated in July 2025.

2.1. Future EU actions to reduce energy costs for energy-intensive industries.

The European Commission published its competitiveness compass in January 2025[24]. Subsequently, on 26 February 2025, it presented the "*Clean Industrial Deal*" communication[25] (hereinafter: "CID"). Along with the CID, an Action Plan for Affordable Energy was presented[26].

The CID was then updated by the EC with a new Communication entitled "*Delivering on the Clean Industrial Deal* I"[27] , which was published together with a proposal to set a target of a 90% reduction in GHG emissions through a revision of the EU Regulation on European Climate Law.

The most important proposals of the EC contained in the CID and its first update, as well as in the Affordable Energy Action Plan, are described below.

2.1.1. Clean Industry Deal (CID) and its July 2025 update

An interesting concept presented by Brussels in the CID is **the introduction of European Investment Bank guarantees for electricity off-take**, which could accelerate the development of PPAs between energy-intensive industries and renewable energy producers. The EIB is also to provide similar guarantees to reduce risks for investors in the development of green hydrogen production.

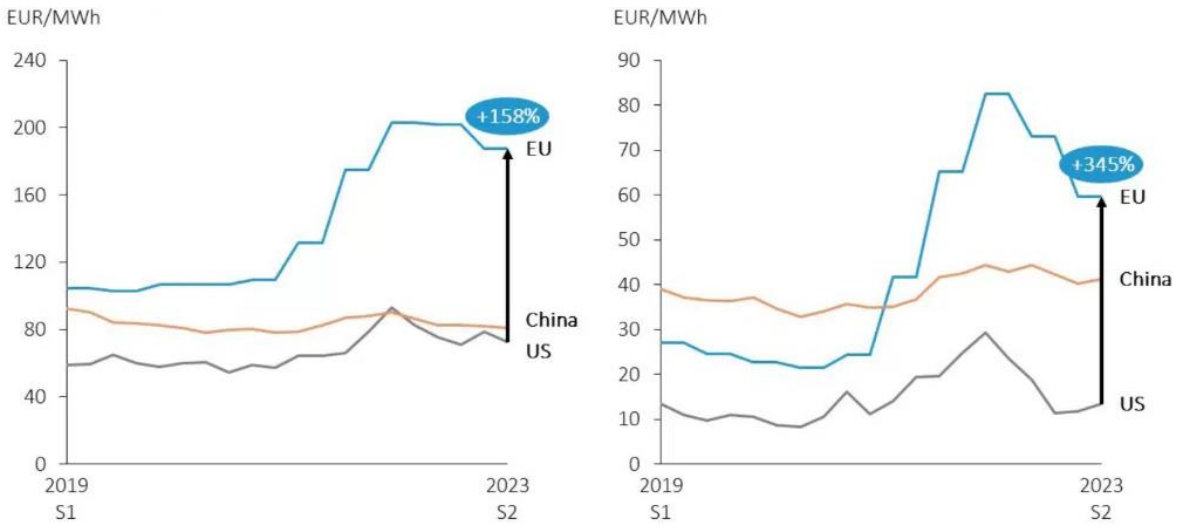
[24] https://commission.europa.eu/topics/eu-competitiveness/competitiveness-compass_pl.
[25] https://commission.europa.eu/topics/eu-competitiveness/clean-industrial-deal_pl.
[26] COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS Action Plan for Affordable Energy Unlocking the true potential of the Energy Union to deliver affordable, efficient and clean energy for all Europeans
[27] https://commission.europa.eu/topics/eu-competitiveness/clean-industrial-deal_pl.

Industrial consumers will also find it easier to profit from demand management, i.e. reducing consumption at times of high demand and vice versa.

As in the case of energy price reductions, Brussels is announcing new regulations to speed up permits for investments in industrial decarbonisation.

In the key area of natural gas prices, the CID text does not contain any specific ideas for reducing them, and the Commission instead focuses on improving the functioning of the internal gas market, controlling price manipulation and greater coordination in the filling of gas storage facilities. Meanwhile, **natural gas and especially electricity prices remain significantly higher in the EU than in the United States or China**.

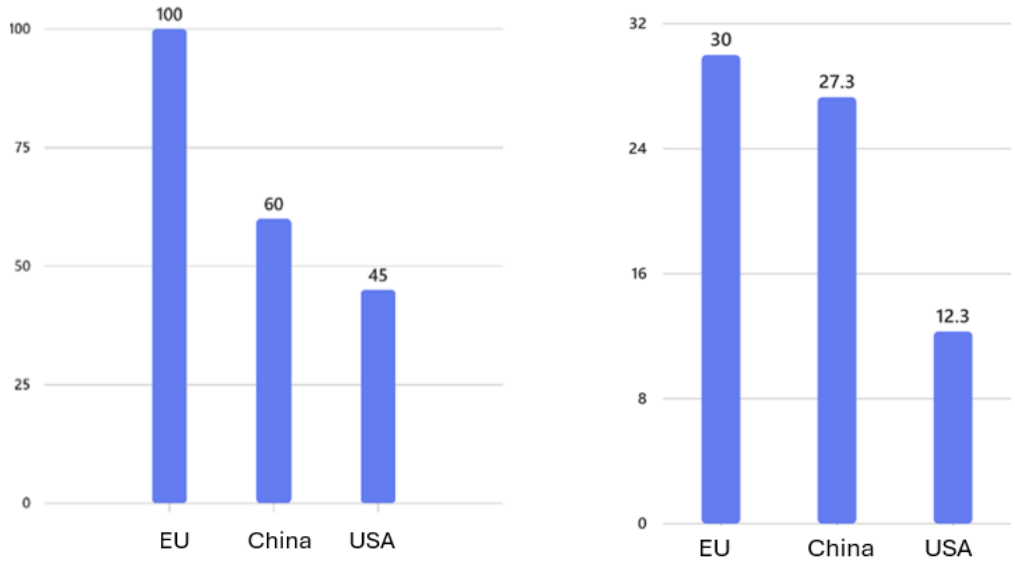
Fig. 4. Historical prices of electricity (left graph) and natural gas (right graph) in the EU, China, and the US.



Source: European Commission, 2024. Based on data from Eurostat, EIA (for the US), and CEIC (for China). Charts used in Mario Draghi's report[28] .

[28] Mario Draghi: 'The future of European competitiveness', 2024: part B, p. 5.

Fig. 5. Average wholesale prices of electricity (left) and natural gas (right) in the EU, China, and the US in 2025 (in USD/MWh).



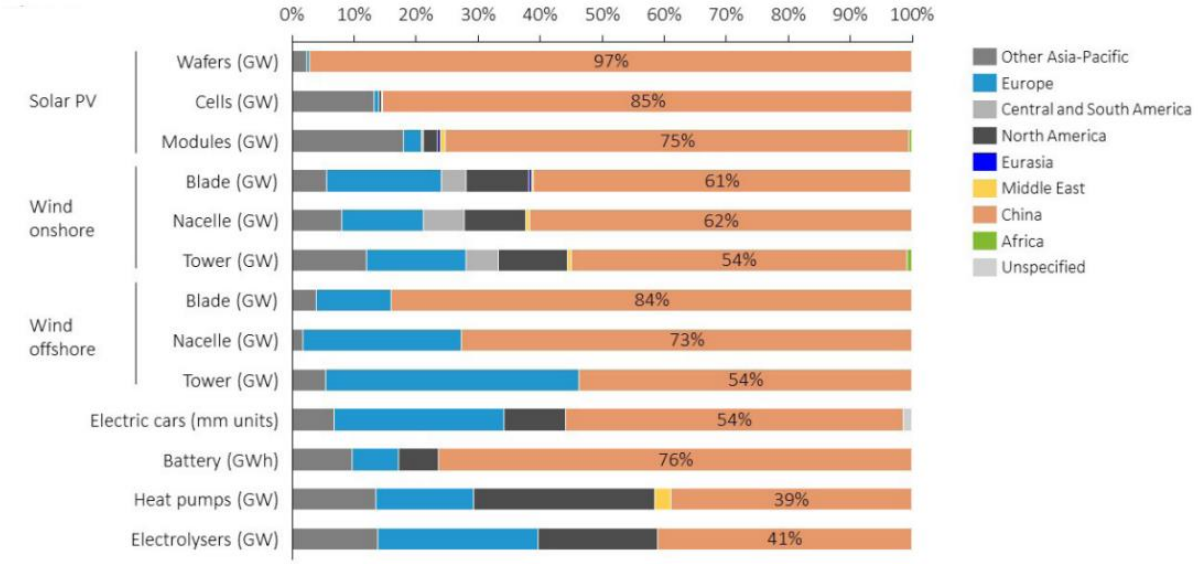
Source: https://naga.com/en/news-and-analysis/articles/natural-gas-price-prediction, https://tradingeconomics.com/commodity/eu-natural-gas, https://www.iea.org/reports/electricity-2025/prices, https://www.eia.gov/electricity/monthly/update/wholesale-markets.php, https://ember-energy.org/data/european-wholesale-electricity-price-data/.

At the same time, a specific measure will be the accelerated electrification of industrial production and the gradual phase-out of natural gas, where technologically feasible. **The EU economy is to be electrified at a level of 32 per cent by 2030, compared to the current level of 21 per cent**.

An important element of the CID for the green technology manufacturing industry is the reference to the already introduced implementing provisions of the Net-Zero Industry Act, which aim to strengthen the European supply chain. **The EU wants to use at least 40% of its own key components**. In practice, this mainly concerns technologies used in the production of wind farms, which are largely provided by EU companies such as Denmark's Vestas and Germany's Siemens.

Brussels wants to limit China's dominance in wind power as well, after Beijing's practical takeover of the EU's photovoltaic and battery segments. At the same time, the aim is to ensure the European origin of technologies that are still in the early stages of development, such as energy storage and electrolysers.

Fig. 6. Share of a given region of the world in the production of specific components for low-carbon technologies.



Source: European Commission, 2024. Data taken from the IEA and the Breugel Institute[29] .

In this area, the European Commission already presented an implementing act in spring 2025[30] concerning non-price criteria in RES auctions. These criteria are intended to increase the chances of European suppliers and will be applied both in public tenders and in auctions for the construction of zero-emission installations. The new framework will enter into force in 2026.

Member States will be required to take them into account in at least 30% of the volume of RES auctions or for at least 6 GW of installed capacity subject to auction. Mandatory criteria will include cybersecurity, corporate responsibility, and sustainable development.

Finally, the CID provides some specifics on additional financing for investments related to the decarbonisation of industry. This includes, among other things, an increase in the Innovation Fund under the EU ETS, although it remains unclear from which pool of allowances the new funds will be obtained.

Brussels also assumes an additional EUR 100 billion provided by the new Industrial Decarbonisation Bank (discussed in detail below in the Report), which is to collect funds from the Innovation Fund, additional revenues from EU ETS auctions and those obtained from the revision of the InvestEU programme. The EC has announced the launch of a pilot project in this area even before the next revision of the ETS Directive planned for 2026. This refers to additional auctions of emission allowances for this purpose, which are intended to support projects with the highest CO_2 emissions reduction in a technology-neutral manner. Nevertheless, **the proposed amount for the first pilot auction for decarbonisation projects in various EU industries is only EUR 1 billion**.

[29] The graph is taken from Draghi's report: "The future of European competitiveness", 2024: part A, page 46.
[30] COMMISSION IMPLEMENTING REGULATION (EU) 2025/1176 of 23 May 2025 laying down the pre-qualification criteria and the award criteria for auctions for the deployment of energy from renewable sources.

As regards the financing of industrial decarbonisation**, the main discussion on the scale of support will take place during the discussion on the European Competitiveness Fund included in the new EU budget presented by the EC in July 2025.**

Importantly, the Commission also announced in the CID new rules on state aid for investments in industrial decarbonisation – the *Clean Industrial Deal State Aid* Framework (CISAF) (described in more detail in the Report below). The aid rules have been simplified and are intended to accelerate the implementation of projects and the development of green technologies.

The new aid framework is a key element of the CID update carried out in July 2025. It includes detailed rules on public support for energy-intensive sectors and clean technologies. The framework is intended to accelerate the financing of investments in renewable energy sources, the development of clean technology production and the reduction of electricity costs for companies at risk of relocating their production outside the EU.

Importantly for EU energy-intensive industries, Brussels has also announced partial changes to the CBAM in the CID, including **consideration of extending its scope to products made from raw materials subject to the levy**. The EU legislator also announced the inclusion of indirect emissions resulting from energy consumption by installations exporting to the EU.

Another important element is the recognition of the long-standing problem of the lack of protection for EU exports from competition from third countries that do not have such stringent climate policies. Brussels states in the CID that it will examine regulatory options to support EU companies' exports, which it had refrained from doing during the negotiations on the original CBAM Regulation.

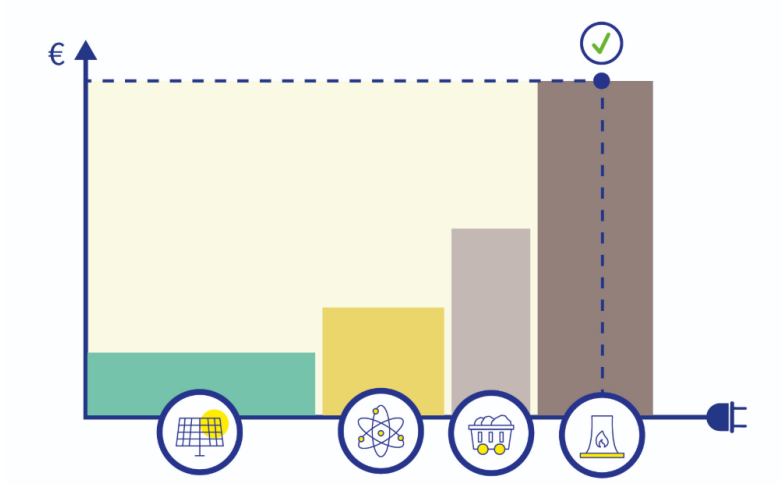
Finally, it is worth noting **the EC's announcement of action plans for specific industries**, starting with those which, according to Brussels, are most vulnerable to relocation outside the EU. Action plans have already been presented for the automotive industry and steel and metals (March 2025) and for the chemical industry (July 2025).

2.1.2 Action Plan for Affordable Energy

In the strategy presented, **Brussels limits itself to recommending the implementation of the electricity market reform adopted in 2024, which was quite conservative in itself**.

In its recommendations, the European Commission focused more clearly on measures that are the least controversial and do not disrupt the current market structure. Therefore, **the Commission does not question the model of setting wholesale energy prices based on their formation by marginal cost producers** (the so-called merit order).

Fig. 7. Simplified model for determining wholesale electricity prices on the EU market based on the marginal costs of units closing the demand and supply curve.



Source: European Commission infographic[31] .

The EC's action plan therefore **calls for the promotion of long-term contracts for low-carbon technologies on the market – in the form of PPAs and contracts for difference** – in order to decouple wholesale energy prices from current fluctuations in the price of natural gas, which is used by power plants that still set electricity prices in most EU countries.

An interesting idea is to launch a pilot project involving the EIB in reducing the risk of concluding PPAs between energy-intensive consumers and low-carbon producers. Currently, it is difficult for energy-intensive companies to conclude such contracts, also due to problems with obtaining external financing related to the risk of not being able to sell this energy in the future.

The Brussels plan emphasises further integration of the electricity market by accelerating the development of interconnectors. The lack of adequate opportunities to maximise cross-border exchange is one of Brussels' main arguments for high energy prices in the bloc.

On the end-user side, the Commission is urging governments to seek savings by **reducing the share of the transmission tariff component in bills**. Countries are also being urged to **reduce energy taxation to minimum levels** in line with the provisions of the tax directive.

To ensure that gas-fired power plants set energy prices in EU countries less and less often, **the Commission emphasises the importance of maintaining a rapid pace of decarbonisation and developing renewable energy sources in particular**. To enable even faster development of RES, Brussels proposes **to speed up the permitting procedures for new investments in renewable energy**.

The balancing of energy systems is to be increasingly ensured through the development of energy storage technologies and demand-side flexibility, and less and less by gas-fired power plants. In Poland, the situation is currently different due to the TSO's demand primarily for new gas-fired capacity.

In the meantime, according to EU officials, attempts should be made to **negotiate joint purchases of natural gas**, using the options already introduced by the EU **for demand aggregation and joint purchases**. However, Brussels is not proposing any joint action to gain access to its own natural gas reserves, which leaves it largely at the mercy of a small group of

[31] https://www.consilium.europa.eu/pl/infographics/how-is-eu-electricity-produced-and-sold/.

suppliers, especially in the context of the planned complete phase-out of gas imports from Russia.

The EC acknowledges that natural gas prices will continue to be the main factor shaping electricity prices in the coming years. So if there is another gas price crisis that translates into electricity prices, **the Commission is ready to help countries implement their national support mechanisms in line with EU state aid rules**. This is to be done on the basis of already proven solutions implemented on an emergency basis after the start of the war in Ukraine – for example, through inframarginal price caps for low-carbon producers. **There is therefore no clear concept of how to respond jointly to a possible future price crisis, and when it comes, countries may resort to their own solutions that fragment the EU market.**

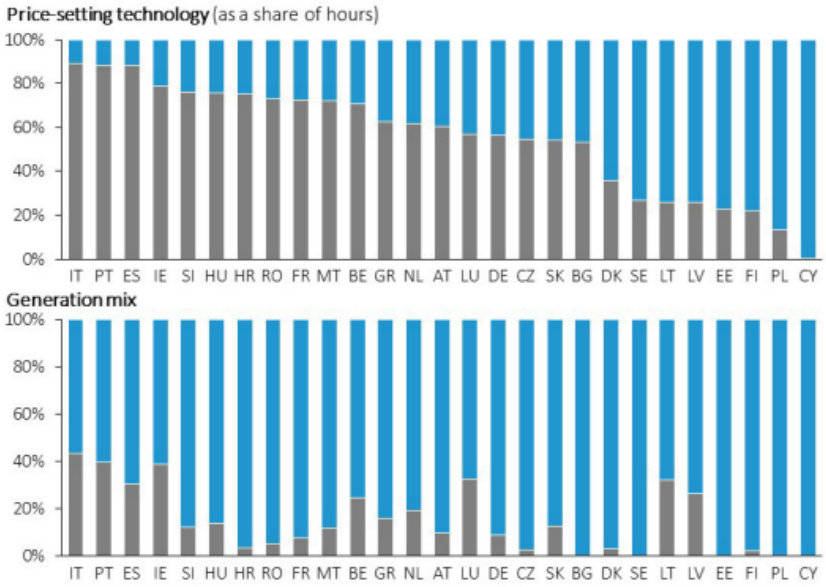
Current natural gas prices on the TTF exchange are hovering around EUR 25-30/MWh, which is still high, but significantly lower than the extreme prices seen a few years ago after Russia started the war in Ukraine. Therefore, **the Commission is not considering reintroducing a natural gas price cap** or returning to levies on the profits of so-called inframarginal producers, i.e. mainly RES and nuclear power.

Fig. 8. Historical natural gas prices (EUR/MWh) on the TTF exchange over the last five years (as of 10 December 2025).

Source: https://tradingeconomics.com/commodity/eu-natural-gas.

Maintaining the energy pricing system based on the merit order system means that electricity prices in the EU will continue to be largely dependent on gas prices, even though gas-fired generation units account for an increasingly smaller share of total energy production, as shown in the chart below from Mario Draghi's report.

Fig. 9. Upper graph: percentage share of gas units (grey) in determining wholesale electricity prices in individual EU markets; Lower graph: share of gas units in the total fuel mix of a given country's energy production (data from 2023).



Source: European Commission, JRC, 2023, Mario Draghi Report, Part B, p. 10.

Moreover, there are also no signs of any options for introducing additional CO_2 emission allowances into the ETS system, e.g. through changes to the parameters of the Market Stability Reserve (MSR), so **this component of the costs of gas and coal-fired power plants will remain high**. It will increase over time due to the constant reduction in the supply of allowances on the EU ETS market, especially after the adoption of the 90% emission reduction target by 2040, which currently dominates the debate in the EU.

The EC's Plan also fails to mention the need to increase investment in new dispatchable sources (gas, biomass or nuclear), which could reduce prices by providing additional energy supply. In many countries, investment in these sources has slowed down, but this issue is not addressed in the EC's plan.

2.2. Tax breaks for companies investing in decarbonisation.

In addition to the announced changes to the CBAM, the EC announced in its Communication *Delivering on the Clean Industrial Deal I*, published in July 2025, a future proposal aimed at stimulating new investment in clean technologies and industrial decarbonisation. These are to be **solutions based on tax relief**, similar to those adopted in the Inflation Reduction Act in the United States. The aim is to reduce financial barriers for companies investing in sustainable development and to stimulate markets that are leading the way in decarbonisation technologies. The Commission is in favour of accelerated depreciation, immediate write-offs, and flexible tax relief.

Along with the above-mentioned Communication, the EC presented its recommendations[32] on the use of tax reliefs to support the implementation of the CID and the CISAF state aid

[32] COM (2025) 4319 final, COMMISSION RECOMMENDATION of 2 July 2025 on tax incentives to support the Clean Industrial Deal and in light of the Clean Industrial Deal State Aid Framework.

framework. The aim of these recommendations is to accelerate private investment in clean technologies, which is expected to strengthen the competitiveness of the EU economy.

According to the Commission, tax incentives can be a tool for supporting investment in new technologies. The legislator recommends that Member States ensure that incentives are cost-effective, precisely targeted, simple to implement and provide rapid financial benefits for companies investing in clean technologies. It also emphasises that **expenditure-based incentives (e.g. accelerated depreciation, tax credits) are more effective than income tax reductions.**

Tax credits, calculated on the basis of investment expenditure incurred, should be tax-deductible, and allow unused amounts to be carried forward for four years and, where possible, the unused portion to be refunded after that period.

The EC recommends introducing increased tax relief for investment projects that contribute to increasing the resilience of the economy, e.g. through the production of zero-emission technologies or components as an alternative to their Chinese counterparts.

In its recommendations, Brussels proposes that Member States allow accelerated depreciation, up to immediate write-offs, of the costs of purchasing or leasing clean technologies, with priority given to full write-offs in the year of investment. The condition is that the assets must be new and used primarily for the beneficiaries' activities. Flexibility in the choice of depreciation schedule by taxpayers is also allowed.

Member States are invited to inform the Commission of the measures implemented or planned by the end of 2025 and to regularly assess the effectiveness of these solutions and exchange good practices within existing EU forums. The Commission will monitor progress in implementing the CID and publish reports as part of its annual Single Market Competitiveness Report.

In conclusion, the document emphasises that tax relief should be part of a broader policy to support decarbonisation and competitiveness, combining cost-effectiveness, simplicity of application and the provision of rapid and certain benefits for investors.

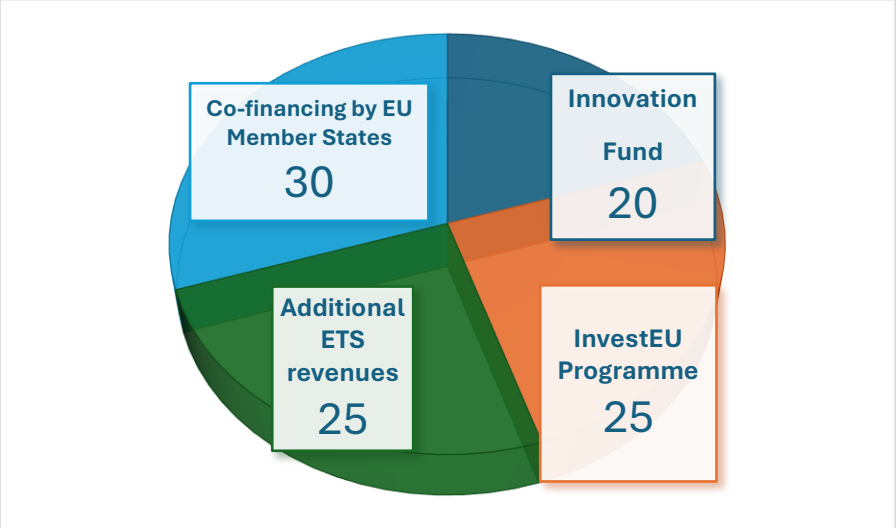
However, tax relief can also be a source of market distortion and lead to a continuation of the subsidy race between EU countries. Wealthier countries can apply them on a much larger scale than poorer countries. It is therefore a solution that shifts the burden of solutions onto the budgets of individual EU governments and is based on the principle that "bigger can do more".

2.3. Industrial Decarbonisation Bank – in the context of financing decarbonisation investments in industry.

One of the key elements discussed in the EC Communication of July 2025, aimed at supporting the decarbonisation of industry, is the creation of the Industrial Decarbonisation Bank (IDB), which is to be launched on a pilot basis by the end of 2025 with a budget of EUR 1 billion. The aim of this pilot is to decarbonise industrial processes through electrification and the direct use of renewable energy sources. The IDB aims to support companies from various industrial sectors, including medium-sized enterprises.

The IDB is a European Union initiative with a target value of €100 billion to finance the green industrial transition. However, these are not largely new funds, but mainly an accumulation of transfers from existing mechanisms into one. The bank is to be financed from four main sources: €20 billion from the Innovation Fund, €25 billion from the InvestEU programme, €25 billion from additional ETS revenues and €30 billion from co-financing by Member States. The IDB will support projects that significantly reduce carbon dioxide emissions in various industrial sectors in Europe, e.g. by supporting investments in renewable energy sources or carbon sinks. Investment financing will be based on the highest possible CO_2 reduction potential of projects.

Fig. 10. Sources of target financing for the Industrial Decarbonisation Bank (in EUR billion) with a total budget of EUR 100 billion.



Source: Own study based on EC data.

The bank is to finance financial support mechanisms such as contracts for difference supporting the current price of CO_2 (so-called *Carbon Contracts for Difference - CCfDs*), credit guarantees, and mixed financing. These instruments are intended to bridge the gap between the costs of new CO_2 emission avoidance technologies and the costs of allowances in the EU ETS.

The main areas targeted by the new financing instrument are **low-carbon steel production, the chemical industry, the electrification of energy-intensive industries, and carbon capture and storage (CCS) technologies**.

However, there is a risk that, as with the Innovation Fund, for example, the absorption of IDB funds will be dominated by projects from wealthier countries with more advanced technological solutions and more attractive national support mechanisms. In order to ensure the geographical balance of support from the IDB, it would be reasonable to create national envelopes for spending within a given Member State, as is the case with the Modernisation Fund.

The Commission has already published the rules for a €1 billion auction for industrial heat, paving the way for the decarbonisation bank. The auction will be open to bids of any value from all industrial sectors, supporting projects related to the electrification of heat-related industrial processes. Payments are proportional to each tonne of CO_2 emissions reduced over a five-year period.

Legal proposals for the introduction of the Industrial Accelerator Act, the flagship element of the CID for financing new investments in industry, have been postponed from 10 December 2025 and are now expected on 28 January 2026.

3. Discussion of the draft amendment to the European Climate Law Regulation with new flexibility mechanisms.

The Commission presented its proposal to amend the European Climate Law Regulation on 2 July 2025.[33] The main elements of this proposal included:

- **New climate target for 2040**: The Commission proposed a new target of reducing greenhouse gas emissions by 90% by 2040 compared to 1990 levels. This target would be binding at the European Union level but would not impose direct reduction targets on individual Member States.
- **Use of international carbon credits**: From 2036, credits could be used to achieve the 2040 target, amounting to 3% of the required reductions. According to the EC proposal, these credits would have to meet strict environmental standards and could not be used in the EU ETS.
- **Introduction of CO_2 sinks into the EU ETS:** The EC envisages integrating permanent CO_2 sinks into the EU ETS by allowing emission allowances to be cancelled with such units.
- **Cross-sectoral flexibility**: Member States could compensate for lower emission reductions in one sector with surpluses in another. This flexibility is intended to take account of national circumstances and promote cost-effective decarbonisation pathways.

These key elements are discussed in more detail in the following sub-sections.

3.1. The level of proposed reduction ambitions for 2040 and the impact on industry.

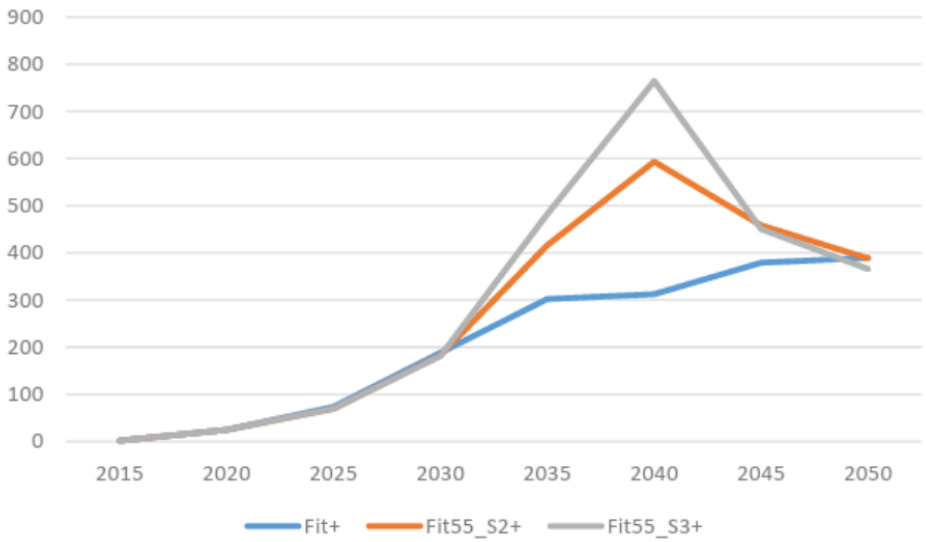
It is worth noting that the 2040 target does not radically change the legal situation with regard to the obligations of installations that are already covered by the emissions trading system and would in any case have to reckon with a continued decline in the pool of allowances in the EU ETS after 2030. Currently, as already indicated above in the Report, the EC is even considering flattening the curve of the decline in the EU ETS allowance pool after 2030 due to the risk of its complete depletion before 2040.

[33] COM(2025) 524, https://climate.ec.europa.eu/document/download/e1b5a957-c6b9-4cb2-a247-bd28bf675db6_en.

However, as a result of the potential inclusion of new sectors in the EU ETS without a simultaneous influx of additional allowances, price pressure on the installations covered by it will increase.

The chart below presents the results of KOBiZE's analyses of the forecast prices of emission allowances in the EU ETS until 2050, which were submitted to the EC as part of public consultations on the revision of the EU ETS.

Fig. 11. Forecasts of emission allowance prices in the EU ETS until 2050 depending on the ambition scenario. (EUR/tCO_2).



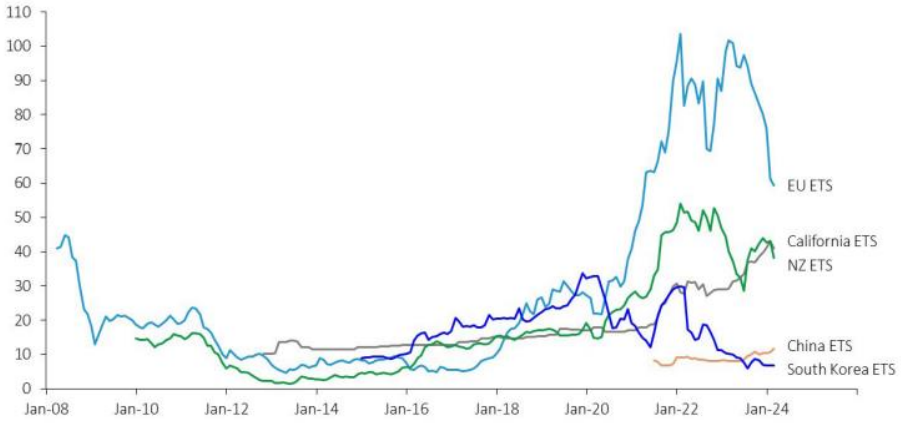
Source: KOBIZE, Feedback on the EC proposal for a European Climate Law (ECL) from July 2025, p. 4.

It is worth noting that although the Fit+ scenario (blue) is considered by the authors to be the baseline scenario, the S3+ scenario, marked in grey above, corresponds directly to the scenario consistent with the 90% CO_2 by 2040 and recommended by the EC in February 2024 together with the impact assessment[34] . In this scenario, allowance prices after 2030 reach a level of around EUR 200/tCO_2 in 2030, and then continue to rise sharply to astronomical levels of over EUR 750/tCO_2 in 2040.

The above trend of steadily rising CO_2 allowance prices in the EU will exacerbate the existing significant price disparity compared to emissions trading systems operating in China or the US. It is also worth mentioning that in China, for example, free allocation of emission allowances continues to apply in both industry and energy, so companies there only purchase the small number of allowances they need in addition to those received free of charge.

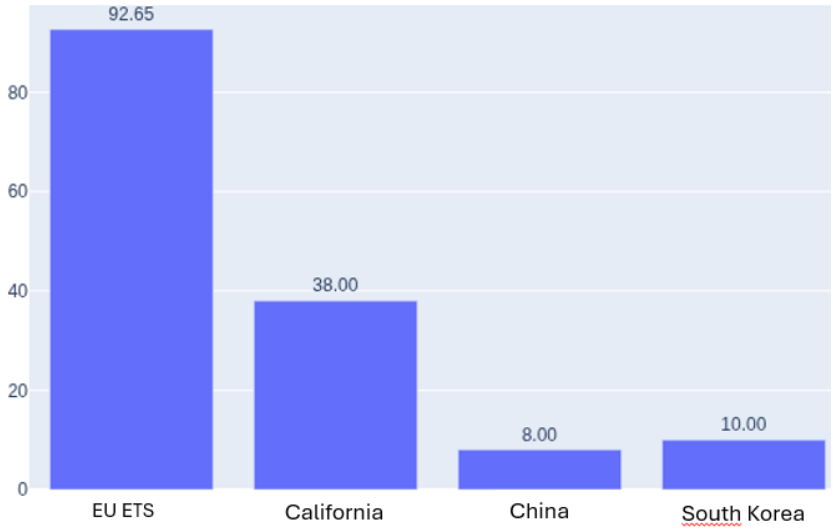
[34] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52024SC0063.

Fig. 12. Historical prices of CO_2 emission allowances in EU ETS systems in Europe, California, China, and South Korea.



Source: Rystad Energy, 2024, Mario Draghi Report, Part B, p. 12.

Fig. 13. Current prices of CO_2 emission allowances in EU ETS systems in the EU, California, China, and South Korea as of mid-December 2025 (in USD/t CO_2).



Source: Own study based on sources: https://carbonherald.com/china-carbon-prices-two-year-low-market-oversupply/; https://tradingeconomics.com/commodity/carbon.

A more detailed discussion of the impact assessment of the 2040 emission reduction target presented by the EC in February 2024 and its impact on industry has already been presented in the previous report[35] and is still valid due to the lack of an updated assessment by the EC in the publication of the revision of the European Climate Law in July 2025.

[35] Assessment of the impact of the implementation of the CO_2 emission reduction target and the Fit for 55 package on Polish industry: https://odbiorcyenergii.pl/news/ocena-wplywu-wdrozenia-celu-redukcji-emisji-co2-oraz-regulacji-gotowi-na-55-na-przemysl.

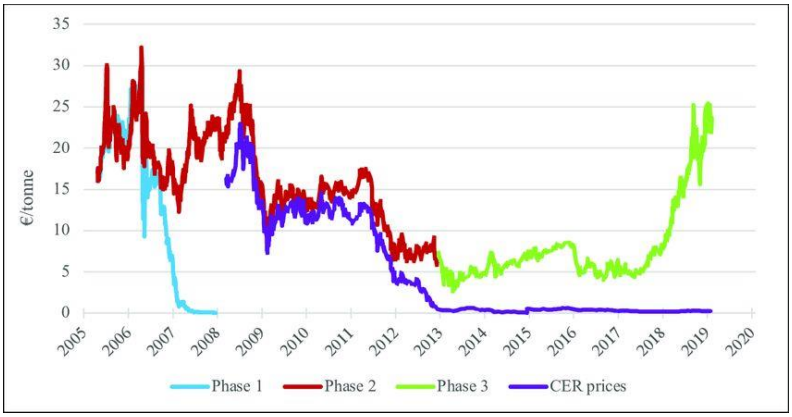
3.2. International carbon credits.

When preparing its proposal for a revision of the European Climate Law, the Commission faced the task of finding a compromise between ambitious countries and those that are increasingly sceptical, with the aim of minimising the weakening of climate ambition. It therefore sought a golden mean in the form of including flexibility options in how to achieve the 90% target. In the end, it proposed a solution that had already been used in the past – so-called carbon credits – but in a significantly modified form.

The solution of including emission reductions achieved in projects implemented at a lower cost outside the EU (in developing countries) was already in place in the EU ETS system until 2020 under *the Clean Development Mechanism* (CDM). The CDM was used in the previous two phases of the EU ETS (2008-2020). Instead of reducing emissions in its own installations, a company could invest in emission reductions, e.g. in China, and then use these units to offset its own emissions or sell them on the EU ETS market.

These reduction units (*CERs - Certified Emission Reductions*) were significantly cheaper than EU ETS allowances, so they were very popular. However, their use was limited. Between 2008 and 2020, Polish companies covered by the EU ETS could only offset up to 11% of the allowances allocated to them for 2008-2012 under the National Allocation Plans (NAPs) in force at the time.

Fig. 14. Historical prices of emission allowances (EUA) in the EU ETS compared to the prices of CER units in 2005-2019.



Source: ICE (for EUA prices) and Refinitiv Financial Solution (for CER prices)[36] .

By reintroducing the carbon credit option in its latest proposals, Brussels has fundamentally changed key elements of this mechanism. First of all, unlike in 2020, **the reduction units generated by these projects would not be eligible for trading in the emissions trading system by entities currently covered by the EU ETS**, i.e. energy companies or energy-intensive industries.

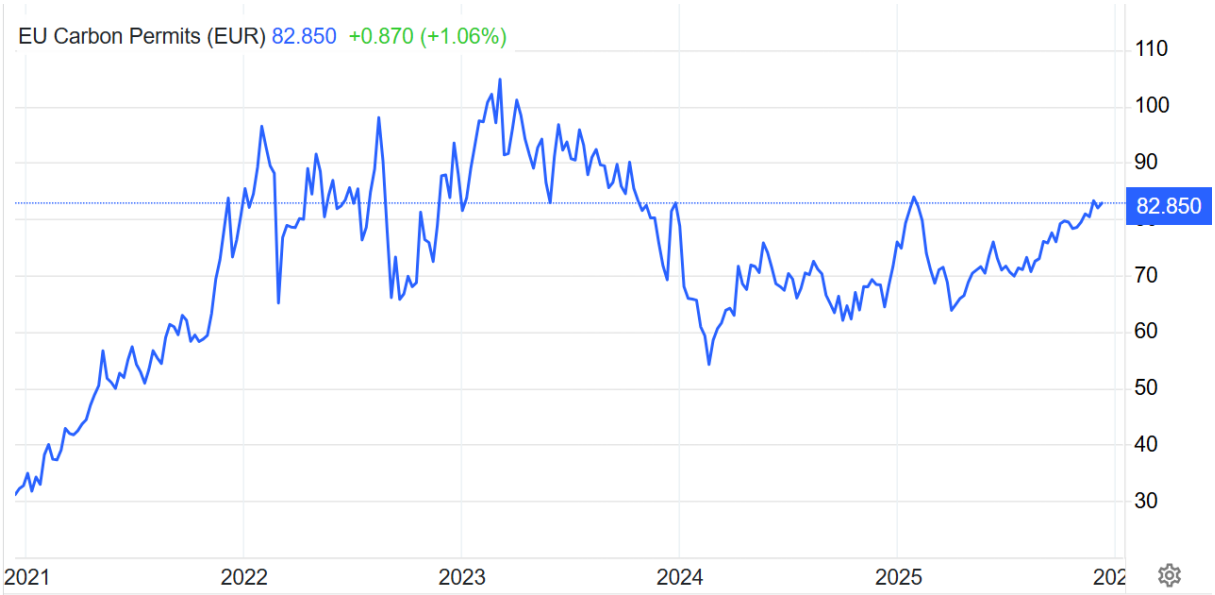
[36] The chart is taken from the Researchgate: "Informing the Carbon Market Policy Dialogue: The Emissions Trading Systems at a Glance", 2020; p. 33.

The second significant difference is their limited volume in the EC proposal, i.e. 3 per cent of EU emissions in 1990. In addition, according to the Brussels proposal, these units **will only be usable from 2036 onwards.**

This is therefore a solution to be used only as a last resort, as can be assumed primarily in the agricultural sector, which may be the only sector not yet covered by the EU ETS at that time.

The EC's approach puts domestic energy companies and those in energy-intensive industries at a disadvantage, as they had hoped that the return to carbon credits would provide them with some relief from the costs of purchasing emission allowances. Allowance prices are currently hovering around EUR 85/tCO_2, with forecasts predicting an increase to as much as EUR 200/tCO_2 by 2030, as indicated in the KOBiZE analyses cited above in the Report.

Fig. 15. Historical prices of CO_2 emission allowances in the EU ETS over the last 5 years (as of 10 December 2025).



Source: https://tradingeconomics.com/commodity/carbon.

3.3. The use of carbon removals in the EU ETS.

In addition to carbon credits, Brussels proposed the use of CO_2 (so-called carbon removals) in the EU ETS system. These can be generated by afforestation projects or technologies for capturing CO_2 from the air or burning biomass[37]. The reductions generated in this way could "offset" the continuing emissions from conventional installations in industry or the energy sector.

The problem is that installations with negative net emissions are practically non-existent on a commercial scale today. A market for them therefore needs to be created, and this goal can be supported by including such units in the EU ETS. However, this may not be enough, and without additional financial incentives, new technologies will not be developed on a scale that

[37] Carbon removal technologies include, among others: afforestation, direct air capture (DAC), and bioenergy with carbon capture and storage (BECCS).

will ensure their significant role in the decarbonisation of the EU economy. At present, most of these technologies do not have any projects operating in the EU, or only pilot installations are being developed[38] .

Due to limited support for the development of these technologies from EU sources, wealthier EU countries are beginning to introduce their own solutions. The latest example is the German €6 billion industrial decarbonisation support scheme, which is to finance CCUS projects[39] . The programme is aimed at energy-intensive sectors such as chemicals, steel, cement, and glass.

3.4. Ensuring flexibility in achieving targets across economic sectors.

In the case of this solution, at the time of writing the Report, there are more questions than answers and there is a lack of publicly available data on how flexibility between different sectors of the economy within a given Member State is to work in practice.

The Commission's proposal promotes greater flexibility between sectors, allowing Member States to balance their emission trajectories by achieving above-average reductions in some sectors while compensating for lower reductions in others.

For example, a country could offset limited progress in the land use, land use change, and forestry (LULUCF) sector with above-average performance in waste management or through greater emission reductions in transport.

This concept will be developed further in the next update of this Report, as new information becomes available. However, based on the information currently available, it appears that the division of commitments will primarily concern industries that are currently outside the EU ETS system.

3.5. Progress of the legislative process for the revision of the European Climate Law.

3.5.1 Status of work in the Council of the EU and the European Parliament

The Commission presented its proposal for the revision of the European Climate Law on 2 July 2025. The EU legislator proposed a 90% target for EU countries for 2040 with some flexibility, mainly in the form of support for its implementation with carbon credits – emission reduction units generated in cheaper decarbonisation projects outside the EU.

Less than six months after the European Commission proposed a flagship target of reducing greenhouse gas emissions by 90 per cent by 2040 (compared to 1990 levels), **EU institutions**

[38] For example, the BECCS project in Stockholm: https://beccs.se/.
[39] https://www.reuters.com/sustainability/climate-energy/germany-launches-6-bln-eur-industrial-decarbonisation-program-includes-ccs-2025-10-06/.

reached an agreement on new climate commitments on 9 December 2025. The final text of the revision of the European Climate Law does not differ significantly from the EC's original proposal.

Ursula von der Leyen and the new College of Commissioners considered the adoption of this target to be one of the Commission's key priorities for the current term and successfully implemented their agenda through an appropriate revision of the European Climate Law Regulation.

EU environment ministers and MEPs have adopted a target of a 90% reduction in GHG emissions by 2040 (vs. 1990), of which 85% is to be achieved solely through internal measures and **an additional "up to 5%" through carbon credits generated outside the EU**. This is an increase in flexibility, as the EC proposed a 3% share of carbon credits in the summer, and the Danish Presidency, which led the negotiations in the EU Council, did not want this solution at all. As a result of pressure from the Parliament, additional safeguards concerning carbon credits were included in the text, including preventing the financing of projects in countries that stand in the way of the EU's strategic interests.

In addition, **the target will be reviewed every two years** as economic and technological developments unfold. Opponents of the 90% target may therefore say that there will be an opportunity to lower it in the event of slower technological progress, declining public support or increasing transition costs. Following the review, the Commission will propose, if necessary, an amendment to EU climate law. This could result in a change to the 2040 target or additional measures to strengthen the support framework.

According to the final compromise, **carbon credits are to facilitate the achievement of the target only from 2036 onwards, but the text of the agreement does not clearly determine whether they will be redeemable in the EU ETS**. The EC is to carry out an additional impact assessment in this regard. The possibility of using carbon credits in the ETS1 was sought by, among others, European industry, and national energy companies. The Commission will analyse various options for the role of international credits in future EU climate legislation to achieve the 2040 target and, in this context, has issued a statement reiterating the need to ensure the stability of the EU emissions trading system.

According to the preamble, which is of lesser legal significance, **the EC is to consider a more gradual reduction in free allowances for industry from 2028 onwards**, thereby supporting investments in decarbonisation. Both the Council and the EP have agreed to this approach. Potential relief is not limited to sectors covered by CBAM, so it is possible that milder rules will also apply to industrial sectors not covered by it, such as heating.

It is important for industry to know in which direction this discussion will continue during the revision of the ETS Directive, which will begin in the third quarter of next year. Any relief is likely to be linked to an obligation to invest the market value of free allowances in green projects, as already suggested in public statements by key European Commission officials.

The positions of both institutions include important **provisions on the need for geographical balance in the financing of new technologies**. The lack of national envelopes or facilitated access to these funds is currently a problem for Poland, as few of our projects win the battle for support in open competitions, such as the Innovation Fund financed by the EU ETS.

In addition, the EU ETS2 emissions trading system, which covers CO2 emissions from fuel combustion in buildings and road transport, will be **postponed until 2028.** This is important for energy-intensive companies, as the ETS2 system will cause fuel prices to rise for consumers.

The agreement also includes **the possibility of using carbon sinks to offset emissions that are difficult to reduce under the ETS**, as well as increased flexibility within and between sectors and instruments to achieve the targets in the most cost-effective way.

European Parliament will now vote on the informal agreement, and the Council will also have to approve it. It will enter into force 20 days after its publication in the EU Official Journal.

In the context of the final negotiations on the new climate target for 2040, Ursula von der Leyen and the European Commission can be said to have achieved success, having managed to push through an ambitious climate agenda in less than six months despite the rightward shift of the EU Council and the European Parliament. It achieved this without sacrificing much in return, as allowing quality-assured carbon credits from outside the EU only from 2036 and probably outside the ETS1 system is not a high price to pay. Nor is it the postponement of the politically controversial ETS2 system by just one year, although it could be said that since this step has been taken, it may be delayed further when the entire EU ETS directive is revised next year. This is certainly not the end of the discussion on this issue, and Poland will call for further delays.

The biennial review of the target is a kind of emergency brake that provides security for the more pragmatic EU countries, but on the other hand, it is difficult to imagine that the European Commission's assessment will lead to a weakening of ambitions in the future. For this to happen, something spectacular would have to occur, such as a total technological standstill in CO2 absorbers or an economic crisis.

Finally, during the discussion on the 2040 target, the EU's energy-intensive industry, which demanded, among other things, a slowdown in the pace of free emission allowance phase-outs for sectors covered by the CBAM, more EU funds for investments, and more far-reaching reforms of the ETS pricing mechanisms, did not gain much ground.

The next round of strategic discussions on reduction targets will begin soon as the EC progresses with its work on revising the EU ETS Directive, which aims to "deliver" on the 2040 target. The EC's official proposal will be presented in the second half of next year, but the preliminary concept is certainly already on the desks of officials in Brussels.

The Polish government's position on the adoption of the EU's 2040 emission reduction target **was focused on attempting to lower the emission reduction target to 83%. The Polish government also wanted carbon credits to be available to installations covered by the EU ETS**. According to Warsaw, these should be **available from 2031 in a volume corresponding to 10 per cent of EU emissions in 1990.**

In addition, our officials wanted **to exclude sectors directly related to defence, chemicals, steel, and cement from the EU ETS**, justifying such radical solutions with the ongoing war in Ukraine. However, these exemptions were not granted.

The Polish government also focused on attempting to postpone the entry into force of the ETS2 system until at least 2030, which was only partially successful.

4. Analysis of the draft EU budget for 2028-2034, detailing potential instruments for financing the decarbonisation of industry.

4.1. The place of the European Competitiveness Fund in the draft new EU budget – available funds, eligible industries, and investments.

In the new budget, according to the Brussels proposal of July 2025[40] , the overall **target for climate and environment spending is at least 35% of the total budget** and is intended to help support the European Green Deal objectives. This is a considerable amount, as the total EU budget for the period 2028-2034 is **EUR 1.98 trillion** according to the EC's proposal. Approximately **EUR 693 billion** will therefore be allocated to activities related to the implementation of the Green Deal objectives.

Table 1. EC's planned EU budget revenue for 2028-2034 broken down by source (with EU ETS and CBAM revenue highlighted).

Table 6 – Long-term forecast of future inflows of the EU budget of 2028-2034 MFF

INFLOWS		2028	2029	2030	2031	2032	2033	2034	Total
Own Resources ceiling in % of EU Gross National Income*		2.35%	2.35%	2.35%	2.35%	2.35%	2.35%	2.35%	
Own Resources ceiling expressed in EUR billion		483.1	498.9	514.4	530.2	546.3	562.7	579.5	
Total Own resources:	**a**	**266.7**	**297.7**	**294.1**	**289.9**	**274.5**	**271.8**	**264.3**	**1 959.0**
of which Net amount of traditional own resources**		34.5	35.7	36.8	38.0	39.2	40.4	41.6	266.3
VAT-based own resource		26.6	27.5	28.3	29.2	30.1	31.0	31.9	204.4
Plastic-based own resource		9.3	9.5	9.7	9.9	10.1	10.3	10.5	69.2
European Emission Trading System based own resource (ETS1)		8.8	11.7	11.3	13.0	11.7	10.3	8.8	75.6
E-waste based own resource		16.2	16.5	16.7	16.9	17.1	17.3	17.4	118.0
Tobacco Excise Duty own resource (TEDOR)		13.0	12.7	12.4	12.8	12.5	12.2	12.7	88.3
Carbon Border Adjustment Mechanism (CBAM)		0.9	1.0	1.3	1.5	1.9	2.0	2.2	10.8
Corporate Resource for Europe (CORE)		7.4	7.5	7.5	7.6	7.7	7.8	7.9	53.3
GNI-based own resource		149.9	175.8	170.2	161.0	144.3	140.5	131.4	1 073.0
Other revenue (incl. fees and provisional UK contribution, European Travel Information and Authorisation System (ETIAS) fee)	**b**	**3.3**	**3.0**	**2.9**	**2.9**	**2.9**	**2.9**	**3.1**	**21.1**
TOTAL REVENUE	**c=a+b**	**270.0**	**300.7**	**297.1**	**292.8**	**277.4**	**274.7**	**267.5**	**1 980.1**

** Own Resources ceiling – calculated based on the Spring 2025 economic forecast for the Gross National Income of the EU27*

Source: European Commission.

The draft of the new EU budget presented by the European Commission in July 2025 establishes the European Competitiveness Fund (hereinafter: "ECF"). **Together with the Horizon Europe programme, it is to provide EUR 409 billion for research, innovation, development, and implementation of new technologies**. The fund will combine 11 existing

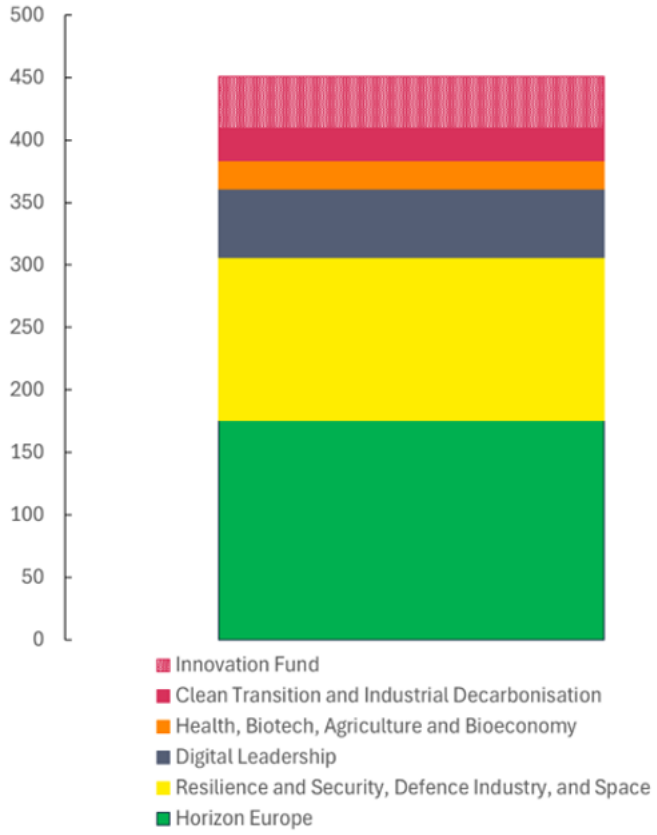
[40] https://commission.europa.eu/publications/multiannual-financial-framework_en.

programmes under a directly and indirectly managed investment instrument into a single management structure. The fund will be divided into four vertically integrated sectors: **clean transition and decarbonisation**; resilience, defence, and space; digital leadership; health and bioeconomy. It is worth noting that the ECF, as a rule, pools funds from a number of existing programmes and centralises them.

The fund is intended to support the best and most innovative projects. The prioritisation of funding and projects will be based on: (i) a methodology for assessing EU needs and areas where EU action adds value to national action; (ii) consultations with the fund's advisory board of stakeholders, which will include investors and experts from the fields of research, start-ups and industry.

The ECF is intended to be a key tool for strengthening the competitiveness of European companies and supporting the Union's domestic industrial base in the field of new technologies.

Fig. 16. Distribution of European Competitiveness Fund resources by area (in EUR billion for 2028-2034).



Source: European Commission[41] .

In summary, the EFC would have a budget of approximately EUR 410 billion, to be invested over a seven-year budget cycle. The addition of an Innovation Fund, separate from the main EU budget, would increase the total amount to EUR 450 billion. This represents more than one-fifth of the EU's long-term budget of EUR 2 trillion. **However, this would still cover less than 10% of the total needs identified by Draghi**.

[41] COM (2025) 570, https://eur-lex.europa.eu/legal content/EN/TXT/HTML/?uri=CELEX:52025DC0570R%2801%29.

On the other hand, given the distribution of ECF funds across different sectors, **expenditure strictly allocated to energy-intensive industries will account for only a small part of the total EFK budget – EUR 67.4 billion** – including around EUR 40 billion from the Innovation Fund – for clean technologies (marked in red in Figure 16 above).

To fill the significant financial gap between the needs of EU industry and the funding available in the new budget, Draghi also called on the EU to complete the creation of a capital markets union to facilitate investment within the single market and to mobilise pension funds. However, progress on these issues has been slow.

At the same time, in its proposal, the EC has assumed that **part of the revenues from the EU ETS will constitute a new source of EU own resources**. According to the current proposal, **30% of EU ETS revenues would go to the EU budget**, with the remaining majority of revenues from the auctioning of emission allowances continuing to flow into national budgets.

In principle, **the funds from the application of CBAM would also constitute EU own resources.**

5. Analysis of the new State Aid Framework in support of the Clean Industrial Deal and key conclusions for energy-intensive industries.

In June 2025, the European Commission adopted an important new framework for state aid supporting the objectives of the Clean Industrial Deal (hereinafter: CISAF). The CISAF is effective immediately from 25 June to 31 December 2030 and replaces the temporary crisis framework in place since the start of the war in Ukraine in 2022, which has been periodically extended on a short-term basis. Importantly, the CISAF will operate in parallel with the previous horizontal aid guidelines for energy and the environment. The rules set out in the CISAF are intended to be complementary to them. In practice, **if support instruments in a given country are not compatible with the CISAF, they will be assessed on the basis of existing guidelines**, which may, however, prolong and complicate their notification to Brussels.

The new framework simplifies state aid rules in five main areas: 1) the deployment of renewable energy and low-carbon fuels; 2) electricity price relief for energy-intensive companies in exchange for decarbonisation investments; 3) the decarbonisation of existing production facilities; 4) development of clean technology production capacity in the EU; 5) reduction of the risk of investment in decarbonisation.

The new aid framework provides countries **with alternative support mechanisms to a single joint auction through the capacity market for conventional fossil fuel-based units and flexibility units operating without fossil fuel combustion**. Countries may, for example, take into account requirements for non-fossil fuel flexibility by setting minimum volume thresholds for them. They may also require them to participate in only one support instrument if a separate mechanism dedicated solely to 'clean' flexibility is introduced.

➢ Key solutions in CISAF for energy-intensive companies

On the basis of CISAF, countries will be able to continue to support energy-intensive industries that meet the criteria described in the new aid framework in the form of electricity bill rebates for a period of no more than three years. **In exchange for the discounts, however, companies will have to invest in projects that contribute to the EU's climate goals, for example by moving away from fossil fuels in favour of renewable energy sources, both in production processes and in energy generation for their own needs**. The discounts may take the form of reductions in wholesale electricity prices for a specified portion of consumption.

As a rule, **companies eligible for support must operate in industries exposed to significant relocation outside the EU, as listed in Annex 1 to the CEEAG guidelines**. **However**, **countries may add other sectors to the support** if they provide adequate justification supported by an independent assessment.

Support may be granted to reduce energy prices by up to 50 per cent of the annual average wholesale price in a given price zone. In terms of volume, it may not cover more than 50 per cent of the annual energy consumption of a given entity in the current or previous year. A country will be able to grant an additional 10 per cent support, provided that at least 75 per cent of this additional support is allocated to decarbonisation investments. At the same time, **the reduction in energy prices cannot lead to a reduced price of less than EUR 50/MWh**.

The CISAF framework lists examples of investments that must be reflected in the relief granted to energy-intensive companies, but this is not an exhaustive list. The examples include **projects for new renewable energy generation capacity, energy storage, investments in energy demand reduction, construction of electrolysers for the production of renewable or low-carbon hydrogen, flexible demand management, and electrification of production processes**.

The above investments balancing energy allowances **will not be eligible for any other support instruments and must be operational within four years of the price support being granted**, unless the country can prove that the project cannot be technically completed within that period.

Importantly, **CISAF relief cannot cumulatively increase the support already granted in the form of compensation for indirect emission costs**, which benefits selected industries exposed to the risk of relocation outside the EU. The cumulative level of support from both instruments cannot exceed the highest level resulting from each of them.

The changes resulting from CISAF in the areas of the capacity market and price relief for energy-intensive companies are moving towards further harmonisation and are aimed at speeding up the approval of national support mechanisms by Brussels.

In summary, in the area of relief for energy-intensive companies**, a significant element of price support, limited in time and volume,** has been **introduced, but it is not unconditional, rather it functions in exchange for investments contributing to decarbonisation**. Therefore, this cannot be considered a relief in energy costs, as the funds saved under CISAF must be redirected to capital expenditure.

As with other national support mechanisms, the scope of application of price reliefs is likely to vary greatly depending on the level of prosperity of the country. So far, only a few countries – France, Germany, and Italy – have spent most of the public aid granted across the EU in these

areas. **The continuation of this trend, leading to the fragmentation of the competitive EU market, is virtually inevitable given the lack of harmonised solutions at EU level**.

5.1 Analysis of the price support system for energy-intensive industries in Germany.

A special support programme for energy-intensive companies will be launched in Germany in 2026. It is currently in the final stages of approval by the European Commission. Under this scheme, companies in sectors such as chemicals, steel, cement, glass, and paper can count on preferential energy purchase terms. In accordance with the new CISAF aid framework, **half of their annual electricity demand will be covered by a fixed, reduced rate of EUR 50/MWh, with the difference between this and the market price to be covered by the state**. The remainder of the energy purchased by the companies covered by the support is to be purchased at market prices.

To benefit from the programme, companies must meet certain criteria: demonstrate high energy intensity, implement energy management systems, present plans for investments in energy efficiency improvements and measures to reduce greenhouse gas emissions. In addition, they are required to continue their production activities within the European Union.

- **Key features of the German mechanism[42] :**

1. **Duration and payment date**: The programme is to last three years (from 2026 to 2028). State aid is to be paid in the following year, i.e. state aid for 2026 will be paid in 2027.

2. **Price support**: The basic principle is that **50% of a company's annual electricity consumption is eligible for state aid**. The target price for this amount is 5 euro cents/kWh. Electricity will continue to be purchased at market prices, but companies will receive compensation amounting to 50% of the average wholesale price (reference price). However, the target price of 5 euro cents/kWh will be the lower limit of the amount that companies can receive.

3. **Beneficiaries**: Companies will be eligible for payments if they consume large amounts of electricity and face international competition that could force them to relocate their production abroad. **The aim is to help companies in the sectors listed in the first part of Annex 1 to the EU Guidelines on State Aid for Climate, Environmental and Energy Protection 2022**. Following consultation with the European Commission, further sectors and sub-sectors may be added to the group of beneficiaries.

4. **Decarbonisation in return**: State aid is conditional on the fulfilment of decarbonisation investment commitments set by the European Commission. Companies must invest at least 50% of the state aid received in projects that reduce the costs of the electricity system without increasing fossil fuel consumption. Investment options include the development of renewable energy generation capacity, energy storage solutions, or energy efficiency improvements. **The**

[42] Elements of the German mechanism described on the basis of: https://www.gleisslutz.com/en/news-events/know-how/germany-cuts-costs-electricity-intensive-companies-1-january-2026-new-industrial-electricity-price/

beneficiary of State aid may invest in its own facilities or in third-party facilities, but must do so within 48 months of the aid being granted.

6. **Flexibility bonus**: Under the new bonus mechanism, the state aid granted will be increased by 10% if the company demonstrates that at least 80% of its investment in one of these decarbonisation options has been used to increase demand flexibility. In turn, at least 75% of the flexibility bonus must be invested in decarbonisation.

7. **Degressive state aid option**: Companies may also change the way they allocate eligible electricity during the period of financial support in order to concentrate the effects of the relief at the beginning of the period. **They may have significantly more than 50% of their electricity recognised in the first year and then less in the second and third years.**

8. **Combination with other financing instruments**: The industrial electricity price is an alternative to the existing electricity price compensation (Strompreiskompensation) in Germany, **so it will not be possible to combine the two**. Instead, companies should decide whether to take advantage of the industrial electricity price or the electricity price compensation in a given year. Other forms of relief, such as electricity tax or network charges, will remain in place but will be subject to cumulative state aid limits.

In the coming weeks, the German parliament will consider a draft law specifying the details of the industrial electricity price. This process, as well as consultations with the European Commission, may result in changes to the key proposals outlined above.

As indicated above, **the programme does not allow this form of support to be combined with other public aid mechanisms related to energy costs**. The whole scheme has been designed in accordance with the EU's CISAF guidelines, which specify both the maximum level of price reduction and the minimum rate to which energy costs can be reduced.

The programme's budget is planned for 2026-2028 and is estimated at EUR 4-5 billion, with financing coming mainly from energy transition funds and partly from the state budget.

In addition, the German government plans to reduce the electricity tax to the minimum level required in the EU and introduce subsidies to cover energy transmission costs. Companies will also be able to enter into PPAs with renewable energy producers, benefiting from state guarantees, which will allow them to purchase energy at a preferential price.

The programme is aimed at approximately two thousand companies that have a high share of energy costs in their added value and are particularly exposed to international competition and the effects of rising electricity prices.

➢ The impact of the energy price support system for industry in Germany on the competitiveness of Polish industry

The introduction of an electricity subsidy programme in Germany for energy-intensive sectors will enable German companies to produce more cheaply than their competitors in Poland. Thanks to lower electricity bills, German companies will gain a cost advantage, allowing them to offer their products at more attractive prices on both the EU and global markets. **As a result, Polish energy-intensive companies that do not have access to similar support mechanisms may find it difficult to maintain their current sales levels**.

The lack of long-term solutions to stabilise energy prices in Poland, combined with rising CO_2 emission costs and the high emissions of the domestic electricity generation sector, will cause

Polish companies to lose their competitiveness. This may lead to a decline in production, job cuts, and a deterioration in the position of Polish exporters on foreign markets.

If Poland does not implement similar instruments, the differences in production costs compared to other EU countries such as Germany will widen, and domestic industry may gradually lose its share of the European market. In addition, high energy bills may discourage investors from locating new investments in Poland, which will have a negative impact on the country's economic development.