



EUROPEAN COMMISSION  
DIRECTORATE-GENERAL  
CLIMATE ACTION

Directorate B - European and International Carbon Markets

## Guidance Document n°1

on the harmonised free allocation methodology for the EU ETS – 2024  
revision

## **General Guidance to the allocation methodology**

*Final version issued on 26 February 2024*

The guidance does not represent an official position of the Commission and is not legally binding. However, this guidance aims to clarify the requirements established in the EU ETS Directive and the FAR and is essential to understanding those legally binding rules.

# CONTENTS

1	Introduction	3
1.1	Status of the Guidance Documents	3
1.2	Background of the FAR Guidance Documents	3
1.3	Additional guidance	5
1.4	Use of the Guidance documents	7
1.5	Scope of this guidance document	7
2	Main elements in the Phase 4 allocation methodology	8
2.1	Harmonised free allocation rules in Phase 4	8
2.2	Provisions affecting the amount of free allocation in the 2023 revision	9
3	Overview of the allocation process	12
4	Relevant installations	17
4.1	Which installations must be in the NIMs list?	17
4.2	Who receives free allocation?	19
5	Allocation methodology	21
5.1	Overview of allocation approaches for sub-installations	21
5.2	Split into sub-installations	25
5.3	Correction factors	27
5.3.1	Carbon leakage exposure factor	28
5.3.2	Carbon Border Adjustment Mechanism factor	28
5.3.3	Cross-sectoral correction factor	29
5.3.4	Linear reduction factor	30
Annex A	Timeline – key dates from the revised EU ETS	32
Annex B	List of definitions	33
Annex C:	Comparison with 2019 Guidance Document 1	40

# 1 Introduction

## 1.1 Status of the Guidance Documents

This guidance document is part of a group of documents, which are intended to support Member States, and their Competent Authorities, in the coherent implementation throughout the Union of the allocation methodology for the second allocation period in Phase 4 of the EU ETS, following the revision of the ETS Directive<sup>1</sup> and the Delegated Regulation of the Commission (EU) 2019/331 on “Transitional Union-wide rules for harmonised free allocation of emission allowances pursuant to Article 10a of Directive 2003/87/EC of the European Parliament and of the Council” (FAR)<sup>2</sup>, and the subsequent implementing acts.

This guidance document is based on a draft provided by a consortium of consultants (SQ Consult, Umweltbundesamt) and builds on the guidance documents developed for Phase 3<sup>3</sup> and for the first allocation period in Phase 4<sup>4</sup>. It takes into account the discussions at several meetings of the Expert Group on Climate Change Policy and written comments received from stakeholders and experts from Member States, in 2018-2019 as well as in 2023-2024.

## 1.2 Background of the FAR Guidance Documents

Specific topics were identified within the FAR which deserve further explanation or guidance. The FAR guidance documents intend to address these issues as specifically and clearly as possible. The Commission considers it necessary to achieve the maximum level of harmonisation in the application of the allocation methodology for Phase 4.

The FAR guidance documents aim at achieving consistency in the interpretation of the FAR, to promote harmonisation and prevent possible abuse or distortions of competition within the Community. The full list of those documents is outlined below:

- Guidance document no. 1 – general guidance:  
This document gives a general overview of the allocation process and explains the basics of the allocation methodology. It also explains how the different Guidance documents relate to each other.
- Guidance document no. 2 – guidance on allocation approaches at the installation level:

---

<sup>1</sup> Directive (EU) 2023/959 of the European Parliament and of the Council of 10 May 2023 amending Directive 2003/87/EC establishing a system for greenhouse gas emission allowance trading within the Union and Decision (EU) 2015/1814 concerning the establishment and operation of a market stability reserve for the Union greenhouse gas emission trading system (Text with EEA relevance), PE/9/2023/REV/1, OJ L 130, 16.5.2023, p. 134–202, see: <http://data.europa.eu/eli/dir/2023/959/oj>

<sup>2</sup> The revised version of the FAR has been adopted on 30 January 2024 and can be found here: [https://ec.europa.eu/transparency/documents-register/detail?ref=C\(2024\)441&lang=en](https://ec.europa.eu/transparency/documents-register/detail?ref=C(2024)441&lang=en). The scrutiny period is still on-going at the time of publication of this guidance.

<sup>3</sup> by a consortium of consultants (Ecofys NL, Fraunhofer ISI, Entec): [https://climate.ec.europa.eu/system/files/2016-11/gd1\\_general\\_guidance\\_en.pdf](https://climate.ec.europa.eu/system/files/2016-11/gd1_general_guidance_en.pdf)

<sup>4</sup> [https://climate.ec.europa.eu/system/files/2019-02/p4\\_gd1\\_general\\_guidance\\_en.pdf](https://climate.ec.europa.eu/system/files/2019-02/p4_gd1_general_guidance_en.pdf)

This document explains how the allocation methodology works at the installation level and explains how a sector's exposure to the risk of carbon leakage affects the determination of the installations' free allocation.

- Guidance document no. 3 – data collection guidance:  
This document explains which data are needed to be submitted by operators to the Competent Authorities and how operators need to collect them, the document covers both data for the determination of the preliminary free allocation as well as for the update of the benchmark values. It reflects the structure of the data collection template provided by the European Commission.
- Guidance document no. 4 – guidance on NIMs data verification:  
This document is targeted at EU ETS verifiers and accreditation bodies. It explains the verification process for the data collection for the National Implementation Measures<sup>5</sup>, and data submissions by new entrants.
- Guidance document no. 5 - guidance on Monitoring & Reporting (M&R) for the FAR:  
This document serves three purposes:
  - (a) Provides a “quick guide” for readers new to the topic of free allocation in the EU ETS;
  - (b) Gives an overview of the M&R requirements introduced by the FAR supplementing the existing annual compliance cycle already established by the Monitoring & Reporting Regulation (MRR) and the Accreditation & Verification Regulation (AVR); and
  - (c) Provides guidance on the requirements for the monitoring methodology plan and other new elements of the FAR which are not covered by other guidance documents of this series.
- Guidance document no. 6 – guidance on cross boundary heat flows:  
This document explains how allocation methodologies work in the case of heat transfer across the boundaries of an installation.
- Guidance document no. 7 – guidance on new entrants and closures:  
This document is meant to explain allocation rules relating to new entrants, closures and activity level changes.
- Guidance document no. 8 – guidance on waste gases and process emission sub-installations:  
This document provides an explanation of the allocation methodology relating to process emission sub-installations, in particular, concerning the treatment of waste gas.
- Guidance document no. 9 – sector-specific guidance:  
This document provides a detailed description about the product benchmarks as well as the system boundaries of each product benchmark listed within the FAR. Furthermore, special methods to calculate the activity levels or to adjust the allocation are described, where relevant.
- Guidance document no. 10 – mergers and splits:  
This document explains how the allocation can be impacted by mergers and/or splits of installations.
- Guidance document no. 11 – climate-neutrality plans:

---

<sup>5</sup> Article 11 of Directive 2003/87/EC

This document provides guidance on the requirements for climate-neutrality plans (CNPs) to be eligible for free allocation that is conditional on the submission and implementation of such a plan <sup>6</sup>.

- Guidance document no. 12 – conditionality of energy efficiency improvement measures:  
This document focuses on the requirements to be met to be eligible for free allocation that is conditional on the implementation of energy efficiency measures as recommended in energy audits required under the Energy Efficiency Directive.

This list of documents is intended to complement other guidance papers issued by the European Commission related to Phase 3 and – where needed – updated for Phase 4 of EU ETS, in particular:

- Guidance on Interpretation of Annex I of the EU ETS Directive<sup>7</sup> (excl. aviation and maritime activities). This document provides guidance on how to interpret Annex I of the Directive, which is the scope of the EU ETS from 2013 onwards;

In addition, the Commission has provided an extensive suite of guidance material in relation to MRVA under the EU ETS<sup>8</sup>. The user of the current document is assumed to be familiar with at least the basic principles of MRVA.

Figure 1 illustrates the relationship between the various guidance documents, and what information can be found where. The full set of guidance documents can be found on the Commission website<sup>9</sup>.

### 1.3 Additional guidance

Alongside the guidance documents, additional support to the Member State authorities is provided on the Commission’s-website, with a list of guidance documents, FAQs and useful references: [https://ec.europa.eu/clima/policies/ets/allowances\\_en#tab-0-0](https://ec.europa.eu/clima/policies/ets/allowances_en#tab-0-0).

---

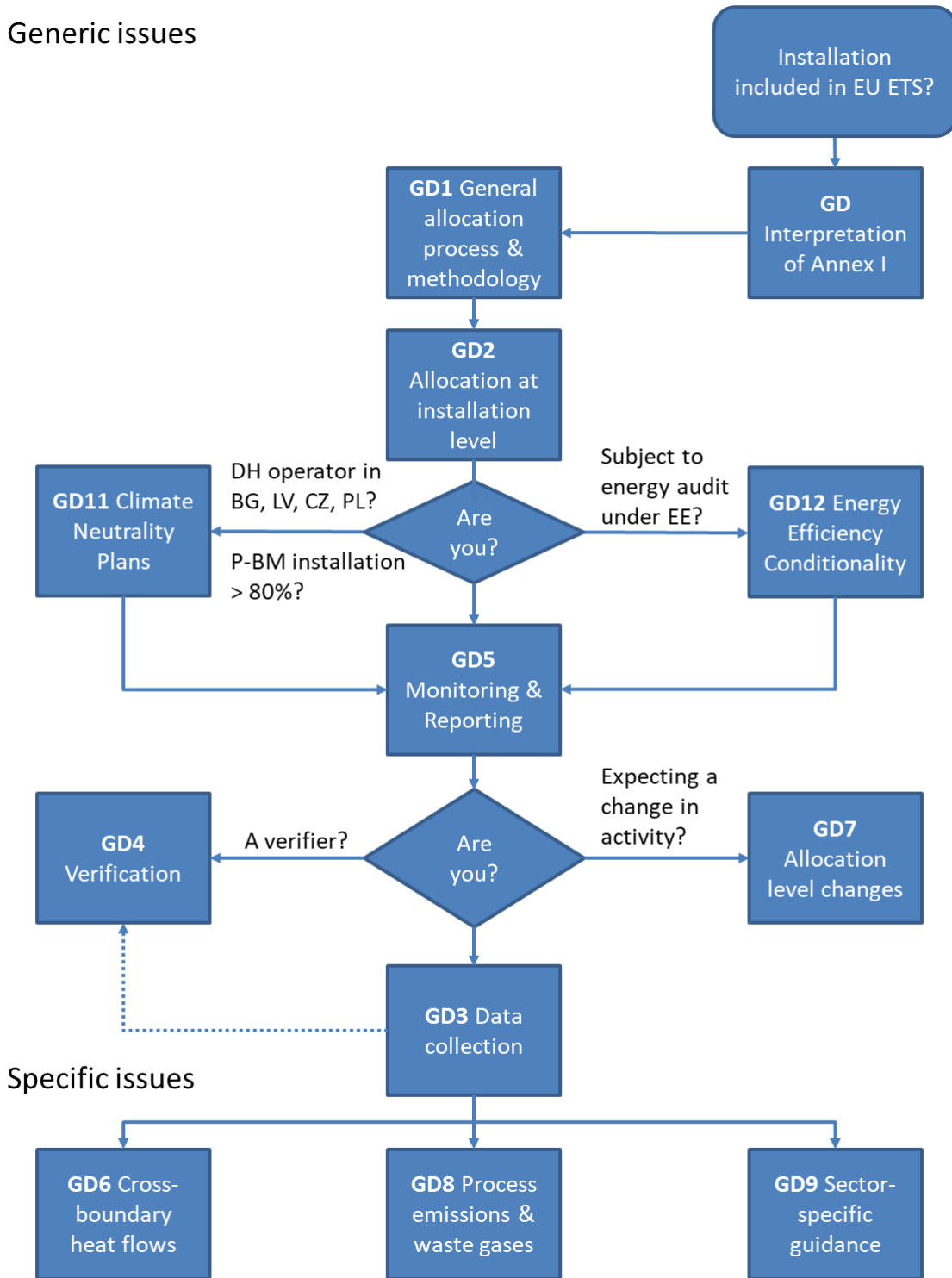
<sup>6</sup> For district heating operators in selected countries and product-benchmark installations with specific emissions above the 80th percentile of their benchmark curve

<sup>7</sup> : [https://climate.ec.europa.eu/document/edc93136-82a0-482c-bf47-39ecaf13b318\\_en](https://climate.ec.europa.eu/document/edc93136-82a0-482c-bf47-39ecaf13b318_en)

<sup>8</sup> [https://ec.europa.eu/clima/policies/ets/monitoring\\_en#tab-0-1](https://ec.europa.eu/clima/policies/ets/monitoring_en#tab-0-1) – see in particular the section “Quick guides”

<sup>9</sup> [https://climate.ec.europa.eu/eu-action/eu-emissions-trading-system-eu-ets/free-allocation\\_en](https://climate.ec.europa.eu/eu-action/eu-emissions-trading-system-eu-ets/free-allocation_en)

## Generic issues



**Figure 1** The suite of Guidance documents: the relationship between individual Guidance documents and where to find what information. Note that the above diagram does not indicate a timeline, but rather whether the topic of the GD is generic (relevant to all readers) or for specific audiences (in specific roles, situations or with specific issues).

## **1.4 Use of the Guidance documents**

The guidance documents give guidance on implementing the new allocation methodology for Phase 4 of the EU ETS, as from 2021: the Member States may use this guidance when they perform the data collection pursuant to Article 14 of the FAR in order to define the complete list of installations as well as to calculate any free allocation to be determined for the National Implementing Measures (NIMs) pursuant to Article 11(1) of the Directive 2003/87/EC.

Note that this document only covers the transitional harmonised free allocation to industry under Article 10a of the ETS Directive. Any allocation under Article 10c (“Option for transitional free allocation for the modernisation of the energy sector”) is outside the scope of this document.

References to articles within this document generally refer to the revised ETS Directive and to the FAR.

A comparison of the content of the current version of this Guidance Document and its 2011 and 2019 versions is included in Annex D.

Note on outstanding issues in this version of the Guidance Document

As decision-making on the allocation methodology is not yet finalised, certain elements of this Guidance Document are as yet undefined. This especially includes issues related to update of the FAR, and update of the benchmark values. In addition, it can also apply to references to the outstanding legislation itself or to accompanying Guidance Documents that are still to be prepared or finalised.

## **1.5 Scope of this guidance document**

This guidance document explains the main principles and processes of the allocation methodology for Phase 4 for stationary installations, without addressing specific allocation issues. It gives a short overview of the NIMs development process and describes the main features of the allocation methodology. Aviation, maritime transport activities, and activities covered by Annex III of the ETS Directive (i.e. emissions trading system for buildings, road transport and additional sectors) are outside the scope of this guidance document.

The guidance documents do not go into detail regarding the procedures that Member States apply when issuing greenhouse gas emissions permits. It is acknowledged that the approach to setting the installation boundaries laid down in greenhouse gas (GHG) emissions permits differs between Member States.

## 2 Main elements in the Phase 4 allocation methodology

Before going into the details of the Phase 4 allocation methodology, some background information is provided in order to understand how the allocation methodology in Phase 4 differs from the allocation methodology used in the previous Phase, as well as the new elements introduced by the 2023 revision of the ETS Directive.

### 2.1 Harmonised free allocation rules in Phase 4

Since Phase 3, the EU ETS is based on a Union-wide harmonised allocation method in which “auctioning should be the basic principle for allocation, as it is the simplest and generally considered to be the most economically efficient system”<sup>10</sup>. The 2023 revision reiterates that “The auctioning of allowances is the simplest and the most economically efficient method for allocating emission allowances, and also avoids windfall profits” (recital 81). No free allocation shall, according to the Directive, be made in respect of any electricity production with the exception of electricity produced from waste gases<sup>11</sup>.

For other emissions, transitional free allocation based on Union-wide ex-ante benchmarks are, and will continue to be, used during Phase 4. This implies:

- For products with a product benchmark, the amount of free allocation is based on specific emissions at the *product level*, while for activities without product benchmarks so-called “fall back” approaches exist to determine free allocation (see Section 5 for further explanation).
- “Transitional” means that the free allocation is initially 30% of the quantity determined via the Union-wide harmonised free allocation rules and decreases from 2026 onwards to 0% (and thus no free allocation) in 2030<sup>12</sup>.
- Exceptions are made for installations in sectors which are deemed to be exposed to significant risk of carbon leakage, i.e. “genuine risks of increases in greenhouse gas emissions in third countries where industry is not subject to comparable carbon constraints, as long as comparable climate policy measures are not undertaken by other major economies”<sup>13</sup>. Those installations receive free allowances of 100% of the benchmark levels, with a number of exceptions (see the next section).

Allocation will be done in two rounds, once for the period 2021-2025 and again for the period 2026-2030.

---

<sup>10</sup> Directive 2009/29/EC, recital 15

<sup>11</sup> Article 10a(1) of the ETS Directive

<sup>12</sup> With the exception of district heating sub-installations, see Section 5 for further explanation.

<sup>13</sup> Directive 2018/410, recital 7



Phase 4 furthermore introduces a number of changes designed to further strengthen the EU ETS. This includes a change in approach for installations undergoing significant changes after the initial allocation has been made from one based on changes in the installation's capacity (as used in Phase 3) to one based on changes in the installation's activity levels. The main differences in approach are summarised in Table 1.

## 2.2 Provisions affecting the amount of free allocation in the 2023 revision

The 2023 revision<sup>14</sup> includes a number of provisions with the aim of reducing the amount of free allocation, through a further revision to the Linear Reduction Factor (LRF) and by making part of the free allocation conditional on progress towards reducing emissions. Also, the introduction of the Carbon Border Adjustment Mechanism (CBAM) will gradually replace free allocation for selected goods (see Section 5.3.2).

Starting in 2021, the **LRF** annually reduces the total cap on emission allowances by 2.2%. Following the 2023 revision, the total cap will be reduced faster, with the increase of the LRF to 4.3% in 2024, and 4.4% in 2028. Fewer free allowances will be available than in Phase 3 because of the annual higher reduction factor and because of a fixed share of total allowances to be auctioned (57% of total). The lower available amount of free allowances will be used in a more focused approach to avoid carbon leakage, including a phase out of free allocation after 2026 from 30% to 0 at the end of Phase 4 (2030) for less exposed sectors<sup>15</sup>.

For selected goods, however, free allocation will be phased quicker over time. As of October 2023, the **Carbon Border Adjustment Mechanism (CBAM)** was established. As of 2026, free allocation for the production of goods listed in Annex I of the CBAM Regulation<sup>16</sup> will progressively be reduced, reaching zero allocation in 2034.

The 2023 ETS Directive makes part of the free allocation **conditional**, i.e. situations have been defined in which certain conditions need to be met before the final amount of free allowances is issued. Three separate cases of such conditionality are defined in the Directive:

1. The free allocation to eligible installations will be reduced by 20% if operators have not implemented energy efficiency recommendations from energy audits or energy management systems as required under the EU Energy Efficiency Directive (EED)<sup>17</sup>. Such a reduction does not apply if certain exceptions laid down in the FAR apply.

---

<sup>14</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32023L0959>

<sup>15</sup> With the exception of District Heating (DH) sub-installations, newly introduced in Phase 4. For these sub-installations, free allocation will remain at 30%, also after 2026.

<sup>16</sup> Regulation (EU) 2023/956, <http://data.europa.eu/eli/reg/2023/956/oj>

<sup>17</sup> The 2023 ETS Directive refers to Art.8 of the 2012 EED, which defines installations that are required to have a certified energy management system in place and/or perform energy audits in terms of the installations' annual energy use. This is not to be confused with the updated EED (2023), where this provision is in Art.11. See: Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency, amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC, OJ L 315, 14.11.2012, p. 1–56, ELI: <http://data.europa.eu/eli/dir/2012/27/oj>

2. The free allocation to eligible installations with product-benchmarks (p-BMs) will be reduced by 20% if a sub-installation’s specific emissions are higher than the 80<sup>th</sup> percentile of emission levels for the relevant product benchmarks in their benchmark curve, unless they have a compliant Climate-neutrality plan (CNP) in place.<sup>18</sup>
3. District Heating (DH) operators in Member States with relatively high DH emissions<sup>19</sup> can obtain an additional 30% of free allowances on the condition that they have a compliant CNP in place *and* they make sufficient investments in the implementation of the included emission reduction measures by 2030.<sup>20</sup>

For more information of the conditionality of free allocation, see *Guidance Document 11 on climate-neutrality plans* (cases 2-3) and *Guidance Document 12 on the implementation of energy efficiency measures*.

In order to minimise the risk of triggering a factor established pursuant to Article 10a(5) of Directive 2003/87/EC, the Cross-Sectoral Correction Factor (CSCF), a buffer has been set up, so up to 3% of the allowances that are allocated for auctioning may be used to increase the maximum amount available before the CSCF applies (see section 5.3.3 for more information on the CSCF). Note that where the phrase ‘the CSCF applies’ is used, this means the CSCF is below 1 (or 100%).

**Table 1: Main differences between EU ETS in Phase 3 versus Phase 4, distinguishing the two Phase 4 periods**

Phase 3 2013-2020	Phase 4	
	1 <sup>st</sup> allocation period – 2021-2025	2 <sup>nd</sup> allocation period – 2026-2030
8-year trading period	10-year trading period, with two allocation periods of 5 years each	
Cap reduced by 1.74% per year	Cap reduced by 2.2% per year until 2023, by 4.3% in 2024 and 2025	Cap reduced by 4.3% until 2027, by 4.4% from 2028
Allocation at the start of the trading period	Allocation in 2 rounds, for a 5-year period each	

<sup>18</sup> This rule does not apply to sub-installations that do not contribute more than 20% of the sum of all sub-installations’ preliminary amount of allowances. See *Guidance Document 11 on Climate-neutrality plans as a condition to free allocation for more information*.

<sup>19</sup> Defined in terms of the share of the MS’ DH emissions and GDP in EU total DH emissions and GDP. For more details, see *Guidance Document 11 on “Climate-neutrality plans as a condition to free allocation”*.

<sup>20</sup> This conditionality applies only to district heating, i.e., only to the district heating sub-installation in case the installation also conducts other activities.

Phase 3 2013-2020	Phase 4	
	1 <sup>st</sup> allocation period – 2021-2025	2 <sup>nd</sup> allocation period – 2026-2030
Transitional free allocation decreasing from 80% of calculated allocation in starting year to 30% in 2020 <sup>21</sup>	Transitional free allocation decreasing from 30% of calculated allocation after 2026 to 0% in 2030 <sup>15,21</sup> , with exceptions (CBAM, conditional free allocation in second allocation period)	
Allocation changes as a result of significant capacity changes	Allocation changes as a result of significant changes in activity level	
New entrants include Greenfield plants <sup>22</sup> and significant capacity extensions	New entrants only include Greenfield plants <sup>22</sup>	
Amount of auctioned allowances depends on how many allowances are allocated for free and limits based on the share of industry in emissions	Amount of auctioned allowances is fixed at 57% of the total amount of allowances, however 3% can be moved to free allocation to avoid the use of a cross sectoral correction factor	
Carbon leakage is mitigated by free allocation CL status is determined by criteria for carbon cost and/or trade intensity	CL status is determined by trade intensity multiplied with the emission intensity divided by the gross value added	For some goods, CBAM is gradually phased in, replacing the CL approach
Legal basis:	Legal basis:	Legal basis:
<ul style="list-style-type: none"> <li>• 2009 ETS Directive</li> <li>• CIMs Decision</li> <li>• NIMs list/table</li> </ul>	<ul style="list-style-type: none"> <li>• 2018 ETS Directive</li> <li>• FAR regulation</li> <li>• Allocation change implementing act</li> <li>• Carbon leakage delegated act</li> <li>• Benchmark update implementing act</li> <li>• NIMs Decision</li> </ul>	<ul style="list-style-type: none"> <li>• 2023 ETS Directive</li> <li>• Updated FAR regulation</li> <li>• CNP act</li> <li>• Updated allocation change implementing act</li> <li>• CBAM Regulation (Annex I)</li> <li>• Benchmark update implementing act</li> <li>• NIMs Decision</li> </ul>

<sup>21</sup> For sectors not deemed exposed to a significant risk of carbon leakage.

<sup>22</sup> Defined by the date at which the permit has been obtained.

### 3 Overview of the allocation process

This section describes the process to determine the amount of free allocation for eligible installations and the FAR rules guiding that process.

The starting point for the allocation process are the Union-wide and fully harmonised Free Allocation Rules (FAR), the allocation methodology regulation adopted by the Commission that lays down the basic elements of the harmonised free allocation methodology in Phase 4.

The FAR regulates:

- Eligibility criteria for free allocation;
- Definitions of sub-installations (which determine how to split an installation into different sub-installations, if applicable);
- Sub-installation system boundaries (for product benchmarks)<sup>23</sup>;
- Rules for determining historical activity levels per sub-installation;
- Rules for determining attributable emissions per sub-installation for update of the benchmark values;
- Rules for the application of the carbon leakage exposure factor;
- Rules for the application of the CBAM factor;
- Rules in case of cross-boundary heat flows;
- Rules for data collection, monitoring & reporting;
- Rules related to the conditionality of free allocation on implementation of energy efficiency improvement measures and on climate neutrality plans, for district heating systems, and the 10% most efficient sub-installations.

A number of elements of the allocation methodology are further elaborated in subsequent acts:

- The updated Benchmark values to apply in the calculation of sub-installation allocation are provided by the Benchmark Update Implementing act<sup>24</sup>;
- The Carbon Leakage List (CLL), identifying the sectors and activities eligible for 100% free allocation in Phase 4<sup>25</sup>;
- The rules defining the content and format of climate-neutrality plans needed for granting free allocation of emission allowances are laid down in the CNP Implementing act<sup>26</sup>;
- The CBAM legislation listing the CBAM goods<sup>27</sup>;
- The rules defining how changes in a (sub-) installation's activity levels affect its allocation are established in the Activity Level Change Implementing act<sup>28</sup>;

---

<sup>23</sup> Annex 1 of the FAR

<sup>24</sup> Commission Implementing Regulation (EU) 2021/447

<sup>25</sup> Commission Delegated Decision (EU) 2019/708

<sup>26</sup> Commission Implementing Regulation (EU) 2023/7298

<sup>27</sup> Commission Implementing Regulation (EU) 2023/956

<sup>28</sup> Commission Implementing Regulation (EU) 2019/1842 and its up-coming revision

- The value of the cross-sectoral correction factor<sup>29</sup>.

Based on the FAR, it is the task of the Member States to calculate the preliminary annual allocation at a sub-installation level. The Commission provides an electronic template to facilitate data collection in a harmonised way. On the basis of the data collected, each Member State shall submit to the Commission the list of all incumbent installations covered by the ETS Directive within its territory by the 30 September 2024 for the period 2026-2030. Hereinafter we refer to that list as the NIMs (National Implementation Measures) list. The NIMs list shall also include the so called 'small emitters' referred to in Articles 27 and 27a of Directive 2003/87/EC.

The Commission will collect the NIMs lists of all Member States and assess the inclusion of each installation in the list and the baseline data submitted for each installation, the Commission will calculate the updated benchmark values, which the Member States will then use to determine the preliminary annual allocation per installation considering the benchmark values and the CL status of each sub-installation. The next step is the determination of the CSCF<sup>30</sup> by the Commission, which will be applied to all installations, with the exception of best performers (see section 5.3.3).

The Member States will then calculate the final annual allocation and notify it to the Commission.

The same procedure will be followed in the preparation of initial allocation of each allocation period.

Compared to Phase 3, the process in Phase 4 contains one additional step, aimed at updating the benchmark values to be used in the calculation of the preliminary allocation levels at the sub-installation level on the basis of the data collected for the NIMs.

Therefore, the NIMs submission will take place in an iterative process, as shown in **Figure 2**, with a number of submissions of data by competent authorities to the Commission as well as various calculation steps, to arrive at the final allocation for all installations included in the list. These are listed below (for an overview of terminology used, see also Table 2):

- Submission of the NIMs list (without allocations) by the competent authorities by 30 September 2024 for the second allocation period, providing the baseline data needed for both the benchmark update and the allocation calculations that were submitted by operators in the baseline data reports;
- Calculation of the updated benchmark values by the Commission based on the data contained in the NIMs list;
- Calculation by the Member States of the amount of conditional free allowances if relevant (preliminary amounts including bonus/penalty);

---

<sup>29</sup> Value for the period 2021 to 2025: Commission Implementing Decision (EU) 2021/927

<sup>30</sup> Formally 'any factor established pursuant to Article 10a(5) of Directive 2003/87/EC'.

- Calculation of the preliminary allocation by the Member States based on the updated benchmark values and including the adjustment for conditional free allowances where relevant;
- Submission of the NIMs list with preliminary allocations by the Member States to the Commission;
- Calculation of the Cross-Sectoral Correction Factor CSCF by the Commission;
- Calculation of the final allocation by the Member States, taking into account the CSCF and the LRF when applicable;
- Submission of the NIMs list with final allocations by the Member States to the Commission.

The final allocations will be laid down in Commission decisions. **Figure 2** presents the main process leading to the final total annual amount of free allowances to installations.

**Table 2 Terminology of different submissions and the templates used in the allocation process**

Submission of	Template used	Stage in the process used
Baseline data report (BDR)	Baseline data template	Data gathering for benchmark update and allocation calculation for incumbents in preparation of NIMs
Monitoring Methodology Plan (MMP)	MMP template	Monitoring Methodology Plan for Phase 4 of the EU ETS, to be included together with BDR for the preparation of NIMs <sup>31</sup>
Verification Report <sup>32</sup>	VR template	To be presented together with BDR and MMP
Climate Neutrality Plan	CNP template	Necessary for installations meeting certain criteria, in order for them to have access to conditional free allocation. To be presented together with BDR and MMP
Climate Neutrality Report	CNR template	Results of the monitoring conducted after the allocation period. To be presented after it has been verified.
NIMs List (no allocations)	NIMs List template (allocation values not filled in)	Updating of benchmark values in preparation of preliminary allocation calculation
NIMs List with preliminary allocations	NIMs List template (preliminary allocation values included)	Calculation of preliminary allocation for incumbents
NIMs List with final allocations	NIMs List template (final allocation values included)	Calculation of final allocation for incumbents after CSCF is established

<sup>31</sup> If the revision of the FAR does not require a change to the MMP, the previously approved MMP is sufficient when submitting the application.

<sup>32</sup> Installations which cannot, or choose not to, apply for free allocation do not need to submit a baseline data report and have it verified.

Submission of	Template used	Stage in the process used
New entrant data and activity level changes report	Activity level changes template	Report template for allocation to new entrants, allocation level changes and cessations for Phase 4 of the EU ETS (after NIMs)

The first NIMs list (without allocation) will contain data at sub-installation level over the five calendar years preceding its submission on the following, in line with FAR Article 14:

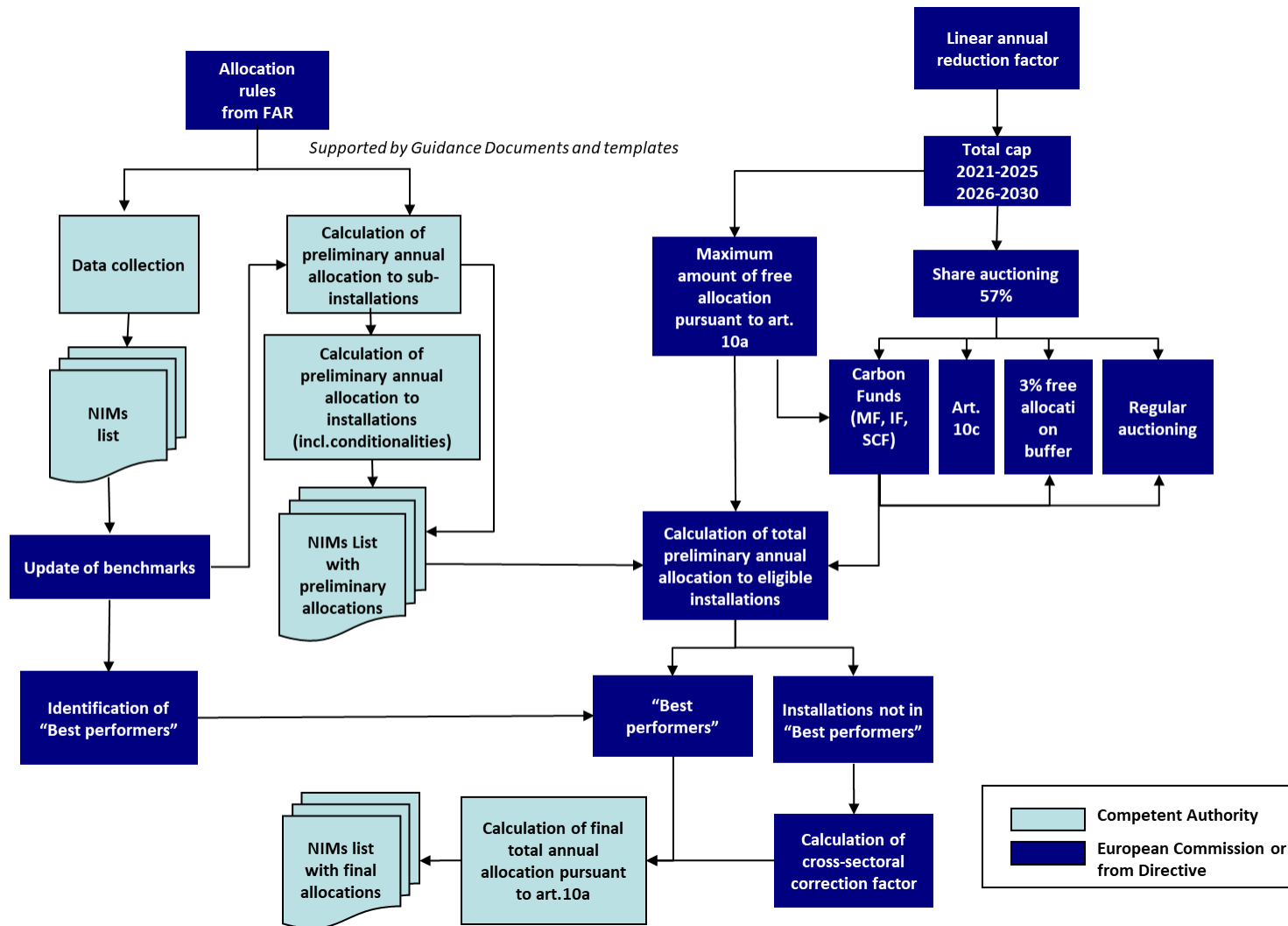
- Activity levels;
- Transfers of heat and gases;
- Electricity production; and
- Emissions.

The second submission by the Member States (the “NIMs list with preliminary allocations”) will contain:

- The data from the previous submission (including all corrections required by the Commission, if any);
- The preliminary annual number of emission allowances allocated for free per **sub-installation**;
- The preliminary total annual amount of emission allowances allocated for free per **installation** (i.e. sum of the preliminary total annual amount of emission allowances per sub-installation).

The final submission by the Member States (the “NIMs list with final allocations”) will contain data from the previous submission as well as the final allocation, after application of the CSCF and LRF when applicable for each of the installations included in the list.

*See Section 5 of this Guidance document and Guidance document 2 on allocation at the installation level for detailed guidance on how the allocation is calculated.*



**Figure 2:** Process diagram of determination of final free allocation to installation. For certain installations (e.g., district heating from electricity generators in the first allocation period of Phase 4) the Linear Reduction Factor may apply. This is not shown in the Figure for reasons of legibility.



## 4 Relevant installations

This section gives a general overview of the installations eligible for free allocation under Article 10a of the ETS Directive in Phase 4.

### 4.1 Which installations must be in the NIMs list?

The National Implementation Measures (NIMs) will list all “incumbents” of the EU ETS<sup>33</sup>, whether they receive free allocation under Article 10a of the Directive or not, i.e., all installations that:

- Are part of the sectors included in the EU ETS in Phase 4  
To make sure that an installation is within the scope of the EU ETS, *please refer also to Guidance on Interpretation of Annex I of the EU ETS Directive (excl. aviation and maritime activities)*. Installations opted-in under Article 24 of the Directive are also to be included;  
AND
- Have obtained a GHG permit on or before 30 June 2024 for the period 2026-2030.

Where it is absolutely sure that an installation will close before the start of the second allocation period of Phase 4, relevant Competent Authorities might not require the template to be completed by those operators. New installations that do not yet have a GHG gas permit and are under construction, commencing operations after the baseline period but before the start of the second allocation period of Phase 4 do not need to be included in the NIMs list. They will be considered as new entrants at a later stage. *For more details see Guidance Document 7 on new entrants.*

All installations covered by the EU ETS need to be included in the NIMs list (including installations for the incineration of municipal waste included for monitoring, reporting and verification only, in line with Article 14(1) of the revised FAR). Installations that do not apply for free allocation have to be listed, but do not have to submit the data required under Article 14(2) of the FAR.

Small emitters that a Member State may choose to exclude from the EU ETS pursuant to Articles 27 and 27a of the ETS Directive have to be listed as well. As the Commission may assess and, where appropriate reject such exclusions, these (very) small emitters have to be considered as installations within the EU ETS in this first step.

(Sub-)installations with a start of normal operation after January 1<sup>st</sup> in 2023 will not have operated for a full calendar year during the baseline period and will therefore not have all necessary data available for their application. In such cases, the (sub-)installation should be included in the NIMs with no allocation, and the allocation will be calculated at a later stage. *For more information on (sub-)installations not operating during the full baseline period, see section 6.2 of Guidance Document 2 on allocation at the installation level.*

---

<sup>33</sup> For the formal definition of incumbents see Article 2(1) of the FAR

Installations that join the EU ETS after 30 June 2024 (defined as when they receive a GHG permit), so-called new entrants<sup>34</sup>, are not listed in the NIMs for the corresponding allocation periods. *For more guidance on the allocation to new entrants, see Guidance document 7.*

Table 3 below shows an overview of which installations (and sub-installations) need to be included in the NIMs and which need to submit the data required under Article 14 of the FAR.

**Table 3 Overview of (sub-) installations that need to be included in the NIMs and that have to submit data as required under Article 14 of the FAR**

Installation	To be included in NIMs?	To submit data
Incumbent	Yes	Yes, if applying for free allocation
Incumbent not applying for free allocation	Yes	No
Installations for the incineration of municipal waste	Yes	No
Installations producing only electricity	Yes	No
Installations with over 95% emissions that can be zero-rated as stemming from RED II compliant biomass. <i>See Guidance on Interpretation of Annex I of the EU ETS Directive for more information.</i>	No	No
Installations not covered previously by the EU ETS, but included from 2026 based on the 95% biomass criterion. <i>See Guidance on Interpretation of Annex I of the EU ETS Directive for more information.</i>	No	No
Installations opted in under Art24 of ETS Directive	Yes	Yes
Installations to be opted out under Art.27/27a of ETS Directive	Yes	Yes, if they do not want to risk being re-introduced into ETS in the same allocation period with no free allocation No, if they accept the risk being re-introduced into ETS with no free allocation or they know that they are well below the threshold
Incumbent, with a Historical Activity Level of 0	Yes	Yes, if applying for free allocation (with HAL = 0)
Installations with GHG permit obtained before/on 30 June 2024	Yes	Yes, if applying for free allocation
Installation with GHG permit that has not yet started operation	Yes	No

<sup>34</sup> For the definition of a 'new entrant' please refer to Article 3(h) of Directive 2003/87/EC

Installation	To be included in NIMs?	To submit data
New sub-installation in incumbent, established on/before 30 June 2024 with first calendar year of activity data available by that date	Yes	Yes, if applying for free allocation
New sub-installation in incumbent without a first year of activity date by 30 June 2024	Yes	No
New sub-installation in incumbent starting after 30 June 2024	No, will be addressed by ALC rules	No
Installation under construction, without a GHG permit, starting after the baseline period but before the start of the allocation period	No, will be new entrant	No
Installation under construction, without a GHG permit, starting after the start of the allocation period	No, will be new entrant	No
Existing installations that join the EU ETS (get a GHG permit after June 30)	No, will be new entrant	No
Incumbent that will close before start of allocation period	Yes	No

## 4.2 Who receives free allocation?

All installations in the NIMs list are in principle eligible for free allocation, except installations that only produce electricity, and installations for the incineration of municipal waste included for monitoring, reporting and verification only. Eligible installations that want to receive free allocation need to submit an application in line with Article 4 of the FAR to their competent authority. Note that from the fourth phase onwards, operators may choose to renounce their free allocation (e.g., if they consider efforts for monitoring, reporting and verification of relevant data exceeding the benefit of receiving free allocation). Installations which do not provide the data requested by Article 11(1) of the Directive before 30 May 2024 or the deadline set by the Member State cannot be granted free allocation<sup>35</sup>. Installations that want to receive the conditional free allocation under Art.22a (energy efficiency measures) and 22b of the revised FAR (CNPs) need to meet additional requirements, as explained in *Guidance Documents 11 and 12*.

*For further details on eligibility criteria for product benchmarks, heat benchmarks (including district heating), fuel benchmarks and the process emission approach, please refer to Guidance*

---

<sup>35</sup> An incumbent installation that has missed the deadline for submitting its application for free allowances to the Competent Authority, cannot apply as a new entrant. In this case, in line with legislation, an operator will not be entitled to any free allocation and cannot apply until the next data collection exercise.

*Document 2 on allocation at the installation level. For the eligibility of waste gases, refer to Guidance Document 8.*

Note, though, that even if they are not eligible for free allocation, installations producing electricity and installations for the incineration of municipal waste do need to be included in the NIMs list.

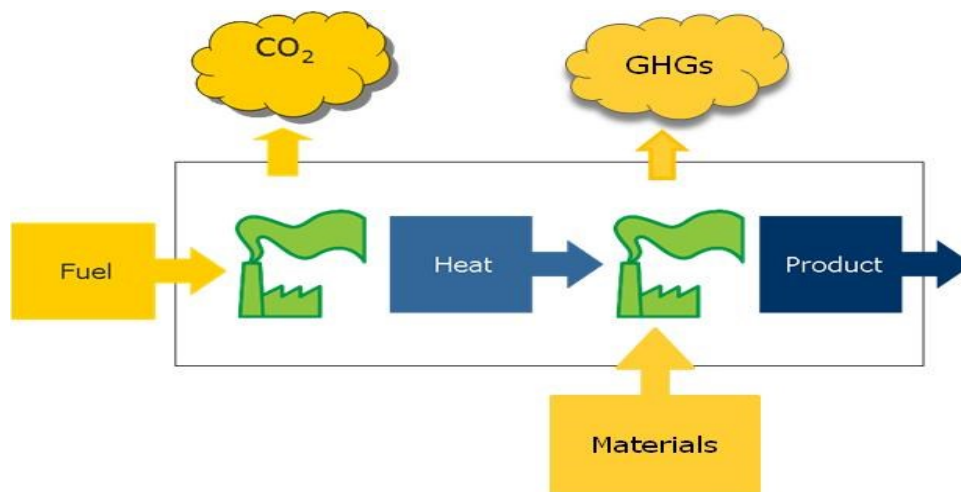
“New entrants”, which are not included in the NIMs, may also get free allocation. Note that new sub-installations in incumbent installations are not considered new entrants in the revised ETS Directive. *For the definition of and specific rules for new entrants; as well as an elaboration of how allocation is established in the case of new sub-installation, see Guidance Document 7 on allocation level changes.*

## 5 Allocation methodology

At the detailed level, different allocation rules may apply to different parts of an installation, depending on their purpose. Therefore, so-called ‘sub-installations’ are distinguished for the purpose of determining the allocation. The allocation at the installation level is determined by summing the allocation over the installation’s sub-installations. This section gives a general overview of the allocation methodology and the approaches applied to different type of sub-installations. *For a more detailed explanation, see Guidance Document 2 on allocation at the installation level and Guidance Document 3 on data collection.*

### 5.1 Overview of allocation approaches for sub-installations

In general, industrial production processes have energy<sup>36</sup> and/or heat as an input, and a product and/or heat or fuel as an output (Figure 3). Certain processes can also result in process emissions.



**Figure 3:** General picture of industrial production process

Each installation that is eligible for free allocation (see Section 4.2) will receive allocation based on at least one of the following approaches:

- **Product benchmarking** (allowances or EUAs<sup>37</sup> / unit product); allocation is based on the production of products.
- **Heat benchmarking** (allowances / TJ of net measurable heat); allocation is based on the amount of measurable heat<sup>38</sup> consumed or exported to non-ETS installations or entities.
- **Fuel benchmarking** (allowances / TJ of fuel used); allocation is based on the amount of fuel consumed.

---

<sup>36</sup> Energy can be fuel as on figure 3, or electricity.

<sup>37</sup> Used interchangeably in the guidance documents.

<sup>38</sup> See Annex B for a definition of measurable heat

- **Process emissions approach**; allocation is 97% of historical emissions until 2027 and 91% from 2028.

Note that the above refers to the benchmarks used, not the sub-installations. There is a difference in the case of the heat benchmark, which is applied to 2 types of sub-installation: heat exported for district heating (DH) purposes is allocated to a different sub-installation than heat consumed on-site or exported for non-DH purposes. Allocation for DH sub-installations is based on the amount of measurable heat exported for the purpose of DH, using the same heat benchmark. *For more detail on the different district heating-related concepts and terminology used, see Guidance document 2 on allocation at the installation level.*

The free allocation of allowances will be based to the extent feasible on Union-wide ex-ante product benchmarks, as this provides the broadest incentive for emission reductions. However, not in all cases can product benchmarks be defined, e.g., because of too diverse or changing product mix. In these cases, the so-called 'fall-back' approaches based on the heat benchmark, the fuel benchmark or the process emissions approach are used, in the order listed above as required by Art.10(2) of the FAR.

Using these approaches, the preliminary annual number of emission allowances per sub-installation can be calculated for all sources of emissions in the EU ETS that are eligible for free allocation. Table 4 summarises the general characteristics of each allocation methodology. The table also shows when which methodology should be used. Proper use of the approaches ensures that all emissions are covered by one and only one methodology.

*For more detailed conditions on the application of the allocation methodologies, we refer to Guidance Document 2 on allocation at the installation level.*

**Table 4: Characteristics of the allocation approaches**

Approach	Value	Unit	Conditions	Relevant emissions
Product benchmark	See BMU for updated values	allowances / unit product	<ul style="list-style-type: none"> <li>• Product benchmark available</li> </ul>	Emissions within system boundaries of product as referred to in Annex I of the FAR
Heat benchmark (incl. for district heating)	Updated value: 47.3 <sup>39</sup>	allowances / TJ	<ul style="list-style-type: none"> <li>• No product benchmark available</li> <li>• Heat is measurable</li> <li>• Heat is not used to produce electricity</li> </ul>	Emissions relating to production of the measurable heat consumed or exported to a non-ETS installation, not covered by a product benchmark
Fuel benchmark	Updated value: 42.6 <sup>39</sup>	allowances / TJ of fuel	<ul style="list-style-type: none"> <li>• No product benchmark available</li> <li>• Heat is not measurable</li> <li>• Fuel is combusted for the primary purpose of generation of heat</li> </ul>	Emissions originating from the combustion of fuels, not covered by product or heat production benchmark.
Process emission approach	97 % <sup>40</sup> of historical emissions (allowances)		<ul style="list-style-type: none"> <li>• No product benchmark available</li> <li>• Emissions are not resulting from combustion of fuel</li> <li>• Emissions are “process emissions”<sup>41</sup></li> </ul>	All process emissions not covered by previous approaches

<sup>39</sup> Value for the first period, i.e., 2021-2025. To be updated for 2026-2030.

<sup>40</sup> Until 31/12/2027, 91% from 2028 onwards.

<sup>41</sup> According to Article 2(10) of the FAR. For more details, please also refer to Guidance Document 2 on allocation at the installation level.

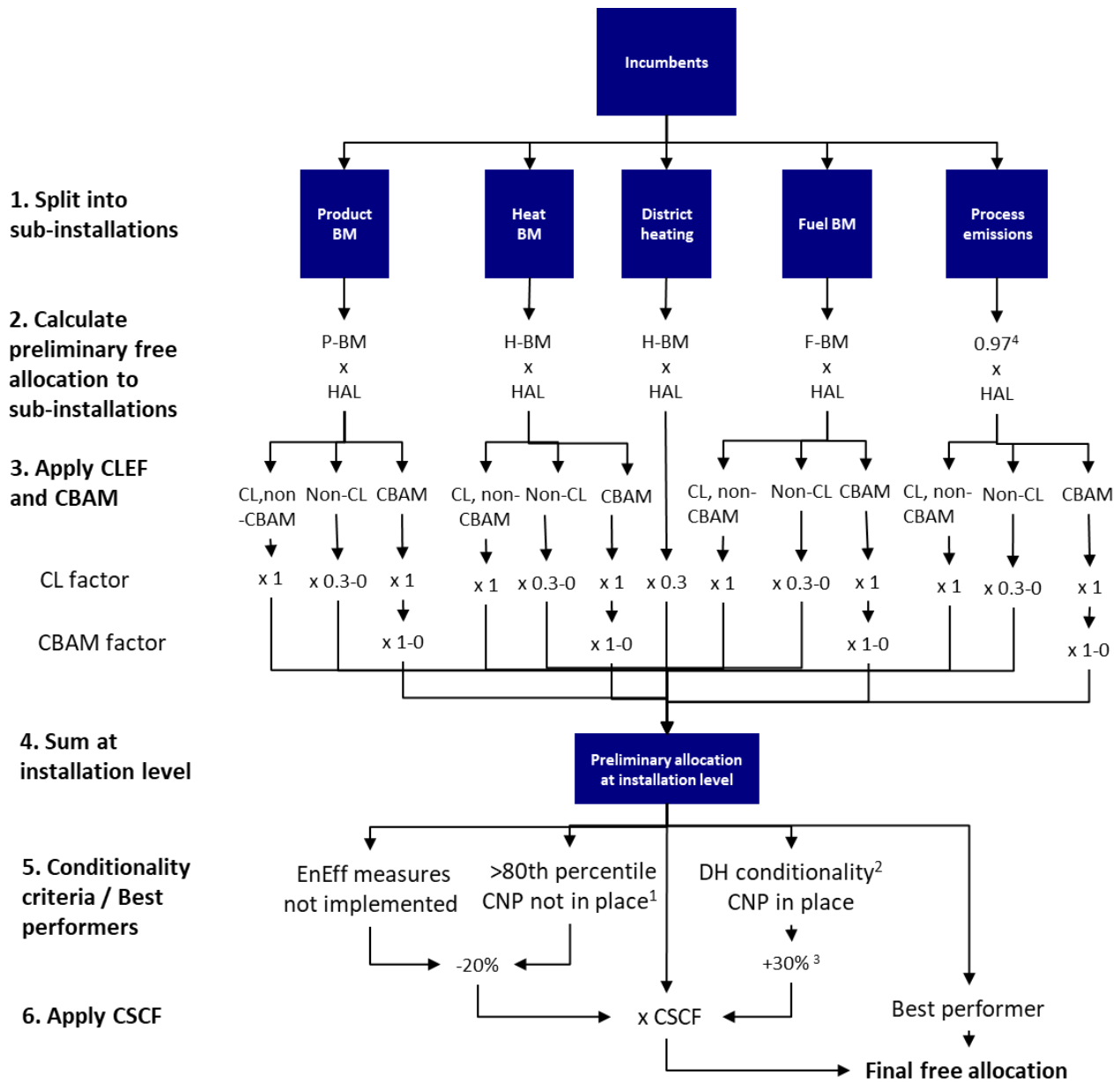


Figure 4 Steps in the calculation of the free allocation at installation level

<sup>1</sup>CNP not in place and/or not verified as compliant in line with FAR Article 22b.

<sup>2</sup>Applies only to district heating, i.e., only to the district heating sub-installation in the case that the installation conducts other activities.

<sup>3</sup>Adding up to the 30% CL factor, i.e., a total of 60% of [H-BMxHAL].

<sup>4</sup>Until 2027, and 0.91 for the years 2028-2030.



## 5.2 Split into sub-installations

To correctly apply the relevant allocation methodology in the right order, operators have to split each of their installations into so-called sub-installations.

A sub-installation means all inputs, outputs and corresponding emissions related to a specific allocation approach. The boundaries of a sub-installation establish the boundaries of a specific mass and energy balance and are not necessarily defined by boundaries of physical process units<sup>42</sup>. These inputs and outputs should take into account only relevant source streams<sup>43</sup>, as monitored according to the Monitoring & Reporting Regulation (MRR) and listed within the monitoring methodology plan. This means that non-ETS activities shall not be taken into account when splitting the installation into sub-installations. A robust knowledge of the scope of the EU ETS and of the MRR is required when performing the exercise to split an installation into sub-installations. *Guidance Document 2 on allocation at the installation level provides further information on this topic.* Note that for the purpose of the benchmark value update, in some cases additional source streams must be defined which are not included in the monitoring plan under the MRR. This is relevant where a source stream is produced in one sub-installation and consumed in another one (e.g., waste gases, or coke produced in a sub-installation covering coke making and consumed in a sub-installation covering “hot metal”).

For an installation that produces more than one product with a product benchmark (suppose  $n$  product benchmarks are applicable), the same number ( $n$ ) of “sub-installations” needs to be defined, with the system boundaries of each sub-installation matching with the boundaries of the respective product benchmark. For these sub-installations, the product benchmark approach should be applied, including the application of the corresponding carbon leakage exposure factor, and when relevant the application of the CBAM factor.

The remaining part of the installation (the part for which no product benchmarks apply) can be divided into a maximum of 10 sub-installations (fall back sub-installations): for each fall-back methodology (see also paragraph 5.3.1) one sub-installation not deemed exposed to a significant risk of carbon leakage, one deemed exposed to a significant risk of carbon leakage and producing non-CBAM goods<sup>44</sup>, and one producing CBAM goods (always considered also exposed to carbon leakage), plus a separate district heating (DH) sub-installation, as is shown in Table 5 below. District heating is not considered to be exposed to a significant risk of carbon leakage, so only one type of sub-installation is distinguished. However, in the calculation of the preliminary amount of free allowances, DH sub-installations are treated differently to non-Carbon leakage installations,

---

<sup>42</sup> See the FAR for formal definitions of five types of sub-installations: a product benchmark sub-installation (Article 2(2)), a heat benchmark sub-installation (Article 2(3)), a district heating sub-installation (Article 2(5)), a fuel benchmark sub-installation (Article 2(6)) and a process emissions sub-installation (Article 2(10)).

<sup>43</sup> a 'source stream' means a specific fuel type, raw material or product giving rise to emissions of relevant greenhouse gases at one or more emission sources as a result of its consumption or production.

<sup>44</sup> Because the CBAM is designed as a measure against carbon leakage, CBAM goods are always deemed exposed to carbon leakage.

in that they will also continue to receive 30% of the calculated amount of free allowances under art.10a (CLEF = 0.3) after 2026.

**Table 5: Maximum number of possible sub-installations in case of fall-back approaches**

Allocation Methodology	Carbon leakage Non-CBAM	CBAM	Non-carbon leakage	District heating
Heat benchmark	1	1	1	1
Fuel benchmark	1	1	1	0
Process emissions approach	1	1	1	0

In principle, heat is eligible for free allocation if it can be regarded as produced within an EU ETS installation. In particular, this is likely to be the case for measurable heat directly linked (by a combustion process or exothermic production process) to source streams which are contained in the monitoring plan (MP) of an ETS installation.

Heat is in particular not eligible for free allocation in the following cases:

- The export or consumption of heat produced in a nitric acid production process is not eligible as this heat is already taken into account by the nitric acid benchmark. (see Art 16 (5) of the FAR);
- Consumption of heat produced by a non-ETS installation (not covered by a GHG permit), or by an installation covered by the EU ETS only for the purposes of Articles 14 and 15 of Directive 2003/87/EC, is not eligible for free allocation. (see Art. 2 (3) of the FAR).

Export or consumption of heat used for electricity generation is not eligible for free allocation (see Art. 2 (3) (a) and 2 (3) (b) of the FAR).

Note that after performing the attribution of all inputs, outputs and emissions to sub-installations, some inputs, outputs, and emissions may remain not attributed to any sub-installation, as these elements are not eligible for free allocation. This applies to:

- Fuels and/or measurable heat used for electricity production;
- Measurable heat produced in nitric acid sub-installations or imported from non-ETS entities;
- Emissions related to heat exported to EU ETS installations;
- Waste gases or fuels flared for purposes other than safety flaring<sup>45</sup>.

**Example: Carbon leakage: more than one sub-installation is possible per fall-back approach**

Consider a fictitious dairy plant with a boiler that produces measurable heat for both the production of milk powder (deemed exposed to carbon leakage in Commission Decision 2019/708<sup>46</sup>) and for a liquid milk sterilization process (deemed not exposed to carbon leakage in Commission Decision 2019/708). Neither of the products is covered by a product benchmark, therefore the heat benchmark methodology should be applied if possible. Since there is

<sup>45</sup> For additional information on this topic, see Guidance Document 8 on waste gases and process emissions sub-installations.

<sup>46</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019D0708>

measurable heat consumed in these production processes, this fall-back approach is applicable. However, the heat is consumed by two production processes, each with a different carbon leakage status. Therefore, the consumed heat produced by the boiler has to be split into two sub-installations: one for each carbon leakage status.

Due care should be taken that:

- No overlap occurs between the sub-installations (no double-counting)
- The corresponding inputs (fuel, heat, etc.) and outputs (products, heat, electricity, etc.) have all been taken into account.

### 5.3 Correction factors

The preliminary annual amount of allocation determined at sub-installation level may be adjusted by several correction factors, which are summarised in Table 6 below and briefly described in the following sub-sections.

**Table 6 Overview of correction factors that may be applied in the calculation of the final allocation**

Correction factor	Carbon leakage status	Determined by	value	Applicability
CLEF	CL	Directive	1.000	To all sub-installations deemed exposed to a significant risk of carbon leakage in all years
	Non-CL	Directive	0.300 to 0.000	To all sub-installations not deemed exposed to a significant risk of carbon leakage, decreasing after 2026 from 0.300 to 0 in 2030
		Directive	0.300	To district heating sub-installations in all years
CBAM	CL	Directive	1 to 0	To all sub-installations producing CBAM goods
CSCF		Commission	To be determined	To all incumbent installations eligible for free allocation under Article 10a in years when the preliminary free allocation exceeds the quantity of free allowances available as determined by the Directive
LRF		Directive and FAR	2.2%	Until 2025, electricity generators eligible for free allocation (district heating, high efficiency CHP), as no CSCF applies in those years. No change in their allocation until 2025
LRF		FAR	4.3% to 4.4%	New entrants, starting from 1 January 2024

### 5.3.1 Carbon leakage exposure factor

*Detailed explanation can be found in Guidance Document 2 on allocation at the installation level.*

The preliminary annual amount of emission allowances is multiplied by the so-called “carbon leakage exposure factor” (CLEF).

The Commission has established a list of sectors and sub-sectors deemed to be exposed to a significant risk of carbon leakage<sup>47</sup>. The carbon leakage exposure factor (CLEF) used for allocation to these sectors is 1.00 for all years.

For allocation to sectors not on this list, the carbon leakage exposure factor is 0.30 until 2026, declining to 0 in 2030. This implies that from year 2027, installations that are part of these sectors will each year receive fewer allowances than the year before.

Table 7 gives an overview of the evolution of carbon leakage exposure factors over time.

**Table 7. Overview of carbon leakage exposure factors**

Year	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Exposure factor (CLEF) when deemed exposed to a significant carbon leakage (CL) risk	1	1	1	1	1	1	1	1	1	1
CLEF when deemed not exposed to a significant CL risk	0.300	0.300	0.300	0.300	0.300	0.300	0.225	0.150	0.075	0
CLEF for district heating	0.300	0.300	0.300	0.300	0.300	0.300	0.300	0.300	0.300	0.300

After application of the Carbon Leakage Exposure Factor, the Carbon border adjustment mechanism factor will apply to some sub-installations, and either the Cross-Sectoral Correction Factor or the Linear Reduction Factor may also be applied.

### 5.3.2 Carbon Border Adjustment Mechanism factor

*Detailed explanation can be found in Guidance Document 2 on allocation at the installation level.*

From 1 October 2023<sup>48</sup>, the CBAM will gradually replace free allocation as the EU’s measure against carbon leakage. It is established by the CBAM Regulation<sup>49</sup>. Annex I of that Regulation establishes a list of ‘CBAM goods’, which are covered by the CBAM. Article 10a(1a) of the ETS

<sup>47</sup> Commission Delegated Decision (EU) 2019/708.

<sup>48</sup> In line with Article 32 of Regulation (EU) 2023/956, importers will have only reporting obligations during the transitional period from 1 October 2023 until 31 December 2025.

<sup>49</sup> Regulation (EU) 2023/956 of the European Parliament and of the Council of 10 May 2023 establishing a carbon border adjustment mechanism, <http://data.europa.eu/eli/reg/2023/956/oj>

Directive ensures that for those goods, free allocation in the EU ETS is reduced at the same rate as the CBAM is phased in. As of 2026, this is achieved by a CBAM factor applied to the preliminary annual amount of emission allowances for sub-installations producing specified CBAM goods. No CBAM factor (i.e., the CBAM factor is 1) applies to sub-installations producing goods not listed in Annex I of the CBAM Regulation. Table 8 gives an overview of the values of the CBAM factor over time.

**Table 8. Overview of CBAM factor**

Year	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
CBAM	1	1	0.975	0.95	0.90	0.775	0.515	0.39	0.265	0.14	0

After application of the CBAM factor, either the Cross-Sectoral Correction Factor or the Linear Reduction Factor may also be applied.

### 5.3.3 Cross-sectoral correction factor

To all installations that are eligible for free allowances under Article 10a of the revised Directive, the cross-sectoral correction factor (CSCF) should be applied<sup>50</sup>, if necessary<sup>51</sup>. A CSCF could be needed to ensure that the total amount of free allocation does not exceed the maximum amount of free allocation pursuant to art. 10a(5) and 10a(5a) of the ETS Directive<sup>52</sup>. The CSCF does not apply to new entrants. Starting in 2024, the CSCF will also not apply to so-called “best performers”, i.e., installations with sub-installations that have GHG emission levels below the average of the 10% most efficient sub-installations, and that cover more than 60% of the preliminary amount of emission allowances allocated for free at installation level<sup>53</sup>.

In practical terms, the CSCF is determined by comparing the ‘free allocation demand’ with the ‘free allocation supply’. The demand is determined by summing up the annual amounts of free allocation in each year for all installations. For this calculation, the carbon leakage exposure factor (see Sections 5.3.1) is considered. The supply is determined by the overall cap as specified in Article 9 of the revised ETS Directive, the maximum free allocation share as derived from Article 10a(5) and 10a(5a), and the amount of allowances that are directly transferred to the innovation fund as specified in Article 10a (8)<sup>54</sup>. The comparison of the supply and demand will be made over the whole of Phase 4 of the EU ETS. This means that any potential leftover in the free allocation

<sup>50</sup> This means the value of the CSCF is below 1 (or 100%) when used in the calculation of final free allocation.

<sup>51</sup> This includes non-electricity generators as well as electricity generators that are eligible for free allowances under Article 10a(4), i.e., high-efficiency CHP and district heating. It should be noted that starting 1 January 2026, no special rule will apply to electricity generators, which will be treated the same as other EU ETS installations. Article 10a(4) is no longer included in the 2023 revision of the Directive.

<sup>52</sup> Maximum amount of free allocation pursuant to Article 10a(5) and (5a) of the revised ETS directive = total ETS cap \* (1 – the auctioning share (0.57) + the free allocation buffer (0.03)). Where the maximum amount of free allocation (i.e., 43% of the cap plus a buffer of 3%) is not used in a year, the remainder is carried forward to the following years.

<sup>53</sup> In line with ETS Directive Article 10a(5) and revised FAR Article 16(8).

<sup>54</sup> i.e., 345 million allowances

supply from the first allocation period of Phase 4 (2021-2025) will be carried over to the second allocation period (2026-2030)..

The need for, and if applicable the value of, a cross-sectoral correction factor will be assessed by the Commission after receiving all NIMs, on the basis of the preliminary free allocation, using the updated benchmark values and applying the relevant carbon leakage and CBAM factors. The need for, and value of, the factor could differ for different years in the fourth trading period.

The best performers will be identified by the Commission based on the data provided by operators for years 2021 and 2022. These data are part of the NIMs baseline data.

The allowances resulting from the reduction of free allocation due to the CBAM factor will not be used for the determination of the CSCF and will be transferred to the innovation fund.

*See also Section 2 of this Guidance Document and Section 5 of Guidance Document 2 for the equations used in the application of the cross-sectoral correction factor.*

#### 5.3.4 Linear reduction factor

In line with Article 9 of the revised Directive, the total amount of allowances issued for free decreases each year by a linear reduction factor (LRF). This LRF was set at 2.2% from 2021, and increases to 4.3% in 2024, and to 4.4% in 2028. For new entrants, the preliminary total annual amount of allocation is multiplied by that year’s LRF, calculated with the first year of each allocation period as the reference year (see Table 9). For electricity generators that are eligible for free allocation (district heating, high efficiency CHP), the LRF only applies until 2025 following Art.10.a(4) of the ETS Directive. From 2026 the LRF will not apply as ‘electricity generator’ status will no longer be used. The LRF is not applied to the preliminary allocation of other incumbent installations.

Table 9 shows the values for the LRF applicable in each year of Phase 4, distinguishing electricity generators and new entrants in each of the allocation periods.

**Table 9 The Linear reduction factor values for each year**

Year	Linear reduction factor		
	Value	Cumulative value applied for electricity generators <sup>55</sup>	Cumulative value applied for new entrants <sup>55</sup>
2021	0.022	0.8562	1.000
2022	0.022	0.8342	0.9780
2023	0.022	0.8122	0.9560
2024	0.043	0.7902	0.9130

<sup>55</sup> The LRF stays at 2.2% for the electricity generators, as well as for the new entrants that already have an allocation, until the end of 2025.

<b>Year</b>	<b>Linear reduction factor</b>			
2025	0.043	0.7682	0.8700	
2026	0.043	NA		1.000
2027	0.043	NA		0.9570
2028	0.044	NA		0.9130
2029	0.044	NA		0.8690
2030	0.044	NA		0.8250

*See Section 5 of Guidance Document 2 for the equations used in the application of the linear reduction factor.*

## Annex A      Timeline – key dates from the revised EU ETS

1 May 2024	Deadline for district heating operators and p-BM installations above the 80 <sup>th</sup> percentile to establish a climate-neutrality plan as a criterion for eligibility for conditional allowances. <sup>56</sup>
30 May 2024	Deadline for district heating operators and p-BM installations above the 80 <sup>th</sup> percentile to submit a climate-neutrality plan as a criterion for eligibility for conditional allowances (Member States may set alternative deadline). <sup>57</sup>
30 May 2024	Deadline for submission of application for free allocation for 2026-2030 to Member States (Member States may set a different deadline which is at maximum one month earlier or later)
30 June 2024	Date which separates “new entrants” from “incumbents” for the second allocation period in Phase 4.
30 September 2024	Submission of National Implementation Measures by MS <sup>58</sup> ” for the second allocation period of Phase 4.
30 June 2026	Issuance to installations of the first quantity of free allowances of the second allocation period of Phase 4. <sup>59</sup>

---

<sup>56</sup> Article 10a(A) of the revised ETS Directive

<sup>57</sup> FAR Article 22b (1)(a)

<sup>58</sup> Article 11(1) of the revised ETS Directive

<sup>59</sup> Article 11(2) of the revised ETS Directive. The date has been modified in the 2023 version of the Directive.



## **Annex B List of definitions**

*This annex provides a list of definitions of concepts relevant for free allocation in Phase 4 of the EU ETS. Shown are both the formal definitions provided in the legal texts of the revised ETS Directive or the FAR (in “”) as well as informal explanations. The latter have been developed to facilitate understanding among the readers of the Guidance documents. The informal explanations in this Annex do not replace the legal definitions and have no legal status. Below, first the formal definition is given (if available), including the relevant article number, followed by the informal explanation, where relevant.*

### ***Allocation period***

FAR Article 2(15): “The five-year period starting from 1 January 2021 and each subsequent period of five years.”

Phase 4 consists of 2 allocation periods, the first running from 1 January 2021 until 31 December 2025, the second running from 1 January 2026 until 31 December 2030.

### ***Allowance***

Directive Article 3(a): “An allowance to emit one tonne of carbon dioxide equivalent during a specified period, which shall be valid only for the purposes of meeting the requirements of this Directive and shall be transferable in accordance with the provisions of this Directive.”

Allowance that can be used to cover one tonne of CO<sub>2</sub>e GHG emissions of an EU ETS participant to comply with EU ETS obligations and which is transferable (i.e., tradable).

### ***Annex I activities***

List of activities in Annex I of the ETS Directive, which defines “categories of activities to which the Directive applies”. In other words: Annex I defines activities and activity thresholds determining which installations shall be included in the EU ETS.

### ***CBAM***

The initiative for a carbon border adjustment mechanism (the ‘CBAM’) is part of the ‘Fit for 55’ legislative package. It addresses GHG emissions embedded in the goods listed in Annex I of Regulation (EU) 2023/956 at the point of their importation into the customs territory of the Union in order to prevent the risk of carbon leakage.

### ***Climate-neutrality plan***

Plan presenting an ETS installation’s interim targets and milestones towards climate neutrality by 2050, as well as the measures and investments to reach those targets. This plan is to be established by operators eligible for conditional free allocation in order that they can be issued the conditional amount of free allowances. Guidance Document 11 provides details on the contents that should be included.

### ***Climate-neutrality report***

Results of the monitoring of progress towards achieving the interim targets and milestones included in the CNP, conducted during the allocation period, will be reflected in a climate-neutrality report at the end of the allocation period and before any conditional free allowances are issued.

### ***Combustion***

Directive Article 3(t): “Any oxidation of fuels, regardless of the way in which the heat, electrical or mechanical energy produced by this process is used, and any other directly associated activities, including waste gas scrubbing.”

### ***Competent Authority***

Competent Authority or Authorities as designated under Article 18 of Directive 2003/87/EC. Each Member State can have one or more Competent Authorities.

### ***Conditional free allocation***

For some installations, part of the free allocation is conditional in the second allocation period of Phase 4. Three separate cases of such conditionality are defined in the Directive:

- The free allocation of emission allowances to installations that are subject to an energy audit or certified energy management system according to Article 8 of the Energy Efficiency Directive are reduced by 20% if these installations have not implemented the energy efficiency recommendations arising from the energy audits or certified energy management systems;
- Installations whose specific greenhouse gas emission levels are higher than the 80<sup>th</sup> percentile of emission levels for the relevant product benchmarks in their benchmark curve will see their free allocation reduced by 20% unless they have a validated climate-neutrality plan in place;<sup>60</sup>
- Operators of district heating installations in certain Member States may be eligible for an additional 30% of free allowances on the basis of their climate-neutrality plan.

### ***District Heating***

FAR Article 2(4): “The distribution of measurable heat for the purpose of heating or cooling of space or of production of domestic hot water, through a network, to buildings or sites not covered by EU ETS with the exception of measurable heat used for the production of products and related activities or the production of electricity.”

Heat exported through a network to outside the EU ETS used for space heating, cooling or domestic hot water.

---

<sup>60</sup> This provision is not applicable where the relevant product benchmark sub-installation does not contribute to more than 20% of the sum of all sub-installations' preliminary annual numbers of emission allowances allocated free of charge in respect of the period from 2021 to 2025. For more information, see Guidance Document 11 on Climate-neutrality plans as condition to free allocation.

### ***District heating sub-installation***

FAR Article 2(5): “Inputs, outputs and corresponding emissions not covered by a product benchmark sub-installation relating to the production, the import from an installation covered by the EU ETS, or both, of measurable heat which is exported for the purposes of district heating.”

A sub-installation defined within an EU ETS installation used to calculate the free allocation for which the installation is eligible due to the export of heat for the purpose of district heating.

### ***Electricity Generator***

The following definition will only apply until the end of the first trading period of Phase 4, i.e., until 2025. The concept of “electricity generator” is no longer included in the 2023 revision of the ETS Directive.

Directive Article 3(u): “An installation that, on or after 1 January 2005, has produced electricity for sale to third parties, and in which no activity listed in Annex I is carried out other than the ‘combustion of fuels’.”

Dedicated electricity producers (with a holding account in the EUTL) that produce and sell electricity and that may produce heat, other forms of energy or products, provided that they are not linked to activities listed in Annex I. This means that an installation producing electricity used by the same installation for the production of products listed in Annex I is not considered an electricity generator. Only if (part of the) electricity is sold are they considered electricity generators. For this purpose, the period 2005 to 2018 included should be considered. For more details, see the *Guidance Document to Identify Electricity Generators*<sup>61</sup>.

### ***ETS Directive***

Directive 2003/87/EC, most recently amended by Directive 2023/959/EC, also referred to in this document as the ‘revised ETS Directive’.

### ***Heat benchmark sub-installation***

FAR Article 2(3): “Inputs, outputs and corresponding emissions not covered by a product benchmark sub-installation relating to the production of measurable heat or the import of measurable heat from an installation covered by the EU ETS other than installations covered by the EU ETS only for the purposes of Articles 14 and 15 of Directive 2003/87/EC, or both, which is:(a) consumed within the installation’s boundaries for the production of products, for the production of mechanical energy other than used for the production of electricity, for heating or cooling other than the consumption for the production of electricity, or (b) exported to an installation or other entity not covered by the EU ETS other than district heating with the exception of the export for the production of electricity.”

A sub-installation defined within an EU ETS installation to calculate the free allocation the installation is eligible for due to the consumption of measurable heat (when it is not used to

---

<sup>61</sup> [https://ec.europa.eu/clima/sites/clima/files/ets/docs/guidance\\_electricity\\_generators\\_en.pdf](https://ec.europa.eu/clima/sites/clima/files/ets/docs/guidance_electricity_generators_en.pdf)

produce products for which product benchmarks apply or to produce electricity) or the export of heat to outside of the EU ETS for purposes other than district heating).

***Fuel benchmark sub-installation***

FAR Article 2(6): “Inputs, outputs and corresponding emissions not covered by a product benchmark sub-installation, relating to the production of non-measurable heat, by fuel combustion or from electricity, for the primary purpose of the generation of heat, consumed for the production of products, for the production of mechanical energy other than used for the production of electricity, for heating or cooling other than the consumption for the production of electricity, and including safety flaring.”

A sub-installation defined within an EU ETS installation to calculate the free allocation for which the installation is eligible due to the consumption of energy (when it is not used to produce products for which product benchmarks apply or to produce measurable heat covered by a heat benchmark or to produce electricity).

***Incumbent***

FAR Article 2(1): “Any installation carrying out one or more activities listed in Annex I of Directive 2003/87/EC or an activity included in the EU ETS for the first time in accordance with Article 24 of that Directive which obtained a greenhouse gas emission permit before or on:

- (a) 30 June 2019 for the period 2021-2025; or
- (b) 30 June 2024 for the period 2026-2030.”

Any installation within the scope of the EU ETS, which is not a new entrant.

***Installation***

Directive Article 3(e): “A stationary technical unit where one or more activities listed in Annex I [of the ETS Directive] are carried out and any other directly associated activities which have a technical connection with the activities carried out on that site and which could have an effect on emissions and pollution.”

A stationary plant or unit producing energy or products covered by the EU ETS and related activities that are technically connected to the plant or unit that impact the generation of emissions.

***Measurable heat***

FAR Article 2(7): “A net heat flow transported through identifiable pipelines or ducts using a heat transfer medium, such as, in particular, steam, hot air, water, oil, liquid metals and salts, for which a heat meter is or could be installed.”

Measurable heat flows have all of the following characteristics:

- They are net, meaning that the heat content in the condensate or transfer medium returning to the heat supplier is subtracted;
- The heat flows are transported through identifiable pipelines or ducts;

AND

- The heat flows are transported using a heat transfer medium, e.g., steam, hot air, water, oil, liquid metals or salts;

AND

- The heat flows are or could be measured by a heat meter<sup>62</sup> (where a heat meter is any device that can measure the amount of energy produced based upon flow volumes and temperatures).

### ***New entrant***

Directive Article 3(h): “Any installation carrying out one or more of the activities listed in Annex I, which has obtained a greenhouse gas emissions permit for the first time within the period starting from three months before the date for submission of the list under Article 11(1), and ending three months before the date for the submission of the subsequent list under that Article.”

Greenfield installations not in operation at the time the NIMs list is established, as defined by the date of the GHG gas emissions permit is obtained (with a cut-off date 3 months before the NIMs submission deadline).

### ***Operator***

Directive Article 3(f): “Any person that operates or controls an installation or, where this is provided for in national legislation, to which decisive economic power over the technical functioning of the installation has been delegated.”

The person that is authorised to make decisions on behalf of the installation.

### ***Process emissions sub-installation***

FAR Article 2(10): “Greenhouse gas emissions listed in Annex I to Directive 2003/87/EC other than carbon dioxide, which occur outside the system boundaries of a product benchmark listed in Annex I to this Regulation, or carbon dioxide emissions, which occur outside the system boundaries of a product benchmark listed in Annex I to this Regulation, as a direct and immediate result of any of the following processes and emissions stemming from the combustion of waste gases for the purpose of the production of measurable heat, non-measurable heat or electricity provided that emissions that would have occurred from the combustion of an amount of natural gas, equivalent to the technically usable energy content of the combusted incompletely oxidised carbon, are subtracted:

- (a) the chemical, electrolytic or pyrometallurgical reduction of metal compounds in ores, concentrates and secondary materials for a primary purpose other than the generation of heat;
- (b) the removal of impurities from metals and metal compounds for a primary purpose other than the generation of heat;

---

<sup>62</sup> The FAR continues the use of the term “heat meter”, although the Measurement Instruments Directive uses the term “thermal energy meter”.

- (c) the decomposition of carbonates, excluding those for flue gas scrubbing for a primary purpose other than the generation of heat;
- (d) chemical syntheses of products and intermediate products where the carbon bearing material participates in the reaction, for a primary purpose other than the generation of heat;
- (e) the use of carbon containing additives or raw materials for a primary purpose other than the generation of heat;
- (f) the chemical or electrolytic reduction of metalloid oxides or non-metal oxides such as silicon oxides and phosphates for a primary purpose other than the generation of heat;”

A sub-installation defined within an EU ETS installation to calculate the free allocation for which the installation is eligible due process emissions). A process emissions sub-installation can be any of the following, when emissions occur outside the boundaries of a product benchmark:

1. Non-CO<sub>2</sub> GHG gas emissions (i.e., PFC for the primary aluminium sector and N<sub>2</sub>O for specific sectors; see Annex I of the ETS Directive for the list of activities for which N<sub>2</sub>O emissions are included in the EU ETS for Phase 4);
2. CO<sub>2</sub> emissions from any of the activities (a) to (f) listed in Art 2(10) of the FAR;
3. Emissions from the combustion of waste gases, if it is combusted to produce heat or electricity. Only emissions which are additional to the emissions that would occur if natural gas was used are taken into account. Also, only the “technically usable energy content” is considered, which means that a correction is applied to the resulting amount, based on the difference in efficiencies between the use of waste gas and the use of the reference fuel. This type of process emissions refers to waste gases. *See Guidance Document 8 on Waste Gases for more guidance on this topic.*

'Process emissions' as defined by the Monitoring and Reporting Regulation are not necessarily coincident with 'process emissions' defined when dealing with sub-installation splitting for the purpose of allocation. In particular process emissions from flue gas cleaning are considered part of the respective combustion process in the heat or fuel benchmark sub-installations. In case of deviations between the FAR and the MRR, the FAR takes priority.

***Product benchmark sub-installation***

FAR Article 2(2): “Inputs, outputs and corresponding emissions relating to the production of a product for which a benchmark has been set in Annex I.”

A sub-installation defined within an EU ETS installation to calculate the free allocation for which the installation is eligible in relation to the production of products for which product benchmarks apply.

***Sub-installation***

A sub-installation means all inputs, outputs and corresponding emissions related to a specific allocation approach. The concept is explained in detail in the Annex of *Guidance Document 5*.

**Waste gases**

FAR Article 2(11): “A gas containing incompletely oxidised carbon in a gaseous state under standard conditions which is a result of any of the processes listed in point (10), , where ‘standard conditions’ means temperature of 273,15 K and pressure conditions of 101 325 Pa defining normal cubic metres (Nm<sup>3</sup>) according to Article 3(50) of Commission Regulation (EU) No 601/2012.”

Waste gases when they occur outside the boundaries of a product benchmark are gases containing incompletely combusted carbon produced as a result of any of activities (a) to (f) listed in Art 2(10) of the FAR. *See also Guidance Document 8 on Waste Gases for more guidance on this topic.*

## Annex C: Comparison with 2019 Guidance Document 1

The below table shows how the sections of the 2019 version of Guidance Document 1 correlate to the sections in the current, 2024 version, and where main topics are covered. ‘-’ in a column indicates that the topic was not included in the relevant GD.

Content	2019 GD1	2024 GD1	Comments
Introduction	1	1	
Status of the Guidance Document	1.1	1.1	
Background of the FAR Guidance Documents	1.2	1.2	
Additional guidance	1.4	1.3	
Use of the Guidance documents	1.3	1.4	
Scope of this guidance document	1.5	1.5	
Main elements in the Phase 4 allocation methodology	2	2	Called ‘New elements in the allocation methodology’ in the 2019 GD
Harmonised free allocation rules in Phase 4	-	2.1	Included in section 2 in the 2019 GD
Provisions affecting the amount of free allocation in the 2023 revision	-	2.2	New section in the 2024 GD
Overview of allocation process	3	3	
Relevant installations	4	4	
Which installations are in the NIMs?	4.1	4.1	
Who receives free allocation?	4.2	4.2	
Allocation methodologies	5	5	
Overview of allocation approaches for sub-installations	5.1	5.1	
Split into sub-installations	5.2	-	
Correction factors	5.3	5.2	
Carbon leakage exposure factor	5.3.1	5.2.1	



<b>Content</b>	<b>2019 GD1</b>	<b>2024 GD1</b>	<b>Comments</b>
Carbon Border Adjustment Mechanism factor	-	5.2.2	New section in 2024 GD
Cross-sectoral correction factor	5.3.2	5.2.3	
Linear reduction factor	5.3.3	5.2.4	
Timeline – key dates in revised EU ETS	Annex A	Annex A	
List of definitions	Annex B	Annex B	
List of abbreviations	Annex C		Deleted in 2024 GD