



EUROPEAN COMMISSION  
DIRECTORATE-GENERAL  
CLIMATE ACTION  
Directorate B - European and International Carbon Markets  
**CLIMA.B.2 - ETS Implementation**  
The Head of Unit

Brussels, 13 February 2017

## NOTE FOR THE ATTENTION OF MEMBERS OF THE CLIMATE CHANGE COMMITTEE

**Subject: Guidance on the implementation of the revised Cross Sectoral Correction Factor values**

### 1. Introduction

In 2013, the Commission determined the [Cross Sectoral Correction Factor \(CSCF\) for the period 2013-2020](#) that is applied in the EU ETS to ensure that the maximum annual amount of allowances is not exceeded, thereby reducing the allocations for all installations eligible to receive free allowances.

In 2014, a number of companies challenged the free allocation amounts they received under the ETS Directive and in particular the CSCF values applied as being too stringent.

The Court of Justice found in its [judgment of 28 April 2016](#) that the maximum amount of allowances available for free allocation determined by the Commission was too generous and should have been even lower. A certain share of emissions included in the Commission's calculations of the industry share should have been disregarded according to the Court.

The Commission undertook the recalculations and, based on the reduced industry share, revised the CSCF, as set out in the [Decision adopted on January 24<sup>th</sup>](#).

### 2. Implementation

In terms of the implementation of the revised CSCF the following aspects need to be considered:

- the old CSCF values will be invalid as of 1 March 2017 and only the revised values will be applied thereafter,
- allocation decisions taken up to now remain unchanged and any decisions taken until 28 February 2017 will be based on the old CSCF,
- in the beginning of this year, the date of the official submission from the Member States and EEA-EFTA countries will determine whether the old or the revised CSCF values will be applied:

- if an official submission is received by 28 February 2017 and included in a Commission Decision without any changes being requested, the old CSCF values should be used in the submission,
- if an official submission is received by 28 February 2017 and a modification is requested, the date of the subsequent official submission will determine which CSCF values will apply,
- for all official submission received as of 1 March 2017, the revised CSCF values will apply.

### 3. Application of the Cross Sectoral Correction Factor

The CSCF values do not apply to all allocations or changes in allocations. Table 1 below lists the different applications where the **revised CSCF will be applied as of 1 March 2017:**

*Table 1*

<b>Type of application</b>	<b>Reference/comment</b>
<b>Significant capacity reduction</b>	<i>Art 21 (2) second paragraph and Art 10(9) of the Benchmarking Decision</i> According to the Benchmarking Decision, the significant capacity reduction is calculated as a reduction of the preliminary allocation for each sub-installation concerned by the change. The CSCF applies thereafter to the installation's entire allocation.
<b>Carbon Leakage status change</b>	In case the carbon leakage list is changed/ updated, some installations have to apply for a change in their carbon leakage status. This application represents a recalculation of the allocation and as such will apply the CSCF.
<b>NIMs corrections</b>	In case a competent authority identifies mistakes in the NIMs, the correct allocation will have to be reflected for all years between 2013 and 2020. As this amounts to a recalculation of the allocation, the CSCF will apply.

Table 2 below lists the different applications where **the CSCF is not applicable:**

*Table 2*

<b>Type of application</b>	<b>Reference/comment</b>
<b>New Entrant (Greenfield)</b>	<i>Art 19 (5) of the Benchmarking Decision</i> The allocation for new entrants comes from the New Entrants' Reserve and as such the linear reduction factor is applied rather than the CSCF.
<b>Significant capacity extension</b>	<i>Art 20 (1) of the Benchmarking Decision</i> The allocation for new entrants comes from the New Entrants' Reserve and as such the linear reduction factor is applied rather than the CSCF.
<b>Partial cessation</b>	<i>Art 23 (2) of the Benchmarking Decision</i> In case of partial cessations, the allocation of the sub-installation concerned by the change is adjusted by 50%, 25% or reduced to 0 as compared to the initially allocated

Type of application	Reference/comment
	allowances. The allocation is thus not recalculated but rather reduced by a certain percentage. The CSCF is not involved in the calculation of the new allocation in such cases.
<b>Mergers and splits</b>	<i>Guidance Document no 10 on Allocation for Mergers and Splits</i> In case of a merger of two installations, the allocation of one installation is reduced to 0 and the allocation of the other is increased to the sum of the initial allocations of the two installations. The allocation is thus not recalculated but rather added from the allocation of one installation to another. As such the CSCF is not involved in the calculation of the new allocation in such cases. The same logic applies for splits.

***Example of the application in practice***

Installation X has two sub-installations, one of which reduces its capacity by 30%. In practice, the new allocation is calculated by

- first, determining the reduced preliminary allocation of the sub-installation concerned by the change,
- then summing up the preliminary allocation of the two sub-installations,
- finally, adjusting the total preliminary amount by applying the CSCF.

In order to determine which CSCF values apply, the date of the official submission of the significant capacity reduction is taken as reference.

In case you have any questions, please do not hesitate to contact Alexandra MANOLE (Tel. +32-2-29 80221) or myself (Tel. + 32-2-29 91241).

Thank you in advance for your cooperation.

Yours sincerely,

*(e-signed)*

Mette Koefoed Quinn