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National carbon tax, part II: Benchmark and dispensation rights

Following up on our [previous extra update](#) on the national carbon tax, in this analysis we explain how the Dutch Emissions Authority (NEa) allocates dispensation rights to Dutch ETS-compliant industrial companies. Understanding this allocation mechanism requires an understanding of so-called benchmarks. These are reference frames that reflect the emission intensity of a given manufacturing sector.

The calculation mechanism underlying the actual allocation of dispensation rights to a specific business installation is detailed and therefore complex. The analysis below therefore serves as a general insight.

Free allowances

When calculating the number dispensation rights an installation is entitled to, strong reliance is placed on the way free allowances are allocated in the EU ETS. Dispensation rights are not the same as free allowances. The difference is mainly that free allowances can be granted to European ETS companies, while dispensation rights are inherent in the Dutch policy instrument of the national carbon tax. The table below shows the main differences:

Free allowances	Dispensation rights
Part of EU ETS	Part of the Dutch carbon tax
All ETS sectors at risk of carbon leakage	Specific to Dutch industry
Pre-allocated for several years	Ex-post determined per year
Freely tradable on ETS market	Negotiable between taxable companies
Possibility to save or trade	Valid in the relevant year (remaining duties are discounted with already paid levies in the past)
Overall ETS reduction factor	National reduction factor

Benchmarks

To calculate the number of free allowances allocated to an EU ETS installation, a so-called benchmark is used. A benchmark is a measure of the amount of CO₂ released per tonne of product produced. The current benchmarks were set by the European Commission (EC) in 2021 and apply for the period 2021 - 2025. New benchmarks will apply from 2026 onwards. The number of dispensation rights to be allocated for Dutch companies subject to the national carbon tax will use these benchmarks in a similar way.

The benchmarks were established based on data provided in 2018. The EC used this data to identify the 10% most carbon-efficient installations in a sector. The benchmark for a given sector is based on the average performance of the best 10% installations in that sector. Companies producing at the benchmark level receive almost 100% dispensation rights (and free allowances). The more emission-intensive a company produces compared to the benchmark, the fewer dispensation rights it is allocated (and thus the more allowances it has to buy).

In total, benchmarks have been set for 52 energy-intensive products, which are used to calculate the number of dispensation rights. No benchmarks apply to heat and electricity sectors, as no free emission rights are issued for these either. If an industrial installation also supplies heat and/or electricity, this is included in the calculation of the benchmark value. The benchmark values for the CO₂ tax as applicable from 2023 can be found via this [link](#).

Annual national reduction factor

A national reduction factor applies in the Netherlands to calculate the number of dispensation rights to be granted. This reduction factor was initially intended to ensure that the amount of exempted emissions decreases every year in order to reach a level that meets the 14.3 Mtonne CO2 reduction target in 2030. From 2023, this reduction factor was lowered more sharply and more quickly to achieve an additional 4 Mtonne CO2 reduction within industry. One uniform reduction factor is used for all plants and sectors. The reduction factor for 2023 was set at 1.213 and decreases by 0.078 each calendar year. The table below shows the national reduction factor up to 2030:

2024	2025	2026	2027	2028	2029	2030
1,135	1,057	0,979	0,901	0,823	0,745	0,667

Allocation of dispensation rights

Emissions exempt from the carbon tax are thus expressed in dispensation rights (the official term in the trade register is DPR). Dispensation rights are calculated after one year and deposited into an installation's account by 30 April. Dispensation rights can, within the transfer period from 1 May to 31 August, be transferred in the CO2 levy register.

The amount of dispensation rights an installation is entitled to is determined by three factors:

- Production (activity level)
- EU ETS benchmark
- Annual national reduction factor

The formula for calculating the number of dispensation rights to be allocated is as follows:

$$Dispensation\ rights\ year\ t = activity\ level\ year\ t * benchmark * reduction\ factor\ year\ t$$

We explain the formula with a calculation example¹. Suppose your industrial plant makes 40.000 tonnes of steel in a year, emitting 10.000 tonnes of CO2. According to the link above, the benchmark value for steel is fixed at 0,215 tonnes of CO2 per tonne of steel. In 2025, you would then receive: 40.000 * 0,215 * 1,057 = 9.090 dispensation rights. Because your plant emits 10.000 tonnes of CO2, you have to surrender 10.000 allowances. That means you have to pay a national CO2 tax on 910 (10.000 – 9.090) allowances.

¹ Apart from the national reduction factor, the numbers in this calculation example are not based on real-world figures

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