Extra update

Energy
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Extra update - Increase national carbon tax for the industry

In the Spring Memorandum, Minister Jetten (Climate and Energy) announced additional climate and energy measures to keep the 2030 climate targets in sight. One of the measures announced is increasing the national CO2 tariff for that part of industry that emits more than 50 Ktonnes of CO2. The tariff- which takes effect from 2028 - also affects industry covered by the EU ETS. With that, its effectiveness can be disputed. Indeed, it could drive CO2 emissions across borders, slow down climate policy, and put the Dutch industry in further dire straits.

Raise national carbon tax death knell for the industry?

In the government's letter on the Climate and Energy Measures Spring Memorandum 2024, Minister Jetten announced several additional measures to make meeting the climate targets by 2030 more certain. As the minister admits in his letter, "the cabinet is testing the limits of what is feasible up to and including 2030; we can already see that it sometimes squeaks and creaks. The cabinet remains committed to solving concrete problems in implementation and takes into account carrying capacity and actionability within climate policy"

One such measure is to drastically increase the national carbon tax for companies that emit more than 50,000 tonnes of CO2. The increase will take effect from 2028. This increase serves as 'funding' for the additional allowance allocated to the industry in last year's supplementary climate package. The rate will be raised from EUR 150 to EUR 216 in 2030.

The study carried out by the *Planbureau voor de Leefomgeving* (PBL), at the request of the Ministry of Economic Affairs and Climate Change and the Ministry of Finance, already indicates that additional emission reductions can be realised with an increase in the tariff. But PBL also recognises that the risks of declining industrial activity and leakage of emissions also increase. To take into account the action perspective of companies, the government has decided to maintain the price path of the national tariff until 2030 for companies with emissions below 50,000 tonnes of CO2.

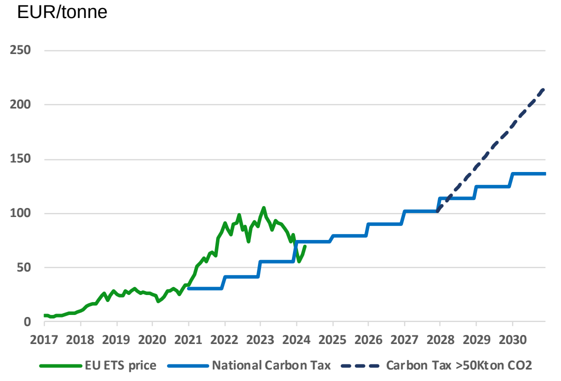
With this differentiation, according to minister Jetten, "the vast majority of companies with their emissions are expected to fall under the low rate and the vast majority of emissions under the high rate". The Erkens et al. motion to include a hardship clause proved undesirable and impracticable, according to the minister. Erkens' resolution was intended to prevent companies that do want to become more sustainable but are unable to do so due to missing preconditions (such as grid congestion, availability of energy carriers and/or laws and regulations), from incurring unnecessary costs, thus putting further pressure on the willingness to invest in the Netherlands. With things already 'squeaking and creaking', and without such a hardship clause, raising the tariff on top of the already deteriorating investment climate could well be the death knell for part of the Dutch industry.

The tariff was part of a complete package

The Dutch cabinet has previously decided that it wants to get ahead of the troops by introducing a national carbon tax. Indeed, the Climate Accord agreed that annual CO2 emissions should be reduced by 14.3 Mtonnes by 2030. The Coalition Agreement added another 4 Mton to that. To achieve this, the number of dispensation rights had already been reduced in the 2023 Tax Plan with the announcement that in the 2025 Tax Plan, the CO2 tax rate would be increased based on the new PBL rate study.

The national CO2 tariff took effect on 1 January 2021 to ensure that this target is met. This therefore means that the Dutch industry will face an additional tariff the moment the European price for emission rights is lower than the set floor. See also the figure below. The floor price for 2024 is now EUR 74.14/tonne.

EU ETS prices and the Dutch CO2 tax



Source: Refinitiv Eikon, PBL, PZ ERS

When the national tariff came into force in 2021, it seemed like a logical concept. A good part of Dutch industry even welcomed the tariff, as it was part of a complete package of measures. Dutch industry would have to pay a tariff if the EU ETS price was not high enough, but this would be compensated by the SDE++. A subsidy that was supposed to make up for the unprofitable top for some investments and support the acceleration of industry's sustainability.

Practice proved more recalcitrant. The SDE++ itself works as it should, but it is nowhere near adequate now that other unforeseen factors have been added, putting pressure on the impact of the package of measures. These include the increase in the energy tax, the abolition of indirect cost compensation, and the abolition of the volume correction scheme. In addition, grid congestion issues have worsened considerably, hindering acceleration of electrification/sustainability. Moreover, the whole discussion around 'fossil subsidies' got bogged down in reluctance to support making Dutch industry more sustainable. What remained is a national tariff (the stick), where the sweet (the carrot) has slowly but surely disappeared.

National tax actually counterproductive for European climate policy

A national tax is in itself an odd instrument anyway. This is because Dutch industry, like the industry in the rest of Europe, falls under the European Emissions Trading Scheme (EU ETS). For this, there are tight rules set by the European Commission. After the recent change under Fit-for-55, we know for sure that by 2040 there will be no more emission rights available for the industrial sector. In other words, the industry has the choice to become sustainable before then or lose its *licence-to-operate*. So far so clear, you might think.

Therefore, the moment the EU ETS price during the determination period (average EU ETS price in September-October) is lower than this national price, the Dutch industry would have to pay more compared to the rest of Europe. If Dutch companies move faster to become more sustainable to avoid this charge, more allowances will remain available to their competitors in the rest of Europe. In other words, fast-preserving Dutch companies pay for the emissions of more polluting competitors elsewhere in the EU. This makes it a costly measure that needlessly puts the Dutch industry at a financial disadvantage and also fails to make any climate gains. Indeed, given the stringent regulations in the Netherlands, the industry elsewhere in Europe could remain more polluting for longer, slowing down rather than accelerating climate policy.

Investment climate comes under further pressure again

With the newly announced increase in this already climate-nonsensical tax, the competitive position of the Dutch industry is only further disadvantaged. The cabinet recently expressed shock at the deteriorating investment climate and is busy working on tailor-made agreements. This is to boost the sustainability of the industry and preserve economic activity and employment in the Netherlands.

With an increase in the national carbon tax on top of the EU ETS, the cabinet's recent focus on the deterioration of the investment climate seems like a farce. In addition, it raises the question whether the tailor-made agreements are mainly a distraction from the real intention: wanting to decimate the Dutch industry as soon as possible, energy transition and climate policy notwithstanding. In our Theme Report *'Lack of vision is also a choice',* we substantiated the deterioration of the investment climate for the energy-intensive industry. Here, we already mentioned the disadvantages of a national tariff, without this announced rate increase.

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