

Friday, November 8, 2024

## Extra update – Another blow to Dutch industry

- *The determination period for the national carbon tax has ended; the tax is over EUR 22/ton of CO2 in 2025;*
- *As such, the levy is already leading to significantly higher costs for Dutch industry compared to their European competitors, and may increase further towards 2030;*
- *This is in addition to the EU ETS price paid by European industry;*
- *This puts further pressure on the national investment climate and competitiveness.*

### The national carbon tax...

The national carbon tax is part of the package of measures introduced in the 2021 Climate Agreement, along with the SDE++ subsidy schemes. This package was balanced at the time of the agreement. However, since then, while the SDE++ and the national levy remained, other crucial components needed to achieve a balanced business case for many investments were either changed or abolished. Examples include the elimination of the volume correction scheme, uncertainty regarding indirect cost compensation, and higher grid tariffs compared to other countries.

The national carbon tax applies to Dutch industrial companies covered by the EU Emissions Trading System (ETS), excluding the electricity sector, which is also under the ETS. The levy is imposed only on purchased emission rights needed for compliance obligations, not on emission rights allocated for free. As the number of allowances allocated for free to industry decreases over time, industrial companies may face levy costs on a potentially larger number of allowances in the future.

The policy aimed to encourage Dutch companies to accelerate their sustainability efforts and thereby reduce emissions. By doing so, companies could avoid ETS costs and associated levy costs. However, in many cases, industrial companies face practical obstacles to faster sustainability, such as grid congestion, labor shortages, high material costs, and regulatory hurdles. These challenges delay crucial final investment decisions, resulting in the national tax imposing additional costs on these companies relative to their competitors.

There is a risk that industrial companies may conclude that the Netherlands is no longer competitive compared to other countries. Consequently, the shortest route to the accelerated sustainability desired by the Netherlands might not be through investment, but rather through halting investment, scaling down production and operations, and selling or closing plants.

A national CO2 tax does not bring European CO2 emissions closer to net-zero. CO2 reduction is achieved in the EU ETS through a Europe-wide emissions cap. Introducing a national CO2 tax makes emissions by Dutch companies more expensive. While any emission reductions due to sustainability efforts or plant closures count toward the national emission reduction, the European emissions cap of the ETS remains unchanged. As a result, emission rights "saved" by Dutch industry will benefit non-Dutch companies. This phenomenon is akin to pushing on a waterbed: the emissions reduced in the Netherlands will likely be emitted elsewhere in Europe.

### ... is really going to hurt starting in 2025

The national CO2 tax will have a significant negative impact on Dutch industry for the first time starting in 2025. During the 2025 determination period (September and October 2024), the ETS price for the December contract averaged €64.68 per ton. Meanwhile, the national carbon tax rate for 2025 has been set at €86.86 per ton. This results in an additional levy of over €22 per ton, representing approximately a 33% increase on top of the current ETS price.

In other words, due to existing policies, a substantial national surcharge on European climate policy will come into effect from 2025. This development creates an uneven playing field for Dutch industry

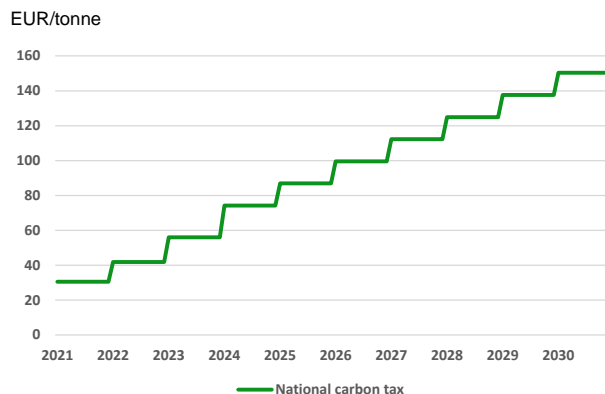
compared to their European competitors and may potentially lead to adverse effects on the Netherlands' competitiveness and investment climate.

### ETS price



Source: LSEG Eikon

### National carbon tax



Source: NEa

## Carbon tax costs Dutch industry some EUR 100 million in 2025

The exact emissions of Dutch ETS companies in 2025 are not yet known. To estimate the expected impact of the national CO2 tax on industry, we will use emission figures from 2023 as a baseline. In 2023, emissions from Dutch ETS companies totaled 58.9 megatons (Mt) of CO2 equivalent, including both industrial and electricity sectors. According to the KEV (Climate and Energy Outlook), the Dutch electricity sector emitted 16.9 Mt in 2023, which means emissions from industry covered by the EU ETS amounted to 42 Mt (58.9 - 16.9).

The Dutch Emissions Authority (NEa) reported that 37.4 million free allowances were distributed to 281 Dutch ETS companies in 2023. It's important to note that the electricity sector does not receive any free allowances. Consequently, Dutch industry had to purchase the remaining 4.6 million allowances (42 - 37.4) in 2023 to meet compliance obligations. At the current charge of €22.18 per allowance, this would result in a total cost to Dutch industry of over €100 million.

### Further increase in national costs ahead

In the coming years, costs may escalate rapidly. On one hand, the number of free allowances is decreasing, forcing companies to pay a levy on more allowances. On the other hand, the Dutch levy rate is increasing swiftly, rising in increments of €12.69 to reach €150.31 by 2030. Naturally, the impact will be less severe once a company implements sustainability measures and its demand for allowances decreases.

The forward curve of the ETS market indicates that the price of an emission allowance in 2030 is currently around €79 per ton. This would equate to a national carbon tax of over €71 per ton, or a national cost to businesses of 90% on top of the ETS costs in surrounding countries (which don't have a national levy). Although the forward curve only represents the current price for a future ETS contract, it provides insight into current market expectations regarding price development.

If the Netherlands meets its industry sector target, CO2 emissions in 2030 would reach 29.1 Mt. In the same year, approximately 50% of the allowances for the industry sector would be allocated for free. The national CO2 tax would then apply to 14.55 Mt of allowances. Based on the current ETS price for 2030 (derived from the forward curve) and the corresponding CO2 levy, this amounts to a cost to industry of over a billion euros in 2030. However, the general political expectation is that increasing

scarcity of emission allowances will lead to higher ETS prices. In practice, it remains a political instrument traded on financial markets, making its price movements unpredictable.

## Competitive position and investment climate

Currently, there is considerable debate about the competitive position of Dutch (and European) industry. Higher energy costs and inconsistent regulations compared to international competitors are the primary causes of concern. Additionally, we are already witnessing many final investment decisions being postponed due to increasing legislative and regulatory risks, on top of the "usual" market risks.

To ensure that Dutch industry continues to play a significant role in national sustainability efforts and maintains its position in the European landscape, it is crucial to develop a clear long-term strategy for the future of industry in the Netherlands. National policy can support sustainability, particularly in areas where there are gaps in the European context. However, we should avoid placing companies that compete both within and outside Europe at a greater disadvantage than necessary to achieve sustainability goals.

In its coalition program released on September 13, the Dutch cabinet stated that there would be no new (additional) national surcharges on European policy. Furthermore, they are examining which existing national surcharges can be eliminated while preserving goal attainment and considering consequences. This presents an opportune moment to critically reassess this levy.

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