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A world turned upside down: Lower ETS price pose risks for Dutch industry

Negotiations over the Spring Memorandum are intensifying, with significant demands clashing against limited budgetary resources. Meanwhile, Dutch industrial sectors—already grappling with severe economic challenges—are closely monitoring energy and climate policy developments.

The Dutch national carbon tax has long been a contentious issue for industry. Designed to accelerate sustainability efforts and help achieve 2030 climate goals, this levy faces skepticism about its actual effectiveness in reducing CO₂ emissions. Simultaneously, it imposes substantial financial burdens on Dutch businesses.

Dutch climate policy—including the national CO₂ tax—relies heavily on the assumption of rising EU Emissions Trading System (ETS) prices. However, this anticipated trend is far from guaranteed. Paradoxically, lower ETS prices could create significant (and underappreciated) risks to the competitiveness of Dutch industry.

In practice, the national carbon tax functions as a governmental hedge against climate target shortfalls under lower ETS prices. This raises critical questions about the policy's wisdom in the current economic climate, particularly as industries bear the brunt of this risk premium.

With both climate objectives and industrial viability at stake, the government now faces a pivotal decision: whether to maintain or abolish this controversial tax.

National carbon tax generates government money

Cabinet negotiations are underway regarding the Spring Memorandum, an interim update to the national budget. This document outlines the state's current income and expenditures, highlighting financial gains and shortfalls since Budget Day. It serves as a basis for adjusting this year's plans and setting financial expectations for the coming year.

A critical question for Dutch industry is whether the Spring Memorandum will allocate additional policy support or funding to the sector. The industry has faced prolonged economic strain, with early warnings of bankruptcies now materializing as layoffs and production halts (e.g. Gunvor¹ and LyondellBasell²). While high energy prices—prevalent across the EU since the Ukraine war—are a key factor, they are not the sole challenge.

Dutch policy decisions have historically placed domestic industry at a disadvantage compared to EU competitors. The national CO₂ tax exemplifies this: it imposes additional emission costs on Dutch industrial firms beyond those required by the EU Emissions Trading System (EU ETS).

The EU ETS is a bloc-wide carbon pricing mechanism for major industrial emitters and the power sector. Its annual allowance supply decreases steadily until 2040, when no new permits will be issued — effectively mandating carbon neutrality for covered sectors.³ Companies trade allowances within this system, incentivizing emissions reductions where they are most cost-effective.

¹ <https://fd.nl/bedrijfsleven/1538580/stilleggen-raffinaderij-gunvor-omineus-teken-voor-rest-van-europa>

² <https://nos.nl/artikel/2560215-chemiereus-lyondellbasell-sluit-fabriek-in-rotterdam-160-banen-weg>

³ The exception regarding companies saving allowances and deploying them later. However, this does not alter the size of the already determined EU ETS CO₂ budget.

On paper, the national CO₂ tax aims to secure 14.3 megatons of CO₂ reductions in the Netherlands by 2030⁴. However, practical barriers like grid congestion hinder its effectiveness. Moreover, national reductions alone do little to advance the Paris Agreement's global temperature targets⁵. Worse, the tax undermines Dutch industries' competitiveness, effectively subsidizing emissions elsewhere in the EU as production shifts abroad.

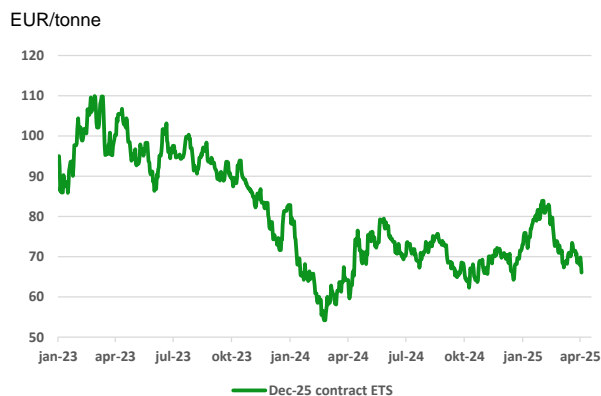
These arguments have circulated widely in public discourse. Yet despite their validity, the tax remains intact. Minister Hermans notes that abolishing it is complex, as it forms part of a broader policy package. However, another factor may explain its persistence: the levy now generates significant government revenue. The Spring Memorandum is expected to reveal that the tax yields more income than initially projected—a fiscal windfall at a time of tight budgets and growing pressure to meet 2030 climate goals.

Dutch industry pays 30% more for emissions than EU competitors

While the national carbon tax took effect on January 1, 2021, it has so far generated minimal additional costs for businesses—and consequently little revenue for the government. This is because the tax only activates when the EU Emissions Trading System (ETS) allowance price falls below the national carbon tax rate, which increases annually.

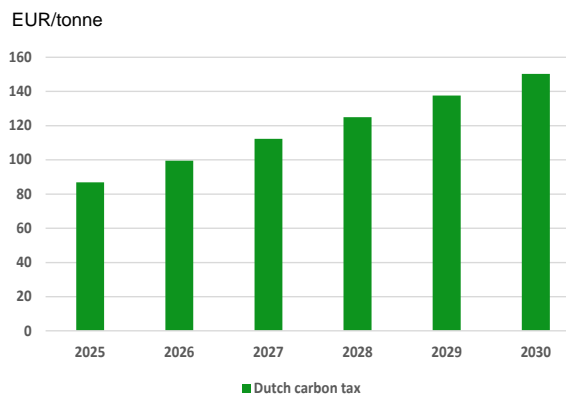
Additionally, most emission allowances for industrial ETS companies are still allocated free of charge to prevent so-called carbon leakage⁶. The national levy applies exclusively to the portion of allowances companies must purchase to meet compliance obligations.

ETS price development



Source: LSEG Eikon

National carbon tax rises sharply each year



Source: NEa

Since the ETS price in 2021 was lower than the benchmark rate for that year, Dutch industry was immediately subject to a levy of EUR 3.75⁷ per allowance. However, the impact on overall emission costs was limited, as the levy was relatively low and, on average, companies only had to pay it on a small portion of their allowances.⁸ In the years 2022 to 2024, the ETS price exceeded the benchmark rate, meaning the national carbon tax was not triggered. This year, however, a (substantial) levy has been activated.

⁴ <https://www.emissieautoriteit.nl/actueel/nieuws/2020/11/27/voorlichting-co2-heffing-industrie#:~:text=De%20CO2%2Dheffing%20koppelt%20een,127%20euro%20per%20ton%20CO2>.

⁵ CO₂ emissions from Dutch industry fall under the EU ETS emissions cap, which imposes a steadily declining emissions cap until 2040. Even if the Netherlands accelerates its CO₂ reductions, the EU-wide emissions cap remains unchanged.

⁶ The risk of relocation as companies pay higher costs than their competitors outside the EU.

⁷ <https://www.emissieautoriteit.nl/onderwerpen/tarieven-co2-heffing>

⁸ It varies by industry sector on how many allowances to pay a national carbon tax.

For 2025, the ETS price used to calculate the national carbon tax is set at EUR 66.76. This is based on the average ETS price during September and October 2024. The applicable benchmark rate for 2025 is EUR 87.90, resulting in a national CO₂ levy of EUR 21.14 per allowance. In other words, Dutch companies will face approximately 30% higher emission costs compared to their EU competitors in 2025 (for the portion of allowances they need to purchase).⁹

National carbon tax a financial windfall in Spring Memorandum

The national CO₂ levy and the ETS price relate to the budgetary space of the Dutch government, and as a result to the negotiations around the Spring Memorandum. Reasoning from the Budget Day documents, we see that with respect to the national CO₂ tax, the cabinet budgeted the following benefits in its Climate Fund :¹⁰

2025	2026	2027	2028
17	61	88	125

Table 1 : Estimated benefits (in millions) of national carbon tax in the Climate Fund at Budget Day

The Cabinet has budgeted EUR 17 million in benefits for this year and EUR 61 million for next year. However, this budgeting took place prior to Budget Day. At that time, the ETS price based on which the national CO₂ tax is calculated was not yet known. Moreover, the ETS price in the months prior to Budget Day was higher than in the months of September and October 2024, the relevant months for calculating the levy. The average ETS price in the months of July and August was over EUR 72/ton.

In the Budget Day estimates, however, the government used an ETS price of EUR 83/ton for 2025¹¹. This is substantially higher than the market price at the time and substantially higher than the final ETS price used to calculate the national CO₂ tax for 2025 (EUR 66.76). By estimating with a price of EUR 83/ton on Budget Day, government revenues from the levy will be higher in the Spring Memorandum. This gives the government more room to spend money now and makes any abolition of the levy a bigger cost. With that, the other side of the story is also true. In this way, the Budget Day Budget underestimated the cost to the industry.

The PBL estimate of an ETS price of EUR 83/ton in 2025 is remarkable given that at the time of Budget Day 2024, the ETS price last recorded a price above that level on November 26, 2023. Indeed, the average ETS price for the months of January through August in 2024 was at a level of about EUR 69/ton.

The government's ex ante estimate projects a benefit of EUR 17 million in 2025. The [additional market update from PZ ERS](#) (dated November 8, 2024) estimated ex post a benefit of about EUR 100 million for the government in 2025¹². The difference would be a windfall of some EUR 80 million for 2025 for the government.

ETS price significantly lower than estimates PBL

Given current market conditions, it cannot be ruled out that the benefit estimates for the years 2026 - 2028 are also on the conservative side. After all, the Netherlands Environmental Assessment Agency (PBL) assumes an annually increasing ETS price¹³. However, it is not a given that the ETS price will

⁹ Relative to the determination price.

¹⁰ <https://www.rijksoverheid.nl/binaries/rijksoverheid/documenten/begrotingen/2024/09/17/m-klimaatfonds-rijksbegroting-2025/M%20Klimaatfonds%20Rijksbegroting%202025.pdf>

¹¹ PBL reports a price of EUR 83/ton for 2025 in the KEV 2024. According to the estimation methodology used in the [additional market update from PZ ERS](#) (dated Nov. 8, 2024), this corresponds to a government revenue of over EUR 17 million in 2025, similar to what is reported in the Climate Fund accompanying the Budget Day documents.

¹² Based on a levy rate of EUR 22/ton not yet indexed.

¹³ PBL takes a range into account.

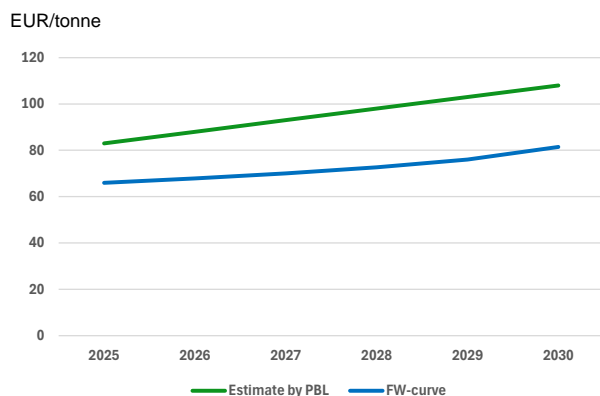
increase without question in the future. The fixed price of the national CO₂ tax, on the other hand, does increase significantly each year. This potentially widens the gap between a national CO₂ tax and the ETS price applicable in the EU.

Emission allowances are a political product traded on financial markets. The supply of emission allowances is determined by policies at the EU level. A decreasing supply of emission allowances is inherent to the EU ETS¹⁴. Based on a declining supply of allowances, PBL expects a rising ETS price¹⁵. However, this has proven to be too short-sighted. A focus on supply reduction undermines the potential impact of the demand side of the market. The decreasing supply of allowances only creates upward price pressure from the supply side of the market.

The ETS price can also fall when demand falls more sharply than the supply of allowances. The demand for allowances is determined by a multitude of factors, including macroeconomic prospects, the price of natural gas¹⁶, flanking climate policies, renewable energy deployment and the weather. In particular, the macroeconomic outlook is currently bleak. Manufacturing output is under pressure from high European energy prices. The geopolitical understanding that has manifested itself since U.S. President Trump took office contributes negatively to that outlook. 'Reciprocal' import tariffs put further pressure on the ETS price.

One way to analyze future ETS prices is through the *forward curve*. The forward curve is a graph showing a sequence of current prices for delivery of allowances in the future. In other words, it shows what the market is currently willing to pay for delivery of allowances in the future. The graph on the next page shows that the current forward curve records significantly lower prices than those estimated by PBL in 2024.

FW curve lower than PBL ETS price estimate¹⁷



Source: LSEG Eikon

Lower ETS price poses risk to Dutch industry

On March 31, 2025, the Dutch Financial Daily ('Financieele Dagblad') devoted an article to the Spring Memorandum negotiations, showing that coalition parties are clashing over how to spend public money through the current budget estimation method.¹⁸ Any abolition of the national carbon tax can

¹⁴ Currently, the supply of allowances is falling by 4.3% per year.

¹⁵ Climate and Energy Outlook 2024 - PBL (p.40). <https://www.pbl.nl/system/files/document/2025-01/pbl-2024-klimaat-en-energieverkenning-2024-5490.pdf>

¹⁶ As an important indicator of the profitability of gas plants relative to coal plants.

¹⁷ Forward curve based on prices dated April 3, 2025. PBL estimate based on interpolation of projected ETS price for 2025 and 2030 in KEV 2024.

¹⁸ <https://fd.nl/politiek/1550383/coalitie-botst-over-de-inzet-meevallers>

hardly be separated from this discussion within the coalition around budget estimation. After all, as argued above, the national carbon tax will provide a budget windfall in the Spring Memorandum (and possibly in subsequent years as well).

A plenary debate on making industry more sustainable took place on Thursday, March 20. MPs Bontenbal (CDA) and Flach (SGP) tabled a motion asking the government to abolish the CO₂ tax on industry as soon as possible or set the rate at zero. The motion was discouraged by responsible Minister Hermans (VVD) and would also fail to gain a majority in the vote on Tuesday, March 25. Coalition parties BBB and PVV did vote in favor of the motion.

The question now is how promising a possible abolition of the national CO₂ tax is in the negotiations around the Spring Memorandum. On the one hand, the VVD, represented by energy spokesman Erkens, is strongly in favor of a level playing field for Dutch industry. Abolishing the CO₂ tax will help achieve this ambition. On the other hand, Minister Hermans of Climate and Green Growth (KGG, and also VVD) repeatedly pushed back on ideas from MPs for abolishing the instrument. The defense, as indicated earlier, invariably implied that the instrument should be seen in a broader context of measures and therefore cannot be abolished unilaterally.

An important related measure here is the SDE++ subsidy¹⁹ (Stimulation of Sustainable Energy Production and Climate Transition). This sustainability subsidy is based on the difference between the cost price of a project and market revenues, including the ETS price (as a cost that can be avoided or as allowances that can be sold). A higher ETS price leads to lower subsidy spending per SDE project, because avoided CO₂ emissions have more (market) value. Climate policy thus costs the government less in the case of rising ETS prices, because the same CO₂ reduction requires less government subsidy. However, as described, the ETS price has fallen and it is not a given that it will rise in the future. As a result, climate policies require more government subsidy.

The uncomfortable truth is that the consistency of the climate policy referred to by Minister Hermans – the combination of carrots and sticks – is largely based on a rising ETS price. On the one hand, a higher ETS price reduces the subsidy intensity required per SDE++ project, meaning the same 2030 climate target can be achieved with less government spending. In that case, the lower revenue from the national carbon tax caused by higher ETS prices poses no issue.

However, when the ETS price falls, government spending must increase to stay on track with climate goals. The national carbon tax then ensures the government secures the necessary revenue to do so. Yet this tax revenue comes with a downside: it reflects a deterioration in the competitiveness of Dutch industry compared to EU peers. In effect, the national carbon tax acts as a government hedge against the risk of falling ETS prices, ensuring climate targets can still be met. The question is whether this remains a sensible approach in today's economic landscape—especially given that it is industry bearing the cost of this risk premium, while the actual emission reductions from the measure remain uncertain.

Risk retention carbon tax: climate targets met, but industry gone

While a lower ETS price benefits the competitiveness of European industry, the Netherlands has undermined itself with a comprehensive package of climate measures. This interconnected set of policies increases the subsidy intensity per SDE++ project that must be funded through higher revenue from the national CO₂ tax when European ETS prices are low. Consequently, the national climate policy package is insufficiently prepared for lower ETS prices. Moreover, the lower the ETS price, the greater the lag in Dutch industrial competitiveness compared to the rest of Europe.

¹⁹ In 2024, there was under-utilization in the SDE++. Based on estimates, the remaining financial scope is insufficient for an opening in 2026. From: Letter from Minister of Climate and Green Growth: "Opening up SDE++ 2025" dated February 21, 2025 - [Stimulering duurzame energieproductie | Tweede Kamer der Staten-Generaal](#)

The fact that the (Dutch) industry is under pressure, while climate targets have receded further (KEV 2024), creates an unforeseen dilemma regarding the abolition of the national CO₂ tax. Eliminating the tax—which would provide relief for the industry—leaves the government grappling with how to finance climate goals. Ironically, declining ETS prices pose an additional risk to Dutch industry. Although this trend offers welcome cost relief for industrial firms in other EU countries, the Dutch industrial sector remains bound to an annually rising tax. Through its cohesive climate policy design, the government is now tied to the uncomfortable reality that the tax, in this case, does generate the necessary public revenue.

Abolishing the national tax in the context of lower ETS prices therefore requires courage, as well as greater urgency, given the declining competitiveness of Dutch industry. The risk of maintaining the national CO₂ tax is that climate targets may be met only through the gradual relocation of industrial activities abroad. The first question is whether the government recognizes this. The second is whether this is a politically desirable outcome.

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