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What can we learn from the Dutch national carbon tax?

Guest article by Kirsten Sleven, Director, WISE

As the first country in the world, the Netherlands is about to introduce a carbon tax on industrial pollution. The tax is part of a broader policy package (Dutch Climate Agreement) to stimulate major industrial polluters to 'decarbonize' their production processes and was drawn up in consultation with various parties across the Dutch society. Although the heavy industry has made several attempts to get the law off the table, the bill is expected to take effect as of 2021. While this is good news, there is also criticism.

Early 2020, the coronavirus pandemic seemed to wipe out plans for the Dutch carbon tax, but the cabinet pressed ahead with the plans, thanks to sustained social and public pressure. Without a doubt, a national tax on top of the European Emissions Trading System (EU ETS) is needed to fill the gap between the Dutch climate goals and those of the EU. The Netherlands has a relatively large energy-intensive industry hence a major transition task. 12 large polluters - i.a. Tata Steel, Shell, Chemelot - are responsible for almost a quarter of the total national CO_2 emissions. But in contrast to the electricity sector, the industrial emissions have barely decreased since 2013.

The carbon price

The current government has decided to reduce greenhouse gases at an accelerated pace which means that the Dutch industry must also step up their game to realize the goal of 14.3 Mt reduction CO_2 by 2030. Under the carbon tax plans, the government proposes a price of 30 euros per ton of CO_2 for 2021. The price will increase so that in 2030, steel industries, oil refineries and chemical companies will pay 125 euros for a ton of CO_2. The final tax price will be the difference between the price per ton of emitted CO_2 under the EU ETS and the national carbon price of a certain year.

A watered-down deal

Unfortunately, the passed bill has been increasingly watered down compared to what was stated in the climate agreement. Although a study from PricewaterhouseCoopers commissioned by the Ministry of Economic Affairs and Climate confirmed that *carbon leakage effects* resulting from the Dutch carbon levy for the industry are expected to be very limited, the cabinet nevertheless has opted to adjust the price path downwards. Also, the cabinet has decided to tax only 'avoidable' CO_2 emissions: the amount that an

installation emits on top of the EU-benchmark. The EU-benchmark is based on the average greenhouse gas emissions of the best performing 10 % of installations producing that product in the EU. For the tons emitted CO_2 below that benchmark, the industry will receive so-called free 'dispensation permits'. The industry only pays for pollution if they emit more than the EU-benchmark. In doing so, the Netherlands is following the bad example of the EU ETS under which industry mostly pollutes for free.

Building a future-oriented and sustainable economy includes pricing all environmental damage and calculating a fair price. Allowing these exemptions to big polluters means that the Netherlands will miss out on revenues that could have been used to support a just transition to a climate-friendly society.

Corona- bonus

In addition, in view of the economic conditions resulting from the COVID-19 pandemic, the Dutch cabinet decided to limit the carbon tax's impact in the first years by issuing 20% more dispensation permits. It is expected that no tax is therefore due until 2025. There will hence be no direct incentive for reducing greenhouse gas emissions in industrial production processes in the Netherlands for another few years and simple measures to improve energy efficiency will likely be postponed again.

Financial relief measures during economic despair should be separated from climate policy measures. In fact, a carbon tax will encourage investment and thus employment. In these times, postponing climate policy can also be economically inconvenient.

Lessons learned

However, there are also some positive developments. The government decided to ban saving surplus permits, which shows that a crucial lesson has been learned from the EU ETS, where a surplus of no less than two billion pollution permits has been built up. Also, the number of dispensation permits is calculated based on current activity levels and the allocation of free allowances is predetermined. In addition, the recalculation and reimbursement of historical taxes provide a strong incentive for industry to invest in reducing emissions.

A step into the right direction

Overall, although the design of the Dutch national carbon levy is far from perfect, at least it's a step in the right direction. Large polluting industries like steel, cement and chemicals receive massive free emission handouts under the EU ETS and did hardly decrease their carbon pollution in the past decade. The Dutch carbon tax for the industry is a good example of complementary pollution pricing policies which will be required to decarbonise those sectors. Other European countries should follow this initiative; it would level the playing field and create a race to the top, and not to the

bottom, as we have seen so far with exception after exception given to industry on carbon pricing.

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