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#Stembuzz – The Dutch election results and its climate implications

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- ***Based on the 17 March 2021 Dutch election results, a coalition of parties with a CO2 equivalent emission reduction target varying between 49% and 60% (vs 1990) in 2030 is underway (assuming that the VVD follows the climate agreement promises). Final policy will likely to be a reduction target close to 55%.***

- ***A new package of economic measures is required to reach this target. We discuss the taxes, investments, subsidies and other regulations needed to achieve a 55% reduction of emissions in The Netherlands, according to a recent report from the working group under Laura van Geest,.***

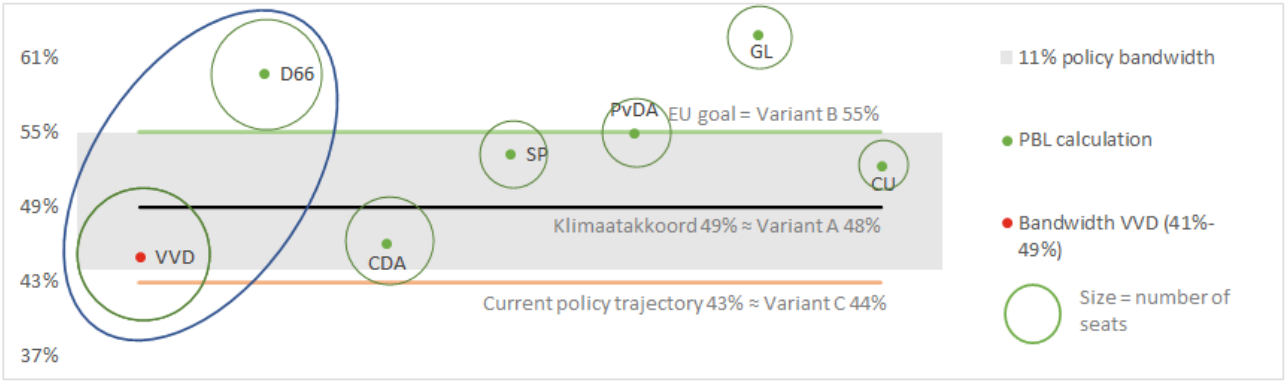
- ***Ambitious climate policy can be associated with two types of inequality: income inequality within a generation and inequality between current and future generations. Parties with ambitious climate goals also pursue policies that result in lower inequality. This is achieved partly with compensation via income policy and partly through financing by government debt (passing part of the bill on to future generations).***

With global policy measures in the next 10 years crucial for the global warming pathway, the newly formed Dutch government will leave a lasting mark on how the Netherlands is positioned for mitigation and adaptation in an international climate agenda. It concerns adaptation to the physical consequences of a warming planet as well as adjustments and risks surrounding the transition to a CO2 neutral world. A transition that has gained momentum with pledges by America, China and Europe to a net-zero economy by 2050 (China 2060).

Where do we currently stand?

The VVD won the most election seats followed by D66, creating a clear block of possible coalition partners. To form a majority government they will need a 3rd and 4th party to reach 76 seats. The new coalition of parties will influence the climate agenda for the coming cabinet period. Until then, we have the outgoing cabinet and it's Climate Accord ("het klimaatakkoord") with a target of reducing annual emissions of CO2 equivalents by 49% in 2030. We also participate in the EU ETS (European Emission Trading System). At the end of 2020, the EU emission reduction target for 2030 was raised to 55%, increasing the political pressure within the Netherlands to increase its national commitment. Our current policy trajectory, including the Climate Accord, is heading towards a 43% reduction by 2030.

Figure 1: Emission reduction of election policy by party (with seats)



Source: *Destination Paris: Roadmap for Climate Choices 2030, 2050, PBL, Climate Memorandum, Kalavasta, ABN AMRO Group Economics*

To close the gap between the reduction we are heading for and the European target, a working group led by Laura van Geest (chairperson of the Board of the Netherlands Authority for the Financial Markets, AFM) recently published a report containing practically feasible measures. We use these policy options as a bandwidth in Figure 1 to translate the climate ambitions of the various party programmes into a possible policy agenda for the next four years. The size of circle is relative to the number of seats they have won.

Policy options for the Netherlands

Under the title Destination Paris: Roadmap for Climate Choices 2030, 2050, the report maps out various options. It details the measures and government budget needed to increase our efforts from the current policy pathway to three distinct targets. Variants:

A. sticking to the climate agreement plus changes to the EU ETS
B. increasing our effort to 55% or
C. abandoning our own plans to pursue other goals, abolishing our national carbon taxes and our subsidies (SDE++) for heavy industry.

The result is a range of about 11% between our current path of 43% reduction to a full 55% emission reduction target.

The climate ambitions of all parties except for the VVD and the CDA are more ambitious than the Climate Accord (see figure 1). Based on the PBL (Netherlands Environmental Assessment Agency)[1] calculations, D66, Groenlinks (Green Left) and PvdA (Labour Party) have policy intentions that also meet (or in the case of GL even exceed) their own ambitions. With the VVD assessed separately by Kalavasta - we plotted their climate ambition between the calculated 41% (Kalavasta) and their stated goal of 49% (the climate agreement).
The block of probable coalition partners as circled, will jointly achieve a climate ambition of between 43 and 60% emission reduction in 2030. Because the VVD and also the CDA have committed themselves to the climate agreement (of 49%), we assume that the final policy will come closest to the 55% emission reduction bringing policy variant B from the Van Geest report within sight. While the specific policy measures in the Van Geest report are illustrative, they do offer a realistic pathway to achieving the envisaged emission reductions.

What the new climate policy could look like

Climate policy options range from increasing (or decreasing) taxes, providing subsidies, public investments and other regulations (such as prohibitions or bans). The policy options discussed below are complementary to the current policy path, including the Climate Accord.
These numbers do not include the complex feedback of secondary economic effects of investments and subsidies to and from the total national costs. PBL also calculated the national costs of the programmes of the different parties, ranging from €5.1 billion per year for the least ambitious, to over €9 billion per year.

Higher taxes or more debt?

A question raised often by the public is: "Who is going to pay for climate policy?" The cost of public investments and subsidies to individuals and businesses to reduce their emissions must be financed - either by public debt or by taxes on households and businesses. The latest estimate from CE Delft was that the current trajectory plans are financed about 55% by households and 45% by companies.
As alternative to raising taxes, sovereign debt issuance is attractive at the moment (see #stembuzz-wie-gaat-dat-allemaal-betalen), as investors are queuing up for it. If the Stability and Growth Pact - which has been put on ice for the time being - would allow for additional green debt financing (see here), ambitious climate targets could count on more support. Since climate change is by definition a cross-generational issue, with negative externalities from one generation being passed on to the next, the burden of debt for the next generation will prove small compared to the economic damage of no policy action. Despite this economic argument, making polluters pay for their pollution is seen by some as a matter of fairness in a just transition.

[1] Note: several measures from the Climate Agreement are not included in the current PBL calculation towards 34%.

If the climate agenda were to be fully financed within the current budgetary limits, the range proposed by Van Geest gives us a preview of potential additional policies. For taxes, this would mainly mean:

- higher taxes for both flying and driving in the transport sector, followed by
- higher gas tariffs (for both households and industry) as an incentive for switching from gas to electricity and
- a tax on meat consumption.

Smaller tax initiatives include the elimination of various tax breaks.

Table 1: Taxes per climate table EUR million

		CO2 effect	EUR million p.a.
Industry	Increased tariffs for energy tax 2nd,3rd,4th layer gas	++	500
	Limiting input exemption WKK (warmtekrachtkoppeling) - energy tax	++	PM
	Removing exemption (energy tax) for metallurgic and mineralogical processes	+	-60
Built Environment	Increased tariff for energy tax 1st layer gas	+	800
Mobility	Increased automotive taxes	+	2.315
	Increased flight taxes		1.200
Agriculture and Landuse	Meat consumption tax		650
	Limiting input exemption WKK (warmtekrachtkoppeling) - energy tax	++	PM

Source: *Destination Paris: Roadmap for Climate Choices 2030, 2050, ABN AMRO Group Economics*
Positive figures represent a tax flow from businesses and households to government

All of these taxes are based on the 'polluter pays' principle, whereby price signals are necessary to redirect the behaviour of industry and consumers towards more climate-friendly choices. Whenever possible, producers will translate cost increases from taxes to price increases for consumers. Households (and especially low-income households) may end up paying for the transition this way.

However, if consumers have acceptable alternatives, producers will be forced to absorb the tax themselves. We have seen the latter dynamic in 2020 with meat consumption. During 2020, meat consumption shifted to meat substitutes - the cost of a meat consumption tax is likely to fall on the producer since consumers are willing to switch to alternative products. (See here and here).

Will climate policy increase inequality?

Climate policy often hits households with lower incomes harder than those with higher incomes. Households with lower incomes more often live in less insulated houses and spend a larger part of their income on fossil-related products. They also have less capacity to make the investments that would avoid energy taxes. It should be noted that this does not apply to residents of social housing owned by large corporations. This concern for increased inequality is not justified in party programs however. Looking at the long-term indicators for income inequality as calculated by the CPB (Central Planning Bureau), we see that parties with ambitious climate goals also pursue policies that result in lower inequality. This is achieved partly with compensation via income policy and partly through financing by government debt (passing part of the bill on to future generations).

The figure below shows on the left the correlation between lower emissions and lower inequality of party plans and on the right the level of taxes to current generations and debt to future generations

Figure 2: Effect of income equality vs CO2e reduction

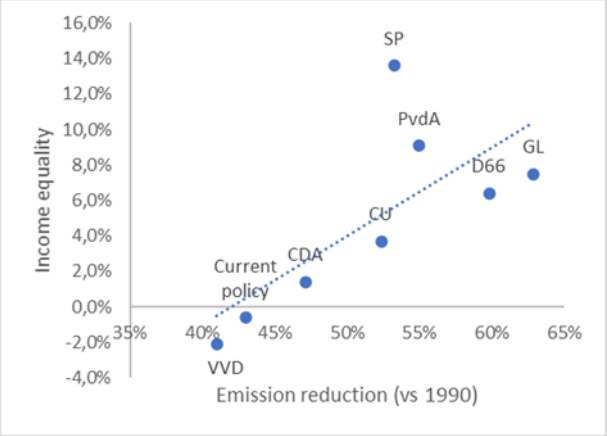
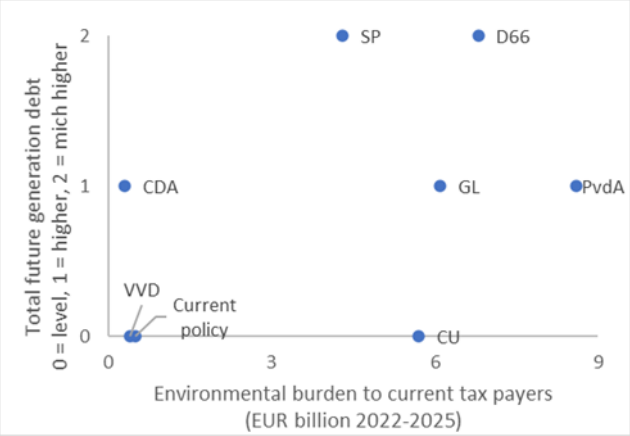


Figure 3: Financial burden between generations



Source: *CPB, PBL, Kalavasta, ABN AMRO Group Economics*
Inequality and environmental burden for the current generation is inclusive of the base path, while burden for the future generation is total of the base path proposal.

Parties with higher climate ambitions compensate for the increase in inequality in other policy areas and, ultimately, achieve a greater degree of income equality. For the less ambitious parties on climate, the opposite is true. The latter leads to potential problems after 2030. CO2 neutrality in 2050 means that parties that do less prior to 2030 will need to do more between 2030 and 2050. Since climate change in itself exacerbates inequality, the future may become considerably more unequal if climate policy is intensified after 2030. To avoid polarisation and social unrest, the redistribution machine would need work overtime to achieve what some call a fair transition (with an unchanged Gini).

Inequality between current and future generations

Another form of inequality concerns the distribution of burdens now and in the future (figure above right). The figure shows the climate-related burden increase for the coming cabinet period on the X-axis. The Y-axis shows the distribution of the financial burden between future and current generations. By plotting parties against these two axes, we see that:

- D66 is in favour of a high climate-related burden, but is also prepared to pass on considerable debts to future generations.
- Christian Union has a more moderate but still relatively strong emission reduction target (above the climate accord but still below 55%) without passing on extra debt to future generations, while
- The VVD excels in terms of the absence of burden increases for climate measures, but also in the absence of burden increases for future generations. In this respect, it is a rather poor policy package on top of all the existing measures in the basic path.

Increased investments, subsidies and compensation

Parallel to the increase in taxes and debt, more investment, subsidies and compensation will go into the economy. Most notably, it would go toward:

- Early phase infrastructure development and investment, which in turn creates (or replaces) jobs.
- Tax incentives for electric vehicles - as a counterbalance to the increased mobility taxes (motor vehicle tax) mentioned in the previous section. Subsidies for EVs have two advantages: a) they make behavioural change more likely. Taxes discourage the undesirable behaviour, while subsidies encourage alternative desirable actions, and b) they encourage producers to improve EVs, gain market share and ultimately make them more affordable. The same mechanism changed the market dynamics for solar panels when Chancellor Merkel subsidised solar panels (see here).
- Insulation of owned and rented homes - as a counterbalance to increased electricity tariffs, and
- reduction of agricultural production rights by about 10%. Using klimaatwijzer.nu as a proxy calculator, each 10% reduction in livestock leads to roughly a 1 Mton CO2-equivalent reduction per year. Farmers are compensated in this policy option.

Smaller subsidy initiatives include scaling back subsidies for high-emission activities, e.g. beneficial tariffs for greenhouse horticulture, and subsidies for incremental positive actions such as travel behaviour and environmental investments.

Table 2: Subsidies and investments per climate table EUR million

		CO2 effect	EUR million p.a.
Electricity	CO2 freely adjustable capacity for gas-fired power stations	++	100
Industry	Increasing SDE++ (ccs, hydrogyn, elektrification)	+++	85
Built Environment	Toward isolation norms for owned properties	+	360
	Toward isolation norms for rented properties	+	360
	Stimulation toward heatpumps	+	100
	Financing of social housing	+	330
	Energy standards and subsidies for new industrial buildings	+	50
Mobility	Fiscal stimulus for EV's	++	1.040
	Stimulation of emission free delivery vehicles	++	180
	Greening of travel behaviour	+	29
Agriculture and Landuse	Schrinking livestock: 10%buy-out (or reduction of production rights)	++	600
	Intensifying project to revitalize existing forest and create new forest (land use)		100
	Expand budget transition program	+	50
	Abolition of lower energy tax for greenhouse horticulture	+	-30
General	Susidy for early stage scale-up		1.500
	Investment in infrastructure (hydrogen, heat, etc)		500
	Increase EIA budget (energy investment deduction)		50
	Expanding the MIA budget (environmental investment deduction)		30

Source: *Van Geest report, ABN AMRO Group Economics. Positive numbers represent a flow from government to businesses and households*

Other regulations

Besides taxes, subsidies and investments, there are a number of schemes that can reduce large quantities of emissions with no (or neutral) budgetary impact. The most notable are:

- The large-scale roll-out of renewable energy, which is already included in the current trajectory in order to reach 43% and costs approximately EUR 2.5 to 4 billion per year. A detailed consideration of the parties' positions on the Energy Decree is summarised elsewhere in this series under #stembuzz-energietransitie-betekent-keuzes-maken
- Pricing of emissions, by tightening industrial tariffs on CO2 emissions and the possible introduction of emission tariffs for agriculture
- Blending of green gas - both for the total gas supply and particularly relevant for gas use in the built environment. Setting klimaatwijzer.nu on its maximum results in a reduction of 4Mton CO2 emissions in 2030.
- Initiatives to pay for use in mobility.

Table 3: Other regulations per climate table EUR million

		CO2 effect	EUR million p.a.
Electricity	Renewable energy roll-out		0
Industry	Tightening CO2 tariffs for industry	+++	0
	Supervision and enforcement of energy saving obligation	+	14
	Incentive program for development / upscaling of recycling	+	7
	Mandatory percentage recyclate in building materials	+	3
Built Environment	Obligation to add/mix green gas	++	0
Mobility	Pay for use	+++	0
Agriculture and Landuse	Emission tax or rights system	`+-+++	0
	Bringing forward the approach to peat meadow areas (land use)		34

Sharpening of the industrial tariff (both EU ETS and national) would provide the needed price signal to industry to move beyond the inertia point of investing in new technologies, for example carbon capture or hydrogen-based production processes. As an important player in the economy - providing jobs as well as goods and services - the competitiveness of industry is important. This is the main driver for the party programmes that aim for an emission reduction similar to variant A in the Van Geest report - sticking to the climate agreement plus changes in the EU ETS. Most items in the table above are 'budget neutral', even though they lead to very large emission reductions. The assumption behind this, for example in tightening the CO2 tariff for industry, is that companies would anticipate on this tariff increase and use the SDE subsidies to invest in emission reducing technology, resulting in no net tax revenue.

In addition to Dutch regulation, regulation at EU level will be crucial. In particular, the Carbon Border Adjustment Mechanism (CBAM) to prevent emissions saved in the Netherlands leaking to production emissions outside the EU and high emission competitor goods subsequently imported to the Netherlands.

Other publications in this series (all in Dutch)

- Wie gaat dat allemaal betalen - verkiezingen en rente – 11 March
- Energietransitie betekent keuzes maken - energietransitie – 16 March
- Kritische beschouwing woningplannen - woningmarkt – 16 March
- Linksom of rechtsom naar een hoger minimumloon – 18 March
- Arbeidsmarkt vraagt om hervorming - Arbeidsmarkt - 19 March
- De verkiezingsuitslag en zijn klimaatimplicaties – 19 March
- Politiek moet ondernemer betrekken bij brede welvaart – 22 March
- Stikstof – Week of 22 March
- Groeifonds – Week of 22 March
- Brede welvaart – Week of 22 March

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