

Phasing-out fossil fuel subsidies in the Netherlands

Less CO₂ and more state
revenue for fair climate
policies

Executive summary

Phasing out fossil fuel subsidies: longstanding promises, little action

Fossil fuel subsidies are often tax measures that make the use or production of fossil fuels cheaper. There is now broad consensus that phasing out fossil fuel subsidies is an important step in achieving climate goals. It will reduce the demand for fossil fuels, while generating additional income to accelerate a green transition, reduce inequality and promote social well-being.

Despite this knowledge and previous commitments to end fossil fuel subsidies, the Dutch government only started taking stock of them in 2019. In May 2022, the current, now outgoing cabinet came up with an updated overview. Although more fossil fuel subsidy schemes were mentioned in this overview, the size of the tax benefit was not stated.

This report offers, for the first time, an overview that is as complete as possible: it sets out all identified schemes, and quantifies them.

Dutch fossil fuel subsidies amount to €37.5 billion per year

What do we mean by the term fossil fuel subsidy? This report uses the definition of a subsidy by the World Trade Organization (WTO), and a methodology based on this definition developed by the United Nations Environment Programme (UNEP) to quantify fossil fuel subsidies. The Dutch government uses the same definition and methodology. Based on this, 31 schemes by the Dutch government were identified that provide an advantage to fossil fuels. Over the last three years, 2020–2022, the state revenue foregone through these schemes averaged €37.5 billion annually.

Identified schemes and annual fossil fuel subsidy amount

Sector of onderwerp	Number of schemes	Annual fossil subsidies 2020–2022 (billion €)
Aviation	2	2.4
Shipping	4	6.7
Road traffic	1	0.9
Non-energetic gas use (particularly fertilizer)	1	1.3
Greenhouse horticulture	2	1.3
Steel and other energy-intensive processes	3	0.2
Oil processing industry	2	2.4
Gas extraction and storage	3	1.5
Emission rights	3	1.6
Fossil electricity generation	3	5.3
Sector-transcending energy tax	3	13.5
Other	4	0.4
Total fossil fuel subsidies in the Netherlands	31	37.5

Large-scale consumers of fossil energy receive the largest subsidies

The majority of the identified fossil fuel subsidies consist of tax provisions. Specific sectors or processes are exempted from certain taxes or are charged a lower rate or offered a tax refund. Many provisions offer benefits to business sectors that consume a lot of energy, such as heavy industries. The largest fossil fuel subsidy concerns the energy tax on gas consumption. Two-thirds of gas consumption by Dutch companies and institutions is exempt from energy tax, and for large-scale consumers who are taxed, a much lower rate applies than for other companies. Furthermore, shipping and aviation occupy a special position. Exemptions from excise duty apply to fuels used in these sectors. The Netherlands has so far done little to counter this with national measures, such as an air passenger tax.

Phasing out fossil fuel subsidies reduces CO₂ emissions by 13.1% to 19.8% by 2030

Phasing out fossil fuel subsidies reduces CO₂ emissions. A International Institute for Sustainable Development (IISD) model was used to approximate the potential emission reductions. It was assumed that 25% of the additional income generated by the phase-out

would be used to accelerate sustainability; 25% would be spent on Dutch social policy; and 25% on international climate justice (climate finance). It will not be possible to reallocate the entire amount of saved subsidy expenses because companies will likely replace or reduce their fossil consumption in response to increased fossil fuel costs. With a complete phase-out in 2025, a CO₂ reduction of 19.8% can be achieved according to the model. If the phase-out of fossil fuel subsidies is not completed until 2030, a CO₂ reduction of 13.1% will be achieved. Both figures compare to a 2030 scenario in which no phase-out takes place.

Recommendation: present a fair fossil fuel subsidy phase-out plan in 2023

SOMO, Oil Change International and Milieudefensie recommend that the Dutch government draws up a national plan in 2023 to urgently phase-out fossil fuel subsidies. There are a number of criteria that this reduction plan must meet:

- **The reduction plan must be fair.** If the distribution of climate costs is not perceived as fair, support for climate policy will come under pressure. Earmark part of the saved subsidy expenses for 1) acceleration of Dutch sustainability in energy efficiency and renewable energy, 2) Dutch social policy to absorb the consequences for vulnerable groups, and 3) international climate justice through an increase in Dutch climate financing for countries in the Global South.
- **The Netherlands must take the lead with national measures.** The Netherlands already promised in 2016 to end fossil fuel subsidies by 2025. Too often, however, the government argues that a regulation cannot be abolished because it should be done EU-wide, because there are other international agreements, or the competitive position of the industry is at stake. In practice, much is possible at national level. For example, the expansion of the air passenger tax to counteract the excise duty exemption on kerosene laid down in Europe. This also strengthens the lobbying position in the EU, to end fossil fuel subsidies there as well.
- **New fossil fuel subsidies must be prevented.** While the old ones are being phased out, the Netherlands must be careful not to create new fossil fuel subsidies, such as for hydrogen from fossil fuels.

There is an important opportunity for the Dutch government. By phasing out fossil fuel subsidies, the knife cuts both ways: reducing CO₂ emissions and at the same time increasing state revenues to use for CO₂ reduction and socially just and fair climate policies.



The Centre for Research on
Multinational Corporations
<https://somo.nl>



Oil Change International (OCI)
<https://priceofoil.org>



Friends of the Earth Netherlands
<https://milieudefensie.nl>