

Progress report
on product and capital markets
in the Netherlands 2001

Foreword

Before you lies the fourth progress report on product and capital markets in the Netherlands. This progress report arises from agreements, concluded between government leaders and heads of state of the European Union member states, which were made during the European Council at Cardiff in June 1998. This progress report is part of the annual cycle of economic policy co-ordination within the European Union. EMU has given economic policy co-ordination within the EU a significant boost, due to the recognition that the policy of one member state influences those of the others more than ever before.

The progress report 2001 discusses developments on the Dutch product and capital markets over the past year, plus the policy that has been implemented to improve the way these markets operate. This year, extra attention will be devoted to pensions and the environment. Both topics have been elaborated in more detail in a separate annex.

This report, together with the National Action Plan for Employment, which was compiled by the Ministry of Social Affairs and Employment as part of the European employment strategy, constitutes the Netherlands' input for a new round of country surveys. The aim of these surveys is for the member states of the European Union to be able to compare the performances of their labour, product and capital markets and to learn from each another. These country surveys increase the policy transparency within the European Union.

The results of the country surveys will be used by the European Commission to draft the new Broad Economic Policy Guidelines in 2002. These Guidelines, which are based on Article 99 of the EU Treaty, are the key instrument for economic policy co-ordination within the European Union. Each year, the Guidelines make recommendations to the member states on how to improve the functioning of their product and capital markets. The government policy drafted in response to these recommendations is evaluated in the progress report for the following year.

EU economies are healthier than they were a decade ago. This applies not just to public finance, but certainly also to the all-encompassing concept of market functioning. Supply of, and demand for, labour, goods and capital are increasingly closely matched. Negative external effects on the environment are better understood and are included in prices, with or without direct intervention from the government.

This improved market function is partly the result of the structural measures described in this progress report, which the Dutch government has enacted in recent years. This is reflected in the increased capacity of the Dutch economy to respond to external shocks. In order to improve the viability of our economy even further, important policy questions will have to be addressed in the near future. These questions include inter alia the quality and availability of public services, the consequences of ageing, structural issues and the environment. They pose an important challenge for the coming years.

A. Jorritsma-Lebbink
Minister of Economic Affairs

Table of Contents

Foreword	3
I Introduction	6
II Assessment of market performance and structural reforms	8
II.A Product markets	8
II.A.1 Opening new markets to competition and promoting economic integration	8
II.A.1.1 <i>General evaluation</i>	8
II.A.1.2 <i>Legal and administrative framework of the Internal Market</i>	8
II.A.1.3 <i>Remaining obstacles to trade</i>	8
II.A.1.4 <i>Services</i>	9
II.A.2 Public policies having an impact on product markets	10
II.A.2.1 <i>Introduction</i>	10
II.A.2.2 <i>Competition policy</i>	11
II.A.2.3 <i>State aid</i>	11
II.A.2.4 <i>Tax policy</i>	12
II.A.2.5 <i>Public procurement</i>	12
II.A.2.6 <i>Policy initiatives for market reforms</i>	12
II.A.3 Utilities and other network industries	13
II.A.3.1 <i>Introduction</i>	13
II.A.3.2 <i>Energy</i>	13
II.A.3.3 <i>Cable</i>	14
II.A.3.4 <i>Public transport</i>	14
II.A.3.5 <i>Post</i>	15
II.A.3.6 <i>Telecommunications</i>	15
II.A.3.7 <i>Water</i>	15
II.A.4 The use of market-based instruments to protect and improve the environment	16
II.A.4.1 <i>General</i>	16
II.A.4.2 <i>Developments</i>	16
II.A.5 Foster a knowledge-based society	17
II.A.5.1 <i>Transition to a knowledge-based society</i>	17
II.A.5.2 <i>R&D and innovation</i>	18
II.A.5.3 <i>Information society</i>	19
II.A.5.4 <i>Supply of trained researchers and qualified ICT personnel</i>	20
II.B Capital markets and financial services	22
II.B.1 Developments relating to the Dutch capital market	22
II.B.2 Developments relating to the stock exchange	23
II.B.3 Legal, regulatory and supervisory framework	23
II.B.4 Cross-border and cross-sector mergers in the financial sector	24
II.B.5 Financial services and the consumer	24
II.C Other reforms which influence product and capital markets	26

II.C.1	Market functioning, Deregulation and Legislative Quality (MDW)	26
II.C.2	Corporate Social Responsibility (MVO)	26
III	Conclusion	27
IV	Annexes	28
IV.1	Environmental policy in the Netherlands	28
	<i>IV.1.1.1 Introduction</i>	28
	<i>IV.1.1.2 Dutch environmental policy</i>	28
	<i>IV.1.1.3 Market-based instruments</i>	29
IV.1.2	Climate change	29
	<i>IV.1.2.1 Objectives</i>	29
	<i>IV.1.2.2 Policy instruments</i>	29
	<i>IV.1.2.3 Results</i>	30
IV.1.3	Water quality and water scarcity	30
	<i>IV.1.3.1 Objectives</i>	30
	<i>IV.1.3.2 Policy instruments</i>	30
	<i>IV.1.3.3 Results</i>	31
IV.1.4	Solid waste and recycling	31
	<i>IV.1.4.1 Objectives</i>	31
	<i>IV.1.4.2 Policy instruments</i>	31
	<i>IV.1.4.3 Results</i>	33
IV.1.5	Quantitative data on levies, taxes and tax facilities	33
	<i>IV.1.5.1 Revenue from levies and taxes</i>	33
	<i>IV.1.5.2 Tax facilities (environment)</i>	34
IV.2	Budgetary sustainability of pension systems	36
IV.2.1	Introduction	36
IV.2.2	Demographic developments	36
IV.2.3	Costs of ageing	36
IV.2.4	Debt policy	37
IV.2.5	Strengthening the economic base	38
IV.3	Summary of measures in the context of the country-specific recommendations in the Broad Economic Policy Guidelines 2000	39
IV.3.1	Product markets	39
IV.3.2	Capital markets	39

I Introduction

1. At its summit in Lisbon in 2000, the European Union formulated a goal for EU economic policy, namely that over the next decade, the European economy must become “the most competitive and dynamic knowledge-based economy in the world – one with the capacity to achieve sustainable economic growth with more and better jobs and greater social cohesion”.

2. The Netherlands began work on a policy to bring about structural economic reforms in the early 1980s. Key elements of this policy were to reorganise public finance and to limit the collective tax burden. Tax reforms paved the way towards a moderate development in wage costs. At the same time, reforms were also made in the social security sector to obtain a more ‘activating’ system.

3. During the 1990s, the Netherlands continued along this road, but added extra policy aimed at improving the functioning of markets (both the labour market and product markets) and at increasing investments in the economic infrastructure.

4. This policy has yielded results. The Netherlands’ GDP has risen faster over the past decade than those of the other EU member states (see table 1). In 1995, the Netherlands had the fifth highest GDP per capita in the EU, and by 1999 this had reached third place¹. Employment has risen sharply. At the same time, unemployment has fallen substantially and is currently at a historic low. Public finance is also strong (see table 2).

Table 1 – Core data, average annual growth 1987-2000 (in %)

	The Netherlands	EU 15	US
GDP growth	3.0%	2.3%	3.0%
Employment growth (in persons)	1.9%	0.6%	1.5%
Unit labour costs in the processing industry	0.2%	1.7%	0.0%

Source: Netherlands Bureau for Economic Policy Analysis (CPB), MEV 2002

Table 2 – Core data 2000

	The Netherlands	EU 15	US
Government net lending	2.2%	1.2%	2.4%
Employment (in persons)	73%	64%	74%
Employment (in labour years)	57%	58%	80%
Unemployment	3.0%	8.3%	4.0%
Unit labour costs in the processing industry (rise in % terms compared to 1999)	1.4%	-1.7%	-1.7%
Inflation	2.8%	1.9%	2.4%

Source: Netherlands Bureau for Economic Policy Analysis (CPB), MEV 2002. OECD, Employment outlook, June 2001, EU, Employment in Europe 2001

5. Yet despite these positive results, there have also been less positive developments. The ongoing shortage of manpower on the labour market is now leading to a sharp rise in unit labour costs, resulting in a worsening of the competitiveness of Dutch business and industry. The growth of private consumption is falling, and developments in the global economy, which were already negative, have

¹ Eurostat Yearbook 2001

further worsened since September. This has had a repercussion on the Dutch economy due to its close links with the global economy. The economic outlook for the Dutch economy is consequently uncertain. Moreover, structural factors are also squeezing economic growth. The main factor in this is the relatively low growth in labour productivity. The ageing of the population and the associated decline in the potential labour supply will simply aggravate the problem. All this underlines the importance of further improving the performance of the Dutch economy through structural reforms.

6. There are various possibilities for doing so chiefly in the following areas: stimulating labour participation and productivity, strengthening the innovative capacity of Dutch business and industry (including by increasing the supply of highly-skilled labour and achieving a better match and exchange between the public and private knowledge infrastructure), removing barriers in the physical infrastructure (including improving physical and electronic accessibility and optimising the use of space), and further reducing the environmental load (including switching to sustainable farming and improving the quality of living space).

II Assessment of market performance and structural reforms

II.A Product markets

II.A.1 Opening new markets to competition and promoting economic integration

II.A.1.1 General evaluation

7. The Dutch economy is one of the most open economies in the world. This is illustrated by its high level of trade integration, especially with the other EU member states. In terms of GDP, Dutch intra-EU trade (imports and exports within Europe) came to 39% in 2000². The openness of the Dutch economy is also reflected in the key role played by foreign investments in the economy. The Netherlands is both one of the biggest investors in the world and one of the biggest recipients of investments from other countries. In 2000, the Netherlands received €17 billion in foreign direct investments from Europe, and €28 billion from the rest of the world³. This comes to more than 10% of GDP.

II.A.1.2 Legal and administrative framework of the Internal Market

8. Each quarter, the Dutch government issues a report to parliament about the progress of the implementation of EU Directives. This report covers both those Directives whose implementation term has and has not expired. Compared with the situation in June 2000, the implementation backlog in 2001 has now been reduced from 37 to 26 Directives that have not yet been implemented. The Netherlands has thus maintained its position among the leaders on the scoreboard of the internal market. During the first half of 2001, 70 Directives were implemented in Dutch law.

9. The delays in implementation have not always been attributable to a late reaction by the government, but have sometimes been the result of factors over which the Dutch government has no influence. Timely implementation is sometimes also complicated by the short duration of the implementation term, which if a formal law has to be amended is often difficult to attain. Relatively few “letters of formal complaint” are issued against the Netherlands. The number of infringements relating to non-timely implementation has stabilised at 12 since June 2000.

II.A.1.3 Remaining obstacles to trade

10. Despite the far-reaching nature of trade integration between the EU member states, efforts are being made to establish a more extensive free movement of goods so that businesses can benefit as far as possible from the European Internal Market. One key area in which the EU is involved is standardisation: the development of technical norms governing technical harmonisation. Standardisation is consequently increasingly a European matter⁴.

11. In terms of standardisation, the Dutch government is involved mainly in the more detailed planning and implementation of the projects from the policy agenda of the so-called IN (International

² Eurostat, Structural Indicators, 3.1.a.

³ Eurostat Yearbook 2001.

⁴ On 1 January 2001, there were approximately 2,100 purely national norms in the Netherlands, and approximately 10,500 European and 5,000 international norms were converted into Dutch norms.

is the Norm) policy document. There are two main thrusts to the policy document. The first is to strengthen the infrastructure for standardisation and to lower the thresholds for participation in standardisation. To this end, a project has been launched to invite the market players themselves to formulate and implement proposals for reducing thresholds with financial support from the government. The second main thrust of the policy document lies in the theme "Standardisation as an instrument for self-regulation". Further study is being undertaken on the conditions for self-regulation as an alternative or as a complement to state regulation. Within this theme, a study was commissioned on the effect of private quality marks on the market; this study examined whether the contribution made by quality marks and certificates to market transparency was a positive one. If this contribution is small or even negative, the government will discuss with the market players how quality marks and certificates can be used as a positive force for self-regulation.

12. Businesses can take complaints about the functioning of the European Internal Market to a so-called "Contact Point for Business". In line with the intensification of its co-operation with Co-ordination Centres and other Contact Points, the Dutch contact point will also handle matters relating to the Dutch market. The contact point receives few complaints from foreign entrepreneurs about trade barriers thrown up by the Netherlands. Most of the complaints that are made concern the national environmental requirements and the lack of reciprocal recognition of national product requirements. The complaints made by Dutch entrepreneurs concern barriers relating to technical requirements, mutual recognition of diplomas and the repayment of VAT paid in other member states.

13. In the sphere of European trademark law, the Netherlands is continuing to argue for an amendment of the European regulations which permit more parallel imports into the European Economic Area (EEA) from outside the EEA⁵. However, unanimity is required for changes to EU trademark law. Although in 2000, the Netherlands was supported by a number of member states in its efforts to amend the regulations, there are still some countries which are blocking progress in this dossier.

II.A.1.4 Services

14. The service sector has been the driving force behind Dutch economic growth for some time now. Both employment and production and the number of companies have risen sharply over the past few years. The commercial services sector in particular plays an important role in the Dutch economy. The share of this sector in the total added value of private business and industry is 39%, as a proportion of total turnover it is 24% and in terms of exports it is 11%. The sector also represents 38% of the total share of businesses and almost 40% of the volume of labour years in the Netherlands. However, it must be pointed out that the growth of labour productivity in this sector is low. In view of the anticipated decline in the growth of labour supply due to the ageing of the population, this sector needs to find ways of boosting its productivity.

15. The Dutch government is also advocating more openness and competition in the service sector. For example, the Accountancy Act is currently being evaluated. There are also recommendations to limit the monopoly of accountants, draw a distinction between control and advisory work and to restrict the public powers of the two accountancy institutes (NIVRA and

⁵ Under the current system, such parallel imports are banned without permission from the producer/trademark owner. Once a product is being circulated within the EEA with permission from the trademark owner, it can be traded freely within the EEA.

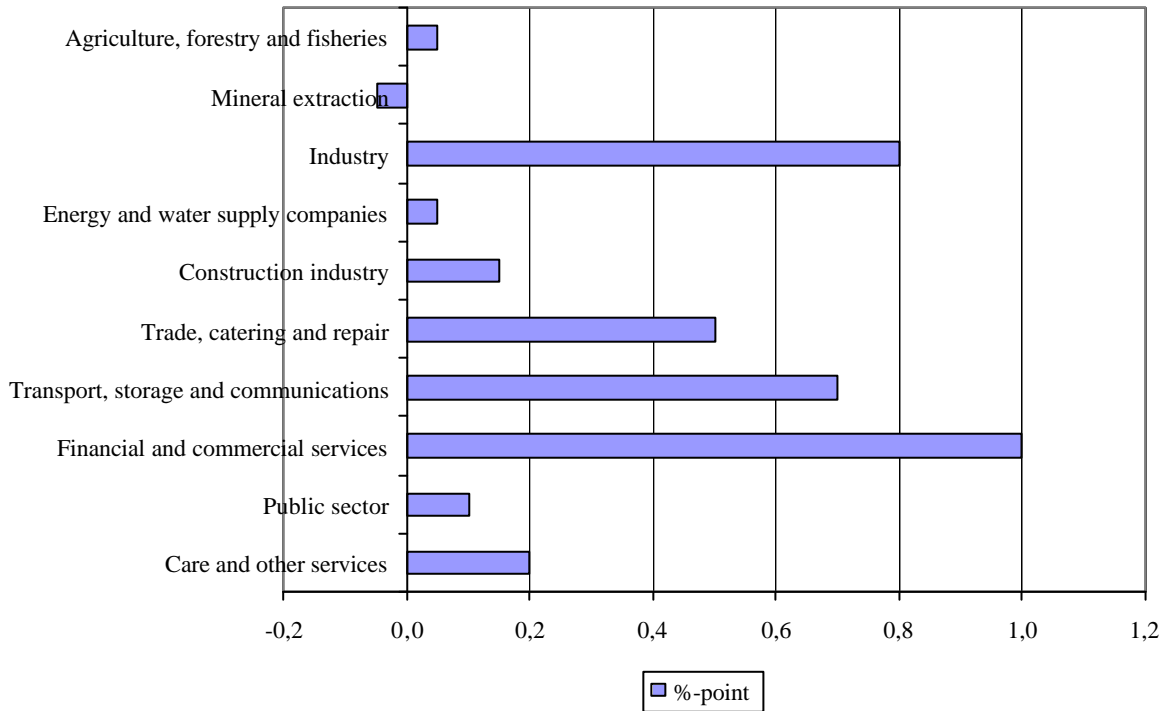
NovAA). Since the evaluation has not yet been completed, definitive initiatives have not yet been developed. The market for estate agents has also been examined, and this has resulted in a legal amendment abolishing protected titles and the swearing in of estate agents and creating a separate certificate for estate agents. Another recently examined market is that for bailiffs. This study has also resulted in a change in the Bailiffs Act, whereby the following elements have been added to the law: a choice of bailiffs, tariff differentiation and better information about the service that bailiffs can offer.

II.A.2 Public policies having an impact on product markets

II.A.2.1 Introduction

16. 2000 saw a 3.5% rise in the volume of gross domestic product in the Netherlands. Figure 1 shows the shares of various sectors in this growth. The biggest growth (1 percentage point) occurred in the financial and commercial services sector. Industry, transport, storage and communications and the trade, catering and repair sectors also made key contributions to growth in 2000.

Figure 1 – Sectoral contribution to economic growth, 2000



Source: Statistics Netherlands (CBS), National accounts 2000

17. The Dutch economy is characterised by a high level of competition. In many of the aforementioned sectors, the degree of concentration is therefore low. One exception is formed by the financial sector, which is relatively highly concentrated. In 1999, the five biggest banks had a market share of 83%⁶ (measured in terms of total assets). This concentration came about mainly in anticipation of the now slow-moving integration of the European financial market. Despite its relatively high level of concentration, the Dutch banking sector is strongly competitive, as shown by

⁶ ECB, Working Paper No. 72, July 2001.

the global scale on which the Dutch banks operate. The so-called network sectors involve a high incidence of (regional) monopoly positions. For many of these sectors, such as gas and electricity, government policy is designed to limit positions of economic dominance and to boost competition.

II.A.2.2 Competition policy

18. In 1998, a new competition authority was established in the Netherlands, the Dutch Competition Authority (NMa), together with a new Competition Act. The NMa is, next to the general competition authority, increasingly responsible for implementing sector-specific laws. The Ministry of Economic Affairs will soon be conducting an evaluation on the effectiveness and comprehensiveness of the Competition Act, focussing also on the role played by the NMa in the application of the Competition Act. Parliament is currently discussing a Bill, which will afford the NMa the status of an independent administrative body. In practice, however, the NMa is already largely independent and is unaffected by political influences.

19. By the end of 2000, the NMa had processed over 85% of the more than 1,100 applications for exemption from the transitional regulations governing competition agreements and has now created more room for its own research. During 2000, 37% more cases were completed than in previous years. In 2000, the total annual budget of the NMa came to €13.6 million and in September 2001 it employed 187 staff.

II.A.2.3 State aid

20. The Netherlands provides relatively little state aid. According to the European Commission's State Aid Scoreboard, the Netherlands has provided the lowest level of state aid in the EU since 1994 (excluding agriculture, fisheries and the railways), expressed as a percentage of GDP⁷. Yet despite this, overall state aid in 1999 compared with 1998 rose in absolute terms by 14%⁸. The total average level of state aid in the EU as a percentage of GDP is 0.67%, while at 0.43% the Netherlands lies substantially below this EU average⁹.

21. The Netherlands is working towards a general reduction in individual and sectoral state aid. However, horizontal aid - that is, aid not targeted at specific sectors or geographical regions - is regarded as important. This aid is geared towards removing market imperfections. This includes aid to encourage research and development (R&D), support for the SME sector, environmental protection and energy conservation. Aid for R&D helps to improve conditions for innovation, which ties in with the country-specific recommendations in the Broad Economic Policy Guidelines 2001¹⁰.

22. A comparison of the period 1995–1997 with the period 1997–1999 shows a gradual decline in state aid to the processing industry.¹¹ Expressed as a percentage of added value, this has now stabilised at 1%. The share of aid to specific sectors has declined, partly due to the substantial reduction in aid to the shipping sector.

⁷ European Commission, "State Aid Scoreboard", COM (2001) 412 final, Brussels, 18.07.2001.

⁸ European Commission, "Ninth Survey on State Aid in the EU", COM (2001) 403 final, Brussels, 18.07.2001.

⁹ Eurostat, Structural Indicators, 3.6.

¹⁰ Recommendation i. governing product markets.

¹¹ European Commission, "Ninth Survey on State Aid in the EU", COM (2001) 403 final, Brussels 18.07.2001.

II.A.2.4 Tax policy

23. The government's tax policy has led to an improvement in the climate for business locations. The 2001 tax review and the 2002 tax plan have, for example, considerably reduced taxes on employers and workers. The government has also improved the tax facilities for start-up and innovative entrepreneurs. In order to improve the business climate, the 2002 tax plan proposes cutting the rate of Corporation Tax by 0.5 percentage points to 34.5%. One of the pillars of the tax review for 2001 was a shift from direct to indirect taxes, including eco-taxes; this will be discussed in more detail in the annex on environmental policy. The 'greening' measures introduced during this tax review have created financial scope, which has been used to reduce the tax burden on labour.

II.A.2.5 Public procurement

24. The interdepartmental project directorate Professional Purchasing and Procurement began work in 2000. One of the tasks of this project directorate is to put electronic tendering on the government's agenda. It will also initiate measures designed to have electronic tenders introduced. Various parts of the Directorate-General for Public Works and Water Management are already at an advanced stage of making the entire procurement process digital. This is being done partly in response to the country-specific recommendation contained in the Broad Economic Policy Guidelines 2000¹². Additional efforts are also required, given that the value of public procurement (as a percentage of GDP) in the Netherlands is below the EU average¹³.

25. The government has decided to analyse the opportunities and conditions governing the deployment of various allocation mechanisms in the distribution of scarce goods and rights by the government. It will look at ways in which each distribution instrument can be deployed. The results are expected in spring 2002.

II.A.2.6 Policy initiatives for market reforms

26. In addition to the operation Market Functioning, Deregulation and Legislative Quality (MDW), the purpose of which is to encourage market reforms (see §II.C.1), the Netherlands is also working to reduce administrative costs. This is being done via the independent advisory board on administrative costs (ACTAL), which screens all proposed national laws and regulations for their impact on administrative costs. All the relevant ministries also draft an annual action programme aimed at reducing the administrative costs of existing laws and regulations. On the other hand, administrative costs are also rising, partly due to EU regulations.

27. The government is also expecting ICT to make a significant contribution to reducing administrative costs. For example, businesses should be able to find all the relevant government information in a single place (a government one-stop-shop), and these forms should automatically be completed with the information already known to the government. The entrepreneur should also be notified by the government of specific services, obligations or information, and need only supply a

¹² Recommendation i. governing product markets.

¹³ Eurostat, Structural Indicators, 3.5b.

specific piece of information once, either by post or electronically. The government is thus responding to the recommendations made in the Broad Economic Policy Guidelines 2001¹⁴.

28. With a view to achieving the original aim of reducing administrative costs by 25%, parliament has also called for an action plan to be developed alongside the aforementioned action lines, so that administrative costs can be reduced by €450 million in 2002.

29. Another initiative taken to assist entrepreneurship has been the appointment of a commission whose task is to encourage entrepreneurship in various training courses. This will include encouraging co-operation between schools and business and devoting systematic attention to entrepreneurship in the curriculum. Rapid growth companies and techno start-ups will also be encouraged by means of various programmes. The Ministry of Economic Affairs is sponsoring a Masterclass for ambitious entrepreneurs. This Masterclass is designed for start-up and rapid growth companies and will be given by the Catholic University of Brabant.

II.A.3 Utilities and other network industries

II.A.3.1 Introduction

30. The Netherlands has various supervisory authorities for the different network sectors. The Independent Post and Telecom Authority (OPTA) supervises the post, telecom and cable sector. There is also the Energy Implementing and Supervisory Board (Dte), which now forms part of the general competition authority, the NMa. OPTA will in future also be part of the NMa.

II.A.3.2 Energy

31. The Commission proposals for reviewing the Electricity and Gas Directive and for drafting a Regulation on the cross-border transport of electricity are giving a significant boost to the ongoing liberalisation of the European energy market. The differences between the member states continue to be worryingly wide, however. The Netherlands will contribute to the further liberalisation and realisation of a genuinely European "level playing field".

32. The introduction of the Electricity Act in 1998 and the Gas Act in 2000 marked the start of the liberalisation of the energy sector. Since January 2001, the wholesale market for gas and electricity has been liberalised. The market for intermediates will follow in January 2002. The results of this process will then be evaluated. The aim is to liberalise the entire market in early 2004.

33. Since 1 July 2001, all customers have been free to buy renewably generated electricity. A decision will also soon be taken on trade in imported renewable electricity. It is expected that the demand for and production of renewable electricity will increase.

34. In autumn 2001, a Bill governing the privatisation of energy companies will be submitted, which will prevent a conflict of interests with commercial energy companies, protect the interests of consumers and companies, and guarantee genuine market function and fair competition.

¹⁴ Recommendation i. governing product markets.

II.A.3.3 Cable

35. The Dutch cable market is dominated by private regional monopolies. Almost every household in the Netherlands is connected to the cable network. The cable network is also increasingly carrying other services, such as telephony and the Internet. The network characteristics of the cable network infrastructure may require a regulation of access to the cable network. In the event of a difference of opinion concerning the costs of access to the cable network, it has been agreed that the net tariffs should be based on the historic costs of the cable network plus a reasonable profit compensation. The government is currently preparing legislation to guarantee open access for broadcast and Internet companies to the cable companies, which enjoy a position of economic dominance. This legislation ties in with the relevant recommendations in the Broad Economic Policy Guidelines 2000 and 2001. This Bill will eventually be superseded by the new ONP rules, which will render the problem technology-neutral. The aim is to integrate the sectoral supervisory authority OPTA into the NMa by 2005. This will enable a more effective response to the future ONP rules, whereby co-operation between the sectoral and overall supervisory body is required. This will protect new entrants against obstructive conduct by established players.

II.A.3.4 Public transport

36. In the Netherlands, a system of transport concessions is being applied both to bus, tram and metro transport and to rail transport. This system is gradually being implemented. These transport concessions are periodically awarded via a public tender. All the transport companies, which satisfy the entry qualifications may submit a tender. The regional bus and urban transport will periodically be publicly tendered out via temporary concessions.

37. On 1 January 2001, the Passenger Transport Act came into force. Initial pilot tenders were successful. The supply of public transport was expanded for the same state contribution, or else the same transport supply was provided at the same price but under better conditions. According to the Act, by 2005 all the regional bus lines must be contracted out. However, current prognoses suggest that this is more likely to be a year later. The tendering procedure for urban transport will start later in order to enable the restructuring of the municipal transport companies. By January 2007 all the urban transport lines will need to have been contracted out.

38. Effective competition for rail passenger transport will be achieved through a system of temporary concessions for public passenger transport by rail and a temporary concession for the management of the infrastructure. The laws in which this is anchored will be debated in parliament early 2002. In 2002, regional rail transport will be decentralised in a series of stages and the lines contracted out. Various pilot tenders have already taken place. There will be a provisional exemption for rail transport over the main line network. This will be subject to a performance contract. In the period leading up to 2005, the existing transport company, NS Reizigers, will have the opportunity to raise its performance to an acceptable level. If it succeeds, NS Reizigers will be awarded a 10-year concession. After that, this area of transport will also in principle qualify for tendering out. Transport by high speed train will also be awarded by public tender. This tendering procedure has now been completed. The Rail Infra Management (RIM) company, whose shares are owned by the state, will obtain a concession for the management of the infrastructure.

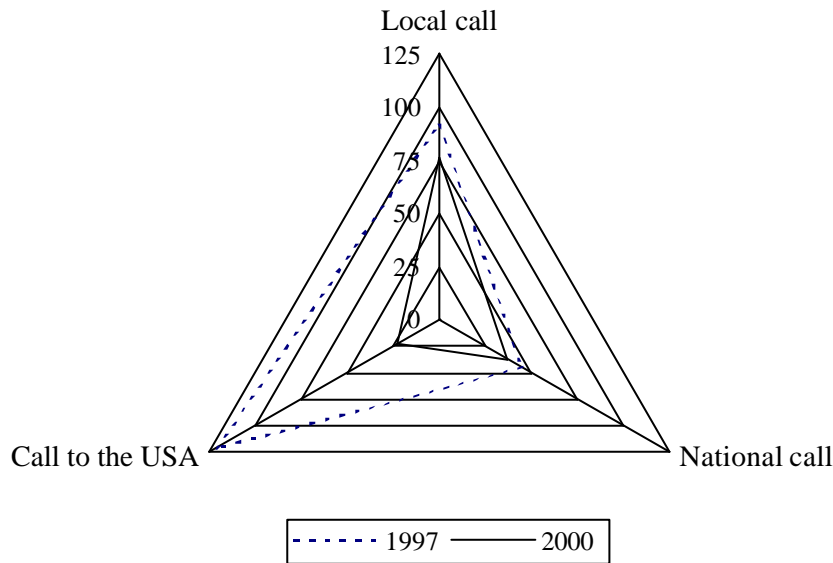
II.A.3.5 Post

39. The Netherlands amended the Postal Act for the last time in 2000. This reduced the monopoly threshold for letters from 350 to 100 grammes. Direct mail in the Netherlands has already been fully liberalised. Since then, there have been no policy amendments at national level.

II.A.3.6 Telecommunications

40. Since the introduction of the Telecommunications Act in December 1998, the telecommunications sector has been fully liberalised. Licenses are required for frequency use, number use and broadcasting stations. Five providers of mobile telecommunications are currently active and in July 2000 the five available UMTS licenses were distributed via the auction mechanism. At the end of 2001 a sixth alternative operator entered the market as a virtual mobile supplier. Since 1999, there has been a co-operation protocol between the general competition supervisor, the NMa, and the sector-specific post and telecom supervisor OPTA. Tariffs in the telecoms sector have fallen sharply in recent years (see figure 2).

Figure 2 – Costs of telecommunications in the Netherlands in 1997 and 2000 compared with the EU- average (EU-15 = 100)



Source: Eurostat, Structural Indicators, 3.4.a1, 3.4.a2 and 3.4.a3

II.A.3.7 Water

41. The Water Supply Act is currently being reviewed via a phased approach. The initial phase, the implementation of the EU Drinking Water Directive, was concluded in 2001. In 2001, a proposal for amending the Water Supply Act to guarantee the public nature of the supply of drinking water was adopted by the government. The debate in parliament is expected to conclude in 2002. Finally, a complete review of the Water Supply Act will take place. This will result in topics such as the introduction of “yardstick competition” between the water supply companies, the liberalisation of the market for industrial water and measures to prevent competitive distortion being included in the Act.

II.A.4 The use of market-based instruments to protect and improve the environment

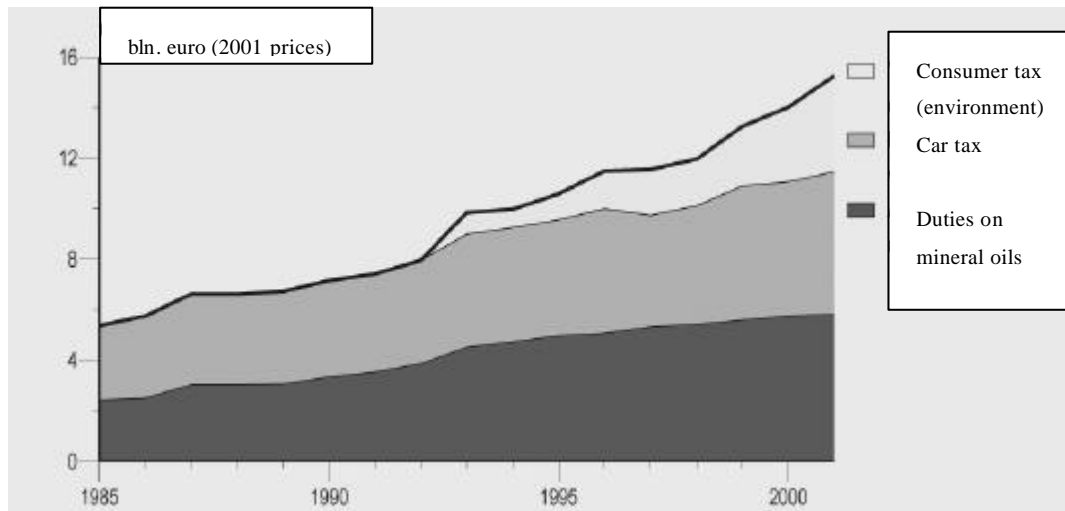
II.A.4.1 General

42. This section will only briefly discuss one or two aspects of Dutch environmental policy. More detailed information can be found in the annex on environmental policy. The Netherlands uses various instruments for environmental policy. This policy will be implemented primarily through regulation, covenants and market-based instruments. There are for example tax facilities, which encourage environmentally friendly or energy conserving investments by companies. Examples include the Environmental Investment Facility (MIA) and the Energy Investment Facility (EIA) and a facility which makes it more attractive to invest in environmentally friendly funds. The introduction and subsequent gradual increase in the energy tax and the aforesaid tax facilities are major steps towards a “greening” of the tax system. Finally, the energy conservation scheme has been introduced for households, to encourage the purchase of low energy equipment and provisions.

II.A.4.2 Developments

43. In 2001 the government’s eco-taxes generated an estimated €15 billion or so in revenue. This is equal to almost 15% of the total tax revenue. In the period 1992-1996, the share of eco-taxes in the total tax revenue rose from approximately 9% to more than 13%. The increase after 1996 was primarily caused by a rise in the consumption taxes on environmental grounds, such as waste and ground water levies, tax on fuels and the Regulatory Energy Tax (REB). The REB has in recent years been the main factor underlying the rise in the proportion of eco-taxes. In absolute terms, the revenue of the REB will roughly quadruple between 1996 and 2001, to reach €2.7 billion in 2001.

Figure 3 – Eco-taxes, 1985-2001



Source: Institute for Public Health and the Environment (RIVM)

44. The on-charging of price rises to offset the negative environmental effects of economic activities is therefore being increasingly often applied. This is referred to as the “greening” of the tax system in line with the Broad Economic Policy Guidelines 2001. By introducing more eco-taxes, the government can reduce other taxes such as wage and income taxes, and can make a shift from direct to indirect taxes.

II.A.5 Foster a knowledge-based society

II.A.5.1 *Transition to the knowledge-based society*

45. The Netherlands is making good progress in developing a knowledge-based economy. First of all, the Netherlands has the most Internet connections in the EU. In 2000, 55% of all households had an Internet connection, which means that the Netherlands scores even higher than the United States (47%)¹⁵. The Netherlands has performed a major catching up operation, given that in 1999 only one in five households had an Internet connection. In this regard, it is encouraging to note that at the end of December 2000, the Telecommunications Council adopted the Regulation governing the separation of the 'local loop'. This means that competitors of KPN, the former state monopoly, can now lease the lines between the district provider and the domestic connections of the customers of KPN. They can thus connect customers to their own network without themselves having to lay down connections. This separation of the 'local loop' will probably lead to more competition. In practice, users of the Internet who are customers of companies which provide Internet services via the KPN network appear to pay much more for subscriptions than users who are served by a competitor of KPN.

46. The Netherlands also ranks second in the EU in terms of both ICT investments¹⁶ and the number of patent applications per capita to the European Patent Office¹⁷. These are mainly patent applications in the spheres of biotechnology, pharmaceuticals, ICT and aviation and aerospace. Finally, the Netherlands has a rapidly growing high-tech services sector¹⁸. After Luxembourg and Ireland, the Netherlands has in recent years seen the strongest employment growth in this sector.

47. Yet despite these performances, the Netherlands is lagging behind in a number of areas (see also figure 4). For example, the high-tech manufacturing industry is not doing very well. The number of employees is low in international terms and has slumped in recent years. Moreover, the added value of the high-tech sector in relation to GDP is below the EU average and this has substantially declined in recent years.

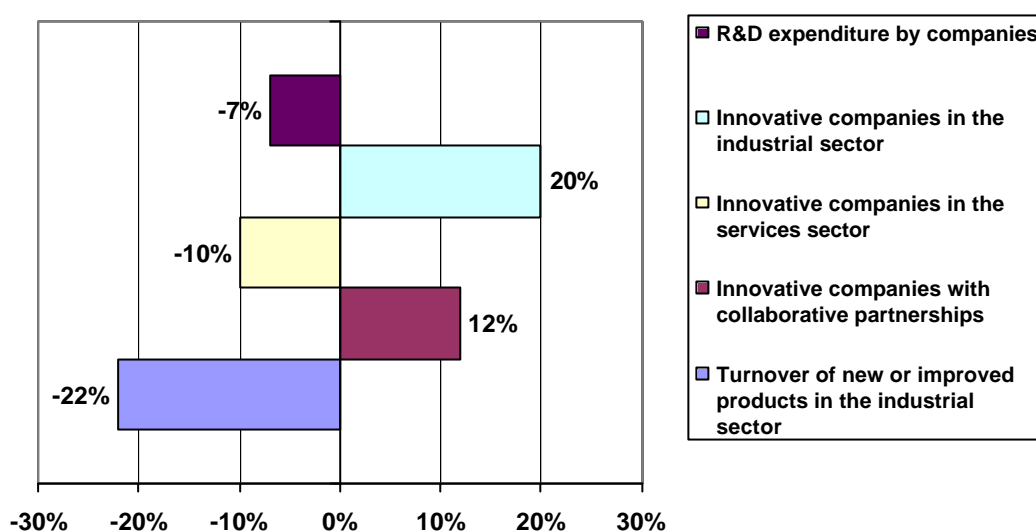
¹⁵ Eurostat, Structural Indicators 2.4b.

¹⁶ These are investments in computers, copier equipment and others, plus also software and telecom.

¹⁷ In terms of ICT investments only Sweden scores higher, and in terms of patent applications the Netherlands is only (albeit substantially) surpassed by Luxembourg. European Commission, Structural Indicators 2.3 and 2.5.3.

¹⁸ Post, telecom and ICT sector incl. software development.

Figure 4 –Dutch innovative performance in a European perspective (relative deviations from the EU average)



Source: European Commission, Innovation Scoreboard 2001

II.A.5.2 R&D and innovation

48. The Netherlands is lagging behind in terms of the share of expenditure on Research and Development (R&D) by companies as a percentage of GDP. This share fell in 1999 compared with 1998 from 1.11% to 1.05% and this has widened the backlog compared to the EU average.

Table 3 - Key indicators for the knowledge and innovation climate

	NL (1998)	EU-15 (1998)	NL (1999)	EU-15 (1999)
Business expenditure on R&D / GDP	1.11%	1.20%	1.05%	1.19%
Public expenditure on R&D / GDP	0.83%	0.70%	0.87%	0.66%
High tech-patents per million inhabitants	26.8	14.9	35.8	17.9
Internet users per 100 inhabitants	19	15	55	28
ICT expenditure / GDP	6.5%	5.6%	6.4%	5.8%
Share of ICT markets / GDP	5.9%	5.0%	6.6%	6.0%

Source: European Commission, Innovation Scoreboard 2000 and 2001 and European Commission, Structural Indicators. The figures for Internet users, ICT expenditure and market share of ICT markets relate to 1999 and 2000.

49. A good knowledge climate is essential for the innovative capacity of companies, and various measures are therefore also being enacted in this regard. The Dutch government is for example trying to activate and intensify the exploitation of knowledge within universities. To this end, a report was published in June 2001 on university patent policy in the Netherlands. The report discusses several elements, which are crucial for a healthy R&D and innovation climate in the Netherlands. Examples

include: the introduction of the EU patent and the application of a “grace period”¹⁹, support in setting up a network within which universities can notify each other about how they organise their patent policy, and the development of specific activities geared towards the universities by the Industrial Property Office²⁰.

50. The government is also taking steps to boost the return on publicly funded knowledge development²¹, to improve conditions for techno start-ups by extending the concept of the Twinning Project (start-ups in ICT sector) and widening the Biopartner initiative (start-ups in biotechnology) to other technological sectors (techno start-ups scheme)²², and to improve tax incentives to promote a competitive knowledge climate.

51. With the techno start-ups scheme, the Netherlands is responding to the recommendation in the Broad Economic Policy Guidelines 2000 to increase the level of technology exchange between publicly and privately funded research²³. In this context, a subsidy scheme was developed which is designed to ensure better cooperation and a better exchange of ideas on techno start-ups between universities and market players. Both parties will also be provided with advice and information.

52. Finally, efforts are being made to streamline and modernise the business-orientated technology instruments. This year, for example, an international comparative study on the effectiveness of subsidy schemes is being carried out. The entire interdepartmental technology policy will also be evaluated (Interdepartmental Policy Research on Technology Stimulation) and various existing schemes will be merged into more coherent new schemes.

II.A.5.3 Information society

53. Various initiatives are now being launched to encourage access to, and the use of, ICT in Dutch society. In this way, government policy is tying in well with the country-specific recommendation for the Netherlands in the Broad Economic Policy Guidelines 2001 to encourage the deployment of ICT in the economy²⁴.

¹⁹ The grace period is a limited period following the publication of an invention, within which a patent can be requested by or on behalf of the individual who has published it, without this publication compromising the award of the patent.

²⁰ Such as starting up pilot projects and the University Patents Policy Platform.

²¹ E.g. through a structural increase in the budget for Innovation-Orientated Research Programmes.

²² The so-called “Dreamstart” platform was established to this end. Dreamstart supplies information about existing and new initiatives for techno start-ups and is designed to bring together various parties who can encourage techno start-ups.

²³ Recommendation iii. governing product markets.

²⁴ Recommendation i. governing product markets and the knowledge-based economy.

54. By the beginning of 2002, all schools in the Netherlands will be connected to the research network via a secure, broad-band connection (education network with controllable access to the Internet). This will give the schools a connection, which is fully matched to teaching practice. Measures to promote the expertise of teaching staff in the ICT policy have meant that the majority of teachers now have basic ICT skills. Over the next few years, attention will be given to increasing skills for the didactic use of ICT. A great deal is expected over the coming years of initiatives to convert “learn to use” to “use to learn”, such as the small-scale “grassroots” projects and teaching modules in the Digital Driving License Instruction.

55. The Dutch government is also making its own contribution to the switch to a knowledge-based economy. By 2002, 25% of government services will need to be provided electronically. By the end of 2000, the average was 18% (13% for local authorities and 32% for central government). The government’s efforts include ensuring better electronic access to its services (the front office) and improved internal operations (the back office).

56. In 2000, thanks to a publicity campaign and other government incentives (mainly targeted at the SME sector), Dutch business and industry in 2000 substantially narrowed its backlog in the application of e-commerce. By early 2001, more than two-thirds of SMEs had access to the Internet and one in three companies were conducting some electronic transactions. In the sphere of e-Europe, the Netherlands is busy with the implementation of several European Directives (governing electronic signatures and the harmonisation of certain aspects of copyright in the information society).

57. Finally, a policy document was recently sent to parliament in which the main vulnerabilities to which the Internet is exposed were identified and eight lines of action were proposed. These lines of action tie in well with the recent document published by the European Commission on Network Security. A number of lines of action are already being implemented (public information, certification of Trusted Third Parties), and work is ongoing to explore a coordinated way of launching the implementation of the remaining lines of action.

II.A.5.4 Supply of trained researchers and qualified ICT personnel

58. The Dutch labour market has been characterised for some time by demand-based bottlenecks in specific sectors, including the ICT sector itself. Government policy is targeted chiefly at reducing these bottlenecks.

59. For example, the so-called labour radars are identifying the causes of and possible solutions for deficits in various sectors. Branches which are collaborating with suppliers of training to develop innovative training courses are being supported via the training impulse subsidy scheme, which was launched this year. Compared to the regular supply of training, these courses need to match the training needs of business and industry more closely. A total of almost €31 million is available for the next five years. In 2000, one or two projects were launched in the context of the ICT Taskforce²⁵ aimed at tackling specific problems relating to ICT²⁶, and the government is taking active steps to

²⁵ The ICT Task force is designed to reduce the shortage of ICT experts.

²⁶ The development of a clear qualification structure in the intermediate professional education sector, the development of dual pathways in higher professional education and the development of IT components for legal and economic training in colleges of higher education and in universities.

promote the integration of entrepreneurial skills in education. In doing so, the Netherlands is responding to the country-specific recommendation in the Broad Economic Policy Guidelines 2001²⁷.

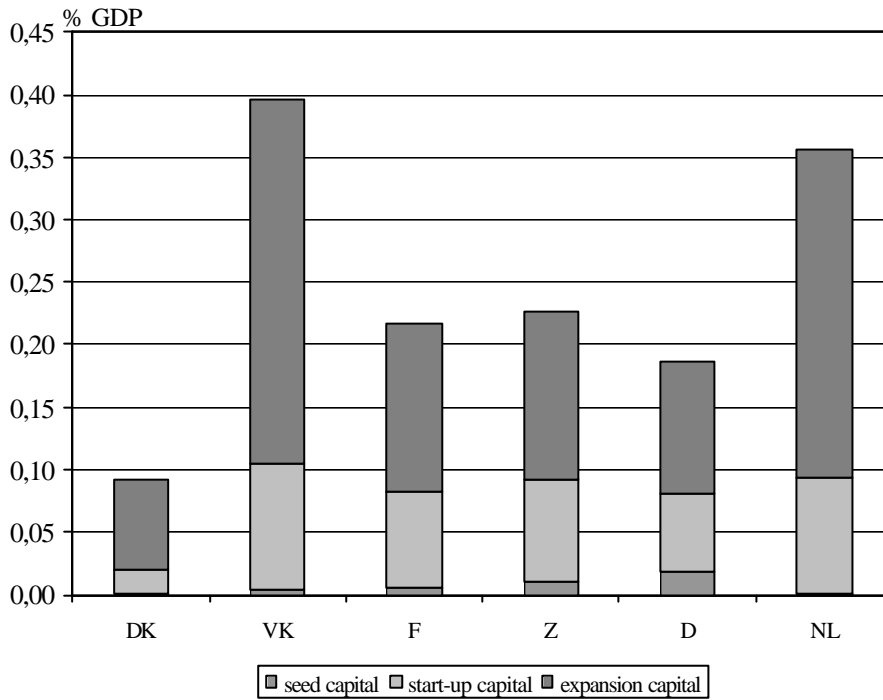
²⁷ Recommendation i. governing product markets.

II.B Capital markets and financial services

II.B.1 Developments relating to the Dutch capital market

60. A properly functioning capital market is of immense importance for improving the business conditions in a country, given that every company requires capital for its investments. The Dutch market for risk capital (venture capital) is relatively highly developed (see figure 5). Expressed as a percentage of GDP, the Netherlands and the United Kingdom are now the front-runners in Europe.

Figure 5 – Distribution of venture capital investments by phase (expressed as a percentage of GDP, 2000)



Source: EVCA 2001 Yearbook, 2001

61. Although the total availability of risk capital is good, the Netherlands scores relatively poorly when it comes to the availability of seed capital. Certainly during the initial (but also most risky) phase from idea to start-up, the would-be entrepreneur must be able to develop and implement his plans. The aforementioned techno starter scheme provides for a financing facility during the seed phase of a potential start-up.

62. Another problem affecting the accessibility of the capital market is lack of security for knowledge-intensive businesses. As a result of the large share of intangible means of production in such companies, financiers find it difficult to assess the value of the company and hence to provide appropriate securities. To resolve this problem, an interactive instrument has been launched on the Internet with which SMEs can clearly present their intangible means of production more effectively to, say, financiers. The opportunities are also being widened for state-guaranteed loans for start-ups, whereby the banks can finance start-ups more effectively. The period during which an entrepreneur is

regarded as a starter will be extended from one to five years. The Netherlands is thus responding to the recommendations in the Broad Economic Policy Guidelines 2000²⁸.

63. The Netherlands is also considering a Bill to modernise the Bankruptcy Act. The main thrust of this proposal is to limit access to a moratorium on payments in viable cases. The voting requirements for creditors to adopt an agreement have been made more flexible and the official receiver can impose compulsory agreements. Energy suppliers may no longer halt supplies if energy is needed for a particular company to continue its existence.

64. A follow-on process has also been launched which will presumably result in a further adjustment of the Bankruptcy Act and by which a bankruptcy should become less of a stigma²⁹. This latter development ties in with the country-specific recommendations for the Netherlands in the Broad Economic Policy Guidelines 2001³⁰. In addition to legislation, the government is also looking at supplementary policy. This aims at preventing insolvency wherever possible by providing amenities to increase entrepreneurial skills and by using the opportunities for “early warning”. Out of court and amicable settlements will also be promoted, and this will limit the social damage of insolvencies.

65. Another point of attention in government policy governing the capital market is the weaker position of shareholders and other capital providers in the Netherlands compared to those in the Anglo Saxon countries. In the Netherlands, there is growing support for the idea that capital providers should influence corporate policy. Various legislative procedures have therefore been launched to strengthen the role of the shareholders’ meeting and to increase the transparency of corporate data: e.g. the right of shareholders to appoint and dismiss members of the supervisory board, right of approval for the shareholders’ meeting in the event of important managing board decisions and transparency concerning the remuneration and shareholdings of managing board and supervisory board members.

II.B.2 Developments relating to the stock exchange

66. Thanks to technological progress, growing international competition and the introduction of the euro, the potential benefits of cross-border consolidation between stock exchanges is growing, thereby creating a bigger market for financial titles. At the end of October, Euronext Amsterdam will be converting to the trading system used in Paris and Brussels (Nouvelle Système de Cotation), thereby taking the integration of the Euronext stock exchanges a significant step further. This summer, the Portuguese stock exchange signed a declaration of intent for entry to Euronext.

II.B.3 Legal, regulatory and supervisory framework

67. In 1999, in response to the increasing interdependency of financial products and institutions in the Netherlands, the Board of Financial Supervisors (RFT) was established. The RFT incorporates the three sectoral financial supervisors. These are De Nederlandsche Bank (DNB), the Securities Board of the Netherlands (STE), and the Pension and Insurance Board (PVK). Due to the establishment of the RFT, a fourth supervisor was not created. The aim of the RFT is that the supervisors should work

²⁸ Recommendation i. governing capital markets.

²⁹ This will partly be achieved by a) making a sharper distinction between persons of good will and bad will, b) reducing the social damage of bankruptcies (i.e. the costs passed on to third parties by the bankruptcy) and c) providing more and better influence over the procedure, divided between the various parties.

³⁰ Recommendation i. governing capital markets.

together to identify unjustified differences, lacunae and overlaps in sectoral supervision and hence achieve a more effective supervision. The RFT also deals with co-ordination of cross-sector supervision matters.

68. More recently, the Ministry of Finance and the financial supervisors have conducted practical surveys on the structure of supervision in the Netherlands, in consultation with the financial sectors and the Consumers' Association. This was done partly in the light of developments in the financial markets (the cross-sectoral dimension of products and institutions), in policy (cross-sectoral consistency) and in surrounding countries (a tendency towards the cross-sectoral integration of supervisors). The aim is for parliament to report in more detail on these findings before the end of this year.

69. A policy document is also being prepared to improve the integrity of the financial sector in relation to combating terrorism. This will be published shortly. When developing that policy, ongoing national and international procedures (such as UN, EU, FATF, OECD) will also be involved.

II.B.4 Cross-border and cross-sector mergers in the financial sector

70. In the banking sector, technological developments have resulted in an increase in Internet banking. The main banks have responded to this by further streamlining their network of branches. This process will continue over the coming period. The major Dutch banks, with the exception of ABN Amro, are cutting back on their investment banking activities, since these are generating a lower return than the other business units. Fortis and Rabobank have indicated that they are looking for a suitable European partner to enable them to develop into pan-European players.

71. The most striking recent merger in the insurance sector has been the acquisition of ASR by the Belgo-Dutch Fortis group to create the second biggest insurer in the Netherlands with a market share of more than 11%. Another key development over the recent period was the takeover of insurer Zwolsche Algemeene by the German firm Allianz. Allianz was already active on the insurance market with Royal Nederland. The Belgian Dexia group, which acquired Bank Labouchère from Aegon in 2000, this year completed the takeover of the investment bank Kempen & Co.

72. The merger in the insurance sector was partly prompted by the need to offer products through all the distribution channels. Before the takeover by Fortis, ASR was the last big insurer which offered products solely through an agent. A relatively recent development is that insurance products are now being sold via sales outlets such as petrol stations, supermarkets and department stores. Insurance intermediaries are thus experiencing increasing competition from other distribution channels. A wave of mergers is also taking place in this sector at present.

II.B.5 Financial services and the consumer

73. Various policy initiatives are being taken to strengthen the position of the consumer in the financial sector. At the end of 2000, for example, the supervision lines were opened, to which the consumer can take any questions concerning financial institutions. The financial supervisors will also publicise important consumer information on their websites. Recently, a policy line has been proposed which provides for a single consistent regulatory framework for mediation in financial services. On 1 January 2002, a financial instruction leaflet will be introduced which gives a short summary of the

most relevant product characteristics for the consumer and which will be made available when purchasing a complex financial product.

II.C Other reforms which influence product and capital markets

II.C.1 Market Functioning, Deregulation and Legislative Quality (MDW)

74. The approach to the operation Market Functioning, Deregulation and Legislative Quality (MDW) is unique within Europe. Each year, five to 10 topics are selected, and for each one, an interdepartmental working group is appointed headed by an independent chairman³¹. Each working group is given nine months to come up with creative, suitable and feasible recommendations aimed at modernising legislation and regulations in a specific policy area.

75. The operation is bounded by strict administrative and political management rules. This ensures an appropriate selection of topics, adequate decision-making on the cabinet standpoint and a firm control on the progress of the implementation of projects³². Moreover, parliament is also applying pressure to maintain the impetus of the implementation process. The social effects and yields of MDW projects are systematically being charted³³. So far, the Dutch government has been satisfied with this process.

II.C.2 Corporate Social Responsibility (MVO)

76. Corporate Social Responsibility (MVO) is a cabinet priority. The standard definition of MVO is “enterprise with concern for the social effects both nationally and internationally”. The cabinet is actively supporting the further breakthrough of MVO, and recognises that MVO must get off the ground at individual company level. The cabinet has therefore opted for an approach that makes possible customisation: bringing players together, developing and disseminating knowledge and above all promoting transparency so that stakeholders can form an accurate impression about the social conduct of companies.

77. The cabinet is now converting this enabling role into practice in various spheres, as reflected by the various activities under the title Sustainable Enterprise (organising discussion fora, supporting examples of good practice, integrating environmental aspects into the corporate strategy). In addition to these ongoing activities, the cabinet is also undertaking new initiatives, i.e.:

- promoting local partnerships;
- setting up an independent national knowledge and information centre;
- asking for advice from the Council for the Annual Report on the integration of social aspects into company reporting;
- setting up guidelines for the social aspects of international public procurement and tendering.

³¹ Interest groups do not form part of these working groups, but are consulted.

³² In particular, this control by the Administrative and Ministerial Commission MDW is unique within Europe.

³³ The social effects of projects such as reducing administrative costs, more transparent legislation and regulations and the removal of entry barriers to markets have already been examined.

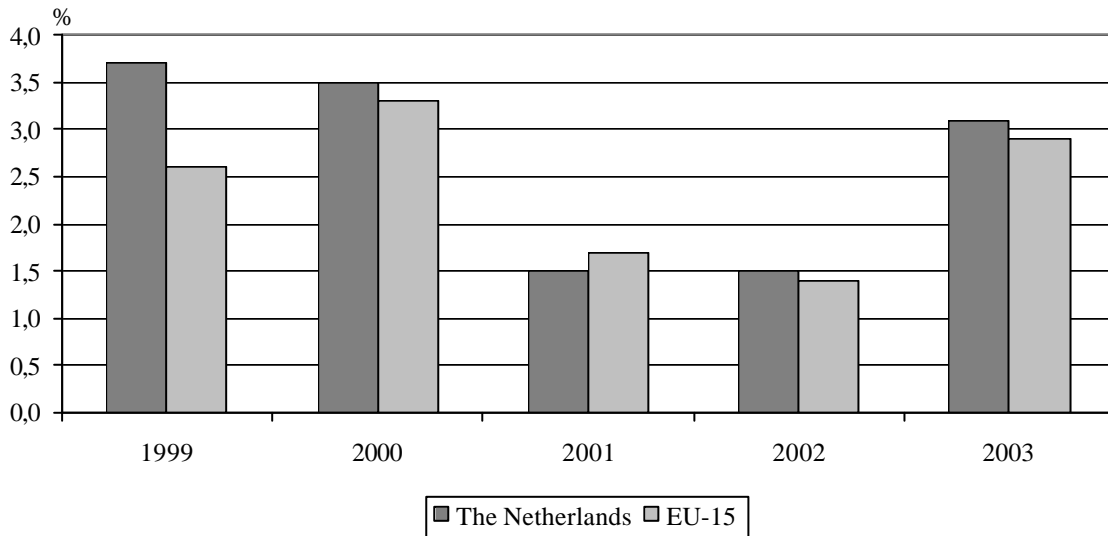
III Conclusion

78. This progress report concerning developments on the Dutch product and capital markets discusses the main outlines of government policy. The report aims to give as complete and accurate an overview as possible of the efforts undertaken by the Dutch government to improve the functioning of these markets. In doing so, it ties in as closely as possible with the Broad Economic Policy Guidelines and with the Structural Indicators developed by the EU.

79. What is clear is that Dutch policy aimed at structural reforms in recent years has begun to bear fruit. The Dutch economy has been doing well. But the recent slowdown in economic growth worldwide is having a relatively rapid knock-on effect on the open Dutch economy. The European Commission's autumn 2001 forecasts for economic growth in 2001 has been more than halved compared to the spring forecasts (April 2001): from 3.4% to 1.5%. And this while the forecasts for the EU as a whole have been adjusted from 2.8% to 1.7%.

80. However, in 2002 economic growth in the Netherlands is already once again close to the EU average and a year later it may further surpass EU 15 growth (see figure 6). This is partly attributable to the increased resilience of the Dutch economy due to the structural reforms. Markets are expanding more rapidly and efficiently, so that growth can be taken up more readily. Nevertheless, the Netherlands still can and must implement major reforms to further increase the resilience of the economy.

Figure 6 - (Forecasted) economic growth (yoy) in the Netherlands and the EU 15



Source: Autumn 2001 forecasts, European Commission

IV Annexes

IV.1 Environmental policy in the Netherlands

IV.1.1.1 Introduction

The integration of environment policy into other policy areas is characterised by increasing interest in the EU. Early this year, it was agreed in Stockholm that the promotion of sustainable development should be included in the Broad Economic Policy Guidelines. As a result, the Broad Economic Policy Guidelines 2001 contain several recommendations aimed at promoting a sustainable environment. This annex in the progress report covers in more detail environment policy in the Netherlands. It discusses policy governing climate change, water quality and scarcity, and solid waste and recycling.

IV.1.1.2 Dutch environmental policy

June 2001 saw the launch of the fourth National Environmental Policy Plan (NMP4) entitled: “A World and a Will: working on sustainability”³⁴. A World and a Will marks the start of a new policy cycle by Dutch environmental policy, aimed at tackling a number of the large environmental problems confronting the Netherlands. The ambition of the Dutch government’s environmental policy is: “To ensure that the environmental policy contributes to a safe and healthy life in an attractive living environment, at the heart of a diverse natural world, without harming global biodiversity or depleting natural resources, either here and now or elsewhere and in the future”.

The NMP4 concentrates on seven major environmental problems. The policy so far pursued to tackle these problems has not had sufficient results, so an extra policy impulse is required. The following seven environmental problems are addressed:

1. loss of biodiversity;
2. climate change;
3. overexploitation of natural resources;
4. threats to health;
5. threats to external safety;
6. harming the habitable environment;
7. uncontrollable risks.

The Dutch government is increasingly trying to include the environmental burden in prices, so that stakeholders are encouraged to look for sustainable solutions. In the main, the approach to the major environmental problems is designed to achieve a review of the system, based on three elements.

1. A clear system of targets to bring the long term perspectives and the short term actions into line.
2. Internalising the environmental costs. The way in which the environmental costs are internalised depends on whether the environmental problem is national or international.
3. An international approach to international problems. The basic premise is to tackle the problem nationally wherever possible and internationally where necessary. For the Netherlands, the EU is the primary framework for concluding binding agreements, including for international environmental problems.

³⁴ The full text of the NMP4 can be found on www.vrom.nl

IV.1.1.3 Market-based instruments

The Netherlands' policy is to calculate the environmental load in prices to ensure that environmental scarcity affects the decisions of consumers, producers, investors and others. There are various instruments for internalising the costs of the environmental load: regulatory instruments (such as license provisions, general prescriptions and bans, and covenants) or market-based instruments (such as levies, taxes, tradable emissions).

Market-based instruments fit in well with a policy in which it is the government that primarily sets the targets and formulates the conditions and makes the target groups responsible for selecting the means. The use of levies and taxes on environment load has increased in the Netherlands in recent years. Another clear international trend is the use of tradable emission rights. At present, the Netherlands is working on proposals for tradable NO_x emissions. Advice has also been requested from the Vogtländer Commission about a national system of tradable CO₂ emissions. The survey of possible applications in other areas, such as volatile organic compounds (VOCs), noise and waste, is still in its infancy.

IV.1.2 Climate change

IV.1.2.1 Objectives

Dutch activities to combat climate change are geared to meeting the Kyoto protocol commitments for 2010. 50% of the Dutch Kyoto commitments must be achieved using the Kyoto mechanisms, while the remaining 50% should be achieved via national policy measures.

IV.1.2.2 Policy instruments

The Dutch government concluded in May 1998 that the previously formulated targets for Dutch climate policy in 2000 would not be achieved without a change of policy, with the exception of the envisaged emission ceiling on methane (CH₄). In 1999 a National Implementation Plan for climate policy was drafted, containing the additional measures which – particularly as regards carbon dioxide (CO₂) – are needed to satisfy the Kyoto commitments for 2010. The implementation plan contains various measures: both general and sector-specific instruments.

The general instruments consist of three tax measures: increasing the existing tax deduction for investments in energy by companies, conversion and integration of the fuel tax in the regulatory energy tax (REB) and introduction of a tax break for energy generated via 'Combined Heat and Power' plants.

The following instruments governing specific sectors have been launched:

- introduction of labels indicating the fuel consumption and CO₂ emissions of new cars;
- a pledge of €18 million by the government to accelerate the introduction of new fuels (GAVE programme). Existing fuels will be replaced by fuels that meet the CO₂ requirements for 2010 and beyond;
- a pledge of €12 million by the government for a programme that promotes fuel efficient purchasing and driving conduct by drivers;

- the signing of a “benchmarking covenant” in which energy-intensive companies have voluntarily committed to be the most energy-efficient companies in their sector in the world by 2012³⁵;
- for existing coal-fired electricity power plants, the government has concluded an agreement to replace a proportion (475 MW) of the total coal capacity by biomass;
- introduction in the Regulatory Energy Tax (REB) of a discount for participants who undertake to plant trees³⁶;
- the introduction of non-binding Energy Advice for existing homes. This advice will assess the quality of a house in terms of energy consumption and suggest the most appropriate energy-saving measures that can be taken;
- the introduction of an energy premium for low energy equipment and insulation.

Finally, in August 2000 the cabinet appointed a commission to study the feasibility of measures designed to reduce CO₂ emissions from households and other sectors of the economy.

IV.1.2.3 Results

Provisional results show that CO₂ emissions in 2010 were around 5% above those in the base year 1990. An additional reduction of these emissions, approximately 11%, is necessary to meet the Kyoto targets. This should be achieved through the application of the Kyoto mechanisms.

IV.1.3 Water quality and water scarcity

IV.1.3.1 Objectives

Separate targets have been formulated for the various types of water. The target for (non-saline) surface water is to obtain water of sufficient quality for sustainable healthy aquatic eco-systems and for the various forms of use for water, such as drinking and swimming. Safeguarding the quality of water is done by setting standards, firstly for aquatic eco-systems, and secondly for public health. In the case of ground water, what is required is water of sufficient quality for the various forms of use of ground water, such as for the preparation of drinking water. Waste water must be adequately purified before it is released into surface water. This is mainly done at regional water purification plants.

IV.1.3.2 Policy instruments

The government’s water policy is divided into a source-based and an effect-based component. The source-based policy (specific sources and diffuse sources) is aimed at avoiding too great a load of pollutants on the surface water. In order to minimise any adverse effects on the environment and on public health, norms for concentrations of substances in the water will be set.

In regions where drinking water is extracted, groundwater protection areas have been established. These regions prohibit certain activities, which involve an environmental risk. Waste water is purified in a way that tries to ensure that as many premises as possible are connected to the waste water system.

³⁵ An international benchmark will be developed for each sector covered by the agreement.

³⁶ To this end, agreements will be concluded to plant new forests and to maintain them in a sustainable way for at least 50 years.

A large proportion of water management in the Netherlands is financed via water use taxes and prices.

The management of the volume of water consumed by the water boards is financed via a levy, primarily by households and agri-businesses. This generates an annual sum of approximately €363 million. The volume management of water by the government is financed from the general budget. Abstraction of ground water is financed via a levy on water supply companies, industry and farming. This levy is collected by the provinces. The annual revenue is almost €15 million. A ground water tax is also levied under the Taxes Act (environmental component) (WBM). This is channelled to the general state budget and is also generated by the water supply companies, industry and farming. The annual revenue comes to around €163 million per year.

The costs of drinking water are covered by the drinking water rates which are charged to users. The revenue generated comes to almost €1.6 billion per annum. Part of this amount is used for the levy on ground water abstraction, but also for the levy on mains water in the context of the WBM. A purification levy is charged on the release of waste water into the sewage system or into surface water. The revenue for central government and the water boards comes to over €1 billion per year. The largest share of this revenue is designed to cover the costs of purification management. Finally, the municipal sewage management is financed via municipal levies. The revenue from these levies, which are paid by households and companies, comes to roughly €0.6 billion a year.

IV.1.3.3 Results

The EU Water Framework Directive includes two financial provisions. One of these obliges the EU member states to ensure that by 2010 the water pricing policy contains adequate incentives for users to consume water stocks efficiently. The various water use sectors must also pay a reasonable contribution for reclaiming the costs of water services. The Dutch system broadly ties in very well with the principle of cost reclamation set out in the Water Framework Directive.

IV.1.4 Solid waste and recycling

IV.1.4.1 Objectives

The general aims of the waste policy are to limit the creation of waste and to restrict the environmental load by managing the waste, which does arise. These goals mean that a limit on total waste production must be separated from economic growth. In order to minimise the environmental load of waste management, only the waste that cannot usefully be re-used should be removed and only non-combustible waste should be landfilled. If the waste supply is greater than anticipated and/or the targets for prevention, separate collection and useful re-use are not attained, any surplus of combustible waste created may not be landfilled.

IV.1.4.2 Policy instruments

The instruments used in waste policy can be divided into four groups. Communication is the first pillar of the waste policy. This is firstly done to create support, and secondly to assist prescriptions and prohibitions in this area. The second instrument is encouragement. Encouragement of knowledge development and knowledge dissemination plays a key role where there are technical obstacles to an effective management of waste or where the relevant parties are not sufficiently aware of the technical

possibilities. A third instrument is financial incentives. Financial instruments are preferred over regulation because they enable direct guidance and involve fewer administrative costs. The final instrument is regulation. This is only applied when other instruments cannot achieve the desired result³⁷. The principle of the “polluter pays” can be applied and internalising of the environmental costs provides an incentive to look for environmentally friendly alternatives.

Combusting waste is preferred over landfill in the Netherlands. At present, however, the supply of combustible waste is greater than the available combustion capacity in the waste incineration plants. As a result, a substantial volume of combustible non-hazardous waste is landfilled. Moreover, until recently it was much more attractive to landfill waste than to burn it.

In order to structurally end the landfill of combustible waste without increasing the existing incineration capacity, the Dutch government has opted for a combination of positive incentives which promote alternatives such as prevention, re-use and useful application as fuel, and for increasing the tax on the landfill of combustible waste. In early 2000, the government dramatically increased the tax (introduced in 1995) on the landfill of waste. Unlike before, there is now no longer any financial incentive to landfill a large proportion of waste instead of incinerating it, because the landfill tax now generally makes incineration cheaper than landfill. The government wants to use this substantial increase in the landfill tax to indicate that the landfill of usefully applicable waste is unacceptable. This will compensate for any reduction in landfill charges (for example, by dramatically cutting landfill costs). The landfill tax does provide a direct incentive and is, compared to the auctioning and possible trading of landfill duties, simple and quick to achieve without a great deal of administrative bureaucracy.

Next year, the Bill to amend the Environmental Management Act will enter into force. This Bill aims to bring the management of waste disposal up to central government level. An interdepartmental study – the so-called IBO/MDW study – is currently ongoing to investigate whether the final processing of waste (incineration and landfill) can be left more to the market under strict environmental conditions. The possibility of a European processing market for incineration is also being studied. In terms of the landfill of waste, the Netherlands aims to remain self-sufficient (i.e. no import or export of landfill waste). Dutch policy on waste will be developed further in the first National Waste Management Plan (LAP). This will incorporate the results of the IBO/MDW study. The LAP is expected to be ready early 2002 and will enter into force at the same time as the amended Environmental Management Act.

The financing of the activities of producers and importers relating to the collection and processing of white and brown goods is being done in two ways. The manufacturers of office equipment such as computers pay directly for the costs of their disposal. Manufacturers of other (consumer) durables have opted for a system of disposal fees on new products. The disposal fees are paid into a fund that is managed by the manufacturers to finance the processing of the collected equipment. The group of products for which producer responsibility applies will be further extended over the coming years (to include bulk household waste such as carpets and mattresses).

Investments in prevention or useful application will be encouraged via an attractive tax incentive in the form of the early depreciation of environmental investments scheme (VAMIL).

³⁷ Only incineration and landfill are highly regulated.

IV.1.4.3 Results

The revenue from the waste tax came to €218 million in 2000. If the increase in the landfill tax achieves what it sets out to do, the landfill of waste will be reduced and the revenue generated by this tax will therefore decline.

The introduction of producer responsibility for products will make manufacturers co-responsible for the management of their products at the waste stage. This will ensure that (part of) the waste disposal costs will be internalised in the product price. It could also help to ensure that during the design and production stage, more account is taken of the problems caused by the product during the waste phase. Producers and importers are often better able than anyone else to work together with other players in the production chain to set up efficient, effective and high-grade collection and processing facilities for the products concerned. Internalisation of the disposal costs is especially crucial for products for which payment at the disposal stage carries the risk that they could be managed in an undesirable or illegal way.

Many local authorities in the Netherlands apply differentiated tariffs to the collection of household waste (Diftar). Households pay in proportion to the volume of waste they produce. Research has shown that the introduction of Diftar is being accompanied by a significant reduction in the supply of residual waste and a better waste separation performance.

A new packaging covenant aimed at charging a “deposit on return scheme” on non-reusable packaging has led to an agreement to set up a system of bring-back premiums for a number of non-reusable packagings. This premium is expected to reduce the volume of litter and increase the incidence of useful reapplication of packaging.

IV.1.5 Quantitative data on levies, taxes and tax facilities

IV.1.5.1 Revenue from levies and taxes

Table 4 lists the environmental funding levies. The sharp rise in revenue from waste disposal taxes is attributable mainly to the introduction of separate waste collection and the rapid rise in processing costs. Since 1996, the rise in revenue has flattened slightly, partly because various local authorities have brought about a shift in their tax mix (higher property taxes as against lower taxes on waste). Also, the figures from 1999 onwards cannot be directly compared with those of previous years. Since 1999, the revenue from the collection of industrial waste (not an obligatory task for local authorities) has no longer been included in this series. This reduces the total revenue by roughly €140 million. Apart from the increased costs of sewage management, the volume of revenue has risen because many local authorities introduced a sewage tax where there was not one previously.

Table 4 - Revenue generated by eco-taxes, 1985-2001*

	1985	1990	1995	1998	1999	2000 ²⁾	2001 ²⁾
<i>Millions of euros</i>							
Waste water ²⁾ , of which	490	608	842	914	946	980	1 001
Central government	47	44	44	31	34	34	34
Provinces	71	85	86	31	31	-	-
Water and purification boards	386	478	707	870	897	964	987
Local authorities	49	31	34	-	-	-	-
Sewage charges	313	542	1 006	1 151	1 247	1 356	1 435
Noise nuisance from civil aircraft	7	9	15	11	13	19	60
Waste tax/purification duties							
Local authorities ³⁾	597	831	2 223	2 442	2 457	2 532	2 712
Municipal schemes	12	23	59	65	73	.	.
Manure surplus							
Provincial ground water rates		37	37	36	26	.	.
Provincial levies/fees for clearing and decontamination	12	2	3	3	4	.	.

Source: Netherlands Statistics (CBS), 2001

¹⁾ Budget figure.

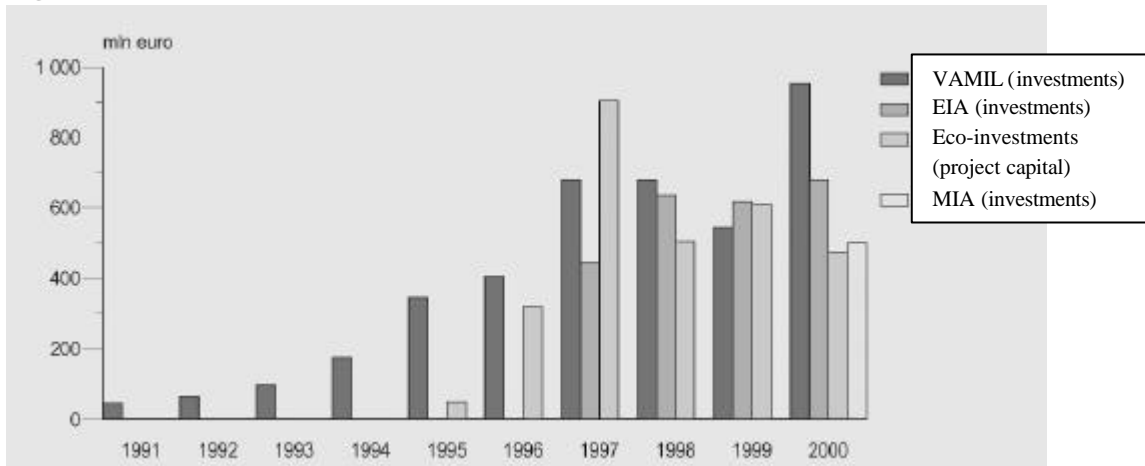
²⁾ Following the deduction of reciprocal transfers.

³⁾ From 1999 only income from collection of household waste.

IV.1.5.2 Tax facilities (environment)

Figure 7 gives an overview of the various environmental tax facilities since 1991.

Figure 7 – Environmental tax facilities, 1991-2000



Sources: Ministry of Housing, Spatial Planning and the Environment, Ministry of Finance and Ministry of Economic Affairs, VAMIL scheme, annual report

The early depreciation of environmental investments scheme (VAMIL) is designed to encourage the market launch and extension of not-yet current technology, which helps to reduce the environmental

load. VAMIL focuses on investments throughout almost the entire environmental sphere, including water, soil, air, energy, waste and noise. The scheme is updated annually.

The Energy Investment Deduction (EIA) is an instrument designed to encourage investments in low energy means of production and sustainable energy in companies. The scheme is adjusted annually in line with policy priorities and technical developments.

The cabinet wants to use eco-investments to encourage projects governing the environment, nature, biodiversity, energy conservation and sustainable energy.

The Environmental Investment Deduction (MIA) is designed to encourage investments in environmental technology in a broad sense. This tax deduction scheme helps entrepreneurs who want to invest in environmentally friendly means of production by allowing them to deduct a share of the investment sum from the taxable profit. This scheme is also annually adjusted to take account of technical developments.

IV.2 Budgetary sustainability of pension systems

IV.2.1 Introduction

There is considerable concern in the Netherlands to maintain the financial viability of pension systems. In addition to the state pensions (organised via the General Old Age Pensions Act (AOW)), the Netherlands also has an extensive system of private supplementary pensions. These are subdivided into the company pensions (second pillar) and private pensions (third pillar). Both forms of pensions (second and third pillars) are ascribed tax incentives. The policy aimed at maintaining the state pension (first pillar) consists of debt reduction, designed to create scope within the budget for covering the rising costs of the ageing of the population, plus measures geared to strengthening the economic base.

IV.2.2 Demographic developments

The pressure of the ageing population, i.e. the ratio between the number of individuals over 65 and the number of 20-64 year-olds, will nearly double from 22% at present to 43% in 2040 before stabilising at a structurally high level of approximately 40%. This trend will take place primarily between 2010 and 2030 (see table 5). The pressure of the ageing population will rise on average by $\frac{3}{4}$ percentage points per year. This ageing will have consequences for applications for state benefits (notably the General Old Age Pension and care provisions) and for the economic base for these provisions. This ageing trend will be limited up to 2010 and the base for collective provisions will therefore still be relatively wide until this time.

Table 5 - Demography 2002-2040

	“Grey” pressure Level by year- end	“Grey” pressure change Average per annum (% points)	20-64-year olds change x 1,000 pers.	Individuals aged over 65 change x 1,000 pers.
2002	22%			
2002-2010	24%	+ $\frac{1}{4}$ %	+250	+250
2010-2020	32%	+ $\frac{3}{4}$ %	- 100	+700
2020-2030	39%	+ $\frac{3}{4}$ %	-350	+600
2030-2040	43%	+ $\frac{1}{2}$ %	-300	+250

Source: Statistics Netherlands (CBS)

IV.2.3 Costs of ageing

The AOW [General Old Age Pension] and the costs of care will, assuming that welfare schemes do not change, increase by 12% of GDP at present to 20% of GDP in 2040. If the existing policy remains unchanged, there will be a further increase in the number of individuals who are incapacitated for work. The rise in these costs is largely structural in nature.

However, this higher expenditure is offset by higher income, partly due to the ageing of the population. Approximately half of the costs of ageing can be financed by higher income on pension payments, assuming that the existing tax and pension premiums remain unchanged. This higher income is partly due to the fact that the Netherlands applies the so-called “reversal rule”. This means that pensions are not taxed until they are actually paid out (pension premiums are untaxed). In addition to this, the income from indirect taxes has increased due to the spending of these higher pensions. An anticipated increase in the participation of women in the labour market is also expected to lead to a rise in income. However, this will be offset by an equivalent decline in income due to the ageing of the potential working population. The participation of older workers (50+) is after all relatively low compared with people below the age of 50, so that as the potential working population rises, labour participation will fall. In the long term, the revenue from gas sales will decline as stocks are gradually depleted. On balance, around half of the rise in collective expenditure of 8% of GDP for basic pension (AOW) and health care provisions can be financed on the basis of unchanged policy. The remainder of this higher expenditure will require other sources of financing such as the release of interest and a widening of the funding base.

Table 6 - Development of collective expenditure and income 2000-2040 (in % GDP)*

Expenditure	+ 8 ³ / ₄ %
General Old Age Pension	+ 4 ¹ / ₄ %
Care	+ 3 ³ / ₄ %
Incapacity Benefit Act	+ ³ / ₄ %
Income	+ 4 ¹ / ₄ %
Direct taxation on higher pensions	+ 3 %
Indirect taxation on higher pensions	+ 2 %
Participation by women	+ ¹ / ₂ %
Ageing of the working population	- ¹ / ₂ %
Removal of gas revenue	- ³ / ₄ %
To be financed	4 ¹ / ₂ %

Source: Netherlands Bureau for Economic Policy Analysis (CPB), Ageing in the Netherlands, 2000

* In the event of an unchanged policy scenario: i.e. fixed collective welfare arrangements and a constant tax and premium structure.

IV.2.4 Debt policy

Since 1994, when the present labour-liberal coalition took office, the budgetary situation has substantially improved. In 1994, the budget deficit was still almost 4% of GDP, but since 1999 we now have a budget surplus. This improved situation, combined with rapid economic growth, has sharply reduced public debt as a percentage of GDP. In 1994 this still stood at 78%, whereas in 2002 it is expected to reach 48%. This decline, together with lower interest rates, have sharply cut interest costs from 5.9% of GDP in 1994 to 3.0% of GDP in 2002. There is broad political support for

pursuing this route and for the wholesale removal of public debt within 25 years. Offsetting the costs of the ageing of the population will play a key role in achieving this target.

IV.2.5 Strengthening the economic base

In addition to reducing debt, the government is also trying in various ways to strengthen the economic base. The labour participation of older people (55-64 years) in particular is relatively low. In 2000, the degree of labour participation by this category was only 38.3%³⁸, which is considerably lower than the target of 50% for 2010 which was agreed in Stockholm. However, the labour participation of older people has risen in recent years, partly due to favourable economic developments.

Given the progressive ageing of the population, it is important for this group to become more involved in the labour process, since they will form an increasingly large share of the labour supply. First of all, it is vital to encourage older workers to carry on working. A radical turnaround in thinking is required, so that early retirement is no longer regarded as the norm. Early retirement was previously also encouraged financially in the form of attractive early retirement schemes (VUT). These schemes will be or have been converted into fiscally (more) neutral pre-pension or flexible pension schemes: this will continue to make it possible to retire before the age of 65, but at a reduced benefit.

There are two other ways in which the government is financially encouraging older people to stay in work. First, the labour deduction for older workers will be increased with effect from 2002. This will rise incrementally with age. Second, employers will be given the opportunity to pay workers aged 58 or older a (similarly incrementally rising) tax-free bonus.

Finally, the government has taken various measures (or is about to do so) to encourage employers to hire or keep on older workers:

- to make it more attractive for employers to employ older workers, the government has introduced the reduced premium for the long-term unemployed; in other words, if a company hires a worker aged 50 or older, it can pay a reduced unemployment premium;
- from 2002, companies will be given a reduction on the WAO [Incapacity Benefit] premium for older workers;
- companies, which dismiss workers aged 57.5 or older will be required to pay a proportion of their unemployment benefit.

³⁸ Source: Employment Package 2002

IV.3 Summary of measures in the context of the country-specific recommendations in the Broad Economic Policy Guidelines 2000

The Broad Economic Policy Guidelines 2000 put forward a number of recommendations for strengthening the Dutch economy. Below is a brief summary of these recommendations. More information can be found in the paragraphs in which the relevant topics have been discussed.

IV.3.1 Product markets

The country-specific recommendations call on the Netherlands to improve its enforcement of the public procurement Directives. The interdepartmental project directorate Professional Purchasing and Procurement was launched in 2000. This project directorate is responsible for putting electronic tendering on the government's agenda. It will also launch actions aimed at introducing electronic tendering (see also II.A.2.5).

The Netherlands is also being urged to take measures to prevent the abuse of positions of economic dominance in the network sectors. The cabinet is currently preparing legislation which will guarantee open access by broadcasting and Internet companies to the cable network companies which enjoy a position of economic dominance (see also II.A.3.3).

Finally, the Netherlands is being urged to encourage research and development in the private sector. A subsidy scheme is currently being developed to promote better co-operation and the exchange of ideas on techno start-ups between universities and market players (see also II.A.5.2).

IV.3.2 Capital markets

The recommendation governing the functioning of capital markets calls for the stimulation of seed funding for start-ups. The techno start-up scheme provides for a financing facility during the seed phase of a potential start-up. Opportunities are also being widened for state-guaranteed loans for start-ups, to make it easier for the banks to finance start-ups. The period within which an entrepreneur is regarded as a starter will be extended from one to five years (see also II.B.1).