

## Trends and Developments

*Contributed by:*

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*Loyens & Loeff N.V. see p.17*

### **Shifting Energy Paradigm**

Historically, the Dutch energy supply has largely depended on the production of natural gas from a large number of on- and offshore gas fields. The largest and most renowned cluster of gas fields is the onshore field in the northern province of Groningen. In the past decade the number of earthquakes which were caused by the production of natural gas in the province of Groningen has increased significantly. In order to limit the risk of earthquakes, the Dutch government recently decided to reduce the production of gas from the Groningen field, with the aim to close down all production from the Groningen gas field as per gas year 2025/2026. A total phase-out of natural gas production is planned for 2050.

In 2013, the Dutch government agreed with industry, NGOs and interest groups on the “Energy Agreement” (*Energieakkoord*) – an agreement with the aim to increase the sustainability of the Dutch energy production. The Netherlands Environmental Assessment Agency (*Planbureau voor de Leefomgeving*) (PBL) expects that investments of in total approximately EUR50 billion are required in order to realize these goals.

### **The Climate Act**

The Dutch Climate Act entered into force on 1 September 2019. This act provides a framework for the development of policy aimed at gradually and irreversibly reducing greenhouse gas emissions.

The Climate Act does not contain concrete obligations for companies or individuals. It only contains a statutory duty for the government to adopt a climate plan once every five years (for the first time in 2019). These climate plans contain the main points of the climate policy for the next ten years. Furthermore, it contains an overview of achievements as well as the most recent scientific insights and international developments. The measures which are deemed necessary are then taken on the basis of the climate plan.

The content of the current climate plan is to a large extent based on the “Climate Agreement” (*Klimaatakkoord*). This is a covenant which the Dutch government entered into with industry, NGOs and interest groups in 2019. In the Climate Agreement the government committed itself to a reduction of 49% of greenhouse gas emissions in 2030 and 95% reduction in 2050, as compared to the emission levels of 1990. As a part of this covenant, all coal-fired power plants, another major source

of power generation in the Netherlands, must be taken out of operation ultimately by 2030.

The Climate Agreement is a very comprehensive document and contains provisions with respect to five sector tables (“*Klimaat-tafels*”): built environment, mobility, industry, agriculture and land use and electricity.

### *Built environment*

The target for the built environment is a reduction of 3.4 Mton CO<sub>2</sub> by 2030. To achieve this, approximately 1.5 million existing dwellings will have to be made more sustainable and CO<sub>2</sub> emissions in existing non-residential construction will have to be reduced by an additional 1 Mton in 2030. Insulation and alternatives to natural gas as a source of heating are the main points of attention. Finally, sufficient sustainable heat must be made available to meet the 3.4 Mton target.

### *Mobility*

This pertains to stimulating the development of sustainable energy sources for mobility usage (such as hydrogen), stimulating electric transport (100% emission-free new car sales in 2030) and making logistics and passenger mobility more sustainable (8 billion fewer business-related car kilometres in 2030).

### *Industry*

The industry sector faces a substantial task. With a target of 14.3 Mton CO<sub>2</sub> reduction on top of the existing policies of the PBL, the reduction for industry amounts to approximately 59% compared to 1990. The challenge for industry is not only substantial in absolute terms, but also in comparison to the other sectors. The underlying reason for this relatively large contribution is the idea that the industry sector is able to reduce CO<sub>2</sub> at relatively limited costs compared to other sectors.

### *Agriculture and land use*

The target for the agriculture and land use sector table is set on a reduction of 3.5 Mton. This target is divided into a reduction in greenhouse gas emissions from agriculture (methane) and greenhouse horticulture, each of at least 1 Mton in 2030, and a reduction in emissions and improvement in climate performance in land use of 1.5 Mton, respectively.

### *Electricity*

The target for the Electricity sector is set on reducing CO<sub>2</sub> emissions by at least 20.2 Mton in 2030. In concrete terms, the aim is

to scale up electricity production from renewable sources to 84 TWh. The measures and actions required for this plan have been worked out in specific agreements for renewable energy (ie, solar and wind energy) on land and at sea. Because the sun and wind cannot be switched on and off, there must be sufficient, flexible production capacity for security of supply, which will increasingly have to be produced without any CO<sub>2</sub> emissions.

## Urgenda

On 24 June 2015, the Netherlands made the international news with a remarkable court ruling. The case concerned proceedings against the Dutch State brought by the Urgenda Foundation. Urgenda is a “citizens’ platform” dedicated to the development of plans and measures to prevent climate change. In short, Urgenda argued that the State should have done more to reduce greenhouse gas emissions in the Netherlands. The District Court - to the amazement of many - agreed thereto.

The State’s appeal against the verdict was denied by the Court of Appeal in The Hague. Subsequently, in cassation before the Supreme Court, the State’s claims were again denied. In its verdict, the Supreme Court referred to the European Convention for the Protection of Human Rights and Fundamental Freedoms (ECHR).

According to the Supreme Court, the ECHR obliges governments to ensure people the rights and freedoms set out in the Convention. In particular, Article 2 ECHR, which protects the right to life, and Article 8 of the ECHR, which protects the right to respect for private and family life, apply in the Urgenda case. These provisions oblige governments to take appropriate measures in cases where there is a “real and immediate risk” to the life or well-being of people. This also applies when environmental hazards cause such risks, even if those dangers can only materialise in the long term. According to the Supreme Court, the Dutch State is therefore obliged to contribute to reducing greenhouse gas emissions in its territory.

## Renewable Energy Sources

Numerous sources for production of renewable energy are currently being utilised in the Netherlands. Such sources include on- and offshore wind energy, onshore solar energy and to a lesser extent biomass (co-)firing, hydropower, geothermal power and heat production, and hydrogen production. As a result of specific government policies, particularly the geothermal power and heat production, and hydrogen production are rapidly gaining traction in the Netherlands.

The Netherlands borders the North Sea – a very suitable place for wind energy production due to its relatively shallow waters, favourable wind climate, and proximity to ports and industrial energy consumers. Since 2007, four large wind farms have been

realised in the North Sea. Together, these offshore wind farms have a capacity of 1 GW.

In recent years multiple additional offshore wind farm sites have been tendered and are currently being developed. Interestingly, these tenders have become increasingly competitive, which resulted in multiple sites having been tendered to consortia that submitted offers that did not rely on subsidies. Looking forward, the Dutch government plans to further increase the amount of installed capacity in the North Sea to 4.5 GW in 2023, and 11 GW in 2030.

Another large source of renewable energy in the Netherlands is solar PV projects. The installed capacity of solar PV projects amounts to about 7 GW. The vast majority of these projects have been realised on agricultural lands and rooftops. The Dutch government anticipates that about 30 TWh will be produced by solar PV in 2030.

## From SDE+ to SDE++

One of the most important incentive schemes used by the Dutch government to achieve its climate objectives is the Renewable Energy Production Incentive Scheme, the “SDE+”. The SDE+ is a subsidy scheme to stimulate renewable energy production. This subsidy will be adjusted this year. Apparently, there wasn’t much impetus for inventing a new name as the renewed scheme is called the “SDE++”.

The SDE++ has a broader goal than its predecessor and is primarily aimed at reducing CO<sub>2</sub>. This means that CO<sub>2</sub>-saving technologies other than renewable energy production are also eligible for subsidy. This enables the new scheme to make an important contribution in addressing the climate challenges of different sectors.

In essence, the SDE++ is an extension of its predecessor, particularly with regard to the underlying system. Like the existing scheme, the SDE++ assumes compensation for an “operating shortfall” (ie, the difference between the cost price of the product and the market value of the product). For each technique a “base amount” will be determined in advance. The difference between the fluctuating market value of the product and the base amount will be covered by the subsidy. In order to ensure cost-efficiency, the subsidy is allocated in tranches (the cheapest techniques first, and the more expensive techniques only in so far as there are still sufficient funds remaining).

## Greenhouse emission reduction in the SDE++

As mentioned, the SDE++ focuses on greenhouse gas emission reduction. Techniques are no longer ranked according to subsidy requirement alone, but according to subsidy requirement per tonne of CO<sub>2</sub> reduction realised through the use of

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the technique. The ranking enables fair competition between the various techniques. However, it also makes the new scheme relatively complex.

In order to qualify for SDE++: the technique must be sufficiently market mature (ie, cost-effective); the technique must have sufficient potential to reduce CO<sub>2</sub> emissions; roll out of the technique on a sufficiently large scale must be possible; the technique should have an operating shortfall compared to a known reference technique; and the best way to remunerate this operating shortfall must be by means of an operating subsidy. Examples of eligible techniques are:

- extension of solar thermal energy (greenhouse horticulture);
- aquathermal;
- extension of geothermal energy with specific categories for shallow geothermal energy and applications for district heating and greenhouse horticulture;
- composting heat;
- thermal storage in greenhouse horticulture;
- utilisation of residual heat (industry and data centres);
- heat pumps in the manufacturing industry;
- electric boilers;
- hydrogen production; and
- Carbon Capture and Storage (CCS).

## *Subsidies*

These techniques (and dozens of their variants), ranked according to subsidy intensity (euro per tonne of CO<sub>2</sub> reduction), are included in a list which states the basic amounts, bottom prices, correction amounts and full-load hours.

The maximum subsidy in 2020 for each technique is EUR300 per tonne of CO<sub>2</sub> reduction. Techniques with a higher subsidy intensity are entitled to the SDE++, but for these projects the entire operating shortfall may not be reimbursed.

In principle, the SDE++ system has a single integral budget ceiling (2020: EUR5 billion). A different maximum applies to renewable electricity from sun and wind, for CCS and for CO<sub>2</sub>-reducing techniques used in the industry.

## *Opening of SDE++ 2020*

The opening budget of the SDE++ for 2020 amounts to EUR5 billion. The SDE++ 2020 will open on 24 November 2020, in four tranches.

## **Grid Investments**

The Dutch electricity grid consists of a national high voltage grid, which is operated by state-owned TenneT TSO, B.V., and regional low and medium voltage grids, each of which is

operated a grid operator which is owned by provincial and/or municipal governments.

As a result of the Dutch government's policy of stimulating renewable energy production, in particular through the wide availability of the SDE+ subsidy, the Netherlands has seen an enormous growth in the amount of onshore renewable energy projects in the last couple of years. Many of these projects, particularly wind and solar farms, have been realised in scarcely populated regions which offer vast amounts of agricultural lands suitable for the placement of PV installations and wind turbines. However, albeit offering space for the realisation of such projects, in most of these areas the local electricity grid is not equipped to provide sufficient transportation capacity for this significant increase in renewable energy production.

In order to ensure that the low and medium voltage grids are equipped for the ongoing energy transition, the grid providers are currently looking to attract funds to invest considerably in the grid. Similarly, TenneT TSO B.V. – which operates the Dutch and part of the German transmission system – is looking to attract funding which will be employed to further equip the high voltage grid for the ongoing energy transition.

## **Tax-Related Measures**

In June 2019, the Dutch government presented the carbon tax as a part of the Climate Agreement. The government currently plans to align the carbon tax system with the European emissions trading system (EU-ETS) – up to a certain extent. The EU-ETS requires that certain businesses surrender emission rights for emitted CO<sub>2</sub>.

These emission rights are granted by the government on a yearly basis. In the event the granted emission rights are not sufficient for a certain business, additional rights will have to be acquired on the EU-ETS market, which will result in a fluctuating market price for emission rights. The amount of carbon tax will be calculated by deducting the (fluctuating) EU-ETS market price for emission rights from a statutory rate per unit of CO<sub>2</sub> emitted.

Hence, if the market price for emission rights increases, the carbon tax amount will decrease.

## **Conclusion and Market Outlook**

The market for renewable energy in the Netherlands is clearly in flux. The Dutch government is actively supporting and directing the economy towards a more sustainable and circular future. This, in combination with the fact that the renewable energy market in the Netherlands is relatively underdeveloped when compared to neighbouring countries, creates a suitable environment for investments in renewable energy.

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