

Report of the Netherlands for CSD-14

Review of sustainable development for energy, industrial development
and air quality

Commissioned by the Dutch Ministry of Housing, Spatial Planning and the Environment, International Affairs Directorate. The report was written by CE Delft and represents an accurate factual overview of Dutch policy in the fields of energy, industrial development, air pollution/atmosphere and climate. The opinions expressed in the report are those of CE Delft. They do not necessarily represent the views of the Dutch government. (For CE contact details: see last page of this report)

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Summary

Background

This Dutch national report, reviewing the themes of industrial development, energy and air pollution/atmosphere, has been prepared for CSD14 by the independent environmental consultancy firm CE Delft. Dutch policy on sustainable development seeks to ensure that future generations will have at least as much opportunity as ours to progress and develop. This is translated into the objective for Dutch sustainability policy: an absolute decoupling of polluting emissions from economic growth.

Current status

Compared with other European countries, the Netherlands is densely built and populated, and therefore emits more pollution per square kilometre. A high proportion of the pollution in the Netherlands comes from other countries. As a low-lying country on the delta of major European rivers, the Netherlands is sensitive to the possible effects of climate change. Global warming will increase the likelihood of extreme weather conditions. More severe international measures to reduce the emissions of greenhouse gases and pollutants will therefore be in the interest of the Netherlands.

Dutch environmental policy in the last few decades has been successful in a number of regards. The environment in which we live has become healthier and safer in many ways. Dutch industry has become more eco-efficient (emissions per unit production). There have been appreciable reductions in pollution (NO_x, NH₃, SO₂) in recent decades. In particular, national policy and policy formulated at European level and subsequently implemented in the Netherlands has been successful, have led to improved air quality. This improvement, however, has not been sufficient to comply with international air quality standards. The improvement does mean that the linkage between economic growth and environmental pressure has been severed. This 'absolute decoupling' was brought about largely by technical measures and ongoing change in the structure of the economy (growing service sector).

For 30 years now, the Netherlands has a policy promoting energy conservation where various different policy instruments have been applied. Through this policy constant energy savings have been achieved. Recently, the goals for energy saving have been set higher. Sustainable energy does not have such a long tradition in the Netherlands, mostly due to the lack of hydro-power. Wind energy and bio-energy both have considerable potential. In the

case of CO₂ emissions there has been a slowdown in the rate of growth, but not an absolute decoupling. This is a fundamental challenge for Dutch environment policy.

Policy measures

Dutch policy for achieving sustainable industrial development, energy and air quality relies heavily on a further greening of the tax system, energy saving, sustainable energy and emissions trading for CO₂ and NO_x. The receipts from green taxes climbed from €6 billion in 1990 to €15 billion in 2003, about 14% of total tax receipts. The increase in excise duty on petrol and the energy tax are responsible for this increase. The further greening of the tax system is relies less on new green taxes than on introducing differentials on existing taxes reflecting environmental effects, or on creating exemptions for environmentally-friendly technologies. Hybrid vehicles, for example, will be exempted from tax on vehicle purchase. Two new instruments have also been introduced since 2005, i.e. emissions trading for CO₂ and for NO_x. Though the former is based on a European directive, NO_x emissions trading was a Dutch initiative. These two instruments are expected to help the Netherlands meet its objectives for climate and air pollution (the NEC objectives) in a cost effective manner.

Interrelationships between themes

There has been increasing interest in recent years in the interrelationships between the various sustainability themes and the possibility of achieving synergies. This should make Dutch sustainable development policy more cost-effective. The main synergy is between energy/climate and air pollution, since these both share a common main cause, i.e. the combustion of fossil fuels. Climate policy has in fact led to a considerable reduction in emissions of acidifying substances and other pollutants. Current energy and climate policy also has a positive knock-on effect for industrial development, since it contributes to the Lisbon objectives of making industry 'clean, clever and competitive'. Table 1 indicates the relationships between the policy instruments and the themes.

Table 1 Indicative relationships between policy instruments and themes

	Effect on Energy	Effect on Industrial development	Effect on air quality
CO ₂ emissions trading			Possible
NO _x emissions trading			
Implementation IPPC directive			
Sustainable energy policy (MEP grant scheme)			
Energy conservation policy (tighter energy performance coefficient, white certificates)			
Multi-year agreements/Benchmark covenant			

energy efficiency			
Sector transition management			Possible
Liberalisation and privatisation of the energy market	Possible		Possible
Corporate social responsibility			
Promoting sustainability through public sector procurement			
Green taxes			
Dutch source policy for (NO _x , PM ₁₀ en SO ₂)	Unknown	Unknown	
Road pricing (per-km charge)			
Reducing speed limits around large cities			

	= positive relationship
	= positive and negative relationship
	= negative relationship

The policy instruments IPPC and NO_x emissions trading support or prescribe measures, which can improve or worsen the combustion efficiency of an installation. From this follows a positive or negative effect on energy/climate (orange).

Constraints and challenges

Industrial development

Compared with other EU member states the Netherlands appears not to be generating enough demand for products and services from sustainable supply chains. The challenge facing the Netherlands is to set such a process into motion on a large scale. This will probably mean encouraging the large retail chains to take voluntary initiatives, supported by robust use by government of market-based instruments (green taxes, levies and subsidies) and regulation. Dutch freedom of action is limited, however, by the international bodies to which it belongs. The Netherlands will contribute, through its proposals, to guiding international policy agendas into the desired direction.

Energy

Energy consumption is continuing to grow, both in the Netherlands and worldwide. This is a worrying trend, which affects energy security, energy prices and climate. The Netherlands takes its commitments under the Kyoto Protocol very seriously. The reductions in greenhouse gases up to 2012 agreed in the Kyoto Protocol are, however, insufficient to halt the harmful effects of global warming in the long term. Further reductions will be needed after 2012 in order to control climate effects. This requires considerable efforts, which can only be attained if- apart from national efforts-an international regime is developed with very

wide coverage (important countries, sectors and gases), and all possible mitigation options and instruments are used. The Netherlands is emphasising the long-term 'transition' approach to achieve substantial reductions in energy use and effects on the environment after 2012.

Air quality

With its high population density and heavy traffic the Netherlands will need a stringent emissions policy. Extra efforts will be needed to combat air pollution. This will call for an integrated vision of transport and the environment which takes air pollution seriously, and a pro-active approach to environmental measures at both national and European level.

1 Introduction

1.1 Background

Dutch government policy on sustainable development seeks to ensure that future generations will have at least as much opportunity as ours to progress and develop. This means nurturing the natural world and the environment (ecological aspects), respecting people and their aspirations, motivations and cultures (sociocultural aspects) ensuring they are able to provide for their present and future needs (economic aspects, such as employment, knowledge, capital goods). And it means understanding the relationships between our actions here in the Netherlands and their effects elsewhere in the world.

These concerns about the world which the present generation ('now') will pass to the next ('later'), and about the 'footprint' left by the Netherlands ('here') in developing countries ('there') are the main reasons why the Dutch government is working for sustainable development (see "Sustainable Action", the Dutch national sustainable development strategy).

The UN Commission on Sustainable Development (CSD) is the body charged with implementing Agenda 21, the action plan for sustainable development adopted in 1992 at UNCED in Brazil. The Commission meets annually to discuss progress in implementing Agenda 21. In preparing for the 14th meeting of the CSD, the Committee Secretariat asked all countries to submit a report reviewing the progress made to date on the themes of the CSD-14/15 cycle, i.e. industrial development, energy and air pollution/atmosphere. This document, which was drawn up by the Dutch environmental consultancy CE, represents the Dutch report for CSD-14. As far as the three Ps of sustainability (profit, people, planet) are concerned, the main focus of this report is on 'planet', since the depletion of the carrying capacity of the Dutch environment is the most urgent problem.

This report complements the 2006 progress report on "Sustainable Action", which has also been sent to the CSD secretariat.

1.2 Objective

To identify and describe the policy measures, tangible steps, actions and lessons learned with respect to sustainable development and the progress made by the Netherlands in this field. This report complies with the CSD-14 Guidelines.

1.3 Structure of report

Each of the three main themes addressed by this report on the Netherlands' sustainability policy, i.e. industrial development, energy and air pollution/the atmosphere, is dealt with separately, in chapters 2, 3 and 4 respectively, using a fixed format. The Netherlands' international contribution to sustainable development is discussed in chapter 5. The Dutch performance in relation to its international obligations under the Kyoto Protocol is not dealt with explicitly in this report but can be found in the Dutch reports to the UNFCCC (www.unfccc.int).

2 Industrial development

2.1 The context

Reductions in emission, except CO₂

Dutch environmental policy in the last few decades has been successful in a number of ways. The environment in which we live has become healthier and safer in many respects. Dutch industry has become more eco-efficient (emissions per unit production). There have been absolute reductions in the emissions of most pollutants (NO_x, NH₃, SO₂) since 1990. This means that the linkage between economic growth and environmental pressure has been severed. This 'absolute decoupling' has been brought about largely by technical measures and ongoing changes in the structure of the economy (growing service sector). In the case of CO₂ there has been a slowdown in the rate of growth, but not an absolute decoupling. Although the Kyoto objectives lie within reach, the climate problem is far from solved (see chapter 3).

High emissions per km²

Compared with other European countries, the Netherlands is densely built and populated, and therefore emits more pollution per square kilometre. The Netherlands also receives a substantial amount of pollution from other countries. It therefore needs to take more stringent measures in order to meet statutory environmental quality standards. The population density and position of the Netherlands make the policy objectives difficult to meet. Existing policy will not be sufficient to meet the NEC emission ceilings for nitrogen oxides, sulphur dioxide and possibly also for VOC and ammonia, the air quality standards for fine particles and NO₂, or the objectives for noise, contaminated land and groundwater depletion. One of the causes lies in insufficient source policies both within the EU and at national level. Nor is present policy expected to be enough to ensure that surface water quality will achieve the desired level.

Our use of materials and natural resources is creating problems elsewhere

The use of materials is another type of environmental pressure which has not been decoupled from economic growth. The largest environmental impacts from the use of materials occur in the extraction and refining phases (CE, 2005). Because the EU is a large net importer of raw materials and semi-manufactures, the main environmental impact from this use occurs outside EU borders. This is particularly true for the Netherlands because of its dependency on imports of high volumes of materials such as livestock fodder and palm

oil. Until a decoupling has been achieved, the pressures on natural resources and the environment will increase in other countries. The Dutch government acknowledges this and has made preventing the transfer of Dutch environmental debt to other countries and to succeeding generations an important policy. The Netherlands also supports the approach chosen in the European Commission's Thematic Strategy on the Sustainable Use of Natural Resources: Europe needs to choose a long-term approach to natural resources of which the ultimate goal is decreasing environmental pressure of the use of natural resources in a growing economy, using the life-cycle approach.

2.2 Objectives and policy approaches

Objectives

The development of a ten-year framework of programmes on sustainable consumption and production patterns was agreed at **Johannesburg**. The **Marrakech process** has seen the elaboration and follow-up of this commitment at international, regional and national level. The objective is to promote social and economic development which respects the carrying capacity of ecosystems, and economic growth which does not burden the environment.

At EU level, the **Lisbon strategy** set the goal of making Europe the most competitive and dynamic knowledge economy in the world by 2015, capable of sustainable economic growth, with more and better jobs and greater social cohesion. It was agreed in Gothenburg that a third, environmental dimension be added to this strategy. As described in the Ministry of Economic Affairs Industry Memorandum 'Heart for Industry' (2004) the Netherlands also wishes to develop into a world-class knowledge economy which combines sustainability with competitiveness: clean, clever and competitive.

The central objective of Dutch environmental policy is to decouple environmental pressure from the growth of the economy. The Netherlands is pursuing two interdependent goals in its industrial development:¹

- achieving sustainable production and consumption;
- becoming clean, clever and competitive.

Policy approaches

In order to achieve the main objectives mentioned above, the Netherlands has adopted various policy approaches:

¹ For a more detailed description, see the Dutch government's *Sustainable Action Programme* (July 2003), which describes how the Netherlands proposes to meet its Johannesburg commitments.

- **Source policy:** reducing emissions by promoting sustainable innovation in technologies and sectors.
- **Volume policy:** reducing emissions by encouraging sustainable production and consumption. This involves economic instruments (taxes, subsidies and levies), regulation, sustainable public sector procurement, support for corporate social responsibility and ‘dematerialisation’ policy.
- **‘Adaptation’ policy:** this approach becomes more important for the more intractable environmental problems, the idea being to reduce the *impacts* of environmental pressure rather than the pressure itself. This can be achieved, for example, through spatial planning policy or measures which mitigate effects.

2.3 Concrete actions taken

This section briefly describes the main actions undertaken by the Netherlands.²

2.3.1 Decision-making

Internalisation of environmental costs in prices

Environmental pricing follows from an important principle of government policy: social costs should be borne by those causing them. This is being achieved in two ways:

- The Netherlands introduced **emissions trading** for NO_x and CO₂ in 2005, thereby establishing itself as a leader in emissions trading in Europe and giving itself a voice in the debate on how to improve the emissions trading system.³ The emissions allowances for the period 2008-2012 are currently being prepared. For this second trading period the Netherlands plans to make important improvements, including a more efficient trading system and greater transparency in the allocation of emission allowances.
- The **greening of the tax system**. The proportion of total tax revenue accounted for by green taxes – specifically excise duty on mineral oils and the energy tax - rose from 9% in 1990 to 14% in 2004, one of the highest in Europe. Other fiscal measures have been introduced which reward environmentally-friendly behaviour. The following measures have been taken:
 - increase in energy tax, combined with a reduction in corporation tax and income tax;

² A more detailed treatment of the matters dealt with in this chapter can be found, for example, in the *Progress Report on Sustainable Action 2005*, Ministry of Foreign Affairs / Ministry of Housing, Spatial Planning and the Environment, December 2005.

³ It should however be noted that NO_x trading in the Netherlands conflicts with the present IPPC Directive. The participation of a company in NO_x trading does not relieve the competent authority of its IPPC obligation to include emission standards based on BAT/BBT in the company’s environmental permit. The Netherlands was not granted a derogation in this regard by the European Commission.

- incentives for particulate filters on diesel cars and the use of low-sulphur diesel through differentials in the tax on vehicle purchase and excise duty;
- introduction of fuel tax for domestic flights;
- differentials on the tax on new cars depending on their CO₂ emission characteristics (2006/2007);
- excise reduction incentives on biofuels (2006).

Support for corporate social responsibility

Fostering corporate social responsibility is a cornerstone of Dutch sustainability policy. While the Ministry of Economic Affairs coordinates this area overall, other departments are responsible for specific aspects of this policy.

Because of the very nature of corporate social responsibility, industry must take the lead. The Netherlands Knowledge Centre for Corporate Social Responsibility (CSR Netherlands) was established in 2004 to provide a good forum for companies to exchange information and knowledge both among themselves and with government and NGOs. CSR Netherlands is aimed mainly at small and medium-sized industries.⁴

The Ministry of Economic Affairs carries out an annual 'Transparency Benchmark' in which it monitors how open companies are about, and what efforts they are making with regard to, corporate social responsibility and supply chain assessment. The results of this audit encourage the sectors and individual companies concerned to improve their performance in this area.

By means of covenants and round tables the Dutch government, producers, dealers and NGOs are seeking to agree sustainable approaches to managing or assessing supply chains. The national assessment guideline for sustainably produced timber was one such initiative. The palm oil and soya supply chains are presently under discussion.

Promoting sustainable innovation: transition management

The concept of transition management, developed in the Fourth National Environmental Policy Plan, is being applied in a number of policy areas, i.e. energy (Ministry of Economic Affairs), mobility (Ministry of Transport, Public Works and Water Management), agriculture (Ministry of Agriculture, Nature and Food Quality) and biodiversity (Ministry of Foreign Affairs). The Ministry of Housing, Spatial Planning and the Environment coordinates and

⁴ CSR Netherlands is considered as a case study in section 2.4 of this report.

supports these projects, and has established a support centre. The Dutch government sees these sectoral transitions as important drivers of sustainable economic development in the long term. The transition approach is characterised by: a long-term perspective and cooperation between government and other organisations leading to concrete action. For another example of the transition approach see chapter 3 (energy).

Public sector procurement for sustainability

Individuals seeking to become critical or sustainable consumers face a social dilemma: they have to pay for the privilege, and wonder what good it does if other consumers don't do the same? Demand for sustainable products and services is languishing, thereby impeding a large-scale shift to sustainable production.

The Dutch public sector is therefore taking the lead, through its procurement activities, in generating demand for sustainable products. Its total procurement spent is €30 billion (central, provincial and local government). In 2006 the Ministry of Housing, Spatial Planning and the Environment will develop sustainability criteria for public sector procurement.

Phase-out or modification of non-sustainable subsidies

The Fourth National Environmental Policy Plan announced that non-sustainable grants will be phased out.⁵ This was also agreed in Johannesburg. The main such grants occur in the agriculture, energy, mobility and industry sectors. A study was recently completed in the Netherlands on ways in which non-sustainable grants can be identified. It concluded that, while the environmental effects can in principle be estimated, this can be a very complex matter which depends heavily on political choices. A grant may have positive and negative effects for different aspects of sustainability. Changes in grant schemes to eliminate negative repercussions on sustainability are difficult to implement.

Incentive schemes for sustainable development

The Ministry of Housing, Spatial Planning and the Environment and other departments commissioned an analysis of existing incentive schemes for promoting sustainable development. Some of these schemes are oversubscribed, so that many good initiatives are being turned away. The relevant departments intend over the course of 2006 to explore possible solutions to this problem.

⁵ In other words, grants which score poorly on environmental, social and economic indicators.

2.3.2 Capacity building

Promoting sustainable innovation: specific technologies

An 'Innovation Platform' (IP) was set up in the Netherlands in 2003. This forum embodies the ambition of the Netherlands, in accordance with the Lisbon Strategy, to be amongst the vanguard of dynamic knowledge economies by 2010. The IP will act as a catalyst in linking relevant actors and accelerating processes.⁶ Its priority areas are chemicals, logistics and the life sciences.

Promoting sustainable innovation: transition management

A Competence Centre for Transitions (CCT) has been set up with the goal of supporting the sectoral transitions described in section 2.3.1. The CCT will bring transition professionals together, support transition initiatives and try to maximise their replicability.

Promotion of sustainable industrial parks

'Sustainable' industrial parks, which meet certain standards for mobility, energy and waste, are the beneficiaries of a recent (2005) incentives scheme introduced by the Ministry of Economic Affairs.

2.3.3 Financing

Promoting sustainable innovation: specific technologies

The financial instruments of the Ministry of Economic Affairs have recently been reviewed. With the new 'project-based cooperation instrument' no further grants will be paid for non-specific innovation. This instrument is intended to foster sustainable economic growth by making the Dutch economy more innovative. Since 2004 this instrument has been providing funding for projects for industrial research or pre-competitive development. The proposals are assessed on their contribution to sustainable development.

Increased sustainable investment in other countries

It was agreed in Johannesburg that countries should create the conditions, both nationally and internationally, for a substantial increase in foreign direct investment in developing countries, while remaining mindful of sustainability considerations. The Netherlands has taken the following measures in this regard:

⁶ See www.innovationplatform.nl for a description of the organisation and its activities.

- Encouraging the banking sector to adopt internal criteria for activities in developing countries. A number of banks have developed such criteria, in addition to the GRI standards.
- The Ministry of Economic Affairs developed a ‘corporate social responsibility component’ for inclusion in eleven support facilities for exports, investment and cooperation. Those applying for facilities are required to sign a declaration that they will seek to abide by the OECD Guidelines for Multinational Enterprises, which includes recommendations and prescriptions for ethical cross-border business practices. Applications will also be assessed for corruption, environmental impact and basic working standards.
- The Development-related Export Transactions Programme was assessed for its sustainability characteristics in 2005. The scheme is intended to facilitate infrastructural investments in developing countries. According to the rules of the scheme, projects must make a positive contribution to sustainable economic development and the local business climate. In order to evaluate this contribution, projects are tested for their financial-economic effects, technical sustainability and their environmental and social impacts.

2.4 Lessons learned and good practices

Resolving the social dilemma

Sustainable industrial development means shifting to more sustainable production and consumption patterns. In order to help achieve these goals, the government is promoting corporate social responsibility. See the case study described in the box below.

Case study: Knowledge Centre for Corporate Social Responsibility (CSR Netherlands)

In 2000 the Social and Economic Council advised the Dutch government to actively support the adoption of corporate social responsibility (CSR) programmes. In 2001 the government decided to set up the Knowledge Centre for Corporate Social Responsibility (CSR Netherlands). CSR Netherlands actually started work in late 2004.

The objective of CSR Netherlands is to promote CSR amongst its primary target group, namely businesses, particularly small and medium-sized enterprises (SMEs). CSR Netherlands seeks to realise its objective by promoting the exchange of knowledge and experience within and between its target groups. In order to involve SMEs, it will adopt very practical methods. The Dutch approach aims to combine the dissemination of knowledge and information on corporate social responsibility with the active creation of a network in which the stakeholders learn from and with one another.

At present (early 2006) the organisation has some 200 members. These include companies, institutes, NGOs, government agencies, educational establishments and consultancies, most of them leaders in the field of corporate social responsibility. However the Knowledge Centre reaches beyond its immediate membership, as shown by the involvement of a wide range different participants in its workshops, events and projects.

Over the last two years, CSR Netherlands has reached out actively to SMEs by means of contacts and projects with trade associations, meetings, workshops, articles and its own newsletter. It also maintains an extensive CSR 'knowledge library' and a list of CSR-related instruments. Further information on its resources, activities and results achieved can be found on www.mvonederland.nl.

In 2004 CSR Netherlands drew up, in consultation with its stakeholders, a list of the ten most important social issues. Many of these issues lie at the heart of the agreements made in Johannesburg and in the UN Millennium Development Goals (including climate change, poverty reduction and biodiversity). For each of these issues a think-tank was set up to monitor developments and how companies are responding to them.

Consumption and production are two sides of the same coin. In practice it proves to be exceptionally difficult to resolve the social dilemma referred to above and encourage individual citizens to become *sustainable consumers*. This is exemplified by the failure of certified organic produce to increase its market share. When there are outbreaks of disease amongst livestock (for example swine fever) a temporary increase in consumption from sustainable chains can be observed, but it does not last. Consumption of renewable energy continues to be a niche market, for which there are no permanent incentives. As a result, there is insufficient demand for sustainable products and services, so that the necessary shifts in the production chains do not occur. Companies seeking to produce sustainable goods and services face an uncertain market and poor profitability. This will in turn have an impact on the success of the long-term *sector transitions*. The public sector may be able to resolve this social dilemma by using its muscle as a purchaser and/or by introducing more market-based incentives. CO₂ and NO_x emissions trading are examples where Dutch policy

is internalising the external costs of pollution, thereby giving clean technologies a real chance. An assessment will be needed as to whether new law or changes in existing law will be necessary.

Making more effective use of the market

Market forces can be harnessed to make environment policy more efficient and smarter, and to resolve the dilemma referred to above. In recent years efforts have been made to bring about a further 'greening' of the tax system, which could achieve real improvements in environmental quality in the Netherlands. In the Financing Plan 2005, for example, new green taxes have been announced for the energy and transport sectors.

A good example of a market-based instrument is *emissions trading*, which has become an accepted policy instrument in the Netherlands. Emissions trading has become an accepted policy instrument in the Netherlands, although experience is limited. At the moment it is not yet known whether companies participating in emissions trading will take CO₂ reduction measures or whether they will rather trade. Companies will base those decisions on the (un)certainly about the allocation for 2008-2012 and the future of climate policy beyond 2012.

2.5 Trends and emerging issues

Commitment to European policy

To ensure that emission and environmental quality obligations continue to be met as the economy grows, the requirements for technical measures at source have regularly been tightened in different areas. This has led to greater eco-efficiency. Where this tightening of measures at source has been less severe, as for CO₂, emission reductions have been smaller. Source measures have often been tightened at European level, subjecting them to a level playing field. Tackling environmental problems at the European level has proven a cost-effective approach (RIVM-MNP, 2002, 2003, 2005). The Netherlands favours the further tightening of European policy on sources (for example for air and noise pollution). This would lead to lower background concentrations in the Netherlands under conditions of a level playing field, thus making it easier for the Netherlands to meet environmental quality standards.

Relation between climate policy and sector policy

Over the next few years the Dutch government intends to make extra efforts on energy conservation / CO₂ reduction and the introduction of renewable energy. This is an area

where the desired decoupling of emissions from economic growth has not yet occurred. In the longer term, emissions trading on its own is not expected to be sufficient. Along the lines of the covenant approach which characterised Dutch policy before the advent of emissions trading, the goal is to encourage the active involvement of large energy-consuming companies in energy conservation and the use of sustainable energy. Measures will typically comprise:

- exchange of knowledge and experience (like CSR Netherlands, for example);
- giving credit for energy conservation / CO₂ reduction in other parts of the production chain;
- promoting alternative financing mechanisms, for example investment companies which finance energy conservation measures in industry and are remunerated from the proceeds of the sale of the emission allowances.

In relation to the previous point, the Dutch government would also like to strengthen the link between climate policy and innovation. It will be important for the aforementioned Innovation Platform to focus more on climate and sustainable production chains.

Recreation and tourism is one of the largest and fastest-growing sectors worldwide, with an increasing impact on ecosystems as well as the social and cultural development of countries and regions. In 2006 the government, in consultation with other organisations, intends to develop a long-term policy for sustainable recreation and tourism. This policy will address both recreation within the Netherlands and Dutch tourism abroad.

2.6 Constraints and challenges

Effecting a structural shift to sustainable production and consumption is a necessary, but daunting and ambitious challenge, which will herald radical change: not only in the primary production systems themselves, but also in markets, costs, organisation, responsibilities and in relations with the wider system. There will in effect have to be a sea change, both qualitative and quantitative, in production and consumption patterns. Amongst the unwieldy problems to be tackled are:

- How can we accommodate national / regional aspirations in a framework in which international agendas and organisations dominate? We face a prisoner's dilemma: why should a country move towards sustainable production and consumption if others are not following suit or are making up for lagging economic development in the past?
- Non-sustainable individual consumption and behaviour patterns.

- The division of the additional cost of sustainable production among the various market participants and government.

The Netherlands appears to having greater difficulty than some other EU member states in inducing its citizens to espouse sustainable consumption. The retail sector has also been reluctant to commit to actively offering sustainable products. As a result the demand for products and services from sustainable supply chains is weak.

In regard to producers, the challenge is whether it will be possible to get beyond the situation where CSR is actively practised by only a small group of 'natural' leaders, with a large group of 'followers' taking a more passive role. It is crucial that CSR should become more than just a competitive advantage. This advantage would eventually disappear as more and more companies in the sector follow. CSR can only become a mainstream instrument for large international companies if it is corporate compliance-driven. For a number product chains (coffee, timber, fish, palm oil, soya) such a shift has already been started.

The challenge facing the Netherlands is to establish structures which will ensure the processes described are set irreversibly into motion. This will probably mean encouraging the large retail chains to take voluntary initiatives, supported by the robust adoption by government of market-based instruments (green taxes, levies and subsidies) and new legislation. The freedom of action of the Netherlands is limited, however, by the international bodies in which it participates (EU, WTO, etc.). The Netherlands will therefore also seek to influence international policy agendas in the desired direction.