

## **Towards a sustainable energy policy with economic potential**

The Social and Economic Council of the Netherlands is a firm advocate of a robust energy policy that focuses on achieving a reliable, clean and affordable supply of energy. That is the core message of the advisory report *Towards a sustainable energy policy with economic potential*, adopted by the Council on 15 December 2006. The report looks closely at the energy transition policy introduced in the Netherlands in 2001 (see box).

The Council supports the key points of this policy. The transition to a sustainable supply of energy will take many decades and requires the relevant policy to be consistent over time. In order for the transition to be effective, it will also require better targeting of such policy, with the government and the business community making the necessary major investments. Innovation will produce good opportunities for new forms of economic activity and employment. The transition to a sustainable energy supply can only succeed if all the parties involved contribute actively to this process.

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### **What is the policy on energy transition?**

The policy on energy transition advocates long-term changes that will lead to sustainable energy management. Whereas the current policy focuses on achieving various energy-related targets by 2010, the transition policy considers the subsequent period. Six platforms – public-private partnerships – have now been set up to consider the main issues associated with the energy transition process: green raw materials; sustainable mobility; chain efficiency; new gas; sustainable electricity supply; and energy in the built environment. The platforms initiate and broker projects relating to the various issues. They aim to create innovative opportunities for Dutch companies and other organisations and to identify problems in policy and legislation. Their proposals have led to the selection of 26 transition paths that have the potential to achieve the aim of energy transition. In making its selection, each platform has considered which transition paths offer the best prospects from the perspective of the economy and the environment.

See also: [www.senternovem.nl/EnergyTransition/Index.asp](http://www.senternovem.nl/EnergyTransition/Index.asp).

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### **Careful design required**

The Council assumes that the economic and social benefits of the transition to a sustainable energy supply will be considerable, provided that the transition policy is carefully designed. Energy management can be called sustainable if the sources of energy used are and will remain available to a sufficient degree; if the effects of using energy produce the smallest possible harmful effects on humans and the environment; if the supply is reliable and safe; and if the households and companies that purchase the energy can do so for a reasonable price. The latter point means doing everything to prevent the high cost of energy from putting the competitiveness of Dutch trade and industry at risk. This will give companies the best starting position to invest in processes, products and methods of energy generation that will facilitate the transition to sustainable energy management. Under the right conditions and with targeted efforts, the level of employment in energy-intensive sectors can be maintained and even increased.

It is also important that the price of energy paid by households and companies is balanced out by the cost to society (actual costs and external effects) of energy consumption. It is not absolutely necessary to tackle the affordability problem affecting specific groups through energy prices.

### **Tackling the issue on multiple fronts**

The aim of achieving a sustainable energy supply within only a few decades can succeed if all the parties involved do their share. Besides the government, trade and industry, labour and management, business and sector organisations, environmental organisations and consumers (and their representative organisations) must each take responsibility and do their part.

In its report, the Council reviews various ways in which this can be effected. Awareness, information and demonstration are the three initial stages. For example, business and sector organisations can enhance the energy awareness of SMEs by means of information and demonstrations, promote energy conservation and encourage the use of new “clean” energy technologies (best practices). Dialogue and advice can also go to generate broad support for the energy transition policy. Stakeholders also have the possibility of accelerating processes within the energy transition policy by entering into agreements. In addition, banks, pension funds and other financial institutions can support the switch to a sustainable energy supply by altering their lending conditions and setting up specific types of investment funds.

Consumers and their representative organisations (including those that represent housing consumers) will play a key role. When it comes to new technological advances, a large pool of early adopters is an advantage. It offers more scope for experimentation and major possibilities for dissemination, and ensures that the costs paid by the “me-toos” will fall relatively quickly.

Generating support for the energy transition will also require paying sufficient attention to the social and employment aspects. These include the importance of educating and training staff in businesses and sectors about the energy transition process. Staff involvement is necessary and can be enhanced by means of social dialogue, information or consultation.

### **Targeted policy**

Attaining an energy transition policy will require more vigorous, and more targeted, use of R&D and the rapid application of advanced energy technologies and systems focusing on less environmentally harmful forms of energy and renewable energy sources. As the biggest benefits can initially be achieved by a major cut in the consumption of energy, the Council supports an increase of the conservation target to 2% per annum. It should, however, be noted that achieving this target will depend, in part, on the international context, and in particular the CO<sub>2</sub> emission price. Realistically speaking, we must acknowledge that during the first few decades of the transition energy policy, we will have to continue making huge investments in conventional fossil fuels. As we move towards a sustainable energy supply, it is crucial to work on the development of “clean fossil fuels”.

The Council argues in favour of confirming the political commitment to the energy transition policy by reserving long-term government funding for the energy transition. The Council believes that a simple, transparent institutional model fits in with the proposed set-up and the long-term political commitment it involves, consisting of the following:

- Policy-related and strategic decision-making (including the allocation of funding) concerning the energy transition will fall within the remit of the relevant Cabinet minister or a ministerial sub-committee.
- The task of initiating, supporting and regulating the transition will be the responsibility of the Inter-ministerial Energy Transition Programme Management (*Interdepartementale Programmadirectie Energietransitie*, IPE). The IPE will report to the Cabinet and will be advised by stakeholders.

Given the energy mix that lies ahead and the long-term investment that will be made by energy producers, the Council believes that as much use as possible should be made of existing, cost-effective sustainable options. The geopolitical perspective is also important to ensure the certainty of supply, with the most effective approach being a common European one.

The other channel, that of R&D and encouraging innovation, should be utilised to lend temporary support to promising, sustainable options that are not cost-effective as yet.

### **International context**

The Dutch energy transition policy is embedded in a broad international context that to some extent determines the options available at national level. The Council therefore believes that the energy transition policy should be a determining factor for the Netherlands' national policy position during world and European-level negotiations. Conversely, international trends should also be reflected in the Dutch national energy transition policy.

#### *Global approach*

The Council advocates an ambitious but realistic climate policy. That means that our country should contribute to solving the problem of climate change in proportion to its ability, by intensifying its energy conservation efforts, encouraging the development and use of sustainable, low-CO<sub>2</sub> energy, and making rapid progress in the area of “clean fossil fuels”. Bearing in mind the international competitiveness of Dutch trade and industry, the Cabinet should work on an ambitious follow-up to the Kyoto agreements. Other countries, or regions (for example California) also have ambitious targets when it comes to climate change. The Netherlands should also press for the global introduction of CO<sub>2</sub> emissions trading. Under the right conditions, it is an instrument that can make a major contribution to climate policy.

#### *European approach*

The Council believes that European standards and the EU's Integrated Product Policy offer important tools for promoting innovation in the field of energy. That is why the Council supports the European Commission's Action Plan for Energy Efficiency. At EU level, it also advocates introducing a well-considered “green” tax system and reducing the amount of funding associated with environmentally harmful activities or other tax facilities that have negative repercussions for the environment. By making the

tax system greener, we can internalise the negative impact of energy consumption and support the energy transition policy. The Council also believes that the EU's system of trade in CO<sub>2</sub> emissions requires improvement on a number of points. It supports the common European energy policy for sustainable energy management, a policy that should be tackled energetically in accordance with the Green Paper and the Commission's Action Plan for Energy Efficiency. The key factor for the Netherlands is the creation of an integrated energy market for Northwest Europe (Benelux, France and Germany). The Council gives full support to the Cabinet's initiatives concerning closer collaboration between these countries. Expanding the market will lead to a level playing field, more competition and a more favourable climate for energy investment projects in the Netherlands. Additional measures to encourage the operation of the market should be considered if dictated by the results of the current evaluation of the liberalisation of the energy markets. To give the market greater scope, we should look more carefully at the growth prospects of less environmentally harmful forms of energy and renewable sources. The government must shoulder its responsibility for the system in all these respects by safeguarding the public's interest in a reliable, clean, affordable and accessible energy supply.

### **Recommendations for national policy**

Below is a summary of the remaining key recommendations for the Dutch national policy.

#### *General recommendations*

- Introduce a general policy of encouragement by promoting a favourable investment and innovation policy aimed at attracting future-proof investments for the Northwest European energy market.
- Promote policy coherence and consistency so that the role of government is predictable for investors (reliable government). A proper balance is required between the various aims of the energy transition policy and the competitiveness of trade and industry.
- Ensure that national and international energy and climate policy are closely coordinated.
- Encourage organisations to look positively upon innovation by promoting social innovation: overhauling work processes and applying modern management skills, flexible organisational principles and clever working practices.
- Introduce a policy promoting sustainability based on the “polluter/consumer pays” principle, for example by means of tax differentiation according to the intensity of the pollution.
- See that the government sets an example by its acting as a ‘launching customer’ and by supporting promising initiatives.
- Apply tools used in a range of different policy sectors, for example housing and transport, within the context of the energy transition policy.

#### *Specific energy transition policy*

- Counteract fragmentation of the policy tools. Introduce “project/programme financing” to support successive steps of the innovation process. Successfully completing one part of the innovation process will then result automatically in support being provided in the next phase.

- Monitor the effectiveness of tools and avoid judging them merely on their short-term impact.
- Address inadequate knowledge valorisation by tackling problems via financing. Investigate the possibility of setting up a Dutch version of the British Carbon Trust Fund, which considers high-risk energy options (inventions, concepts, start-up companies) that offer a potentially attractive business case.
- Focus on two aspects when evaluating transition paths: how realistic are the anticipated effects and what is the balance between the short-term and long-term effects?
- Base priorities selected within transition paths more firmly on the opportunities they create for businesses and employment; ensure that priorities are aligned as much as possible with the comparative advantages of our economy. In addition, focus on international coordination and cooperation in order to benefit from the expertise developed elsewhere.

Translated by: Balance Texts and Translations, Maastricht