# BUDGET DAY IN THE NETHERLANDS: A PEAK INTO EUROPE'S FUTURE INCOME TAX SYSTEM?

**As every year since 1814, Budget Day, celebrated on the third Tuesday of September, is an important day in the Netherlands. On this day, the Dutch government announces the proposed annual budget. With a caretaker government in place, the sustainable transition gaining momentum, and geopolitical tensions on the rise, the Netherlands is facing multiple challenges now and in the future.**

**This article will highlight how the sustainable transition and geopolitical shifts are impacting both the Netherlands and the EU. For businesses active in the EU, it is essential to be informed about the challenges facing the economic bloc, both in the present and in the future.**

### The Netherlands: Innovative and Forward-Thinking

With the fall of the Dutch cabinet, the question was how rigorous the announcements would be for this year's edition of Budget Day. Besides important topics such as combating poverty and supporting Ukraine, there were other announcements indicating the innovative spirit of the Netherlands. The Ministry of Economic Affairs announced they will allocate €100 million to subsidize start-ups with potential to grow into scale-ups. This is on top of the already existing National Growth Fund of €20 billion euros, meant for innovative projects that will support future economic growth.

The entrepreneurial and innovative mindset of the Dutch has been the driving force behind large economic growth in the past. Between the start of the Covid-19 crisis and the end of 2022, the Euro zone grew 2%, while the Dutch economy grew a staggering 7%. Admittedly this also has to do with the strong trading industry in the Netherlands. With the strategically located Port of Rotterdam, which is by far Europe's largest port, the Netherlands operates as a gateway to Europe.

Re-exports move strongly with world trade developments, which makes the Netherlands dependent on the world economy. However, the Netherlands' strong emphasis on high-tech innovation serves as a hedge against this volatility.

### The Netherlands, the Tech Hub of the Future

Government support, favorable regulations, accessibility, and a strong talent pool are all enabling the Dutch tech industry to thrive. The Netherlands is emerging as a global tech hub, with its semiconductor industry now accounting for a remarkable 24% of the country's total market capitalization, up from 8% five years ago.

The High-Tech Campus in Eindhoven, one of the most promising 'science hubs' worldwide, is a prime example of Dutch technological capabilities, contributing to the country's important role in shaping the future of technology on the global stage. The country's evolution into a high-tech, knowledge-driven economy allows it to avoid direct competition with manufacturing giants such as China, while also offering attractive opportunities for innovative companies, both domestic and international.

The Netherlands offers an attractive business climate for innovative companies looking to increase or retain their presence within Europe, such as in the highly advanced infrastructure for EVs. After Norway, the Netherlands has the most favorable infrastructure for e-mobility providers. The amount of charging stations, new technological breakthrough in fuels, and high-tech advanced roads make it the ideal location for OEMs and carmakers who want to experiment on fertile ground. With the share of EVs sold hitting 21% of all cars sold in the EU. The Netherlands itself is preparing for an EV-boom within its rich ecosystem. The question is to what extent consumers are willing to buy an EV. Many of Europe's new EVs are bought by businesses for their employees. The EU and state governments will therefore have to build better incentives into their policies if they want to win over European consumers.

### Sustainability Initiatives and Challenges

On Budget Day, the Dutch Economic Bureau for Planning announced that the Dutch climate goal for 2030 is within reach for the first time. The Netherlands has committed themselves towards a 55% reduction in emissions (compared to 1990), as part of the 'Fit-for-55' package. Aiming to stay on the right course, during Budget Day, the Dutch cabinet has proposed to allocate a climate package of €11.8 billion in 2024. This budget will primarily be used for the development of energy infrastructure, expansion of renewable energy sources, promoting and investing in hydrogen as an alternative fuel, and making the industrial sector more sustainable.

The Dutch national government, as well as the European Union, has established multiple programs to promote sustainability. Companies can make use of these resources, which include financial incentives, subsidies, and significant investments for green initiatives and projects.

### EU Legislation, One Step Forward, One Step Back

More countries are implementing mandatory ESG disclosure regulations. the past year, the EU has increased the requirements on reporting obligations and adopted legislation to align with the Paris Agreement and the EU's carbon-neutral goal for 2050. Under the umbrella of the European 'Green Deal' package, the regulatory burden is increasing for companies active within the EU.

Large and listed companies are mandated to disclose information on risks and opportunities related to their Environmental, Social, and Governance (ESG) practices, with a distinct focus on the impacts of their activities on people and the environment.

It will be mandatory for affected companies to integrate ESG impacts, risks and opportunities in their business model and provide transparent information yearly.

The EU is also in the process of implementing a carbon border tax, which will force companies in scope to pay for their emissions created outside of the EU. The price correcting tax will be levied starting in 2026. It aims to introduce a level playing field, making EU companies more competitive.

It is essential for companies to ensure compliance with current legislation and to prepare for upcoming legislation. The increasing regulatory requirements offer a large burden for companies. However, they are essential to ensure a level playing field in the transition towards a sustainable and offer an indispensable guidance towards reaching the environmental goals set during the Paris Agreement.

**The Future of Sustainability in the Netherlands and the EU**

While the EU and its member states are taking steps towards a circular economy by implementing green subsidies and investing in green solutions, some countries are flirting with the idea to cut back on climate policies. Due to upcoming environmental 'backlash', the continuation of upcoming environmental legislation is becoming more and more uncertain.

Growing backlash against Europe's environmental agenda will severely impact the EU's ability to reach its environmental goals. With governments and institutions weighing the importance of reaching climate targets against the potential burdens they can impose on society and businesses, a less stringent approach to environmental policies and regulations is highly likely. However, in the long-term, the reality remains the same: the transition to a sustainable economy is essential and needed. This means that sustainability should become a part of every decision an organization takes. From implementing new technology, to introducing balanced male-female working environments. The new narrative is responsible entrepreneurship.

**Geopolitics: A Changing Global Economy**

While sustainability is seen as one of the most important challenges facing the EU today, the intertwinement of geopolitics with today's challenges cannot be overlooked. Geopolitics is not only influencing the sustainable landscape but is also putting heavy pressure on the Netherlands and the EU economy in general.

In understanding the Netherlands' position on a global stage, geopolitical dynamics cannot be overlooked. A case in point is the Dutch tech giant ASML, a key figure in the semiconductor industry. The Dutch government, following dialogues with the U.S., imposed export restrictions on ASML's most advanced chip machinery, preventing sales to China. These machines are essential, producing some of the world's most advanced chips, used for high-tech weaponry and high-end digital systems. The decision to restrict exports of advanced chip machinery to China is just a fragment of the broader EU-China relationship tensions. The EU's recent actions, such as examining potential state subsidies behind Chinese EVs, underscores a growing wariness.

The EU benefits greatly from its trade relations with China, with China being the EU's largest (non-EU) import partner. The EU's increasing trade with China over the years has not gone unnoticed, raising concerns about the continent's rising dependence on the Asian giant.

Recognizing these vulnerabilities, the EU, starting in 2023, embarked on a strategic "de-risking" initiative regarding China. One of the measures underscoring the EU's renewed stance, is the recently enacted "EU Chips Act" This legislation, aimed at bolstering Europe's semiconductor industry, highlights the EU's intent to bring core technological capabilities closer to home and diminish reliance on external players.

Outwardly, Brussels appears to adopt a strong stance towards China. The question that remains is whether the EU is willing to push protectionist measures if China were to retaliate with trade restrictions. EU-China trade has surged in recent years, benefiting both economies. Understandably, the uncertain future is causing unease among both European and Asian companies. However, unless the EU and Chinese authorities implement protectionist policies, there's no reason to panic. An undecisive Europe might even lead to great opportunities for companies looking to navigate between the two superpowers. It is often the companies remaining neutral that prosper in the long run, by prioritizing the customer over the delusion of the day.

### Economic Headwinds for the EU's Largest Engine

Germany, the EU's largest economy, is facing headwinds. A sharp decline in industrial and car production, amplified by rising energy costs and slowing trade with China, underscores its slower post-pandemic recovery compared to the broader Eurozone. In the second quarter of 2023, Germany's GDP grew just 0.2% since the last quarter of 2019, compared to a 2.7% growth for the Euro area. The reduction in exports to China, coupled with major German businesses like BASF redirecting investments toward China, are an indication of the major challenges that are facing Germany now and in the future. Additionally, China's growing presence in key industries in Europe, especially electric vehicles, poses competitive challenges for Germany's traditionally strong sectors.

As Germany's trajectory influences the EU's economic health, its challenges signal potential hurdles for other countries in the EU as well. On the other hand, the German industry is known for their resilience. Their reputation by coming back stronger from every economic setback for more than a century. Our expectation is that before the end of this decade, Germany will become a frontrunner within the sectors in which they have excelled over the past century. We can already see big German automotive names adapting by entering into lasting partnerships with new names from Asia.

### A peak into the future of the EU

The EU is facing an unpredictable future. The region is trying to find a balance between protecting its own economy and navigating an increasingly complex geopolitical landscape.

After being faced with the invasion of Ukraine, the EU was able to rid itself of almost all Russian gas, oil and coal on which its economy was heavily dependent, without heavy energy-supply disruptions. This proves that the EU can show resilience when facing troubling times.

Moreover, the EU has learned that it cannot allow itself to be dependent on a foreign power. Hence, the EU trying to reduce their dependence on the outside world with the implementation the "EU chips Act" and the "Critical Raw Materials Act". This shows that the EU is preparing for a future-proof and independent economy. As part of its future-proof economy, the EU is a sustainability frontrunner on the global stage. On the short-term, this imposes challenges and costs for society and companies operating within the European market. However, by leading the transition to a sustainable future, the EU is very well positioned to face the challenges up ahead and come out on top.

With the EU's evolving landscape, there are major themes and challenges for companies to be aware of. Foremost is the emphasis on sustainability, companies operating in the EU must prioritize and integrate sustainable practices into their core business models, going the 'extra mile'. The European 'Green Deal' has accounted for increasing ESG reporting requirements. Current and upcoming legislation will significantly impact the regulatory burden on businesses and even affect operations. It is essential for businesses to ensure compliance and prepare for upcoming legislation. Also, as in previous years, we see a flood of legislation in the digital domain, which increases the regulatory burden even more.

Considering the escalating tensions in the EU-China trade relationship, it is imperative for businesses to proactively strategize and adapt to the uncertain geopolitical landscape. Companies should consider reevaluating their positions within this evolving dynamic and incorporate contingency plans for potential trade disruptions. One strategic option worth exploring is nearshoring, which involves relocating production or sourcing closer to their primary markets. As deglobalization trends gain momentum, companies should view this as a fundamental component of their risk management strategy. Thoroughly assessing the implications of geopolitical developments and diversifying supply chains to mitigate risks will be essential in navigating this new reality.

For businesses, the message is simple. The EU pushes towards a sustainable economy, combining innovative tech and fostering attractive trade opportunities, not only now, but also in the future.

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