

Country Profile Series

Netherlands

In-depth PESTLE insights

REFERENCE CODE: OHCP0146

PUBLICATION DATE: July 2011

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OVERVIEW

Catalyst

This profile analyzes the political, economic, social, technological, legal, and environmental (PESTLE) structure in the Netherlands. Each of the PESTLE factors is explored on four parameters: current strengths, current challenges, future prospects, and future risks.

Summary

Key findings

The Netherlands faces political uncertainty; however, international relations are strong

In the general elections of June 2010, Mark Rutte's People's Party for Freedom and Democracy emerged as the largest party with 31 seats, and it formed a minority coalition with the Christian Democratic Appeal, which won 21 seats. However, the big winner of the election was the Party for Freedom, which claimed 24 seats. Furthermore, the Party for Freedom's share of the vote increased to make it the third-largest party, pushing the formerly dominant Christian Democratic Appeal into fourth place.

Mark Rutte was sworn in as prime minister in October 2010 after months of uncertainty. The previous government had collapsed in February 2010 and a general election was held in June 2010, but no party won a clear majority. Since regional elections in March 2011, the coalition government has had to rely on at least one opposition party's support in the senate, which adds to the political uncertainty. The country's coalition government is expected to be unstable and prone to fragility, raising the possibility of an early election before the end of the four-year parliamentary term.

In November 2009, the Mexican government and the Netherlands expressed their determination to continue reinforcing institutional relations. The heads of state also discussed their existing historical and cultural links and their governments' willingness to expand and diversify economic links, cultural and educational exchange, and the scientific and technical co-operation between the two countries.

The Netherlands' well developed economy is likely to be affected by slow economic recovery

The Netherlands' has developed a well diversified economy, with strength in its services sector. Furthermore, as a trading hub of Europe, it has a well developed transportation, distribution, and logistics industry. Prior to the economic crisis, its financial services industry was also regarded as being among the best in the world. However, the global economic downturn has adversely affected the economic prospects of the Dutch economy, and the economy went into recession in 2009 when it contracted by 4.0%. Subsequently, the country recovered to post a growth rate of 1.7% in 2010. MarketLine forecasts indicate that the country's economic growth is expected to be below 2% during 2011–14.

The country boasts a strong social welfare system, but the declining fertility rate is a cause for concern

The Netherlands is one of the most generous countries in the EU and among the Organisation for Economic Co-operation and Development (OECD) in terms of the coverage and benefit levels that it gives to its disabled and senior citizens. Indeed, there are currently almost 1 million people receiving disability benefits in the Netherlands. Other aspects of social welfare include substantial healthcare and educational initiatives, and the government is making efforts to increase support for child development and childcare.

However, the fertility rate in the Netherlands has been declining, and was as low as 1.66 in 2010. This is leading to an increase in the aging population in the country, which, in turn, is exacerbated by the declining mortality rate. During 2010–12, the proportion of the population aged 65 or over will rise from 15.2% to 16.2%, placing a greater burden on the working-age population of the country. This is a cause for concern in terms of future productivity and economic activity.

The country has a dynamic innovation system, but lack of finance for advanced technologies remains a concern

The government has steadfastly devoted itself to the development of a knowledge-based economy, and education, research, and innovation have been acknowledged as key pillars of a policy aimed at stimulating economic growth. The science and technology system in the Netherlands focuses on the financing of research and innovation by industrial enterprises, universities, and research institutes. The output of these organizations contributes towards the development of different societal sectors and helps in the modernization of enterprises.

The dynamic innovation system (DIS) is an analytical agenda for identifying areas most in need of innovation and development, and is intended to act as an interactive procedure in which different parties such as knowledge institutes, business enterprises, customers, intermediary organizations, and the government play an important role. However, the risk-return process of investments in the R&D of advanced technologies is becoming very uncertain in the Netherlands. Due to the higher risks and long gestation periods involved in the projects, advanced technologies have difficulty in attracting investments.

The disparity between venture capital supply and demand results in the majority (63%) of high-tech start-ups funding their own requirements, which often turn out to be inadequate. R&D expenditure as a percentage of GDP fell from around 1.9% in 2005 to 0.88% in 2009, and is expected to fall further in the near future. The average among the 27 member states of the EU (the EU27) was 1.25% in 2009, and the gap between R&D expenditure in the Netherlands and that in the EU27 has increased in recent years.

Liberal policies have driven foreign direct investment into the country

The Netherlands has a liberal policy towards foreign investments. There are no regulatory restrictions on foreign direct investment (FDI), and there has been a substantial stream of FDI both in the form of inflows and outflows. Investors interested in establishments in the Netherlands can also obtain government aid under regional development schemes.

Furthermore, foreign investors also have a special route through the Ministry of Economic Affairs unit and the Netherlands Foreign Investment Agency (NFIA), through which they can glean information on investment and regional subsidies. Lastly, several other aids and tax incentives are also available to foreign investors, making the investment climate one of the best in the EU.

Strong policies on waste management and climate change to provide a boost to environmental initiatives

Waste management and recycling policy is particularly strong in the Netherlands, due in part to a strong monitoring network. The EU regulations on the supervision and control of shipments of waste and the European list of waste products (EURAL) are two important policy guidelines that streamline and restrict the dumping of waste in the country. As an important participant in environmental programs relating to climate change, the Netherlands has taken major steps to support the prevention of global warming. For example, the government now spends more than \$1.36bn annually to preserve and improve the complex network of dikes and dunes that protect the country from floods. These productive investments are expected to reduce the effect of climate change in the Netherlands.

PESTLE highlights

Political landscape

- The Netherlands ranks highly on most governance indicators. In the 2009 World Bank report on governance, the country was ranked in the 98.1 percentile on the voice and accountability parameter, and in the 94.3 percentile on government effectiveness.
- In 2011, the government cut spending in the following areas: development co-operation (€400m), immigration and integration (€100m), defense (€40m), and the environment (€60m).

Economic landscape

- The finance minister Jan Kees de Jager has said that the country is on its way to economic recovery, but public finances continue to remain in a fragile position. In spite of this, the government is planning to proceed with expenditure cuts amounting to around €18bn by 2015.
- The budget deficit for 2009 was around 4.5% of GDP, and due to the country's slow recovery process it increased to around 5.3% of GDP in 2010.

Social landscape

- The Netherlands has an extensive system of social support through insurance and governmental assistance. The government makes it mandatory to have equal pay for equal work, and prohibits discrimination on grounds of marriage, pregnancy, or motherhood.
- The government has introduced a labor market policy which focuses on an action plan called "Working on Care." Under this initiative, the government plans to increase job opportunities in the healthcare and social welfare markets.

Technological landscape

- The Netherlands is well known in engineering innovation, with high levels of expertise in water engineering, including water management and dredging, and environmental technology. The country also has very high levels of automation in food processing, achieved through innovations in agricultural technology.

- The Dutch information and communications technology (ICT) sector is characterized by helpful government policies and fierce competition, and the country has attained a highly modern telecommunications network.

Legal landscape

- The judicial system in the Netherlands has many in-depth procedures at every level of the courts, which are accessible and flexible to citizens.
- The Dutch government has adopted the new European procedures for debt collection. Under the new procedures, a Dutch citizen who has a claim against a citizen from another EU member country can appeal to the court of the other country to issue a European order for payment by using a standard form.

Environmental landscape

- The high level of industrialization in the Netherlands has resulted in pollution of the rivers with heavy metals and other industrial waste.
- Despite being a major trade hub and a vital player in European trade, the Netherlands attaches significant importance to a sustainable development path. As a result, the government has adopted the Fourth National Environmental Policy Plan (NEPP), which outlines strategies to resolve several longstanding environmental problems.

Key fundamentals

Table 1: The Netherlands – key fundamentals							
	2009	2010	2011	2012	2013	2014	2015
GDP, constant prices (\$bn)	428.4	435.8	442.9	450.3	458.3	466.6	475.4
GDP growth rate (%)	-3.9	1.7	1.6	1.7	1.8	1.8	1.9
GDP, constant 2000 prices, per capita (\$)	25,916	26,232	26,528	26,851	27,211	27,594	28,010
Inflation (%)	1.2	1.3	1.1	1.4	1.3	1.4	1.6
Exports, total as a percentage of GDP	77.1	76.1	77.5	78.9	80.3	81.7	83.0
Imports, total as a percentage of GDP	69.6	72.8	73.9	75.1	76.2	77.3	78.5
Mid-year population (millions)	16.5	16.6	16.7	16.8	16.8	16.9	17.0
Unemployment rate (%)	3.7	4.5	4.3	4.3	4.4	4.4	4.4
Mobile penetration (per 100 people)	119.2	119.0	118.9	118.8	118.7	118.6	118.5

Source: MarketLine MARKETLINE

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KEY FACTS AND GEOGRAPHIC LOCATION

Key facts

Table 2: The Netherlands – key facts	
Country and capital	
<i>Full name</i>	Kingdom of the Netherlands
<i>Capital city</i>	Amsterdam
Government	
<i>Government type</i>	Constitutional monarchy
<i>Head of state</i>	Queen Beatrix (since 1980)
<i>Head of government</i>	Prime Minister Mark Rutte
Population	16.78 million
Currency	Euro
GDP per capita, adjusted by purchasing power parity (PPP)	\$40,300
Internet domain	.nl
Demographic details	
<i>Life expectancy</i>	79.68 years (total population) 77.06 years (men) 82.44 years (women)
<i>Ethnic composition (2000 data)</i>	Apart from the predominantly Dutch population, the population comprises people of non-Western origin such as Turks, Indonesians, Moroccans, and Antilleans.
<i>Major religions (1995 census)</i>	Roman Catholic 31% Dutch reformed 13% Calvinist 7% Muslim 6% Others 3% None 40%
Country area	41,526 sq. km.
Language	Dutch and Frisian
Exports	Machinery, equipment, chemicals, fuels, and agricultural products, including foodstuffs.
Imports	Machinery and transport equipment, chemicals, fuels, foodstuffs, and clothing
Source: Central Intelligence Agency (CIA)	
MARKETLINE	

Geographical location

Key Facts and Geographic Location

The Netherlands is located in Western Europe, bordering the North Sea, between Belgium and Germany.



PESTLE ANALYSIS

Summary

Owing to the country's multiparty system, the political scenario in the Netherlands is often fragile, characterized by coalition governments and decisions taken through consensus. Jan Peter Balkenende's reign as prime minister of the Netherlands from 2002, albeit with four different cabinets, had given a sense of stability to the otherwise fragile multiparty system of the country. However, Mark Rutte was sworn in as prime minister in October 2010 after months of uncertainty following elections in June 2010.

The Netherlands has faced stunted economic growth over the last few years, but in spite of the slowdown it is still an attractive destination for foreign direct investment (FDI), being among the top nations in Europe. The country's attractiveness is supplemented by its important role as one of the major transportation hubs in Europe.

The Netherlands is among the most liberal states in the world, and the country possesses an elaborate legal system which ensures the protection of its liberal society. In the World Bank's governance indicators of 2009, the country was ranked in the 94.7 percentile on the rule of law indicator.

The Netherlands traditionally has a strong engineering background with an advanced telecommunications infrastructure. Although the country is faced with the issue of increasing pollution, the government has been trying to keep a check on this problem and has been actively involved in environmental conservation.

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Political analysis

Overview

The Dutch government is primarily a parliamentary democracy with the Queen as the head of the state. The government has a track record of a strong implementation of policies, characterized mainly by anti-terrorism sentiment. The EU also backs the government for all political decisions. Moreover, there have been improvements in international relations and the government has taken up new initiatives to improve its social infrastructure.

Presently, the chief focus of the government is on the economy. The collapse of major banks has forced the government to intervene in the economy, and it is expected to continue with this policy for the foreseeable future. The government, although largely continuing with its traditional liberal social policies, has become stricter on illegal immigrants.

In the general elections of June 2010, Mark Rutte's People's Party for Freedom and Democracy emerged as the largest party with 31 seats, and it formed a minority coalition with the Christian Democratic Appeal, which won 21 seats. However, since regional elections in March 2011, the coalition government has had to rely on at least one opposition party's support in the senate, which adds to the political uncertainty. The country's coalition government is expected to be unstable and prone to fragility, raising the possibility of an early election before the end of the four-year parliamentary term.

Table 3: Analysis of the Netherlands' political landscape	
Current strengths	Current challenges
<ul style="list-style-type: none"> ▪ Strong policy implementation ▪ Effective policies to curtail terrorism 	<ul style="list-style-type: none"> ▪ Unstable government
Future prospects	Future risks
<ul style="list-style-type: none"> ▪ Improving international relations ▪ Government spending on Infrastructural developments 	<ul style="list-style-type: none"> ▪ Public outcry against bonuses ▪ Mission in Afghanistan
Source: MarketLine	
MARKETLINE	

Current strengths

Strong policy implementation

Being an EU member, the Netherlands is strongly supervised in terms of its policies at both the national level and the provincial level. There have been more than 102,000 new start-ups in the country in 2009, which have led to increased scope for innovation and mobility. In terms of labor laws, the salary return for employers has been simplified, and in the infrastructural sector the government has earmarked more than \$300m for short-term measures to deal with road congestion problems in the country.

Among the service sector goals, the government is investing \$1.5bn to raise teachers' salaries and more than \$100m to help disadvantaged students. The government's policies to increase labor force participation also represent an important step in meeting the future needs of a society with an aging population. Moreover, the implementation of these policies has enabled the government to gain more support and encouragement, allowing it to replicate this performance in other

PESTLE Analysis

areas.

Effective policies to curtail terrorism

After the September 11, 2001 attacks in New York and the London train bombings, the Netherlands government has been particularly proactive in implementing measures against terrorism. It has formed the National Counterterrorism Coordinator's Office, which is responsible for assessing various threats posed by national and international terrorist groups. The government has also granted greater power to the police, public prosecutors, and judicial authorities to investigate and prevent various threats. For instance, they have been permitted to use wire-tapping and surveillance at an earlier stage in case of a potential threat to national security. Furthermore, the government has implemented the Terrorism Act, which outlaws recruitment and conspiracy for the purpose of committing a terrorist offense. The act also enables the judiciary to exercise harsh sentences for crimes with terrorist motives.

The Dutch parliament also adopted the Act on Administrative National Security Measures in 2008, which allows the interior minister to prohibit a suspected terrorist's physical proximity to specific locations or persons. In December 2009, the government's anti-terrorism bureau lowered its assessment of the threat of a terrorist attack to "limited" from "substantial." This was largely due to the successful implementation of security measures in public areas and offices. These strong policies reflect the country's strong anti-terrorism stance.

Current challenges

Unstable government

In the general elections of June 2010, Mark Rutte's People's Party for Freedom and Democracy emerged as the largest party with 31 seats, and it formed a minority coalition with the Christian Democratic Appeal, which won 21 seats. However, the big winner of the election was the Party for Freedom, which claimed 24 seats. Furthermore, the Party for Freedom's share of the vote increased to make it the third-largest party, pushing the formerly dominant Christian Democratic Appeal into fourth place.

Mark Rutte was sworn in as prime minister in October 2010 after months of uncertainty. The previous government had collapsed in February 2010 and a general election was held in June 2010, but no party won a clear majority. Since regional elections in March 2011, the coalition government has had to rely on at least one opposition party's support in the senate, which adds to the political uncertainty. The country's coalition government is expected to be unstable and prone to fragility, raising the possibility of an early election before the end of the four-year parliamentary term.

Future prospects

Improving international relations

The Netherlands has entered into an agreement with South Korea in support of a Korea-EU free trade agreement (FTA), while the countries have also agreed upon enhancing their bilateral co-operation on various economic issues. The FTA is expected to boost the innovative capacity of both countries and expand their already substantial expertise in the production of information and communications technology (ICT) equipment.

Furthermore, the Netherlands has joined with the EU to support initiatives to form a caretaker government in Bangladesh, showing its intention to promote stability in developing nations. Moreover, the Netherlands has remained at the forefront in providing aid to underdeveloped and developing nations. It donates around 0.7% of its GDP for development assistance and nearly 0.1% to help with environmental problems in developing countries. It has also generously supported the development needs of African countries.

In November 2009, the Mexican government and the Netherlands expressed their determination to continue reinforcing

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institutional relations. The heads of state also discussed their existing historical and cultural links and their governments' willingness to expand and diversify economic links, cultural and educational exchange, and the scientific and technical co-operation between the two countries.

Government spending on infrastructural developments

The Dutch government has undertaken several new initiatives in various sectors like infrastructure and social welfare. These include plans to invest more than \$820m in the expansion of the railway line between Amsterdam and Flevoland. This project is expected to be completed by 2013, with extended public rail services between Schiphol airport and the conurbations of Amsterdam, Almere, and Lelystad. This rail link will also mitigate the problem of road congestion on these routes.

Future risks

Public outcry against bonuses

The Dutch government spent €40bn to save domestic financial institutions during the 2008 global credit crisis. The government nationalized ABN Amro and injected capital into ING, Aegon, and SNS Reaal. Although some institutions have recovered and started to repay the government, there has been a public outcry against proposed bonuses for the top executives of ING. The Party for Freedom proposed a 100% tax on these banker bonuses; however, the deputy finance minister said that this would not be possible as proposed taxes are always prospective. However, bankers' bonuses remain a hot political issue, with public sentiment backing tough action against hefty bonuses. It remains to be seen how the government will handle this challenging issue.

Mission in Afghanistan

Mark Rutte's government was able to get parliamentary approval to send a police training mission to Afghanistan in January 2011. However, the Party for Freedom opposed this proposal. The mission in Afghanistan is a controversial issue in the country, and the previous government fell as it was divided on the issue. The decision to withdraw troops strained relations between the Netherlands and the US, and Rutte's decision to send a police mission could create controversy in the future.

Economic analysis

Overview

The Dutch economy went into recession in 2009 and contracted by 3.9%; however, it then recovered in 2010 to register a growth rate of 1.7%. Furthermore, it is expected that the economic recovery is going to be very slow, with estimated average growth of only 1.7% during 2011–15. Despite the economic recovery in 2010, unemployment has risen in the country. The planning agency of the government (CPB) has warned that the Dutch economy faces a bleak economic outlook after 2020, as the country is likely to face an increasing budget deficit.

Table 4: Analysis of the Netherlands' economic landscape	
Current strengths	Current challenges
<ul style="list-style-type: none"> ▪ Well developed and diversified economy ▪ Strong infrastructure ▪ Leading transport and logistics sector 	<ul style="list-style-type: none"> ▪ Slow economic recovery ▪ Problems in labor market
Future prospects	Future risks
<ul style="list-style-type: none"> ▪ Cut in spending ▪ Improving international economic ties 	<ul style="list-style-type: none"> ▪ Increase in unemployment ▪ Increasing fiscal deficit
Source: MarketLine	
MARKETLINE	

Current strengths

Well developed and diversified economy

The Netherlands' has developed a well diversified economy, with strength in its services sector. Furthermore, as a trading hub of Europe, it has a well developed transportation, distribution, and logistics industry. Prior to the economic crisis, its financial services industry was also regarded as being among the best in the world. Furthermore, the country's manufacturing industry is dominated by mining and oil refining, as well as metal working, chemicals, and food processing industries.

The country's rich natural gas reserves are also important for the nation's revenue. The Netherlands is ranked second in the EU with respect to natural gas production and accounts for more than 30% of the total annual gas production in the EU (it is ranked in the ninth position globally). Besides location advantages, its rich natural resources supplement the well developed economic activities.

Strong infrastructure

The Netherlands has a strong construction industry, with a well developed infrastructure. The country is evolving to be one of the finest destinations for offshore business activities in Europe, and offers ample office space to foreign investors in major cities, both for lease and sale. There has also been an increase in total available space, making suitable and affordable locations relatively easier to find in the Netherlands than in other EU countries. Furthermore, compared with many other European countries, the Netherlands has good access to major transportation hubs around the world.

PESTLE Analysis

The most important sub-sector within the infrastructure of the Netherlands is the construction industry. The Dutch construction and engineering industry generated total revenues of \$37.4bn in 2009, representing a compound annual growth rate (CAGR) of 2.6% for the period spanning 2005–09.

Leading transport and logistics sector

The Netherlands has one of the most highly developed shipping and transport equipment industries in the world, and is also one of the largest trading hubs in Europe. The country boasts one of the biggest airports in Europe, Amsterdam's Schiphol international airport, which offers services to some 2,000 international destinations and handles about 10% of all European passengers.

According to the World Bank's Logistics Performance Index survey 2010, out of 155 countries, the Netherlands was ranked fourth in the world after Germany, Singapore, and Sweden, with peer countries like Belgium and the UK ranked ninth and eighth, respectively. The survey evaluates the facilitating capacity of the country in terms of connectivity to international freight forwarders and express to their respective firms, which is a major incentive for conducting trade and making foreign investments in the Netherlands.

Current challenges

Slow economic recovery

As one of the more developed nations in Europe, the Netherlands experienced healthy growth rates until 2000, at an average of 3.7% over 1994–2000. The economy saw a sudden plunge in growth in 2001, falling from 3.9% in 2000 to as low as 1.82% in 2001. In 2002, growth fell further to 0.2%. This trend of low growth continued until 2005, with growth rates averaging around 1.1% over 2001–05. Growth rates revived in 2006 to around 3.1%, and continued to maintain stability at 3.6% in 2007.

According to the Central Bank of the Netherlands' (De Nederlandsche Bank) 2008 annual report, the second half of 2008 saw a rapid deterioration in the external environment and in business and consumer confidence indicators. Furthermore, exports and investment fell strongly towards the end of the year. As a result, the economy posted only 2.0% growth by the end of 2008. The economy went into recession in 2009 and contracted by 3.9%; however, it recovered in 2010 to register a growth rate of 1.7%. Furthermore, it is expected that the economic recovery is going to be very slow, with estimated average growth of only 1.7% during 2011–15.

Problems in labor market

The rapid buildup of inflationary pressures in response to the economic boom of the late 1990s in the Netherlands is indicative of structural weaknesses in the labor market, particularly due to a centralized system of wage bargaining. This system allows demand-led wage hikes in overheated sub-sectors of the economy to be transmitted to various segments of the labor market, pushing up wages and prices throughout the economy. The falling competitiveness of the Netherlands in the EU is of great significance considering that the majority of Dutch trade happens within the region.

The strengthening of the euro against the dollar over the last few years has also dented the trade competitiveness of Dutch goods, which is again leading to reduced production and decreased labor productivity. Furthermore, the low labor productivity in the Netherlands in comparison to other EU members, particularly in the retail and financial sectors, is an area of concern for the Dutch administration. Moreover, the steps taken to increase labor force participation in the Dutch market may not come to fruition because of the worsening economic conditions.

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Future prospects

Cut in spending

The incumbent government plans to cut spending by around €18bn by 2015. This includes a slashing of spending by €3.2bn in the 2011 budget, which was announced by the previous government. However, the government could face problems in relation to the spending cuts placing strain on the ruling coalition. Mark Rutte's government did manage to narrowly win approval in the upper house for tax cuts worth €2bn, but the cuts were opposed by several parties as they were accompanied by an increase in VAT on the arts. The spending cuts are expected to keep the government on track in terms of the reduction of its budget deficit.

Improving international economic ties

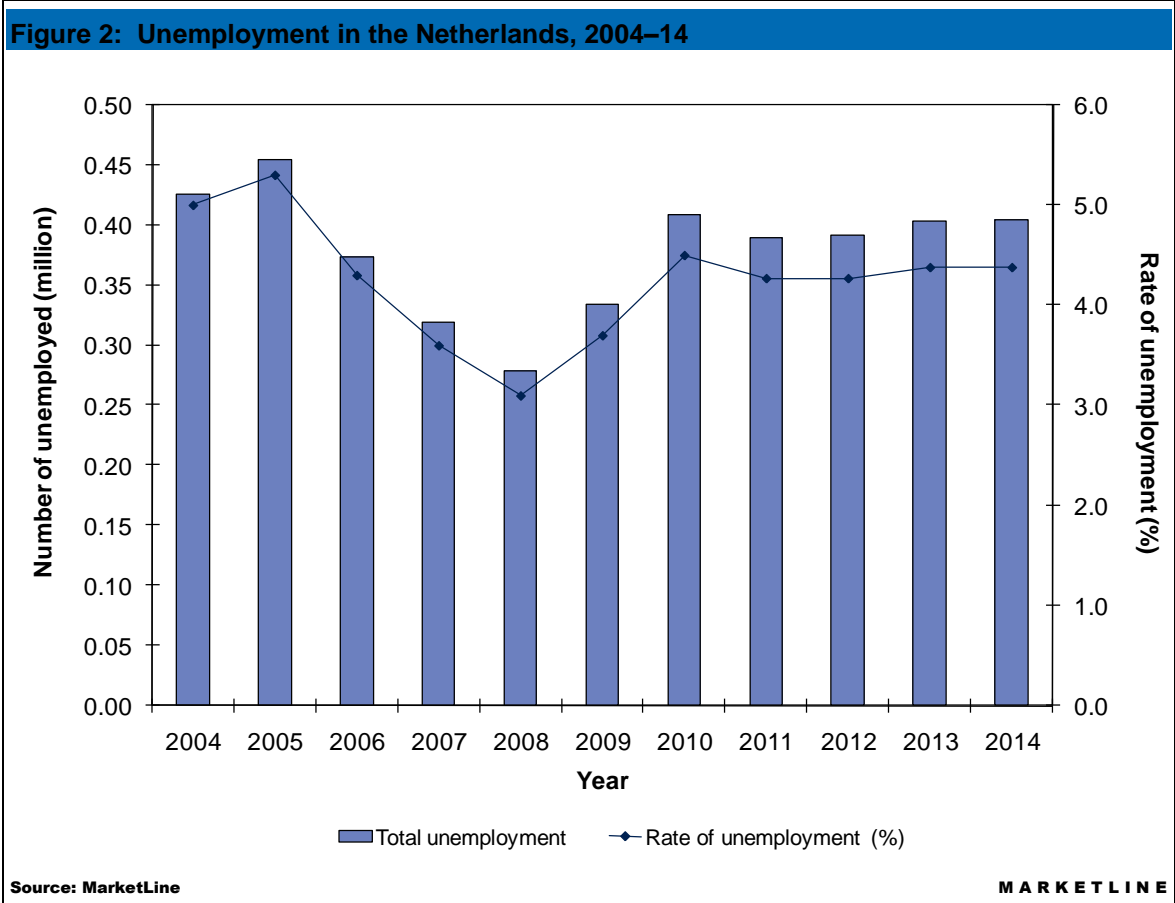
The Netherlands is one of the vital links for the EU for all forms of international trade, and because of this, Dutch international relations remain very strong. In particular, the Netherlands and China have strengthened their economic ties. As the second biggest EU investor in China, the Netherlands is set to assist China in areas of environmental safety, improvements in working conditions, and product safety. Both countries have also agreed to work together on the sustainability of businesses.

In March 2010, the Netherlands and Indonesia signed a bilateral economic co-operation agreement. In a significant development, the Netherlands agreed to provide Indonesia with capacity building programs to help deal with a new EU directive on imports of crude palm oil. As per the EU directive, biofuels and bioliquids should not be produced using raw materials from land with high biodiversity value or high carbon stocks. This directive on the criteria for the import and use of energy from renewable sources has been approved by the European Parliament. Improving economic ties with other countries is a good sign for the Dutch economy.

Future risks

Increase in unemployment

The economic crisis has led to massive job cuts in the Netherlands, worsening the employment scenario. Although the Netherlands' unemployment rate of 3.1% was below the EU average of 8.0% in 2008, the situation worsened in 2009 with the unemployment rate increasing to 3.72%. Despite the fact that the economy came out of recession, the unemployment rate climbed to 4.5% in 2010. MarketLine forecasts indicate that the unemployment rate will continue to be above 4.0% during 2011–14.



Increasing fiscal deficit

The CPB has warned that the economy of the Netherlands faces a bleak economic outlook after 2020. The CPB has stated that the economy faces the prospect of increasing deficits after 2020 unless extensive structural reforms are carried out. The CPB suggests that the government has to cut subsidies, increase the age of retirement, make the labor market more flexible, and slash tax breaks in the housing market.

PESTLE Analysis

Social analysis

Overview

The Human Development Index (HDI) score for the Netherlands is 0.964, which gives the country a ranking of ninth out of 181 countries. The high rank indicates the better than average social conditions of the country. Strong reforms have been executed in the social sector, and the country's education sector is one of the best in the EU. However, the low fertility rate still presents a significant challenge, as the country is faced with an increasing elderly population.

Despite many reforms, tax measures still restrict the employment of women, and early retirement schemes encourage people to quit their jobs. The government is dogged by increasing pension and healthcare expenditure on account of its aging population, and it is likely that the redundancy laws will be revived, making the labor market more unstable. However, on the positive side, government support for child development is increasing and there is a particular focus on increasing youth employment.

Table 5: Analysis of the Netherlands' social landscape	
Current strengths	Current challenges
<ul style="list-style-type: none"> • Strong social welfare system • Healthcare spending 	<ul style="list-style-type: none"> • Declining fertility rate • Early retirement
Future prospects	Future risks
<ul style="list-style-type: none"> • Government support for child development • Youth welfare 	<ul style="list-style-type: none"> • Easing of redundancy laws • Increasing social expenditure
Source: MarketLine	
MARKETLINE	

Current strengths

Strong social welfare system

The Netherlands is one of the most generous countries in the entire EU in terms of the coverage and benefit levels that it gives to its disabled and senior citizens. In recent years, however, the country has introduced stricter rules with regards to the disabled. There are almost 1 million people receiving disability benefits, which they are granted under the Law on Work Disability in cases of a partial or full loss of earnings, regardless of the cause of this loss. In 2003, the total number of beneficiaries fell for the first time in seven years, indicating stronger reforms in the social welfare structure. Inflows also reduced by 25%, reflecting a decline in sickness benefit take-up in 2002 that continued in 2003. These improvements were mainly due to the stronger implementation of welfare laws, such as a law on improved gate keeping, which refers to providing long-term sickness benefit to the disabled. The stronger implementation of welfare policies has resulted in fewer complaints, and the creation of a harmonious social environment in the country.

Healthcare spending

Healthcare expenditure was more than 10% of GDP in 2005, and increased to 10.6% of GDP in 2009. This was higher than the average among Organisation for Economic Co-operation and Development (OECD) countries of 8.9%. The Netherlands also ranks above the OECD average in terms of healthcare spending per capita, with spending of \$4,063 in

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2008 (adjusted for purchasing power parity), compared with an OECD average of \$3,060. High healthcare expenditure indicates that citizens have access to top-quality medical treatment.

Current challenges

Declining fertility rate

The fertility rate in the Netherlands was as low as 1.66 in 2010. This is leading to an increase in the aging population in the country, which is further accentuated by the declining mortality rate. It is anticipated that between 2010 and 2012 the proportion of the population aged under 15 will fall from 18% to 17%. Over the same period, the proportion of the population aged 65 and over will rise from 15.2% to 16.2%. This aging population will place a greater burden on the working-age population of the country, which is a cause for concern in terms of future productivity and economic activity.

Early retirement

The Dutch pension system consists of both old age pension provisions and early retirement schemes. The pension system was designed in such a manner that it provides an incentive to retire at exactly the age of pension eligibility, and as such many workers take early retirement schemes. As a result there has been a tendency to voluntarily retire to take advantage of the pension benefits, despite having the capability to work. This is causing inflated costs for the government, which are only exacerbated by reduced labor participation and the prevailing anti-immigration sentiment in the Netherlands.

Future prospects

Government support for child development

The Dutch government is making efforts to increase its support of child development and childcare. As part of this strategy, the government has recently launched a child development program in partnership with UNICEF at the cost of \$13.5m. The program will support country-level actions to increase disadvantaged children's access to quality early childhood development programs, not only in the Netherlands but also in around 10 countries.

Youth welfare

The labor market performance of the Dutch youth is among the best in the OECD. The youth employment rate reached 65% in 2010, well above the OECD average of 43%, and the youth unemployment rate, at 8.1%, was almost half of the OECD average and was the lowest among EU nations. Youth employment prospects should continue to improve in light of the expected growth in economic activity. Providing young people with the education and skills needed in the labor market has long been a key policy goal in the Netherlands. To create more jobs for the Dutch youth, the government has taken the following measures:

- Setting up rigorous evaluations of youth training and employment programs at the municipal level.
- Promoting effective educational opportunities for early school drop-outs.
- Developing more youth-friendly employment exchanges at the local level.
- Developing more radical measures to provide support for the poor and deprived sections of society.

All of these measures are expected to increase the prospects of youth employment and encourage children to continue on to higher education.

Future risks***Easing of redundancy laws***

Redundancy laws relate to a company's right to dismiss any employees. The administrative reforms concerning labor laws, undertaken by the Dutch government in November 2007, included a decision to revive the redundancy laws. The government believes that by easing redundancy laws to make the sacking of workers easier, employers will also more easily take on new staff. Although this has currently been postponed, a revival of the redundancy laws would increase labor unrest and further hamper the existing labor inefficiency. The notice period for redundancy dismissal after 20 years of continuous employment in the Netherlands equals payment of over 17 weeks of salary. This particular regulation makes employment very rigid in the country. On the difficulty of redundancy index (graded 0–100) of the World Bank's Doing Business Indicators 2010, the Netherlands scored 70, which signifies a high level of difficulty.

Increasing social expenditure

Healthcare and first-pillar state pensions are the two largest sources of aging-related spending pressures. Although the healthcare insurance system in the country has been comprehensively restructured, the state pensions system has not yet undergone reform. Under the state pension scheme, the government pays the same pension to all residents who have lived in the country for a sufficient length of time, irrespective of past contributions. The age of eligibility for availing the state pension is 65 years, which has not changed since the scheme was initiated in 1957, even though life expectancy has increased by more than six years.

Furthermore, pensions in the Netherlands are relatively high in relation to average income (about 31% of average earnings) in comparison to neighboring countries (about 22% of average earnings), making the state pension a costly scheme to fight against old-age poverty. The current annual spending on old-age welfare amounts to more than 4.5% of GDP, which is high compared to other countries. Indeed, this rising healthcare and pension expenditure is increasingly becoming a leading cause of fiscal pressure.

Technological analysis

Overview

Historically, the Netherlands has been known for its technological innovations. Moreover, with a highly participative private sector and dynamic innovation system, the country is a favored destination for R&D. The country has high levels of R&D spending by the private sector. However, a low level of funding for advanced technologies and lack of entrepreneurial skills are preventing the country from attaining rapid development in science and technology.

Table 6: Analysis of the Netherlands' technological landscape	
Current strengths	Current challenges
<ul style="list-style-type: none"> ▪ Increased private sector participation in R&D ▪ Dynamic innovation system 	<ul style="list-style-type: none"> ▪ Lack of financing for advanced technologies ▪ Low level of entrepreneurial skills
Future prospects	Future risks
<ul style="list-style-type: none"> ▪ Increasing university research in technology 	<ul style="list-style-type: none"> ▪ Decreasing human resources in R&D ▪ Increasing public-private mismatch
Source: MarketLine	

MARKETLINE

Current strengths

Increased private sector participation in R&D

For many years, R&D in the Netherlands has been dominated by private sector funding. Out of the total R&D expenditure, the business and private sector contributes more than 51%, while the government accounts for 36% and the remainder comes through foreign funding. The business enterprise sector is the main performer of R&D activities in the Netherlands, accounting for 58% of the total R&D expenditure. Universities come in second place with 28%, followed by research institutes with 14%. A total of seven large firms carry out roughly 50% of the total business R&D in the Netherlands. Philips has the largest R&D spend in the business sector, accounting for more than 20% of total business R&D expenditure.

In addition, the public-private partnership in R&D is also increasing in the country. In April 2008, the Center for Translational Molecular Medicine, a Dutch public-private partnership committed to the R&D of new techniques for the diagnosis and treatment of major diseases, contributed a sum of more than \$235m. Dutch university medical centers, a broad spectrum of small and medium-sized enterprises (SMEs), major industry leaders including Philips and Organon (part of Schering-Plough), and the Dutch government are involved in this project. In this way, private participation in R&D is very strong in the Netherlands, helping the country to achieve its science and technology goals.

Dynamic innovation system

The science and technology system in the Netherlands focuses on the financing of research and innovation by industrial enterprises, universities, and research institutes. The output of these organizations contributes towards the development of different societal sectors and helps in the modernization of enterprises. The dynamic innovation system

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(DIS) is an analytical agenda for identifying areas most in need of innovation and development, and is intended to act as an interactive procedure in which different parties such as knowledge institutes, business enterprises, customers, intermediary organizations, and the government play an important role. The innovation system is used as a structure for the foundation and formulation of various aspects of science, technology, and innovation policy. The DIS thus creates great scope for advanced R&D in various scientific streams.

Current challenges

Lack of financing for advanced technologies

The risk-return process of investments in the R&D of advanced technologies is becoming very uncertain in the Netherlands. Due to the higher risks and long gestation periods involved in the projects, advanced technologies have trouble attracting investments. This disparity between venture capital supply and demand often results in the majority (63%) of high-tech start-ups funding their own requirements, which often turn out to be inadequate.

R&D expenditure as a percentage of GDP fell from around 1.9% in 2005 to 0.88% in 2009, and is expected to fall further in the near future. The average among the 27 member states of the EU (the EU27) was 1.25% in 2009, and the gap between R&D expenditure in the Netherlands and that in the EU27 has increased in recent years. A lack of financing for advanced technologies is expected to hurt the innovation scenario in the country.

Low level of entrepreneurial skills

The level of entrepreneurial skills among the scientific society in the Netherlands has traditionally been low. Advanced and high technology companies generally have a technical or scientific background, but these entrepreneurs have difficulty in translating technologies into commercially viable products, and thus experience problems in attracting customers. It is now becoming a major challenge for corporate entities to pursue skills which could transform technologies into products. As a result, the technologies tend to become obsolete due to long gestation periods.

Future prospects

Increasing university research in technology

The public science and research community in the Netherlands encompasses 14 universities, making the Netherlands a country with one of the largest pools of research-oriented universities in the EU. These include the Royal Netherlands Academy of Arts and Sciences (KNAW) and its 18 institutes, the Netherlands Organization for Scientific Research (NWO) and its nine institutes, 11 large technological institutes (LTIs), and the Netherlands Organization for Applied Research (TNO).

Furthermore, the agricultural research institutes of the DLO Foundation, a number of state-owned research and advisory centers, and several other institutes in the fields of health and the social sciences form the large brigade of R&D-oriented institutions. In terms of the total R&D expenditure funded by universities, TNO and DLO each hold a 29% share. Among other universities, GTO contributed 14%, followed by NWO at 11%, and KNAW at 6%, while others contributed 11%. This increasing participation of universities is strengthening the future course of R&D in the Netherlands.

Future risks

Decreasing human resources in R&D

The Netherlands has a fairly large share of human resources in science and technology, but it is likely that in the coming years the demand for highly skilled knowledge workers will be greater than the supply, as fewer young people opt for scientific studies in the Netherlands than in other EU countries, resulting in a shortage of people with a science

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or engineering background. Also, the number of doctorates awarded in the Netherlands is among the lowest in Europe, with the UK, Sweden, and Germany awarding two to four times as many doctorates per 1000 people. A shortage of research students is also expected because of the aging university staff. In addition, around 20% of the scientific personnel in the universities come from abroad, placing huge pressure on the authorities to invest in local training for scientific personnel.

The Netherlands also has a low representation of women in scientific research at all grades, particularly in higher positions. The country ranks quite low in Europe in terms of recruiting women as part of scientific streams for historical and cultural reasons. In addition, the percentage of foreign PhD students is high at around 40–50%. All of these problems are decreasing the human resources for R&D in the Netherlands, reducing the scope for scientific growth in the country.

Increasing public-private mismatch

There is an increasing disparity between the public and private scientific requirements in the Netherlands. This is largely due to cultural differences between universities and business enterprises regarding different missions, goals, and time perspectives, leading to an obstruction to the possibility of different scientific establishments. Furthermore, the contribution of scientific knowledge from universities is often academically orientated, whereas the demand from enterprises is often for multi-disciplinary and utility-based research. If this mismatch continues, there will be an increasing shortage of viable scientific output in the country.

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Legal analysis

Overview

The Netherlands has a well developed licensing system, which is considered to be one of the easiest and most hassle-free systems in the entire EU. The policies towards FDI are also quite simple in the Netherlands, making it an attractive destination in the EU. The government has also recently decided to undertake tax reforms to establish equality in the remuneration system and to reform inheritance tax laws.

Table 7: Analysis of the Netherlands' legal landscape	
Current strengths	Current challenges
<ul style="list-style-type: none"> ▪ Strong competition law ▪ Well developed licensing system ▪ Liberal policy towards foreign investment 	<ul style="list-style-type: none"> ▪ Large number of deductions
Future prospects	Future risks
<ul style="list-style-type: none"> ▪ Taxation agreement with the UAE and Hong Kong 	<ul style="list-style-type: none"> ▪ Increase in taxes
Source: MarketLine	
MARKETLINE	

Current strengths

Strong competition law

The Netherlands Competition Authority (NMA) is a special body regulating competition among corporate entities. The NMA enforces fair competition in all sectors of the Dutch economy and takes action against companies that participate in price-fixing cartels or that abuse a dominant position, and strictly assesses the authenticity of M&A in the Netherlands.

The NMA's industry-specific tasks relate to the energy and transport sectors, monitored by the Office of Energy Regulation (EK) and the Office of Transport Regulation (VK), respectively. The NMA takes care of general competition enforcement as well as industry-specific regulation. Although these tasks are diverse, a common vision on markets and regulatory style is paramount to the NMA. As a result, this body regulates and monitors the overall efficiency of various markets in the Netherlands.

Well developed licensing system

The Netherlands has a well developed licensing system, and many international companies have licensing agreements with Dutch companies, as there is no requirement for any registration of licensing agreements. Furthermore, there are no currency controls imposed on the transfer of royalties and remittances for technical assistance. A licensing agreement in the Netherlands usually lasts until the relevant patent expires, and if a costly installation using a specific process is part of the agreement, then there is no time limit specified. These procedures and rules encourage significant FDI into the Netherlands.

PESTLE Analysis

Liberal policy towards foreign investment

The Netherlands has a well built international orientation and a liberal policy towards foreign investments. There are no regulatory restrictions, and there have been substantial levels of FDI both in the form of inflows and outflows. FDI outflows were higher than inflows in 2009, with inflows accounting for around \$596.6bn and outflows accounting for more than \$850.5bn.

Investors interested in Dutch establishments are also eligible for government aid under regional development schemes. Furthermore, foreign investors also have a special route through the Ministry of Economic Affairs unit and the Netherlands Foreign Investment Agency (NFIA), through which they can glean information on investment and regional subsidies. Lastly, several other aids and tax incentives are also available to foreign investors, making the investment climate one of the best in the EU.

Current challenges

Large number of deductions

In the Netherlands, all expenses related to carrying out a business are deductible from profits. This forms a huge list of deductions, which include:

- Costs incurred in setting up a business, deducted in full in the year they occur or paid back over five or 10 years.
- Reserves earmarked for future spending and profits derived from the sale of fixed assets.
- Rents, royalties, and interest payments on corporate debt.
- Remunerations paid to members of different assisting bodies.
- Bad debts and funds put aside as provisions for doubtful debts.
- Capital losses, pension plans, bonuses paid, commissions, gifts and donations, and many other miscellaneous expenses (food, entertainment, and conference expenses).

A greater number of deductions applies in the Netherlands compared to other EU countries, and these are causing problems in the corporate sector, which has to monitor all of these expenses.

Future prospects

Taxation agreement with the UAE and Hong Kong

The Netherlands and the UAE signed a new tax agreement in June 2010. The agreement will ensure equal taxation treatment for investors, as well as providing incentives for investments in and through the Netherlands. One of the highlights of the agreement is that it allows for a 0% Dutch withholding tax rate for dividends paid to government-owned UAE entities. For non-governmental entities, a 5% withholding tax will be levied, as compared with 15% previously. The new bilateral tax agreement is expected to further enhance the strong trade links between the two countries by minimizing the double taxation of income that may occur as a result of economic activities.

The Netherlands also signed a similar agreement with the government of Hong Kong in March 2010. A comprehensive agreement for the avoidance of double taxation, applying to taxes on income, will bring a withholding tax rate of 0% to a certain group of qualified entities, while leaving others with a withholding tax rate of 10%, which is much lower than the previous 15% rate. This agreement is expected to foster investments and create opportunities in both countries.

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Future risks

Increase in taxes

In 2008, the government increased the diesel tax by \$0.047 per liter, with the intention to levy taxes on polluting fuels. This increase brought the diesel levy, excluding VAT, to about \$0.64, and the price at the gas station to about \$1.98 per liter. Unleaded gasoline costs about \$2.52 per liter, including a \$0.011 levy. Previously, logistics organizations in the Netherlands had protested against an increase of \$0.47. Moreover, the government plans to increase other indirect taxes, such as environmental taxes, to support the large-scale expenditure necessitated by the economic crisis. Such increases would further aggravate the reactions from traders spread across the country, and may also lead to a rise in the cost of logistics in the entire EU region.

Furthermore, corporate tax rates are unlikely to change, but the government may target high income individuals with specific tax measures when public revenue needs to be increased. A mooted VAT rate rise was postponed in both 2009 and 2010, but it could be reintroduced at a later date. At some point, probably from 2011 onwards, the government is going to have to raise taxes to restore the public finances, which have been damaged by the global financial crisis. The financial sector, in particular, could be the target of special localized taxes.

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Environmental analysis

Overview

Being one of the major trade hubs of the EU, the Netherlands concentrates on the environmental effects of waste, and has strong policies in place with regards to waste management. The country also invests a lot of time and resources into educating people on the importance of environmental protection, with awareness programs conducted from school onwards. However, the country is affected by the large amount of nitrogen deposits in its forests, leading to deforestation and soil pollution, and there are also problems with different environmental agencies failing to enforce strict regulations.

Table 8: Analysis of the Netherlands' environmental landscape	
Current strengths	Current challenges
<ul style="list-style-type: none"> ▪ Strong policies on waste management ▪ Environmental education 	<ul style="list-style-type: none"> ▪ Relaxation of policies leading to environmental damage ▪ High levels of nitrogen leading to deforestation
Future prospects	Future risks
<ul style="list-style-type: none"> ▪ Increasing renewable energy production ▪ Increased marine protection 	<ul style="list-style-type: none"> ▪ Agency divisions leading to non-attainment of environmental targets ▪ Increasing soil pollution
Source: MarketLine	
MARKETLINE	

Current strengths

Strong policies on waste management

The Netherlands has a strong environmental monitoring system, primarily due to the involvement of the EU and its targets and environmental goals. The waste management and recycling policy in particular is very strong in the Netherlands. EU regulations on the supervision and control of shipments of waste and the European list of waste products (EURAL) are two important policy guidelines which streamline and restrict the dumping of waste in the Netherlands. The vital principle of the European policy is that waste substances have to be processed as much as possible in their land of origin and in the nearest processing plant.

However, the export of waste materials cannot always be avoided, and the EVOA regulations were thus set up by the EU with the aim of balancing the rules of exporting waste materials. The regulations outline various procedures concerning the cross-border trafficking of waste materials. Furthermore, the EU has also set up criteria to determine which waste materials are hazardous, and the items identified on the EURAL go through tough screening procedures.

Waste monitoring is all the more important due to the fact that the Netherlands' logistics infrastructure is one of the most used networks in the entire EU. This strong monitoring network ensures the tough regulation of waste management in the country.

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Environmental education

The Ministry of Education, Culture and Science is principally accountable for environmental education and awareness in the Netherlands. The Higher Education and Research Act 1992 is the key item of legislation in bringing environmental education into practice, while the National Environmental Policy Plan endorses science for sustainable development.

In 1993, Dutch universities signed a charter to integrate sustainable development into their research modules. The objective of the policy was to optimize and strengthen the national research infrastructure and to promote international scientific co-operation in various fields of environmental conservation. In addition, the Netherlands plays a part in many international scientific programs and initiatives, including the EU Framework Program/Special Program on the Environment, and the EU Fifth Action Program on the Environment. With strong support from the government, environmental education and research have made steady progress in the country.

Current challenges

Relaxation of policies leading to environmental damage

The government has been accused of putting the interests of companies before its Kyoto climate change targets, while it has also not applied the EU rules on a trading system for carbon dioxide emissions rights. According to the audit bureau of the government, emissions in the Netherlands are higher than what was previously estimated. The EU's trading system for CO₂ emissions rights allows companies that achieve lower levels of emissions to sell their spare rights, and if they exceed stipulated levels of emissions then they have to buy extra. The EU member states distribute the rights among their domestic companies, but it has been observed that the Netherlands is increasing emission rights for companies instead of curbing them and, as a result, the audit bureau estimates that the country may not achieve its Kyoto targets. This is currently leading to environmental degradation due to negligence and leniency on behalf of the government.

High levels of nitrogen leading to deforestation

The Forestry Act, implemented by the Department of Nature Conservation, Forestry, Landscape Planning and Wildlife Management, has been an important tool in preventing the conversion of forests for other uses. In many cases, if the use of the land is altered, an equivalent area of forest or more has to be planted elsewhere. However, recent figures show that around 200 hectares of forest disappear every year without being substituted. Although the act is an important instrument in maintaining total forest cover, it does not address the quality of forests. The health of forest ecosystems is threatened constantly by relatively high levels of nitrogen deposits. The levels measured in forests are 30–60kg of nitrogen per hectare per year, and these are leading to deforestation in many parts of the country.

Future prospects

Increasing renewable energy production

The Netherlands is on course to achieve its target to produce 35% of electricity from wind turbines, solar energy, and biomass by 2020. Moreover, the 2011 target of reaching 2,285MW will be exceeded, given the prudent energy policies which have been implemented. The rate of energy being saved is at 1.5–1.8% a year, rather than the 2% target. In 2008, renewable energy accounted for 3.4% of total electricity usage, an increase of 0.5% compared to the previous year. According to government estimates, the increase in renewable energy use reduced carbon emissions by about 3.9% to 4.6%. In 2010, €25m was earmarked by the government for research into the effective generation of energy from sunlight. If the trend continues, the Netherlands will have a cleaner environment as a result.

PESTLE Analysis

Increased marine protection

There is currently an increased consciousness with regards to protecting the EU's marine environment. In June 2008, the Dutch government and the European Commission (EC) decided to adopt actions to protect the marine environment. Under this new agreement, five rest areas for seals and birds were recognized, within which the majority of fishing activities were prohibited. The areas were made unavailable for fishing vessels of more than 191kW with tickler chains. The measures fall within three nautical miles of the coast, and the only other member state that will be affected is Belgium.

This was the first time a member state had sought assistance from the EC to protect marine habitats and species within its territorial limit of 12 nautical miles, using Article 9 of the Basic Regulation of the Common Fisheries Policy. The Dutch formulated this policy after consulting the Belgian authorities, the EC, and the North Sea Regional Advisory Council, with the aim of minimizing the future loss of natural sea habitats in the seas of the Netherlands. This is expected to increase marine protection in the country.

Future risks

Agency divisions leading to non-attainment of environmental targets

The environmental, divisional, and enforcement bodies in the Netherlands have not been strong enough to fully enforce environmental laws, and as a result the achievement of future aims has been put at risk. The all-purpose planning approach entails a high level of synchronization among national ministries, under which environmental plans must be matched with a number of national sectoral plans such as those of the Ministry of Housing and Spatial Planning.

The integration of environmental policies into other national policies is outlined in the National Environmental Policy Plans; however, policy incorporation has not brought the required integration and has not resulted in the improvement of environmental performance in key sectors such as agriculture and transport. Overall, the government's goal of reaching sustainability by 2011 is becoming increasingly difficult to achieve, particularly in the agriculture and transport sectors.

Increasing soil pollution

Soil pollution is becoming increasingly uncontrollable, mainly as the result of negligence in handling raw materials and waste. It frequently occurs in old city centers, where the locations of previous gasworks are dangerously contaminated, with domestic waste, remnants of demolished buildings, and waste from small-scale industries like tanneries and paint factories adding to the pollution. More recently, there have been cases of entire residential districts being leveled and made ready for building using contaminated dredging sludge. These practices and negligence on the part of the local government authorities are aggravating soil pollution throughout the country.

POLITICAL LANDSCAPE

Summary

The Dutch political scenario is chiefly characterized by efforts to achieve consensus on important issues. The Netherlands was a republic from the 16th to the early 19th century. After the French occupation of the country, the Netherlands became a constitutional monarchy, and has remained so ever since. Since 1848, the Netherlands has also been a parliamentary democracy, with a multiparty system borne out of proportional representation.

Constitutionally, the government consists of the queen and the cabinet ministers. The head of state of the Netherlands is the monarch, to whom the constitution has accorded certain powers and responsibilities which include overseeing the formation of a government. The monarch, however, in reality is a ceremonial figure coming to the forefront only in times of constitutional crisis as an arbitrator. The real power lies with the prime minister and the cabinet that constitute the executive branch of the government. Coalition governments are the norm in Dutch politics, as no party has ever been successful in achieving a majority of its own. The cabinet is headed by the prime minister, who is often the leader of the largest party in the coalition.

In the general elections of June 2010, Mark Rutte's People's Party for Freedom and Democracy emerged as the largest party with 31 seats, and it formed a minority coalition with the Christian Democratic Appeal, which won 21 seats. Mark Rutte was sworn in as prime minister in October 2010.

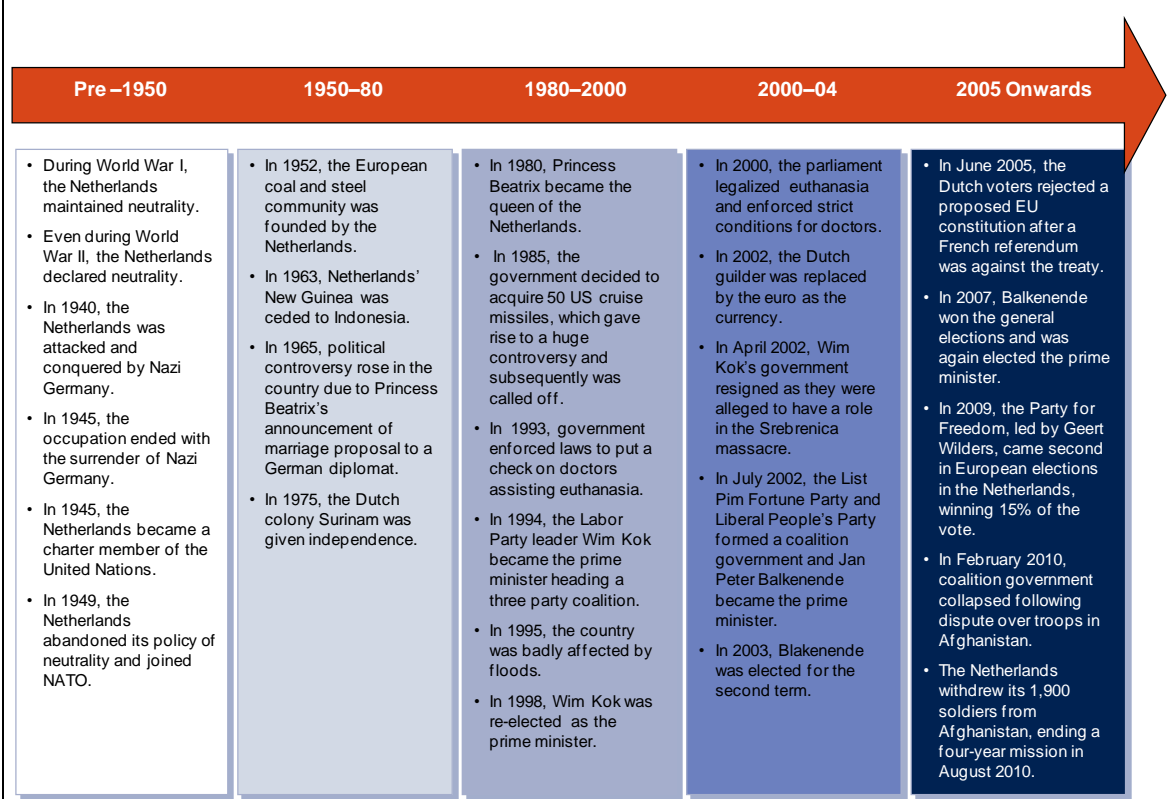
Evolution

Pre-1950s

The Dutch provinces were part of Spain until 1579, when they gained their independence. In 1648, the Treaty of Münster formally recognized Dutch independence. The Dutch soon rose to prominence as a major sea transport provider, creating settlements and colonies throughout the world. In 1815, after the Netherlands was subjected to French rule under Napoleon, the Kingdom of the Netherlands, comprising the present day Netherlands, Belgium, and Luxembourg, was created. However, in 1830, Belgium seceded and gained independence, while in 1890, owing to ascendancy laws, the personal union with Luxembourg was cut off.

During the two World Wars, the Netherlands tried to remain neutral. Although it succeeded in remaining neutral during World War I, in World War II the Netherlands was invaded by Nazi Germany and the city of Rotterdam was bombed. Post-World War II, the Netherlands decided to leave behind its policy of neutrality, creating stronger ties with its neighboring states by providing military support.

Figure 3: The Netherlands – political events timeline



Source: MarketLine

MARKETLINE

1950-80

The Netherlands went on to become a member of the Benelux (Belgium, Netherlands, and Luxembourg) co-operation, and was one of the founding members of the North Atlantic Treaty Organization (NATO). It was also one of the founding members of the European Coal and Steel Community, which has since evolved into the EU. During this period, the Dutch colonies of Surinam and Netherlands New Guinea were given independence. The political setup went through upheaval during this period, with the formation of the Christian Democratic Appeal (CDA) in 1977, which subsequently participated in coalition governments.

1980-2000

The first version of the current constitution of the Netherlands was issued in 1815 by the then monarch. The constitution has since undergone minor changes, except in 1983, when it underwent several major changes. During this period, Princess Beatrix took over the throne as the Queen of the Netherlands, and the country's military relations with the US became stronger and raised controversy in the political system, which had hitherto carried a neutral ideology. The government also enforced stricter welfare laws, by keeping a check on doctors illegally assisting in the practice of euthanasia. From 1994 until 2002, the Labor Party ruled with Wim Kok as prime minister.

2000-04

During this period, the government accepted the euro as the national currency. In early 2002, the Wim Kok government was accused of involvement in the Srebrenica massacre (a mass murder in Bosnia in July 1995). As a result, the

Political Landscape

government collapsed and the List Pim Fortuyn Party and Liberal People's Party formed a coalition government with Jan Peter Balkenende as the prime minister. In October 2002, Balkenende's government collapsed due to internal fights within the List Pim Fortuyn Party. In the January 2003 general elections, the CDA managed a narrow win, and formed a coalition government with the People's Party for Freedom and Democracy (VVD) and Democrats 66.

2005–11

The period began with the Dutch electorate voting in a referendum against the proposed European constitution by a majority of 62%. In June 2006, the Democrats 66 party withdrew its support from the government, resulting in its collapse. However, Jan Peter Balkenende formed a temporary minority government and subsequently won the elections in November 2006. The Christian Democrats gained ground in the following years with increased public support for the Christian Democratic Appeal (CDA). In February 2007, Balkenende formed a coalition government which comprised the center-right Christian Democrats, the Social Democrats (PvdA), and the left-of-center orthodox Protestant Christian Union.

However, in February 2010, the Dutch government again collapsed amid disagreement between the main coalition parties, the CDA and PvdA, with regards to the country's continued military deployment in Afghanistan. The dispute came after the Netherlands received a formal request from NATO for its troops to stay for another year in the southern Afghan province of Uruzgan.

In the general elections of June 2010, Mark Rutte's VVD emerged as the largest party with 31 seats, and it formed a minority coalition with the CDA, which won 21 seats. However, the big winner of the election was the Party for Freedom, which claimed 24 seats. Furthermore, the Party for Freedom's share of the vote increased to make it the third-largest party, pushing the formerly dominant CDA into fourth place. Mark Rutte was subsequently sworn in as prime minister in October 2010 after months of uncertainty.



Political Landscape

Structure and policies

Key political figures

- Queen Beatrix – head of state
- Prime Minister Mark Rutte– head of government

Figure 4: The Netherlands – key political figures

	<p>Queen Beatrix Wilhelmina Armgard, has been reigning over the Kingdom of the Netherlands since April 30, 1980. The Dutch monarchy has a greater say in the affairs of the country as compared to the other monarchs in Europe. The Dutch monarchy enjoys an extreme popularity with the Dutch people. The Queen also has had to battle questions about the monarchy’s efficiency as an institution that is relevant in the current Dutch society. Thus, the Queens challenge has been primarily to keep the monarchy in touch and tune with the changing times and outlook of the Dutch society.</p>
	<p>Mark Rutte heads a coalition of his liberal People's Party for Freedom and Democracy (VVD) and the Christian Democratic Appeal (CDA). It was inaugurated in October 2010, following prolonged negotiations after elections in June 2010. After his inauguration, Mr. Rutte emphasized that his government’s priority was to invigorate the economy and to meet election promises on issues such as immigration. Previously, Mark Rutte was the human resources manager at Anglo-Dutch multinational Unilever.</p>

Source: MarketLine

MARKETLINE

Structure of the government

The major branches of the government are: the monarchy; the executive branch of the government, which includes the cabinet; the parliament, which constitutes the legislative branch of the government; and the judicial branch of the government. The constitution of the Netherlands lists the executive, legislative, and judiciary institutions and describes the functions of each.

Since 1815, the Netherlands has been a monarchy governed by members of the dynasty of the House of Orange-Nassau. After the fall of Napoleon in 1815, the monarchy was formally confirmed at the Congress of Vienna. According to the constitution, the monarch is the head of state and has to oversee the legislative affairs and the appointment of the government. The monarch, post-elections, oversees the formation of a government and also intervenes at times of political crisis.

Legislative branch of the government

The Dutch legislative body is also known as the States-General. The parliament in the Netherlands is bicameral, consisting of an upper house known as the First Chamber and a lower house known as the Second Chamber. Together, the two houses discuss and review legislation proposed by the cabinet. The members of the First Chamber are elected indirectly by provincial councilors every four years through a system of proportional representation. This election is carried out soon after the election of the provincial council itself. The First Chamber has 75 members, and has less power than the lower house, as it only has the authority to reject any legislation, not propose its own or amend

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any legislation.

The Second Chamber is considered the more important of the two houses, as it can also propose any new legislation or changes and amendments to existing legislation. The members of this house are elected directly once every four years, and are chosen on a personal title. A member can thus continue as an independent member in the rare event that he/she no longer agrees with the party. However, upon the resignation of a member of the house, the original party to which the member belonged gets the seat, and the party can then decide upon the next candidate to fill the vacant seat. A government may fall within four years if it is reduced to a minority in the Second Chamber. This would result in the dissolution of the lower house and subsequently lead to new elections.

Executive branch of the government

The cabinet comprises of all cabinet ministers and junior ministers (the *staatssecretarissen*), who together constitute the council of ministers, an executive council that initiates laws and policies. Ministers may or may not have a portfolio; however, most of the ministers head ministries. Junior ministers act as assistants, taking over part-responsibilities of a minister. However, junior ministers can only be participants in the meetings of the council of ministers by invitation. The cabinet is collectively responsible to the parliament, and therefore must have its confidence. Thus any minister no longer enjoying the support of the majority of the parliament is expected to step down. A minister cannot be a member of parliament and is required to give up their office as a member of parliament if selected as a minister.

Provincial governments

Local governments in the Netherlands comprise 12 provinces, divided into 458 municipalities. Provinces are responsible for spatial planning, healthcare, and amusement, within the limits prescribed by the government. Furthermore, they supervise the policy and finances of municipalities and water boards. Executive power is in hands of the Queen's commissioner and the College of the *Gedeputeerde Staten*. The commissioner is appointed by the national cabinet, and is responsible to the minister of internal affairs. Members of the *Gedeputeerde Staten* are appointed by and are responsible for the provincial legislature. Municipalities are responsible for education and social security, within the limits prescribed by the government. They are governed by the College of Mayor and Aldermen. The mayor is appointed by the cabinet and is accountable to the minister of internal affairs.

Structure of legislature

Key political parties

People's Party for Freedom and Democracy

The People's Party for Freedom and Democracy (VVD) is a liberal party in the Netherlands. During the general election of 2010, the VVD garnered the highest number of votes, winning 31 out of the 150 seats and emerging as the single largest party. The VVD is a senior partner in coalition with Christian Democratic Appeal (CDA). The VVD-CDA coalition has only 52 seats out of 150 in the lower house of parliament. However, this coalition has made a deal with the right-wing Party for Freedom (PVV) to get its policies passed through parliament.

Christian Democratic Appeal

The Christian Democratic Appeal (CDA) is widely regarded as the most important political party in the history of the Netherlands post-World War II. The CDA was formed in 1977 after an alliance between the Roman Catholic and Protestant parties. The party has conservative leanings and is a centrist party with four main ideals of shared responsibility, stewardship, justice, and solidarity.

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In the 1990s, the CDA went through a steady decline and suffered a large defeat in the 1994 elections following its proposals to cut pensions. After a leadership crisis in 2001, Jan Peter Balkenende became the new party leader, helping the CDA to major gains in the general elections in 2002. Since 2002, due to the fragile and quirky multiparty system in the Netherlands, the CDA under Mr Balkenende has been in four different coalition cabinets with different allies. Despite the fragile political system in the Netherlands, the CDA has lent a sense of continuation to the governments' policies.

In the 2006 elections, the CDA won 41 seats and was the single largest party. After the elections, talks began between the CDA, the Labor Party (PvdA), and the Socialist Party for the creation of a government; however, the failure of the talks and subsequent successful negotiations between the CDA, PvdA, and ChristianUnion resulted in the formation of the fourth Balkenende government. In the June 2010 elections, the CDA won only 21 seats.

Labor Party

The Labor Party, or *Partij van de Arbeid* (PvdA), is among the prominent political parties in the Netherlands. It was founded in 1946 with its roots in the pre-war Social Democratic Laborers' Party (SDAP). The party is a social-democratic political party focusing on social welfare including issues such as employment, education, public safety, and healthcare.

In the 1970s and 1980s, however, due to the erosion of its traditional base comprising the working class, the party lost electoral support. The party then underwent a resurgence in the 1990s under Wim Kok, as it rose to occupy the center stage of Dutch politics, although Kok's policies on economic efficiency led to severe opposition from several corners. Kok held the office of prime minister twice, but in the early 2002 general elections he decided not to stand for a third time as prime minister. Without Kok, the Labor Party was unable to find a leader and lost severely. However, under Wouter Bos the party made significant gains in the second elections held in late 2002 and almost overtook the CDA as the largest party.

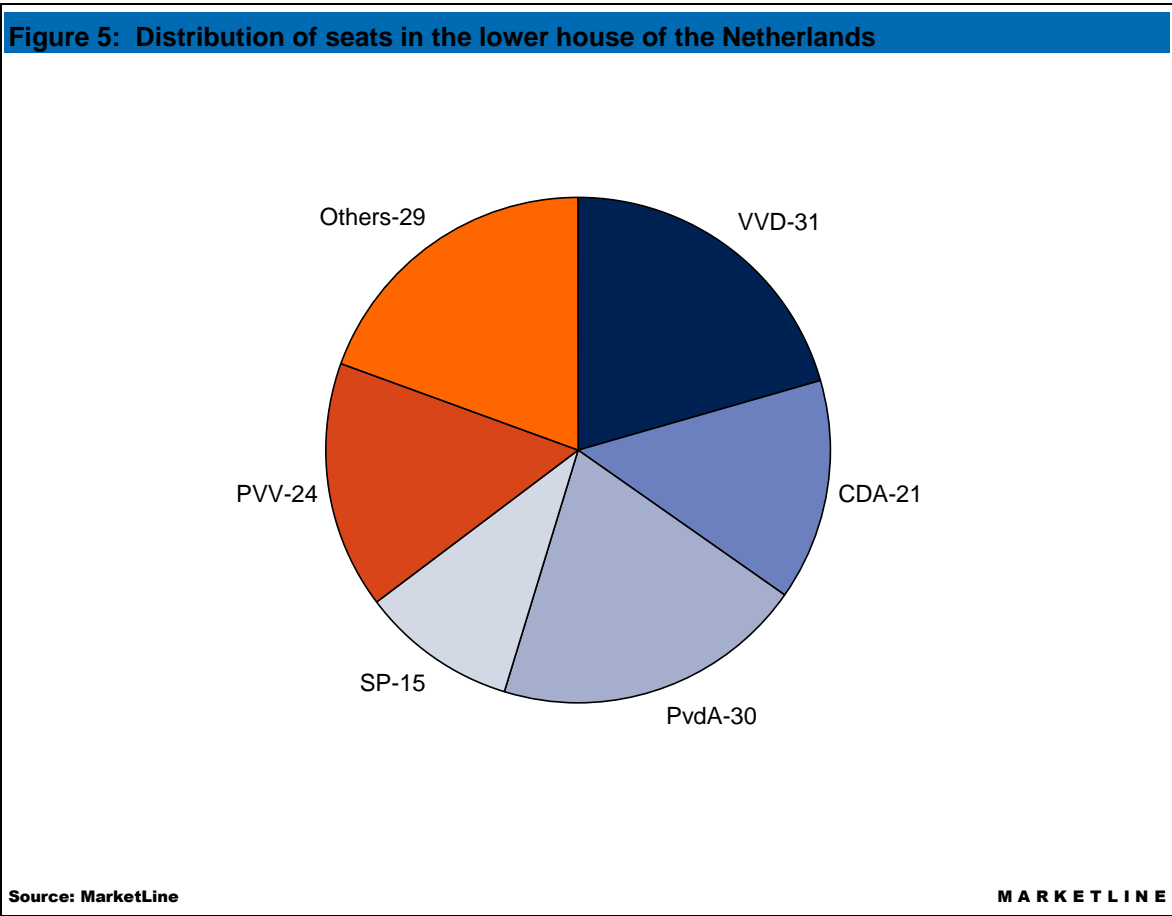
New policies have helped the Labor Party to gain support across all sections of society. The party is now more of a centrist party, with liberal policies on issues surrounding globalization. In the 2006 elections, the Labor Party won 33 out of the 150 seats, making it the second-largest party after the CDA, and it was also a member of the fourth Balkenende government. The party won 30 seats in the June 2010 elections.

Socialist Party

The Socialist Party, or *Socialistische Partij*, originated from a small radical left-wing party in 1971. In the 2002 elections the party made several electoral gains and nearly doubled its number of seats in parliament. In the 2006 elections, the party won 25 out of the 150 seats, making it the third largest party in parliament. The Socialist Party is currently in opposition against the cabinet.

The party has a democratic-socialist ideology focusing on social welfare issues, and is a staunch critic of globalization and the privatization of public services. In the recent municipal elections, the Socialist Party made several electoral gains, emerging as one of the biggest winners. The Socialist Party's recent gains are largely attributable to its former leader Jan Marijnissen's popularity and his strong, high-profile performance campaigns. The Socialist Party is more of a leftist party than the Labor Party, which is more open on issues of privatization and globalization. The party won only 15 seats in the June 2010 parliamentary elections.

Composition of government



Key policies

The Netherlands has traditionally had a strong and highly regulated mixed economy, being both a modern, industrialized nation and a large exporter of agricultural products. However, since the turn of the 21st century, the Netherlands has struggled with the challenges of immigration, which has had a bearing on both the social and economic fronts.

Economic

Over the last few years, the economic growth of the Netherlands has been slowing down. However, it is still among the top nations in Europe in terms of attracting foreign direct investment (FDI). Balkenende’s policies of reforms included large cuts in public spending, which resulted in the slowdown of economic growth. The 2006 budget included tax cuts and modest expenditure increases, while further tax cuts were introduced in the 2007 budget. The government also placed a special focus on developing infrastructural capabilities in the energy sector, as well as recommending legislation on streamlining procedures for large energy infrastructure projects. This was a response, in particular, to bottlenecks in power grid development in the Rotterdam-Amsterdam corridor and in the northern Netherlands around the port of Eemshaven.

The economic crisis forced the government to interfere in the financial system. The Dutch government took over two

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banks, ABN Amro and Fortis, as well as injecting capital into three more. The government also undertook expenditure of around €6bn (around \$8bn) during 2009–10 on various measures such as infrastructure projects, employment support, environmental sustainability measures, and company liquidity assistance.

To fund this huge expenditure, the government plans to undertake fiscal austerity measures worth €3.2bn in 2011. Indeed, at the time of writing it had already cut spending in the following areas: development co-operation (€400m), immigration and integration (€100m), defense (€40m), and the environment (€60m). Furthermore, the government has decided to slash the civil service wage bill, which is likely to be a difficult task. However, measures such as increasing the VAT rate on arts and culture tickets have been postponed by the government.

Social

The social welfare system in the Netherlands has performed well in terms of establishing the necessary social infrastructure in the country. The government's policies on various social issues are considered to be very open compared to any other EU nation. Balkenende's government made it difficult for new immigrants to qualify for citizenship in the Netherlands. Therefore, potential immigrants are now assessed before permits are granted, and there is careful scrutiny of asylum seekers. As part of its immigration measures, the Balkenende government signed a memorandum of understanding with Romania. The aim of the memorandum was to improve and strengthen co-operation in order to fight black market labor, to apply rules regarding the employment terms and conditions in cases of cross-border labor and services, and to apply the regulations in the social care sector. The memorandum was also designed to standardize the hiring process between the two countries.

Foreign

The foreign policy of the Netherlands revolves around its four basic commitments: commitment to the Atlantic co-operation; commitment to European integration; commitment to international development; and commitment to international law. The Netherlands has also signed the Kyoto Protocol and is a key member of the EU, NATO, and the Organisation for Economic Co-operation and Development (OECD). Additionally, the Dutch parliament ratified the EU's Lisbon Treaty in July 2008.

Prior to World War II, Dutch foreign policy was based on a neutral political stance. However, post-World War II, the Netherlands has actively tried to create stronger ties with its neighboring states. The country became a member of the Benelux (Belgium, the Netherlands, and Luxembourg) co-operation, and was one of the founding members of NATO.

The country is also one of the largest providers of foreign assistance to third world countries. The Netherlands initially supported the US war on terror and strongly supported the Bush administration in its efforts to disarm Iraq; however, of late the Netherlands has refrained from commenting on the war against Iraq rather than risking upsetting the other members of the EU. Moreover, the Netherlands places global security high on its agenda, being party to all 12 UN counterterrorism conventions. The Netherlands' parliament also adopted the Act on Administrative National Security Measures in 2008. This act allows the interior minister to prohibit a terrorist's physical proximity to specific locations or persons.

While the Netherlands has an open economy relying heavily on international trade, its soft policy towards drugs has been a constant source of controversy.

Defense

The most important objectives of Dutch defense policy are:

- The protection of national and allied territory and airspace, including the Netherlands Antilles and Aruba, with all available resources, and using all means, if required.

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- An active contribution to the integrated Dutch foreign policy, which would include making a high-quality, technologically advanced contribution to international operations across the spectrum of conflict. The recipients under this objective would be the NATO Response Force, EU Battlegroups, and the Standby High Readiness Brigade (SHIRBRIG) of the UN.
- Contributing to the security and safety of society within the borders of the Netherlands, under civil authority. This includes providing military assistance for domestic problems, disaster relief, and maintaining public order in the country.

The Netherlands withdrew its 1,900 soldiers from Afghanistan after a four-year mission in August 2010. The deployment of Dutch troops in Afghanistan was extremely unpopular domestically.

Performance

Governance indicators

The World Bank report on governance uses voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption as indicators for 212 countries and territories over the period 1996–2009. The study was carried out by Daniel Kaufmann and Massimo Mastruzzi of the World Bank Institute and Aart Kraay of the World Bank Development Economics Research Group. For any country, a percentile rank of 0 puts it at the lowest rank and 100 corresponds to the highest rank.

The Netherlands was ranked in the 98.1 percentile on the voice and accountability parameter in 2009. Voice and accountability measures the extent to which a country's citizens are able to participate in selecting their government, along with freedom of expression, freedom of association, and the availability of free media. The country had a high ranking due to its openness and liberal attitude towards the press. The Netherlands was ahead of its neighbors Germany and Belgium, which were ranked in the 93.8 and 94.8 percentiles, respectively.

The Netherlands was ranked in the 83.0 percentile on political stability and absence of violence in 2009. Political stability and absence of violence measures perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including domestic violence and terrorism. The Netherlands ranked higher than Belgium and Germany, which had percentile rankings of 74.1 and 76.9, respectively. The Netherlands was previously ranked in the 93.3 percentile in 2002, and the steep fall was largely due to political breakups causing the formation of different minority governments, and the resultant political speculation.

The Netherlands was ranked in the 94.3 percentile for government effectiveness in 2009. Government effectiveness measures the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. The country's rank in this regard has been impressive over the last decade, as successive governments from different political parties have broadly pursued similar economic policies leading to stability in policy formulation and implementation. For this indicator, the Netherlands ranked higher than Belgium (90.5) and Germany (91.9).

The Netherlands was ranked in the 97.1 percentile on regulatory quality in 2009. Regulatory quality measures the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. A moderate ranking indicates a fair implementation of policies and regulations for the private sector. For this indicator, the Netherlands was again ranked much higher than Belgium (86.7) and Germany (92.4).

The Netherlands was ranked in the 97.2 percentile on rule of law in 2009. Rule of law measures the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, the

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police, and the courts, as well as the likelihood of crime and violence. The Netherlands was ahead of Germany, which was ranked slightly lower in the 92.9 percentile, and well ahead of Belgium, which was ranked in the 88.7 percentile.

Lastly, the Netherlands was ranked in the 97.6 percentile on control of corruption in 2009. Control of corruption measures the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as the "capture" of the state by elites and private interests. Although in the same percentile range, the country was ahead of both of its peer nations, with Germany ranked in the 92.9 percentile and Belgium at 91.0.

Outlook

In the June 2010 general elections, Mark Rutte's VVD emerged as the largest party with 31 seats, with just one seat more than the PvdA. However, the big winner of the election was the far-right populist PVV, which boosted its share of the vote to become the third-largest party, pushing the formerly dominant CDA into fourth place with only 21 seats. Mark Rutte was eventually sworn in as prime minister in October 2010 after months of uncertainty.

Following regional elections in March 2011, the coalition government has to rely on at least one opposition party's support in the senate, which adds to political uncertainty. The new coalition is expected to be unstable and prone to fragility, raising the possibility of an early election before the end of the four-year parliamentary term.

ECONOMIC LANDSCAPE

Summary

The economy of the Netherlands is mainly dependent on trade, financial services, and industries. The Dutch economy has been a free-market system for the last two decades, and the government has actively reduced its role in the economy to regulation and taxation.

The economy is characterized by moderate unemployment and a sizable current account surplus. The Netherlands is a highly industrialized country with activities focused mainly on food processing, chemicals, oil refining, and electrical machinery. Agriculture in the Netherlands is also highly modernized and efficient, and the sector is still highly profitable. Despite its current decline, industry is a major component of the economy. In the industrial sector, energy companies have achieved high profits in line with the increase in global energy prices.

Almost 80% of the economy is based on foreign trade, and, along with the US, the Netherlands is one of the main proponents of international free trade and the reduction of duties and tariffs on goods and services. Several of the world's largest corporations, including Royal Dutch Shell and Unilever, are based in the Netherlands. The country owes the success of its economy to the changes and alterations it made during the 1970s and 1980s. These included the reduction of the government's role in the economy, the privatization of public corporations, and an increased incorporation of technology and advanced communications by Dutch companies. The fact that Dutch companies were among the first in Europe to take these measures gave the country a distinct edge over its counterparts. The country also started long-term economic reforms in the 1990s. These reforms, aimed at increasing foreign trade, consumer spending, and investment, helped the economy of the Netherlands to grow at a faster rate than the rest of Europe.

However, Dutch economic growth slowed during the 2000s, and this worsened in 2008–09. The economic recession and financial meltdown forced the government to intervene in the Dutch financial system, and it took over ABN Amro and Fortis. Moreover, nearly €10bn (\$14bn) was injected into three other banks. In 2009, the economy contracted by 3.9%; however, it recovered in 2010 to grow by 1.7%.

Evolution

Pre-1970

The economic and social progress achieved by Europe in the early 20th century created a general mood of optimism in the Netherlands. Historically, the country maintained a neutral political stance up to and throughout World War I; however, Germany's invasion of Belgium during World War II caused turmoil in the Netherlands, and the country's economy was affected. Goods were hoarded, money was withdrawn from the banks, industrial production was reduced, and workers were dismissed on a massive scale. The country also had to cope with thousands of Belgian refugees, but despite the panic, the government managed to restore calm.

In 1929, the world was shaken by the collapse of the New York Stock Exchange, which led to a severe worldwide economic crisis. The Netherlands and the Dutch East Indies were hard hit, but because of the contemporary belief in boom and bust liberal economics, it was initially assumed that the economy would revive automatically and that the depression would be followed by a period of strong economic growth. However, the government's policy of keeping the Dutch guilder on the gold standard actually aggravated the crisis and led to a decline in exports. The consequences were alarming. By 1935, unemployment was running at 40% and in 1936 the Netherlands was finally forced to abandon the gold standard.

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In 1953, there was a rare combination of a spring tide and a hurricane, which led to a catastrophic disaster in the Netherlands. More than 1,800 people died and 150,000 hectares of farming land was flooded, which had serious effects on the economy. However, despite all the obstacles faced by the country, the economy always maintained high economic growth and development throughout this period.

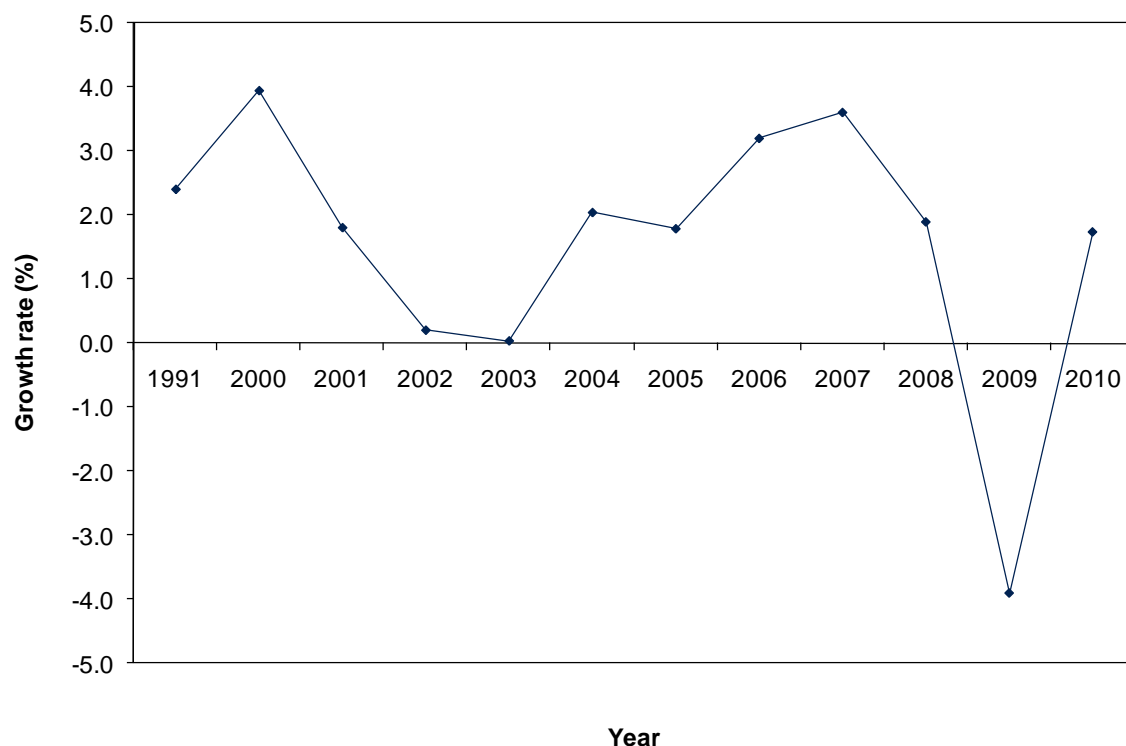
1970–2000

The oil crises of 1973 and 1979 put a halt to the growth path of the Netherlands as unemployment rose to a high level and investment declined. There were widespread redundancies, especially in the shipbuilding, metallurgical, textile, and construction industries. During the 1980s, the worldwide economic crisis drove up unemployment in the Netherlands to more than 600,000. Policies were introduced to reduce government intervention in industry by way of decentralization, deregulation, and privatization. These included stopping the payment of large subsidies to non-performing enterprises.

Measures were also taken to stimulate the economy by passing the Investment Account Act (WIR), under which the government reimbursed a proportion of corporate investment. As a result, the government deficit reduced from 11% of national income in 1983 to around 6% in 1986. Up to 1987, economic growth in the Netherlands had run at a modest 1–2% a year, which was below the average for the rest of Europe. In 1988, things started to improve, partly as a result of the spending cuts and changes in government finance. The final years of the 20th century saw important agreements between the member states of the EU. The launch of the European Monetary System (EMS) in 1979 had already marked the beginning of monetary co-operation between the states, and the arrival of the European Monetary Union (EMU) eliminated exchange rate risks within the eurozone. As a result, the euro has been the official unit of currency in the Netherlands since January 1, 1999, as well as in other European countries that meet certain financial and economic conditions.

2000–10

The beginning of 2002 in the Netherlands and many other European countries was marked by the introduction of a new cash currency, the euro, which had previously only been used in banking transactions. All of the countries adopting the new currency, including the Netherlands, had to meet strict economic and financial conditions, such as keeping their budget deficits below 3%. The Dutch economy hit its lowest growth rate in 2003, of 0.03%, rising to around 2.0% in 2004 before dipping to around 1.7% in 2005. In 2007, the growth rate was 3.6%, but it decelerated to 1.9% in 2008. In 2009, the economy contracted by 3.9%; however, it recovered in 2010 to grow by 1.7%.

Figure 6: Evolution of GDP growth in the Netherlands, 1991–2010

Source: MarketLine

MARKETLINE

Structure and policies

Financial system

Overview

The Dutch financial system is dominated by a few internationally active large and complex financial institutions (LCFIs). Although such institutions have substantial risk diversification, coupled with the very open nature of the Dutch economy, the LCFIs make the domestic system more susceptible to global economic and financial developments. The scope for cross-sectoral spillovers is also higher, and each LCFI is systemically important from the purely domestic perspective. Currently, the main domestic risks are the large exposures to housing mortgages and the continuing exposure of the pensions sector to market risks.

The financial system is dominated by the banks, which constitute 70%. They are followed by pension funds at 19% and insurance companies at 11%.

Financial authorities/regulators

De Nederlandsche Bank

De Nederlandsche Bank (DNB) is a public limited company with policies formulated by its governing board. The bank also has a supervisory body and an advisory body (bank council), which participate in formulating bank policies. The

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bank is responsible for safeguarding financial stability and supervises the implementation of the single monetary policy of the eurozone, as passed by the European Central Bank (ECB). It is also responsible for the smooth functioning of the payment system, and supervises financial institutions and the financial sector.

Insurance

The Dutch insurance market recorded a marginal decline in 2009. Performance within the non-life segment slowed considerably, while the life segment recorded a slump after the previous year's stagnation. During 2009–14, the non-life segment is expected to accelerate again with annual growth of around 8%, while growth within the life segment is expected to be around 3%.

The Dutch insurance market had total gross written premiums of \$107.9bn in 2009, representing a compound annual growth rate (CAGR) of 12.8% for the period spanning 2005–09. In comparison, over the same period the German market increased at a CAGR of 1.8% and the Belgian market declined at a compound annual rate of change (CARC) of -4.4%, reaching respective values of \$237.8bn and \$40.5bn in 2009.

The non-life insurance segment was the Dutch market's most lucrative in 2009, with total gross written premiums of \$74.2bn, equivalent to 68.8% of the market's overall value. The life insurance segment contributed gross written premiums of \$33.7bn in 2009, equating to 31.2% of the market's aggregate value.

The performance of the market is forecast to decelerate, with an anticipated CAGR of 5.7% for the period 2009–14, which is expected to drive the market to a value of \$142.4bn by the end of 2014. Comparatively, the German and Belgian markets will grow with CAGRs of 2.5% and 1.1% respectively over the same period, to reach respective values of \$269.6bn and \$42.8bn in 2014.

Key policies

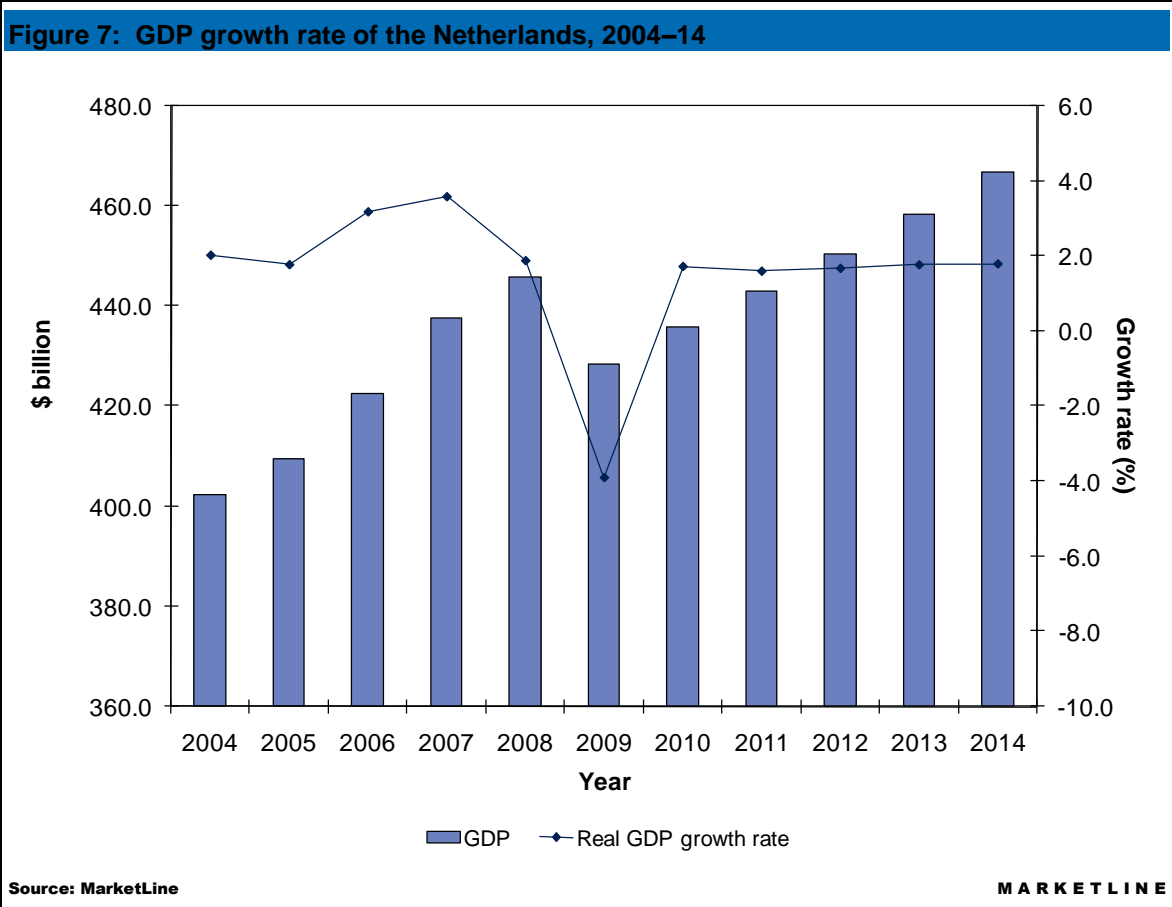
A policy program was formulated by the government to achieve various goals in different aspects of the economy during 2007–11. Under this program, the government focuses on relations with the EU, with the exception of issues such as peace and security, development policy, human rights, the environment, and the business climate.

As part of the development policy, the government is focused on establishing sustainable economic development and on helping the UN to achieve its millennium economic goals. To improve its business climate, the government also wants to reduce administrative procedures to further enhance foreign investment.

Performance

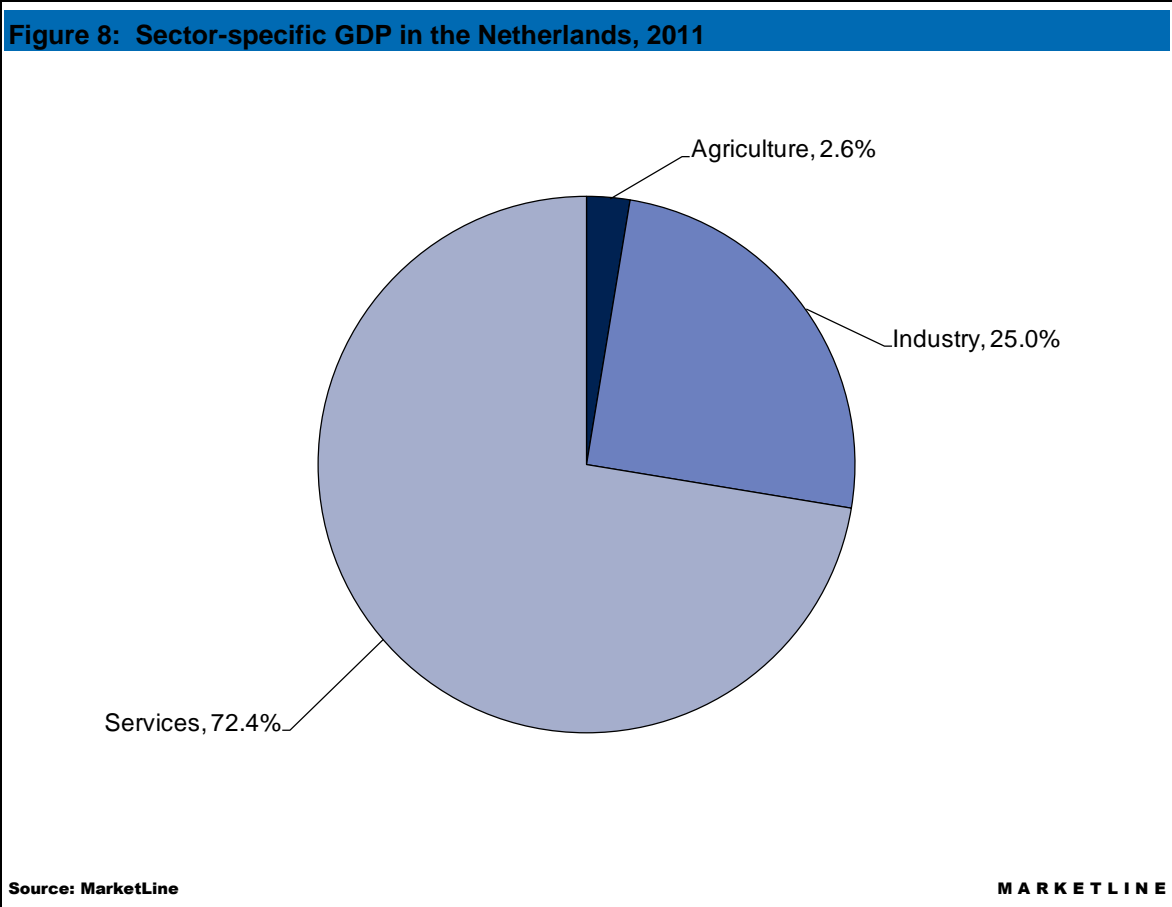
GDP and growth rate overview

The Dutch economy performed extremely well during the late 1990s, buoyed by the robust performance of global trade. However, the rapid upturn led to a buildup of inflationary pressures, which undermined the country's impressive level of international competitiveness. As a highly trade-dependant economy, the Netherlands was also hit badly by the global downturn in 2001. Economic growth fell to 1.4% in 2001, dropping further in 2002 to only 0.08% as the country experienced its first recession in two decades. The economy then recovered, posting growth rates in 2005, 2006, and 2007 of 1.8%, 3.2%, and 3.6%, respectively. Due to falling economic activity and financial volatility in world markets, the Dutch economy contracted by 3.9% in 2009, after posting a growth rate of 1.9% in 2008. However, it subsequently recovered again in 2010 to post a growth rate of 1.7%.



GDP composition by sector

The services sector contributes 72.4% of GDP in the Netherlands. This is followed by the industrial sector, which contributes 25.0% of GDP, while the remaining 2.6% is contributed by the agricultural sector.

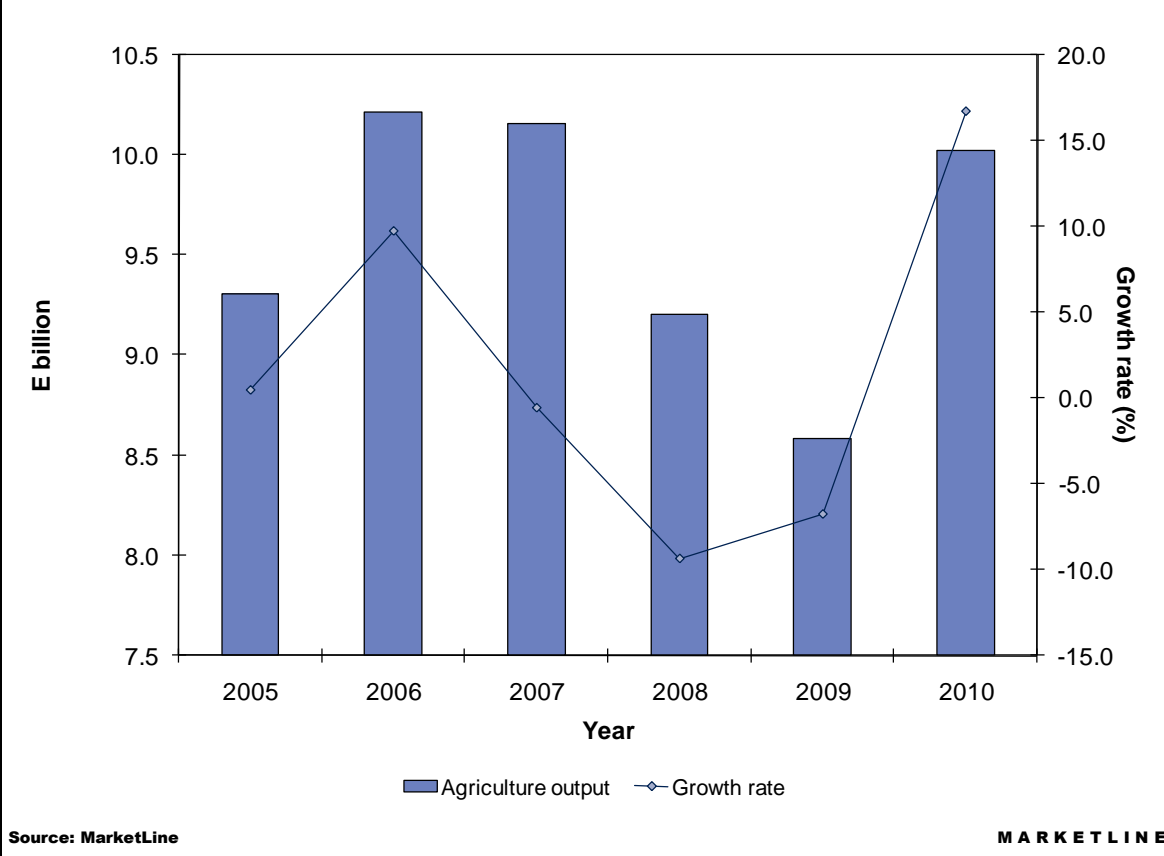


Agriculture

The agricultural sector is highly automated with high yields per acre. Only 2% of the Dutch labor force is employed in the sector, which contributes around 2.6% of the GDP. With its geographic advantage, the country's agriculture sector is driven by exports. A major portion of agricultural exports comes from fresh-cut plants, flowers, and bulbs. The flower industry in Aalsmeer near Amsterdam accounts for nearly 60% of global flower exports.

The agricultural output of the Netherlands grew at a rate of 9.8% in 2006, but contracted by over 6% in 2009. In 2010, agricultural output recovered to register a growth rate of 16.8%.

Figure 9: Agricultural output in the Netherlands, 2005–10

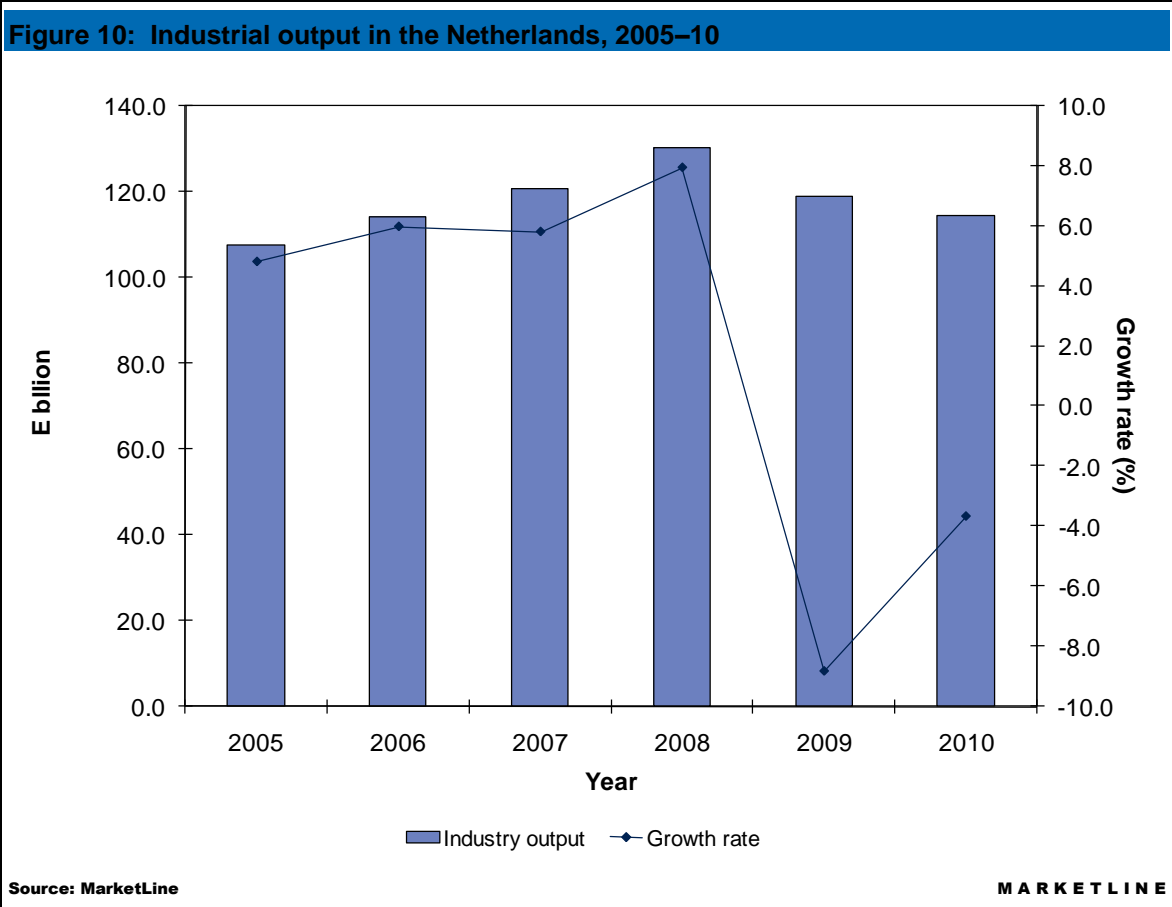


Industry

The Netherlands has a strong and diverse manufacturing sector and is rated as one of the top manufacturing centers in the world, attracting a large number of multinational corporations. The key factors responsible for making the Netherlands an attractive foreign destination as a manufacturing hub are its geographic location in Europe; its well developed transport facilities and infrastructure; its skilled workforce; and a political will conducive to the manufacturing industry. The efficient and highly productive workforce in the Netherlands is the result of highly efficient education and training, high levels of automation, and very few labor problems.

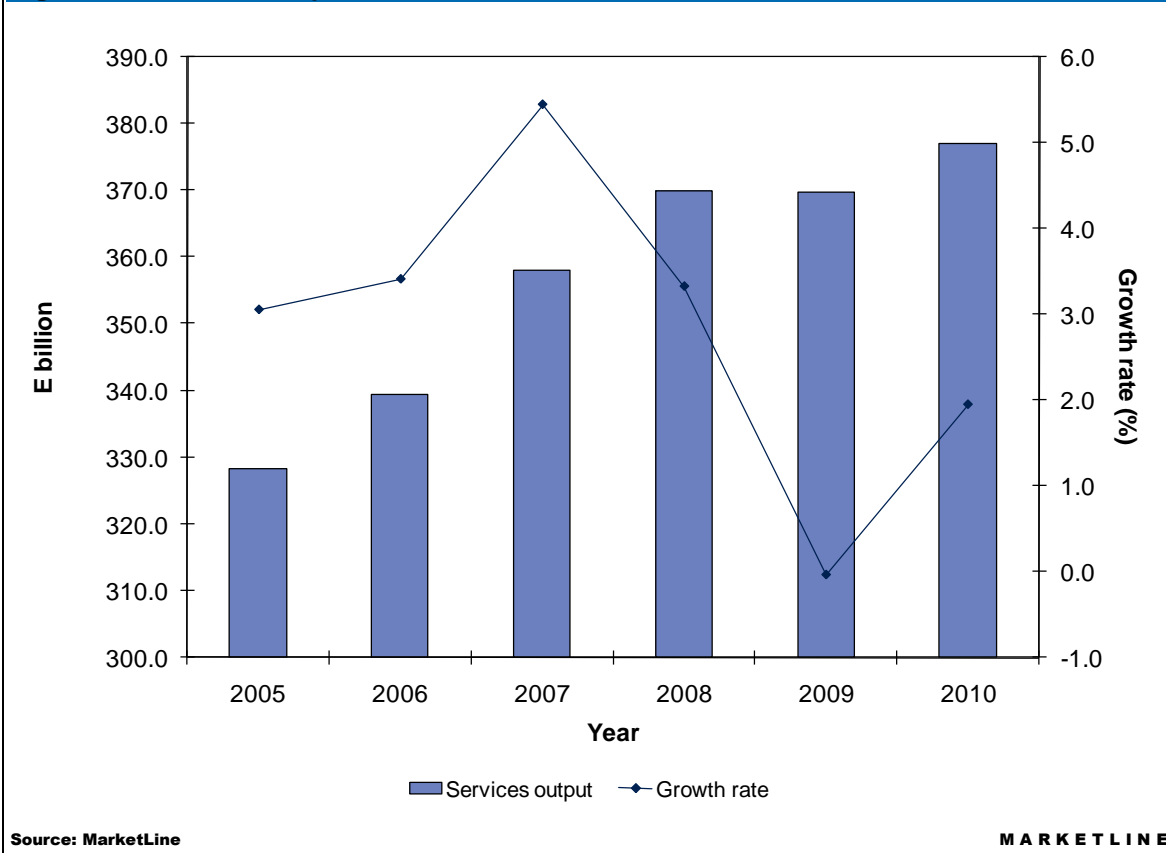
The industrial sector in the Netherlands is involved primarily in textiles, food processing, chemicals, electrical machinery, and oil refining. However, natural resources in the country are few and include coal, natural gas, and crude oil. Pig iron formed from imported ore is among its leading exports.

The growth of industry in the country was phenomenal, with the industrial sector contributing around 30% of the GDP in 1990. However, over the past few years the contribution has come down to around 25%. The country's industrial output grew exponentially over 2003–06, but the growth rate decreased from around 8.0% in 2008 to -8.8% in 2009. The industrial sector's output contracted once again, by 3.7%, in 2010.



Services

The services sector has shown a marked growth and has steadily raised its contribution to GDP, while agriculture and industry have shown a decline in their percentage contributions to GDP. Nearly 80% of the Dutch workforce is engaged in the services sector in areas such as transportation, financial services (including banking and insurance) and business services, and goods distribution. The services sector contributes 72.4% of the country's GDP. As in the industrial sector, services output registered a sharp fall in 2009, although it recovered in 2010 to register a growth rate of 2.0%.

Figure 11: Services output in the Netherlands, 2005–10

Fiscal situation

Despite the credit crisis, the Dutch government managed to post a small surplus in its public account. The public financial balance improved from 0.3% of GDP in 2007 to 1.0% of GDP in 2008. During 2003–05, public finances were in deficit, but they recorded a surplus in 2006 of 0.6% of GDP. According to the central bank's report, this improvement in the budget balance was largely attributable to higher natural gas revenues. The rise in energy prices pushed direct natural gas revenues up to 2.1% of GDP in 2008. However, if the impact of oil prices is taken out, the balance fell to -1.9% of GDP. In 2008, tax and social contributions increased mainly because of higher healthcare premiums and an increase in excise duties and environmental taxes. Moreover, the government's debt ratio increased from 45.7% of GDP in 2007 to 58.1% of GDP in 2008.

The budget deficit for 2009 was around 4.5% of GDP, and due to the slow economic recovery process it increased to around 5.3% of GDP in 2010. Furthermore, the country's debt increased to around 62.6% of GDP. The primary causes for this were lower revenues due to the economic downturn on the one hand, and higher expenditure (mainly due to unemployment benefits) and interest payments on the increased national debt on the other hand.

Current account

The current account balance has had surplus funds since 2000. The country's current account balance grew from around \$8.5bn in 2000 to more than \$65bn in 2008. The current account balance represented more than 7.8% of the country's GDP in 2007 and this increased to 8.2% of GDP in 2008. However, due to reduced international trade, the

Economic Landscape

current account surplus fell to around \$33.5bn in 2009, which constituted around 4.5% of GDP. According to Economy Watch, the current account surplus of the Netherlands in 2010 was around \$56bn, which constituted around 7.1% of GDP. A consistent current account surplus indicates that the Dutch economy continues to remain competitive and strong.

Foreign trade

The Netherlands is heavily dependent on foreign trade, and due to the high impact of foreign trade and sales on the economy, the government is a strong supporter of free trade. Total exports in 2008 stood at \$740bn, whereas imports were \$672bn. In 2008, Dutch exports, particularly those of manufactured goods, suffered because of weakening global demand and the appreciation of the euro. Dutch trade was then also affected in 2009 due to the severe recession and a further decrease in global demand. This meant that total exports fell to \$599bn and imports went down to \$541bn. In 2010, exports bounced back to reach \$609bn, while imports also rose to \$583bn.

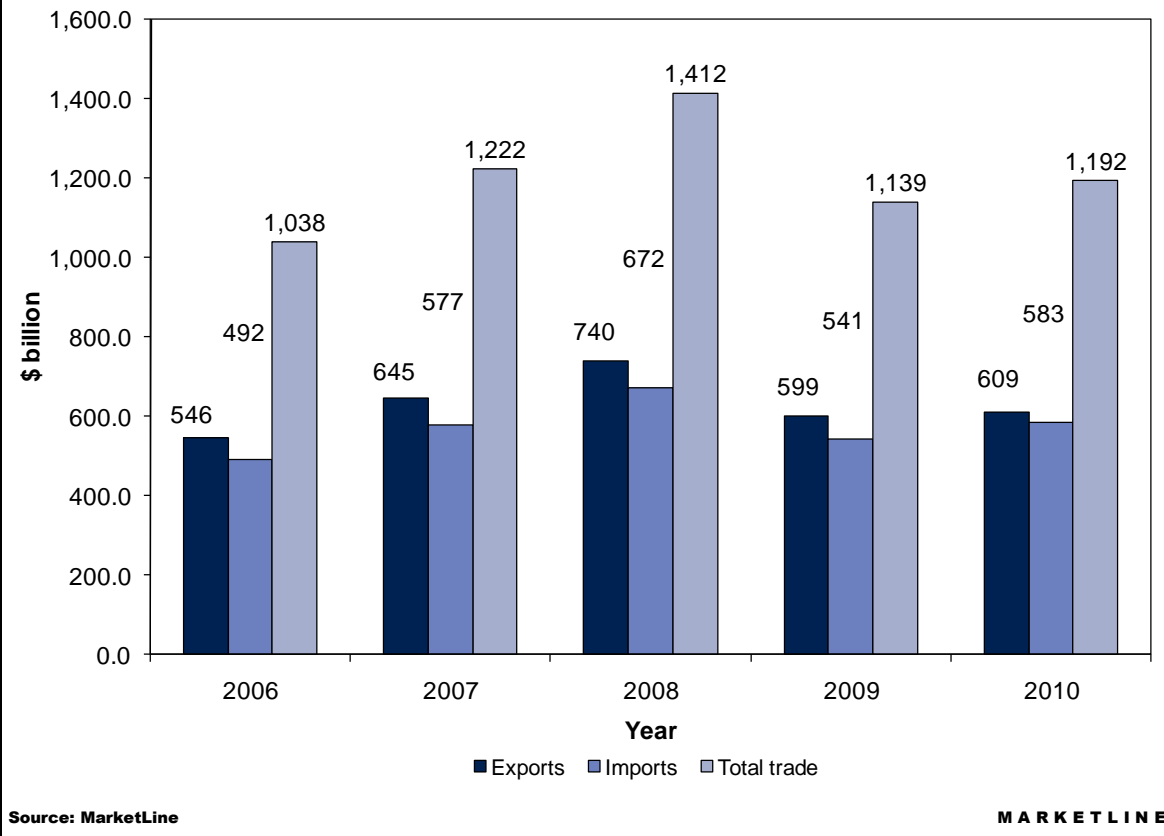
The trade activity of the Netherlands is highly developed with a particular focus on food processing, chemicals, oil refining, and electrical machinery. The agricultural industry is highly mechanized, and although the sector employs a very low percentage of the workforce, it produces large surpluses for exports and ranks the third highest worldwide in terms of agricultural exports. Among the chief exports of the Netherlands are machinery, textiles, petroleum products, fruit and vegetables, and meat. The financial services sector, with its hub at Amsterdam, contributes considerably to the economy. Coal, natural gas, and petroleum are among the few natural resources that the country possesses.

Owing to its geographic location, the Netherlands has been able to establish itself as a gateway to the trade of Europe. Around 80% of Dutch exports go to other nations within the EU and 70% of goods imported into the Netherlands come from the EU. At around 25.5% of total exports, Germany formed the largest individual destination for Dutch goods in 2009. Among the importing countries, Germany is also the largest importer with a share of around 17.1%.

The Netherlands was one of the founding members of the EU and has continuously strived for increased economic integration among the union's members, as well as the introduction of the euro as a common currency. Due to the high importance of international trade to its economy, the Netherlands is a key supporter of EU trade liberalization and the privatization of key industries such as telecommunications and transportation. With the opening of Central and Eastern Europe to free market capitalism and the end of the Cold War, the Netherlands aggressively sought to obtain entry into the emerging markets of Poland, Hungary, and the Czech Republic.

The Netherlands also works closely with the US in a combined effort to open markets around the world and reduces tariffs and other barriers to international commerce. The Netherlands is also a key member of other international organizations such as the World Trade Organization (WTO) and the International Monetary Fund (IMF).

Figure 12: The Netherlands' external trade position, 2006–10



International investment position

Foreign investments

The Netherlands is among the top nations in Europe in terms of attracting foreign direct investment (FDI). The leading sectors of foreign investment in the country are mining, quarrying, and petroleum.

The Netherlands' central location with regards to the markets of the EU, the Middle East, and Africa makes it one of the most important nations catering to these markets. Over the years, the Netherlands has developed an international outlook, and its acceptance of foreign investors has allowed it to have a pool of world class business partners. The traditional features of the Dutch tax system, with a wide tax treaty network, participation exemption, and 30% tax breaks for highly qualified foreign employees, create a very favorable outlook for foreign investment. The location advantage and this favorable outlook make the Netherlands a very strong contender for a pan-European operation.

The Netherlands has highly developed seaports such as Rotterdam, which is the third largest port in the world. The airports in the country, such as Schiphol, are among the busiest in the world and are widely recognized as major business hubs in Europe. The Netherlands also has a well connected network of roads, railways, and waterways, a strong telecommunications infrastructure, and an advanced communications and mobile system network. Together, these factors have created a very favorable environment for foreign investors. The multilingual culture and high standard of living are also reasons for the country garnering high levels of FDI in Europe.

The government does not discriminate between foreign and domestic companies, allowing foreign investors access to

Economic Landscape

the same privileges and obligations as their Dutch counterparts. Moreover, the government has encouraged joint ventures between foreign investors and Dutch companies and the introduction of newer production techniques and management skills. To these ends, the Netherlands has also set up the Netherlands Foreign Investment Agency (NFIA), which aids and assists foreign firms investing in the Netherlands.

The FDI to GDP ratio in the Netherlands is among the highest in the EU. In 2007, net FDI inflows into the Netherlands were about 15% of GDP. According to the United Nations Conference on Trade and Development (UNCTAD), in 2008, FDI inflow dipped to 3.5bn after recording a huge inflow of \$57.4bn in 2007. In 2009, the FDI into the Netherlands reached over \$34.5bn, but there was reversal in 2010 with the outflow reaching 16bn in 2010.

Credit rating

Standard & Poor's long-term sovereign rating for the Netherlands is AAA, and the rating agency has termed the outlook as stable. This is largely due to the Netherlands' highly open and diversified economy, and its comparatively strong performance in the eurozone.

Monetary situation

Overview

The Eurosystem, comprising the European Central Bank (ECB) and the national central banks of the 13 member states, determines and exercises monetary policy. Interest rates in the euro area are set by the ECB, and the bank uses three policy instruments to control money markets: reserve requirements, open market operations, and standing facilities.

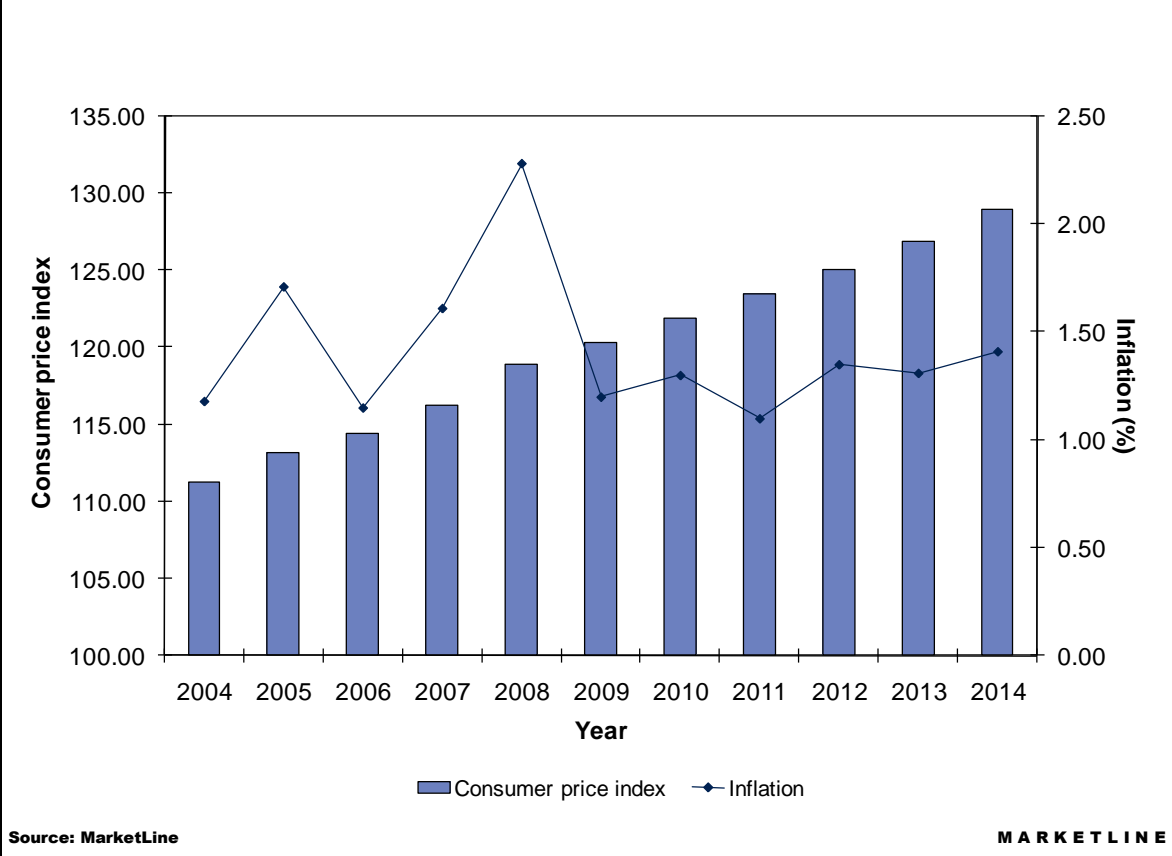
With an increasingly open market and fewer restrictions on capital movements, monetary policy in the Netherlands has shifted away from a dual strategy of a combined policy targeting monetary aspects and the exchange rate of the country. The monetary policy in the Netherlands has also been influenced by recent financial sector reforms, such as the deregulation of the financial markets and the opening-up of international capital markets, which have been hugely influential in the design of the monetary instruments.

Key monetary indicators

Consumer price index inflation

A restricted labor market, combined with structural rigidities, has led to accelerating inflation in the Netherlands. The inflation rate increased from 1.8% in 1998 to 2.6% in 2000, above the ECB target of 2.0%. In 2001, the rate accelerated notably to 4.2%. Labor market tightening and transitory factors were primarily responsible for the increase. However, the country managed to maintain inflation levels below the ECB target from 2004 to 2007. In the first half of 2008, inflation then increased again in line with the global trend, mainly because of rising oil and commodity prices. Later in the year, there was a dramatic fall in the inflationary level, which continued in 2009 as the rate fell from a high of 2.8% in 2008 to 1.2% in 2009. Following this, inflation increased marginally to reach 1.3% in 2010, and MarketLine estimates suggest that inflation is expected to come down slightly to 1.1% in 2011.

Figure 13: Consumer price index and CPI-based inflation in the Netherlands, 2004–14



Interest rate

The ECB employs a two-sided strategy to control interest rates in the EU. One method is through the observance of money-supply growth, which is a key indicator determining inflation development. The ECB has a set target of 4.5% for annual money growth and if the value deviates too much from this, then the ECB will adjust the interest rates. The second method is a conventional way of observing several other economic indicators like wage growth, exchange rates, and budgetary policies.

The eurozone was faced with higher prices in the first half of 2008 and the risks on financial markets fueled uncertainty about economic growth. In July 2008, the ECB raised its key interest rate, the main refinancing rate, for the first time in more than a year by 25 basis points to 4.25%. This move was made to mitigate the increased risk that high energy prices would be passed on to product prices or compensated via wages. As the economic downturn grew deeper, the ECB lowered its rate incrementally: at the end of 2008, the European policy rate was 2.5%, before being lowered to 2.0% in January 2009 and 1.5% in March. In April 2009, the ECB reduced the rate by 25 basis points to 1.25%, and the following month it further reduced the refinancing interest rate to 1.0%. However, in April 2011, the ECB announced an increase in the interest rate for the first time since July 2008, when it raised its main interest rate by 25 basis points to 1.25%.

Employment

The employment system in the Netherlands has evolved to meet the demands of globalization as well as domestic

Economic Landscape

industry needs, because the country has tried to combine the advantages of a modernized welfare state and the tenets of capitalism.

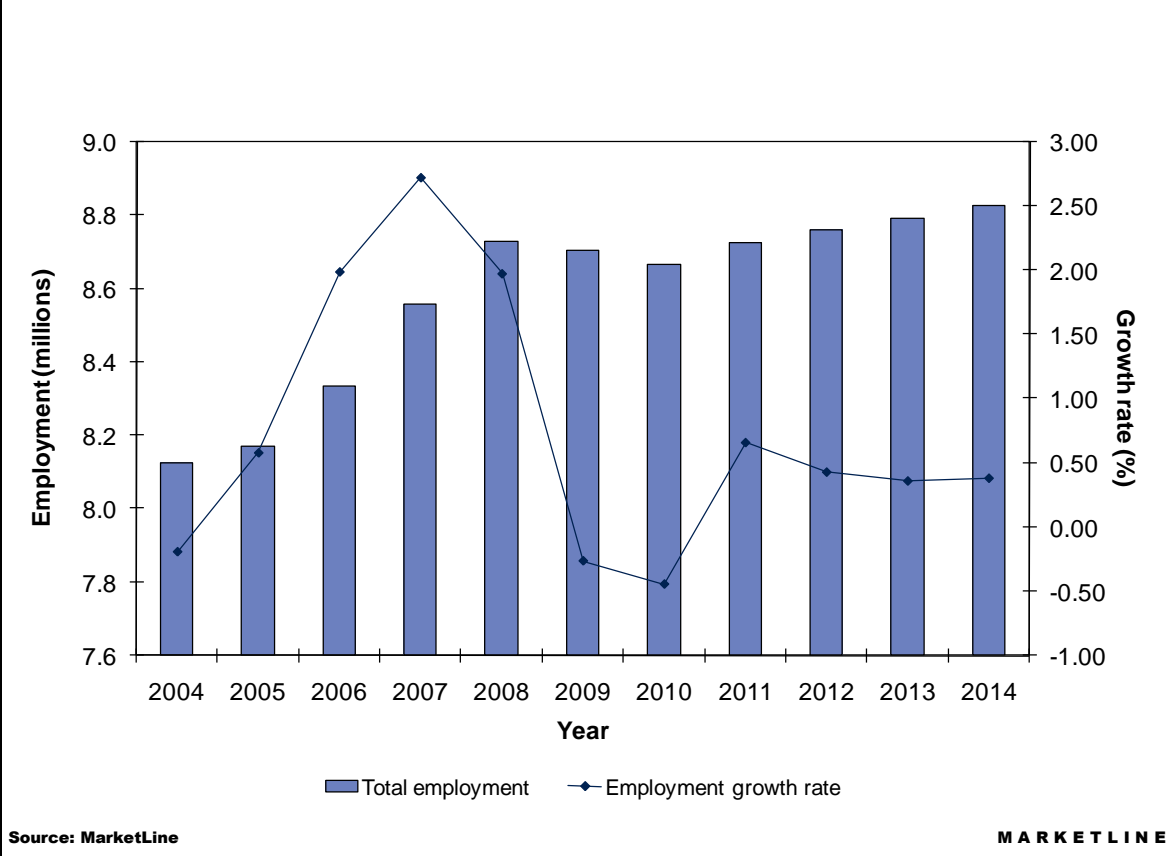
There are a large number of temporary workers working through employment agencies in the Netherlands. Legislation introduced in 1997 allowed for the legal status of these workers to improve in proportion with the time spent with an agency. However, there are differences between employers in the temporary work sector and trade unions over the conditions of employment that should apply.

One basic shortcoming of the employment system in the Netherlands is the passive nature of the way in which work is redistributed. The rising number of workers and the falling volume of work indicate the massive redistribution of work, with a corresponding redistribution of earnings.

In the 1970s, the rate of unemployment in Netherlands was only around 1%. However, the two recessions of 1974–75 and 1980–81 saw the unemployment rate rise to around 12%. Between 1971 and 1991, there was a staggering rise of around 36% in the number of employees. In spite of the increase in the number of workers, the volume of work declined in the 1980s.

The Netherlands has since come a long way, from having one of the highest unemployment rates to having the lowest. According to the country's central bank, the unemployment rate at the end of 2008 was 3.9%, and in 2009, the Netherlands had an unemployment rate of about 4.2%, well below the European average of around 8.0%. The employment growth rate fell drastically from around 1.8% in 2007 to -0.01% in 2008. In 2009, the employment rate contracted by 0.44%, but it is expected to return to growth of 0.66% in 2011.

Figure 14: Employment in the Netherlands, 2004–14



Outlook

Like those of other eurozone countries, the economy of the Netherlands also went through a phase of economic crisis in 2009. Indeed, the economy contracted by 3.9% during the year after posting a growth rate of 1.9% in 2008. However, the Dutch economy recovered in 2010 to register a growth rate of 1.7%. A mid-term report was presented in May 2011 and finance minister Jan Kees de Jager stated that the country was on its way to economic recovery, but that public finances continued to remain in a tenuous position. The finance minister also insisted that the government was set on going ahead with expenditure cuts amounting to around €18bn by 2015.

SOCIAL LANDSCAPE

Summary

Social liberty and tolerance have long been outstanding features of the social system of the Netherlands. This tradition of tolerance has allowed several religious groups to co-exist and participate in the government.

The ethnic origins of the citizens of the Netherlands are diverse, although the majority of them are of Dutch ancestry. The Netherlands also has a vast non-religious population, and thus is highly secular in its outlook. Dutch is the official language in the Netherlands, while English is also broadly used.

Education and literacy in the Netherlands are among the best in the world. Education is mandatory until the age of 18, and the literacy rate is around 100%. The Netherlands also has various organizations involved in different fields of interest, such as botany, zoology, philology, mathematics, chemistry, and other sciences, and there are similar groupings in the fields of culture and economics. Youth groups, women's groups, and sports organizations are also predominant.

The Netherlands has an extensive system of social support through insurance and governmental assistance. Equal pay for equal work is compulsory, and discrimination on the grounds of marriage, pregnancy, or motherhood is prohibited. The government also has old-age and survivorship benefits for citizens and pensions for the disabled. Furthermore, through a policy of compulsory insurance the government provides healthcare benefits and protection against illness and accidents, with all citizens covered for exceptional medical expenses.

The Dutch government has in recent years undertaken a number of major reforms on the issues of gay marriages, euthanasia, and the prohibition of discrimination.

Evolution

In terms of the social protection system, the Dutch welfare state started at the beginning of the 20th century with the first law on work injury benefits in 1901. From then until World War II, the system of employee insurance was expanded mainly through company-based provisions covering the risk of work injury, invalidity (including old age), and sickness. After World War II, the present social protection system was developed around three main pillars: national insurance, covering all citizens entitled to old age or survivors' pensions, child benefits, or disability benefits for young people; employee insurance, which covers the risk of unemployment; and social assistance, accessible to all citizens.

The Dutch government has, over a period of time, established many other social welfare systems for health and safety, employment assurance, and equality at work, among many other areas. The country has also recently introduced a new Ministry for Youth and Families. Foremost among the ministry's tasks are tackling the issues of antisocial behavior among the youth population, child abuse, behavioral problems, and children who do not attend school.

Structure and policies

Demographic composition by age and gender

The population of the Netherlands is estimated at 16.8 million and the gender ratio in the country is healthy compared to any other country, with 1.05 males being born for every female. The birthrate in the Netherlands stands at about 10.2 births per 1,000 people and the fertility rate is 1.66. The infant mortality rate is around 4.5 per 1,000 births according to CIA World Factbook estimates. The Netherlands also has to face an increasingly aging population, with around 15.2% of its citizens being over the age of 65. This section of the population is expected to double in size over the next 20

years. The life expectancy for males in the Netherlands is 77.06 years, while for females it is 82.44 years.

Table 9: Mid-year population by age (millions), 2010		
Mid-year population by age	Female	Male
0-4	0.45	0.48
5-9	0.49	0.52
10-14	0.49	0.51
15-19	0.50	0.53
20-24	0.49	0.50
25-29	0.50	0.51
30-34	0.54	0.54
35-39	0.65	0.67
40-44	0.66	0.68
45-49	0.62	0.64
50-54	0.57	0.58
55-59	0.55	0.56
60-64	0.48	0.48
65-69	0.37	0.35
70-74	0.32	0.27
75-79	0.28	0.20
80+	0.41	0.19

Source: MarketLine **MARKETLINE**

Migration

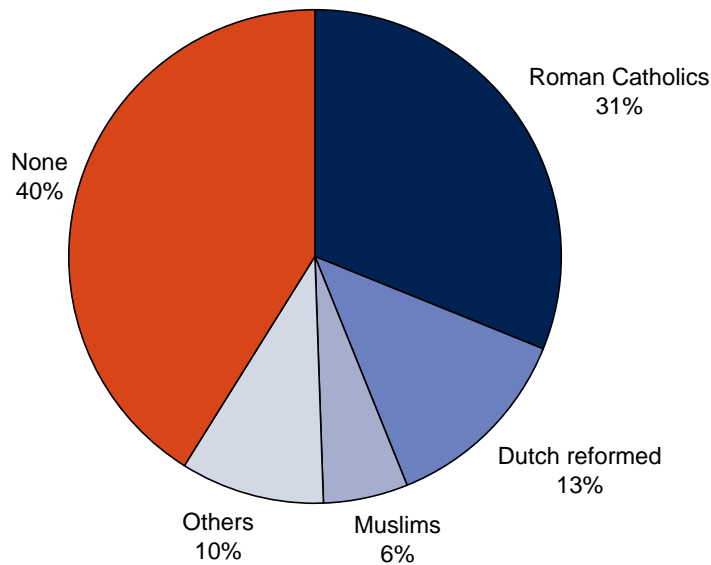
The Netherlands has a net migration rate of 2.33 new immigrants per 1,000 citizens. Although in the past the Netherlands has had an open and receptive approach towards immigrants, over the past two decades there has been an increasing anti-immigration sentiment emerging from some sections of society. As a result, in the 1990s several new laws were passed which restricted immigration.

Minority groups have a higher unemployment rate, and there have been reports of discrimination in matters of housing and wages against these groups. The present government’s coalition partners also favor stricter anti-immigration laws. The demand for such laws has gathered momentum with the economic downturn, and stricter legislation on family migration was introduced by the government between 2003 and 2006. Consequently, the number of requests for foreign marriage partners dropped from 23,000 in 2003 to 11,000 in 2007 after the implementation of the laws.

Religious composition

About 31% of the population comprises Roman Catholics, followed by Dutch reformed (13%), Muslims (6%), and those following other religions (10%). Around 40% of the population does not follow any religion.

Figure 15: Major religions in the Netherlands



Source: MarketLine

MARKETLINE

Education

Overview

The present Dutch education system has its roots in the education system of the Batavian Republic.

System of education

Education is compulsory for children between the ages of five and 18. The Netherlands provides special education for children with disabilities at special schools both at primary and secondary level, although measures are taken to integrate these children into mainstream schools whenever possible during their education.

Recent trends show that almost 100% of children under the age of 10 attend primary school, while 92% of children above this age attend secondary school. There are also several crèches for children below the age of four. These crèches, however, do not fall under the remit of the Ministry of Education. The secondary school system in the Netherlands comprises three types of schools: the general secondary school, with an option of either the four-year junior general secondary school or the five-year senior general secondary school; the pre-university, comprising six years at an athenaeum or gymnasium; and the vocational secondary school, with junior, senior, and higher levels.

Healthcare

Healthcare services

The Ministry of Public Health and Environment is in charge of healthcare matters. However, the health services are not

Social Landscape

organized centrally, with local and regional medical facilities playing a large part. These facilities are mostly managed and operated by groups having religious affiliations.

The Netherlands has steadily increased its health record over the years. Factors like nutrition, hygiene, the development of public health measures, and an increase in the standard of living conditions are major contributors to the excellent record. Moreover, the country has a low mortality rate of 8.8 per 1,000 people and a low infant mortality rate of 4.5 per 1,000 births, as of 2011. The Netherlands also has a very high immunization rate for children, with immunization rates for diphtheria, peruses, and tetanus at 95% and for polio and measles at 97% and 96%, respectively.

Social welfare

Social welfare policies

The social welfare system in the Netherlands is commonly considered to be one of the most successful in Europe. There are a large number of government initiatives and policies which lay down the framework for social welfare, prominent among which is the social security system, which strives for an acceptable and secure system and a high standard of living.

Social security is comprised of social welfare benefits and social insurance benefits, and a new Social Support Act has been introduced under which municipalities are responsible for setting up social support, including insurance and healthcare for prolonged illness, invalidity, or geriatric diseases.

Since the welfare state concept was first introduced in the 1960s, the country has tried to cope with a changing society. This has been done through schemes like the individual lifecycle savings scheme, under which workers can save out of their gross wage and defer taxation until the time at which the saving is drawn.

Nationwide initiatives

Welfare for the disabled

The Netherlands has a high number of disabled people, with the total being around 11% of the population. To care for this section of its society, the country has an elaborate policy on disability which strives to allow people with a disability to participate equally in society. The policy defines disability as a hindrance to normal functioning as the result of a physical or mental impairment.

The Ministry of Health, Welfare and Sport oversees the coordination of plans for the disabled in all relevant areas including developing, implementing, and evaluating policies, while the central government's responsibility is distributed over various ministries. Care facilities and services for the disabled are financed through the General Act on Exceptional Medical Expenses.

Social protection

Social protection in the Netherlands comprises income support for people who are unable to provide for themselves due to illness, long-term incapacity, unemployment, or retirement. Social protection is divided into social security (national insurance and employee insurance), social assistance, and old age pension provisions. The social protection initiative also formulates policies to combat poverty and social security fraud.

Performance

Healthcare

The government puts a huge emphasis on preventative healthcare measures through education, regular examinations,

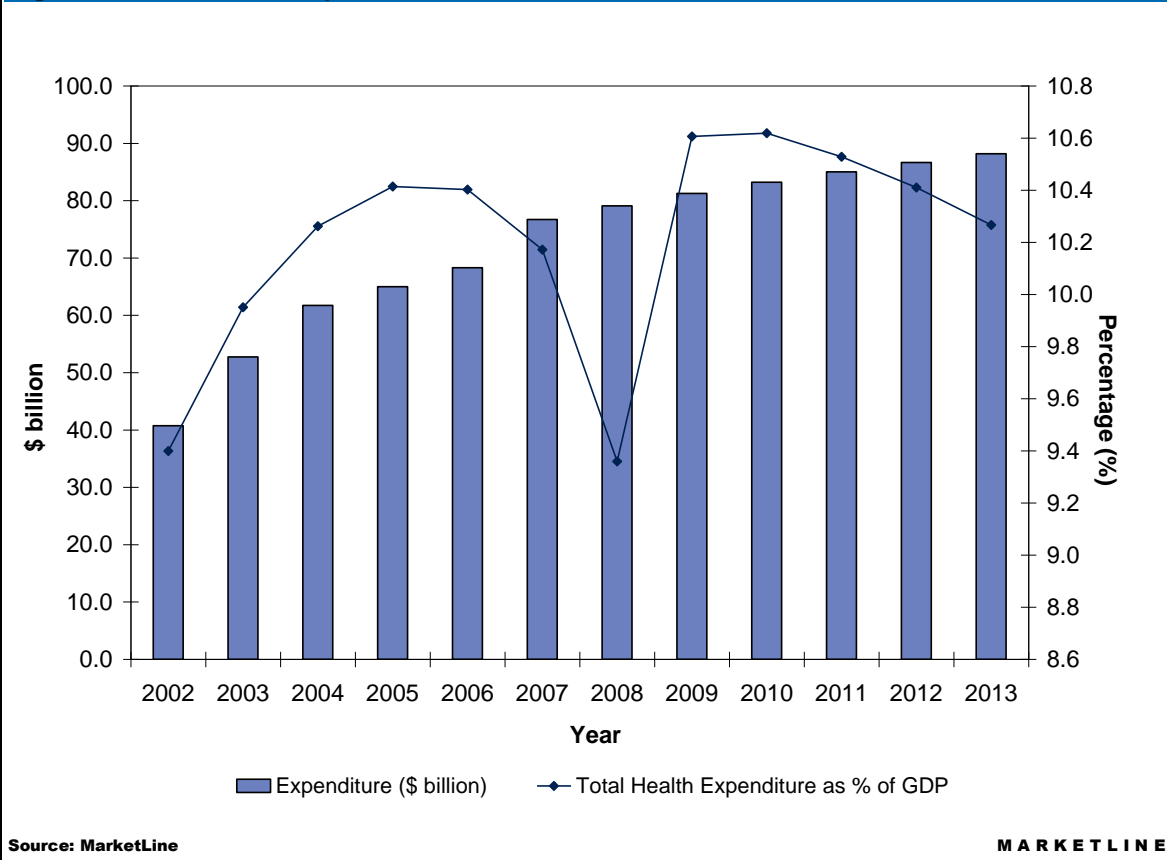
Social Landscape

and screenings. The government also undertakes vaccinations for children and other preventative measures like school dental services, medical research, and the training of health workers. Most of the healthcare facilities (around 60%) in the Netherlands are publicly operated.

Healthcare expenditure was more than 10% of GDP in 2005, which had increased to 10.6% by 2009. This was higher than the Organisation for Economic Co-operation and Development (OECD) average of 8.9%. According to a 2010 OECD report, the number of physicians in the Netherlands was 3.7 per 1,000 people in 2007, above the OECD average of 3.2. As in most other OECD countries, the number of physicians per capita increased between 1990 and 2006. However, this decreased to 3.6 physicians per 1,000 people in 2009.

There were 10.5 nurses for every 1,000 people in the Netherlands in 2007, which was slightly higher than the OECD average of 9.0. By way of comparison, both Ireland and Finland have in excess of 15 nurses per 1,000 citizens.

Figure 16: Healthcare expenditure in the Netherlands, 2002–13



Income distribution

Standard of living

The Netherlands is among the most successful developed countries, with low levels of poverty and a balanced distribution of income across the society. In terms of its Gini coefficient, the country reduced its level of inequality to 0.30 in 2007 from around 0.34 in 2000. Per capita household consumption in the Netherlands is around \$15,500, with the richest 10% of the population accounting for approximately 25% of household consumption, and the poorest 10% accounting for approximately 3% of such consumption.

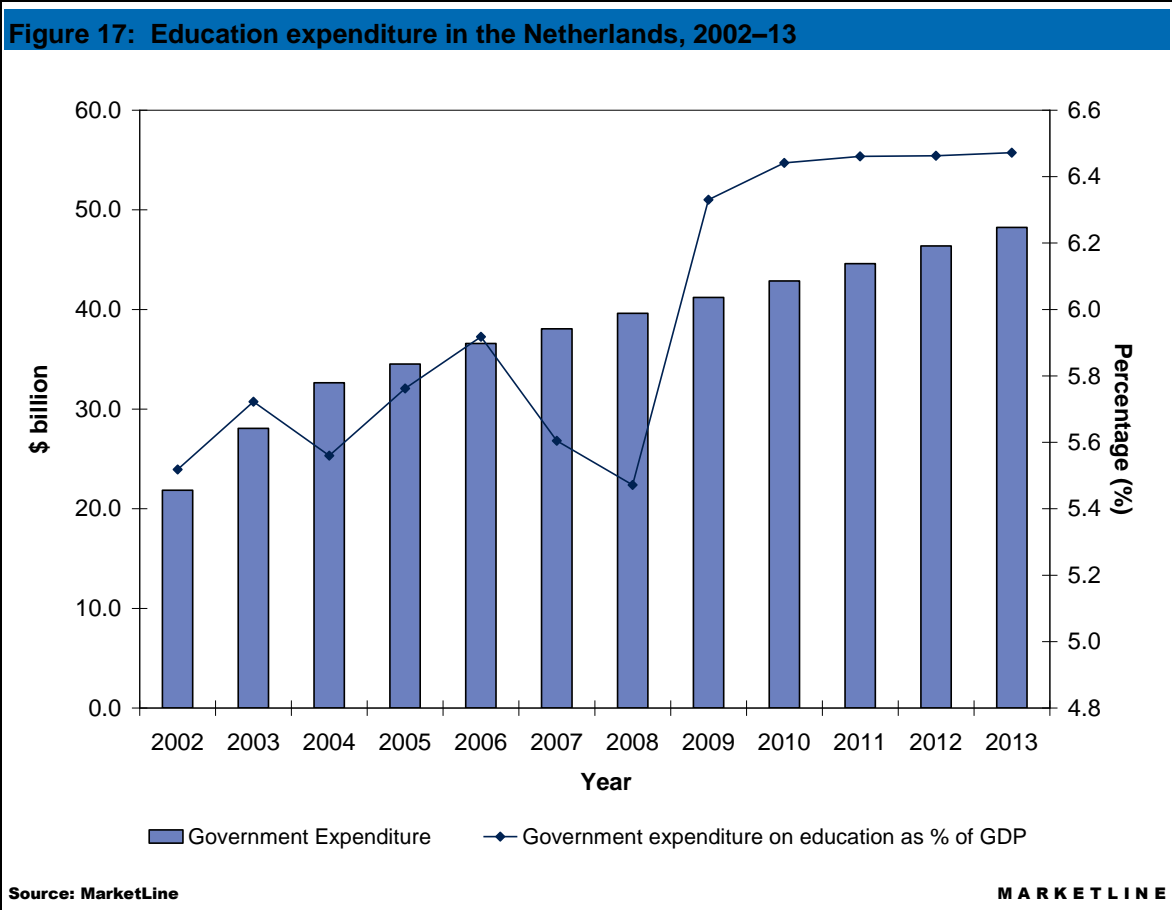
Social Landscape

Education

The government has undertaken several measures to support adult education. There are several open schools and universities for adults, and municipalities also have facilities for adult education. Eight universities and five institutes (*Hogescholen*) are funded entirely by the government, and these provide vocational and university education, in addition to seven theological colleges.

Literacy rate

According to the 2003 census, the literacy rate was 99% for both males and females in the Netherlands. The main reason behind this was continuous efforts by the government to enhance education in the country. Over time, the government has greatly increased its education expenditure. In 2002, education expenditure was around \$21bn, which rose to more than \$40bn in 2008. However, as a percentage of GDP it remained at around 5% for this period. In 2009, education expenditure rose to 6.3% of GDP (\$41bn).



Outlook

There is a general consensus among most parties with regards to raising consumer prices pertaining to healthcare services in order to slow down growth in public spending on healthcare. The Social Democrats (PvdA), GreenLeft, the People’s Party for Freedom and Democracy (VVD), Democrats 66, and the Reformed Political Party (SGP) envisage

Social Landscape

measures to improve schools and investment in training; however, the Christian Democratic Appeal (CDA) and the ChristianUnion have focused less on education in their manifestos.

The main cuts in the 2011 budget occurred in development co-operation (€400m) and immigration and integration (€100m), and these programs are therefore likely to suffer in the medium term. The Mark Rutte government also plans to cut the wages of civil servants, which is likely to be difficult. Furthermore, the ministry of health is expected to face a shortfall of around €2bn in 2011. The Party for Freedom has made a promise to increase nursing care, which is likely to be difficult considering the shortfall. The government is likely to be address the issue in the forthcoming spring budget.

TECHNOLOGICAL LANDSCAPE

Summary

The Dutch have a long history of engineering feats, chief among which is the ability to reclaim land through the use of dikes. Although Dutch achievements in engineering are unquestioned, they have also been striving to achieve high levels of innovation through investments in R&D.

The Netherlands in general has a high innovation capability. However, due to a steady decline in the transformation of scientific and technological knowledge into innovation output, it has lagged behind other European nations. In spite of this, the Netherlands has facilities for quality scientific research and numerous patents have been awarded to the country, especially in the IT field. The Netherlands has built sound fundamentals in the fields of life sciences, nanotechnology, and IT.

Evolution

Approximately 27% of the land area in the Netherlands is below sea level. Through an engineering process involving the building of dikes, canals, sluices, and windmills, the Dutch have increased their country's land area by almost a fifth. The engineering skills of the Dutch in reclaiming land are greatly admired and often replicated; the most famous example of the usage of this technology being the creation of the Palm Islands off the coast of Dubai. Although the country historically had expertise in engineering and construction, it never really ventured into serious R&D. It was only after the establishment of the Royal Netherlands Academy of Arts and Sciences in 1938 that sufficient interest in research was generated in the country. Since then, the academy has mostly concentrated its efforts on life sciences.

The Dutch ICT sector is still at an evolutionary stage; however, the country is equipped with state-of-the-art technology in the telecommunications sector. Aided by government policies and fierce competition, the Netherlands has attained a highly modern telecommunications backbone. The country has the latest technologies and a very high level of penetration aided by high population density, which makes it cheaper to set up an infrastructural network.

Structure and policies

Intellectual property

The Netherlands is well known on the engineering innovation front. The Dutch have high levels of expertise in water engineering, including water management and dredging, and environmental technology. The Netherlands also has very high levels of automation in food processing, achieved through innovations in agricultural technology. On average, the country has consistently managed to receive more than 1,500 patents each year, except in 2005. The Netherlands Patent Office, which comes under the Ministry of Economic Affairs, was set up in 1893 and is the country's patent granting authority.

Table 10: Patents received by the Netherlands from the US Patent and Trademark Office, 2002–10

Year

Patents received

2002	1,681
2003	1,570
2004	1,537
2005	1,200
2006	1,647
2007	1,596
2008	1,725
2009	1,558
2010	1,919

Source: MarketLine MARKETLINE

Research and development

The Netherlands does not have a high level of innovation in the private sector, with innovation having a limited role to play in the turnover of enterprises. The government has tried to encourage R&D efforts through high levels of public expenditure and special tax incentives for private R&D, and is also focusing on attracting foreign investments.

The government is trying to increase the share of human resources in science and technology to counter the effects of a limited number of people coming to the field of R&D. The government has introduced several schemes to initiate people in the field of research and to ensure adequate representation from all sections of society in R&D. The government is also trying to foster public-private interaction as a method of converting knowledge into products and innovation, and to build up a climate inclined towards innovation.

Technology agreements/pacts

The Royal Netherlands Academy of Arts and Sciences and the Netherlands Organization for Scientific Research are two main bodies which promote R&D in the Netherlands. There are various sub-divisions of both bodies, but more importantly the two bodies enter into international technology agreements and pacts on behalf of the country. The country has bilateral agreements with Eastern Europe, India, Australia, France, Germany, China, and Indonesia. Apart from these bilateral agreements, the country is also part of several co-operation pacts with international science bodies and is set to become a pioneer in R&D on global climate change.

Performance

Opportunity sectors

Telecommunications, broadband, and the Internet

The Netherlands has a small but advanced and very mature telecommunications market, as well as very high levels of mobile penetration. There is strong competition, particularly in the mobile sector, with several service providers like Vodafone, Orange, and T-Mobile. There is also a very high level of Internet and broadband penetration, spurred by the high levels of prosperity and concentrated population, because of which the country has one of the highest levels of broadband penetration in Europe. In 2005, almost 78% of the population had access to the Internet from home. The annual growth rate in data traffic has been very high at around 60% and has been the driving force for the adoption of more advanced technologies.

The government has a very efficient Broadband Expert Group (BEG), which has helped in the boom of the broadband economy. The Netherlands has also undertaken large-scale broadband deployments, enabling the country to have a

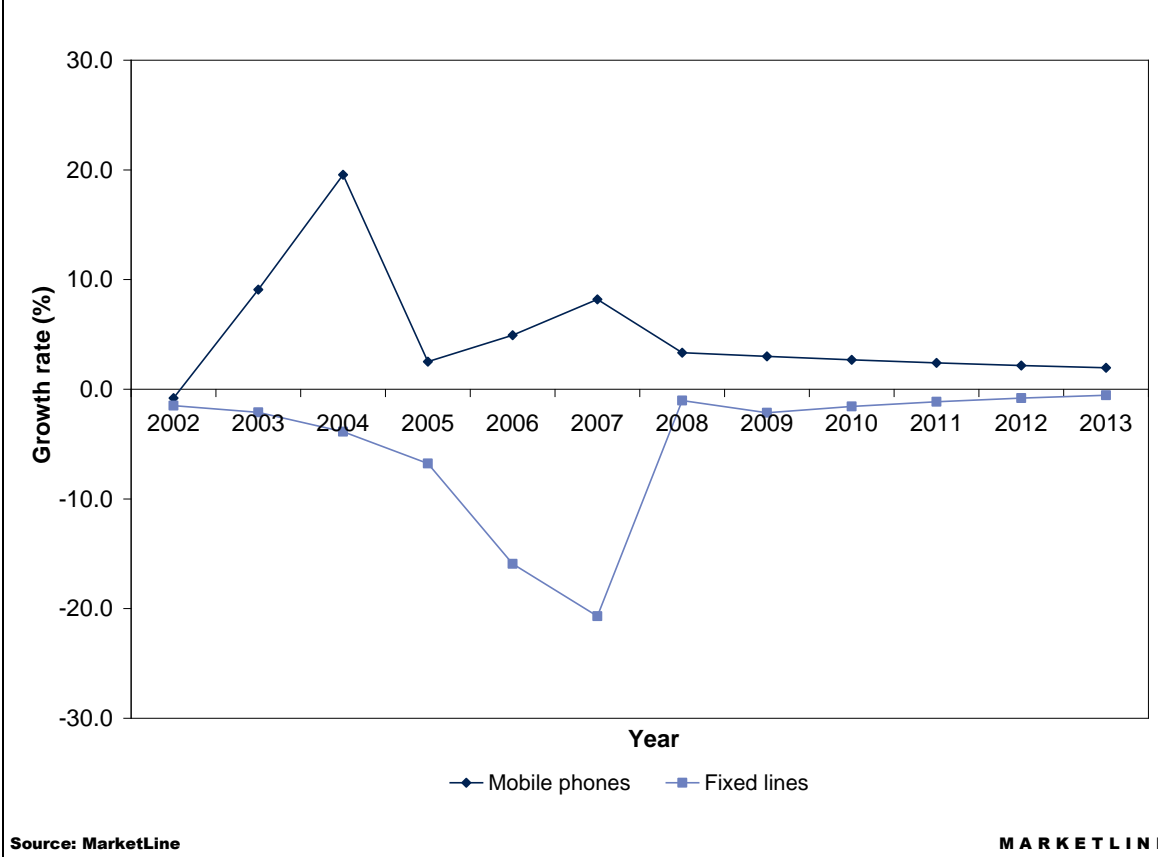
Technological Landscape

widespread DSL and cable network. Broadband is expected to further strengthen with the adoption of newer ADSL capabilities that will help to enhance the network's data range. The Netherlands has also embarked on a large-scale fiber optical deployment program, which will help to provide a cost-effective solution for data problems and an average bandwidth of 10Mbps.

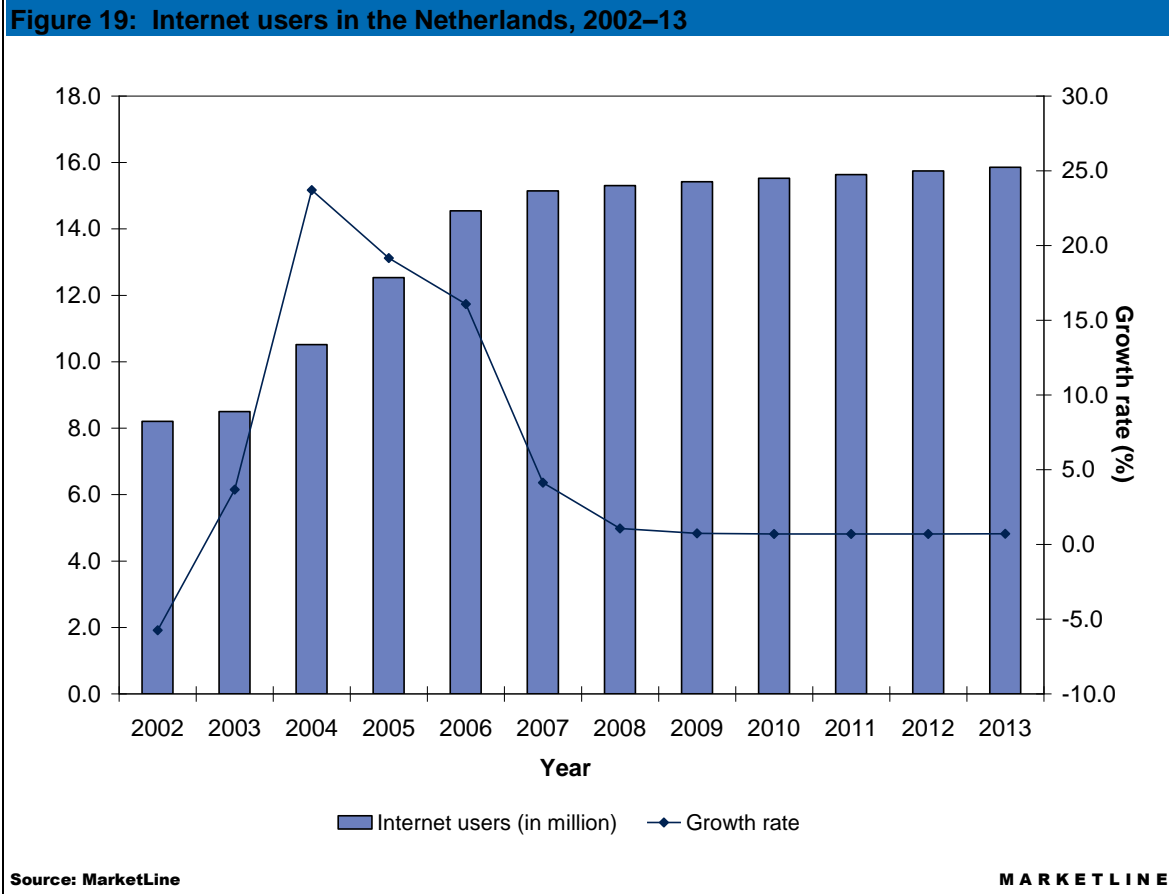
Television is the preferred medium for information in the Netherlands, with about 92% of the population relying on it. The Dutch television market is characterized by a comprehensive cable network. The high levels of broadband penetration have led to the emerging convergence of the Internet and television, which is expected to drive the emerging digital and interactive TV markets. The cable, ADSL, and fiber networks are expected to further drive services like video-on-demand and broadband TV.

The growth rate of mobile phone users in the Netherlands fell during 2005–09, while the number of fixed line users fell every year. The growth rate of mobile phone users fell from around 19.6% in 2004 to 3.0% in 2009, whereas growth in the number of fixed line users was -2.2% in 2009.

Figure 18: Growth of fixed lines and mobile phones in the Netherlands, 2002–13



The rate of Internet usage in the Netherlands is one of the highest in Europe, and in 2004 growth in the number of Internet users rose to as high as 23%. In 2009, the number of Internet users rose to more than 15.4 million from 8 million in 2002; however, the Internet market is expected to slow down during 2010–13, with growth rates as low as 0.7%.



Software market

The Dutch software market decelerated from strong growth in previous years to a moderate decline in 2009. A moderate recovery was expected in 2010, with rates accelerating to show strong growth over the forecast period of 2009–14.

The Dutch software market had total revenue of \$4.4bn in 2009, representing a compound annual growth rate (CAGR) of 5.5% for the period spanning 2005–09. In comparison, the German and Belgian markets grew with CAGRs of 3.1% and 5.5% respectively, over the same period, to reach respective values of \$19.8bn and \$2.4bn in 2009.

Sales of network and database management software proved the most lucrative for the Dutch software market in 2009, with total revenues of \$1,093.6m, equivalent to 24.7% of the market's overall value. In comparison, sales of general business productivity and home use applications generated revenue of \$1,025.6m in 2009, equating to 23.2% of the market's aggregate revenue.

The performance of the market is forecast to decelerate slightly, with an anticipated CAGR of 4.8% for the period 2009–14, which is expected to drive the market to a value of \$5.6bn by the end of 2014. Comparatively, the German and Belgian markets will grow with CAGRs of 3.0% each over the same period, to reach respective values of \$23.0bn and \$2.8bn in 2014.

Biotechnology

After a period of growth, the Dutch biotechnology market experienced a decline in value in 2009. Recovery at a

Technological Landscape

marginal rate is expected in the forecast period of 2009–14, and the market is set to gradually return to its previous growth levels towards 2014.

The Dutch biotechnology market had total revenue of \$330.5m in 2009, representing a CAGR of 5.1% for the period spanning 2005–09. In comparison, the German and Belgian markets grew with CAGRs of 9.9% and 8.6% respectively, over the same period, to reach respective values of \$6.3bn and \$5.1bn in 2009.

The medical/healthcare segment was the market's most lucrative in 2009, with total revenue of \$254.3m, equivalent to 76.9% of the market's overall value. The food and agriculture segment contributed revenue of \$32.6m in 2009, equating to 9.9% of the market's aggregate value.

The performance of the market is forecast to decelerate, with an anticipated CAGR of 4.5% for the period 2009–14, which is expected to drive the market to a value of \$412.1m by the end of 2014. Comparatively, the German and Belgian markets will grow with CAGRs of 6.3% and 8.0% respectively, over the same period, to reach respective values of \$8.6bn and \$7.5bn in 2014.

Research and development

R&D expenditure

The important contributors to R&D in the government are the Ministry of Education and Science, the Ministry of Economic Affairs, the Ministry of Agriculture, Nature Management and Food Quality, and other government agencies. The government's contribution constitutes 36% of overall R&D funding, and the business enterprises contribute more than 50%, with the rest of the contribution coming from foreign enterprises.

The R&D contribution from the government is very low, with no sign of immediate improvement. In 2002, the government allotted around 1.8% of the GDP to R&D; however, this fell to 0.88% of GDP in 2009 and is expected to slide further. The average among the 27 EU member states (the EU27) in 2009 was 1.25%. The gap between R&D expenditure in the Netherlands and that in the EU27 has increased in recent years.

Knowledge base

The Netherlands has one of the highest percentages of people (aged above 15) involved in science and technology in Europe. In 2004, almost 33% of the population above the age of 15 was part of the human resources for science and technology. Although the country has a high level of people involved in human resources, in 2003 the actual number of science and engineering graduates per 1,000 people (aged 20–29) was only seven.

The strength of R&D personnel in the Netherlands has been improving at a slow rate. During the period 2000–07, the workforce in this area increased by only 6,000. The government has made several efforts to encourage R&D in the country with multiple bilateral tie-ups, and the country is expecting growth in R&D in advanced scientific streams.

Outlook

The Netherlands has a strong research aptitude in science and technology. The international research performance of the Dutch is competitive at the global level, particularly in relation to basic long-term research. The Netherlands accounts for a meager 0.25% of the world's population, but generates about 2% of the world's research publication output in international scientific journals. These journal publications, with Dutch author addresses, receive about 3% of all citations worldwide. This achievement places the Netherlands among the world's highest ranking countries in terms of international scientific impact, an indicator of international visibility and research quality.

The Netherlands is also among the top three nations in terms of productivity per researcher. In terms of the productivity of public sector researchers, the Netherlands is on a par with the US, the UK, and Switzerland. However, despite these

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achievements, government expenditure on R&D was only around 0.88% of GDP in 2009.

The Netherlands has one of the world's finest broadband and telecommunication networks, and the Dutch Internet access market generated total revenues of \$2.8bn in 2009, representing a CAGR of 5.3% for the period spanning 2005–09. In comparison, the German and Belgian markets grew with CAGRs of 12.1% and 6.5% respectively, over the same period, to reach respective values of \$8.4bn and \$1.0bn in 2009.

The number of Internet subscribers in the Netherlands increased at a CAGR of 5.3% during 2005–09, reaching a total of 8.4 million in 2009. The number of subscribers is expected to rise to 8.7 million by the end of 2014, representing a CAGR of 0.7% for 2009–14.

The performance of the Internet subscriber market is therefore forecast to decelerate, with an anticipated CAGR of 0.7% for 2009–14, which is expected to drive the market to a value of \$2.9bn by the end of 2014. Comparatively, the German and Belgian markets will grow with CAGRs of 9.6% and 2.3% respectively, over the same period, to reach respective values of \$13.4bn and \$1.1bn in 2014.

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Summary

The legal system in the Netherlands comprises the central government, which makes and passes legislation, and the judicial system. The most important form of legislation is made by the central government in co-operation with the Staten-General, which is the parliament consisting of two chambers.

The judicial system in the Netherlands is independent and the judges cannot be removed except for cases of misconduct or incapability. Under the legal system, immunity is granted to the monarch, while ministers are subject to the law.

Lower forms of legislation are made by other agencies that belong to central government, and by the representative organs of provinces. Rules can also be made by agencies or other public bodies.

Evolution

The Netherlands adopted civil law in the early 18th century, then known as the Romano-Germanic law. The civil law has its roots in Roman law and Canon law. Civil law was primarily compared with common law after the French revolution. However, civil codes became more influential in most parts of the Europe. Civil law has various subgroups in the form of French civil law, German civil law, Scandinavian civil law, and Chinese law. The Dutch legal system is based on a mixture of French and German civil laws. Later, parliament started passing all laws of legislation in the

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country. Such laws came to be known as parliamentary acts or statutes.

The judiciary in the Netherlands is independent, and the judges are irremovable except for cases of misconduct or incapacity. The Roman law is still the basis, but the judicial system is largely modeled on that of France. There is no jury system, and the state rather than the individual acts as the initiator of legal proceedings. Administrative justice is separate from civil and criminal justice and not uniformly dispensed.

Structure and policies

Structure of the judicial system

The legal system has two constituents, comprising a general and an administrative system. It has three tiers, with the Supreme Court as the highest authority followed by the court of appeal and district courts and sub-district courts. The administrative wing is headed by the council of state.

Supreme Court

The Supreme Court forms the highest court in the system. The *Hoge Raad* is the council that forms the Supreme Court, and it oversees all matters related to criminal, tax, and private law. The Supreme Court is staffed by 35 judges. The primary function of the Supreme Court is to supervise the lower courts and review their judgments. The Supreme Court has five courts of appeal, known as the *Gerechtshoven*, which are the courts of first instance in cases pertaining to fiscal matters.

Court of appeal

The court of appeal is the second tier judicial body in the Netherlands. In this court, the justices form three panels and address cases pending in the district courts, and if judgment is not provided, the case is then pushed to the Supreme Court. There are five courts of appeal in the Netherlands, in Amsterdam, The Hague, Den Bosch, Leeuwarden, and Arnhem.

District courts

The country has 19 district courts, one for every district. Each of these courts is in turn composed of sub-district venues, with a nationwide total of 61. The administrative, civil, sub-district, and criminal sectors are four permanent sectors out of the maximum of five which constitute a court. Matters relating to family disputes and juvenile offenses often constitute a separate sector. The district courts are the courts of first instance in matters of criminal disputes. The undecided cases at this level are then addressed in the Supreme Court.

Sub-district courts

Sub-district courts handle matters that are relatively minor. These are cases usually relating to matters of employment, purchases, and hire purchase. At the sub-district level, citizens do not require a lawyer and can argue their own case. In cases relating to criminal offenses, the sub-district level role is restricted to cases of minor offense which have failed to reach a settlement.

Criminal offenses come under the criminal law sector. The judges of the criminal law sector deal with all criminal cases which do not come before the sub-district judge. These cases are tried either in single-judge divisions or in divisions of three judges. The full-bench divisions of three judges deal with more complex and serious cases. The civil sector courts deal with cases which are not under the remit of the sub-district judge. The cases in the civil sector are also tried either in single-judge divisions or in divisions of three judges, with the full-bench divisions of three judges dealing with more complex and serious cases.

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Council of state

The council of state is an advisory body to the government established by the constitution. This advisory body consists of members of the royal family and experts from all fields of the government, and legislation passed by parliament has to be approved by the council of state. The council of state's administrative law section also serves as a court of appeal for citizens against executive branch decisions. Cases involving administrative disputes are tried in the district court, and cases for which the district court has no corresponding sector are passed on to the administrative law sector. For cases which involve social security or the civil machinery, the central appeals tribunal or the administrative jurisdiction division of the council of state will take over.

Legislation affecting business

Industrial acts, legislation, and regulations

Prominent among taxes that the Netherlands imposes are income tax, profit tax, and VAT. Excise taxes exist for alcohol, tobacco, and petroleum products, an energy tax is imposed on the suppliers and consumers of fuels, and there are taxes on legal transactions and motor vehicles. A resident of the Netherlands is required to pay taxes on both their local and foreign income, while non-resident Dutch are exempted from paying taxes on income earned outside the country. The provincial and municipal authorities are not authorized to impose any income taxes. The main tax payable to the local authorities is real estate tax, which is paid partly by owners and partly by occupants.

Establishing operations as a foreign enterprise

The following are the different ways in which a business can be started in the Netherlands:

Sole trader

Sole traders are also known as freelancers in the Netherlands, and tend to be artists or journalists. Sole traders do not need to register with the Chamber of Commerce, but do have to send a VAR declaration to the tax authorities, after which they can raise invoices in adherence with tax office requirements. Sole traders are also liable to pay income tax and VAT.

Partnership under common firm

A partnership contract is not required by law, but is considered essential. The agreement states the length of the limited partnership, the contribution, authority, profit share, and the arrangements for resignation of the partners. This can be done by either civil notary or by the party using a model contract. Generally, the tax authorities consider each partner to be a self-employed entrepreneur. Each partner can therefore benefit from tax allowances for the self-employed and must pay income tax on his or her share of the profits.

Private limited liability company

A private limited liability company is called a *besloten vennootschap* (BV). A BV is a company with shares limited that are privately registered and not freely transferable. A BV may be incorporated by one or more "incorporators," either individuals or legal entities. Having only one shareholder will not entail personal liability, but their name will be registered on the certificates of registration of the BV issued by the trade register. Each incorporator shall contribute to the initial capital for a certain number of shares, and at least 25% of each contribution must be paid upon incorporation.

A statement of no objection must be obtained from the Ministry of Justice upon the presentation of the full details of the incorporators and directors; thereafter the deed of incorporation will be executed before a civil notary and filed at the trade register. Other registrations with the Chamber of Commerce and tax authorities have to follow the same method as for any other Dutch company.

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Foundation and association

These are two other forms which have similar procedures to those of partnerships, and tend to be more idealistic and guided by socialist objectives. There is a limit on the amount of profit that can be earned through such initiatives, and they are taxed accordingly.

Tax regulations

In the Netherlands, corporate tax is imposed on both private and public companies. An essential feature of corporate tax in the Netherlands is participation exemption, which has over the years made the country an attractive location for intermediary holding companies.

Domestic corporate houses are subject to corporate tax on their total income (including international business), apart from foreign corporate tax on their profits earned outside the country. Participation exemption restricts corporation tax from being levied more than once on profit that has already been taxed or is subject to taxation in another country. A foreign company is normally subject to corporate tax on its income earned in the Netherlands.

Corporate tax in the country steadily reduced to 25.5% in 2007 from 29.6% in 2006, 31.5% in 2005, and 34.5% in 2004. Presently, the corporate tax rate is 20% on profits up to €200,000 and 25% on the excess.

Individual income tax

Taxable income in the country constitutes three sources of income, namely income from work and home, income from a holding in a company, and savings and investments. Work and home income is taxed at progressive rates from 33% on the first €18,628 to 52% on income in excess of €55,694. Income from a holding in a company is taxable only when the holding is in excess of 5% of the issues capital.

Withholding tax

In the Netherlands, corporate dividends paid to residents and non-residents are subject to a withholding tax of 15%. For residents, withholding tax can be offset against individual income tax, compared to non-residents for whom withholding tax is the final tax. Exemptions may be given if the dividend is paid to a qualifying parent company under the EC Parent-Subsidiary Directive. The Netherlands does not levy withholding tax on interests and royalties.

Other local taxes

Other taxes which are levied are a transfer tax of 6% on the acquisition of property, insurance tax on insurance premiums, and motor vehicle tax on the ownership of vehicles.

Labor law

The Netherlands has a Social and Economic Council which represents matters related to labor. The Social and Economic Council acts as an advisory body to the government and proposes guidelines of wage policy.

The labor laws in the Netherlands stipulate the minimum wage for a worker as \$1,050 per month. The minimum age for employment in the Netherlands is laid down as 16 years; however, there is a system which allows reduced wages for workers below 23 years. The wage system proposes a variable scale ranging from 35% of the minimum stipulated wage for a 16-year-old worker to 85% for a 22-year-old worker.

In the Netherlands, the five-day working week is the prevalent system of work with the law stipulating a 40-hour working week. Labor laws ensure that workers receive adequate compensation and insurance in case of unemployment. Other safeguards include sick pay, payment for legal holidays, and the prohibition of women and adolescents from night work.

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The formation of unions is allowed under the law, and most labor unions are created on the basis of religious, political, or economic inclinations. Discrimination against unions and union members is prohibited. The Federated Dutch Trade Union Movement (FNV) is the largest labor union, but overall membership across all unions remains low at around 30%. Strikes, though permitted, are rare.

Social security charges

The Organization of Social Insurance Act lays down the framework for the regulation and administration of social security legislation. Social security in the Netherlands is comprised of social welfare benefits and social insurance benefits. Under the National Assistance Act, the social welfare benefits are financed by the central government as a basic provision. Social insurance is compulsory, wherein all employees are required to be insured. Employees contribute towards insurance, and benefits are proportional to wages. The Unemployment Benefits Act and the Disablement Benefits Act make it mandatory for insurance to be paid under these circumstances. The country also has a national insurance system, which covers all citizens. This insurance comprises all pensions and child benefits. National insurance covers expenses under the General Act on Exceptional Medical Expenses and the General Disablement Pensions Act.

VAT and customs duty on exports

VAT is the foremost indirect tax in the Netherlands, having been introduced in 1969 and restructured in 2001. As part of the restructuring, rates have gone up; however, a special reduced rate applies to items deemed basic and necessary by the government including basic foodstuffs, public transport, sports centers, and pharmaceuticals, and several items are exempted from VAT, such as exported goods, medical and educational services, and insurance and credit transactions. Currently, the VAT rate stands at 19%.

The Netherlands has a liberal policy on tariffs and has low import duties. The country is an important constituent of the EU, and imports to the country follow EU regulations on custom and tariff rates, apart from VAT and other charges levied at customs. Along with the US, the Netherlands has been a proponent of open market systems, and as a result of this strong bond, the country has exempted about 90% of imports from the US, with several additional exemptions on raw materials.

Performance

Effectiveness of the legal system

The legal system of the Netherlands runs on the following principles:

- Both sides of a case have the right to an equal say.
- Court hearings are in principle held in public, making justice more transparent.
- The court has the power to go into every detail only after the parties have agreed to initiate proceedings.
- Appeal is possible even after judgment, unless the case involves an amount less than \$2,700.

The judicial system in the Netherlands has many in-depth procedures that are specific at every level of court and which are accessible and flexible for civilians. The Dutch judicial system appoints judges for life. In addition, the system has two special judges known as the investigative judge and the trial judge, who are appointed to assist prosecuting lawyers dealing with criminal cases. Cases falling under corporate law are dealt with by the administrative wing, which has been divided into the Trade and Industry Appeals Tribunal and the Tax Division of the Court of Appeal. Finally, the

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country also has the Central Appeals Tribunal in matters concerning public services and social security matters.

Legal indicators

The Netherlands was ranked as the 15th freest economy in the world by the Wall Street Journal's Index of Economic Freedom in 2010, and was ranked 30th by the World Bank in 2011 in terms of ease of doing business. The Dutch index score of 75.0 was higher than its peer nations of Belgium and Germany, which scored 70.1 and 71.1 respectively. This score indicates that the Netherlands has a fairly conducive environment for business.

The Netherlands was ranked highly on business freedom, property rights, investment freedom, and freedom from corruption, but did not score as highly in terms of fiscal freedom and freedom from government intervention. In the World Bank's Doing Business 2011, the Netherlands was ranked 71st for starting a business, down seven places from 2010; 109th for protecting investors, down one place; 105th for construction permits; 46th for registering property, down three places from the previous year; 46th for getting credit, down two places; and 11th for closing a business.

According to the report, six different stages are needed for a person to start a business in the Netherlands. In addition, it takes eight days and 5.7% of per capita gross national income (GNI) to start a business in the country. In contrast, the Organisation for Economic Co-operation and Development (OECD) averages are 5.6 procedures, 13.8 days, and 5.3% of per capita GNI.

Outlook

The Dutch government announced in July 2011 that it would impose a bank levy tax to discourage Dutch banks from taking too many risks. Finance Minister Jan Kees De Jager stated that countries such as the UK and Germany had already introduced the bank levies, allaying concerns that the Dutch banks would be at a disadvantage. The Dutch banks were the hardest hit during the financial crisis, which resulted in multi-billion dollar rescue operations for bancassurers ING Groep NV and SNS Reaal NV. Furthermore, it led to the nationalization of the Dutch holding of former financial services giant Fortis Holding, which is expected to be merged to form ABN Amro Bank NV. The Dutch banking association has warned that the bank levy tax will harm the banks and reduce the amount of credit and mortgages they are able to offer. If the government goes ahead and implements this proposal, then it could impact the profitability of the banks in the country.

ENVIRONMENTAL LANDSCAPE

Summary

The Netherlands has seen rapid development and population growth, along with a consequent rise in the level of pollution. The Netherlands also has a denser population compared to the rest of Europe, leading to naturally greater emission levels. Due to its geographical position, the Netherlands also has to face a larger amount of inflow of pollution originating from other countries through its rivers.

As a result of these factors, there is an imbalance between the levels of environmental standards that the Netherlands needs to maintain and the norms laid down by EU legislation. There has thus been pressure on the Netherlands to adopt several nationwide measures to reduce this gap.

The government plays a significant role in managing the environment. The National Environmental Policy Plan (NEPP) in 2001 set out a plan to cut pollution by 80% within a single generation.

With most of the Netherlands lying below sea level, the country is almost always under threat of flooding. The government therefore plays a strong role in environmental policies including terrain supervision and management, and the building of different structures.

Evolution

The Ministry of Health and Environment was established in 1971 to oversee problems related to the environment. The government has laid down policies that have resulted in a significant reduction of the pollution caused by fossil fuels and automobile emissions, such as an excise tax surcharge on gasoline and diesel. In addition, the National Institute for Public Health has a countrywide system for monitoring air pollution, and the government has introduced the Netherlands Emission Guide (NEG) to monitor the country's carbon emissions.

Structure and policies

Environmental regulations

Overview

The Netherlands faces a considerable level of air and water pollution. Recent years have witnessed rapid industrial and population growth, resulting in increased pollution. The Netherlands has a high level of industrial carbon dioxide emissions, while air pollution has also historically been relatively high due to high levels of industrialization. The prevailing wind in the Netherlands is southwesterly, which carries pollutants from coastal industries further inland, aggravating the situation.

Policy

High levels of industrialization have also resulted in the pollution of rivers with heavy metals and other industrial waste. There is around 11 cubic km. of water in Dutch renewable water resources, of which 70% is exhausted for industrial purposes. The major rivers also worsen the pollution situation by carrying pollution originating from other countries into the Netherlands.

Furthermore, Dutch cities produce close to 8 metric million metric tonnes of solid waste yearly. As a result, there has been an increase in the pressure on the countryside to meet the demands of this pollution, and the government has had to outline several plans to control the demands of this increase on the environment. Comprehensive land planning

Environmental Landscape

has been initiated to prioritize land use through a system of zoning, and around 5% of the Dutch land area is declared protected.

Environmental actions

Levy on surface water pollution in the Netherlands

The Netherlands has a tax levy in order to control water pollution from heavy metal discharges and compounds which damage the oxygen content of the water. The levy was introduced in the early 1970s, originally as a method to raise funds for the costs of water quality management being undertaken by government authorities. The levy is imposed on private households and companies alike.

Over the years the levy rates have increased steadily, and companies have had to control and treat discharges in response to the levy. The rates of the levies vary hugely, and they are managed by regional water boards across the Netherlands. The standards are very stringent in water catchment areas.

Biodiversity protection

The Netherlands has been taking several steps to preserve its biodiversity. A nationwide network of scientists, organizations (including universities), and promoters of biodiversity has been established, with an aim to initiate biodiversity research and strategy.

Waste management policy

The Netherlands has a Waste Management Council which oversees waste-related policies at the national, provincial, and municipal levels. The Dutch waste management program requires municipalities to collect wastes and to group and process these wastes separately. Many municipalities work together, enabling them to procure facilities for waste management on a much better scale, as well as enabling them to manage waste more effectively.

The landfill tax is around €120 per ton, making it expensive in comparison with other methods of waste management. The Netherlands has also barred combustible waste from being used as landfill. As a result of these policies, around 80% of waste is managed through methods other than landfill.

Participation in global efforts/agreements/pacts

The international treaties that have been ratified by the Netherlands are given in Table 11.

Table 11: International environmental treaties signed and ratified by the Netherlands

International treaty	Year of ratification
Vienna Convention for the protection of the Ozone Layer 1988	1988
Montreal Protocol on Substances that deplete the Ozone Layer	1988
Framework Convention on Climate Change	1993
Convention on Biological Diversity	1994
UN Law of the Sea	1996
UN Convention to Combat Desertification in those Countries Experiencing Serious Drought and/or Desertification, Particularly in Africa	1995
Kyoto Protocol to the Framework Convention on Climate Change	2002
Cartagena Protocol on Biosafety	2002

Source: MarketLine **MARKETLINE**

Copenhagen conference on climate change

The UN Framework Convention on Climate Change (UNFCCC) sets an overall framework for intergovernmental efforts to tackle the challenge posed by climate change. It recognizes that the climate system is a shared resource, the stability of which can be affected by industrial and other emissions of carbon dioxide and other greenhouse gases. The convention has a universal membership, with 192 countries having ratified it. No deal could be clinched in Copenhagen; however, talks on a binding international climate change pact continued in 2010.

The Netherlands government is committed to combating climate change and adapting the country to the changes. The government wants to make the Netherlands one of the cleanest and most efficient energy countries in Europe. By the year 2020, the Netherlands aims to reduce greenhouse gas emissions by 30%, increase the proportion of renewable energy to 20%, and improve energy savings by 2% each year.

Performance

Renewable energy market

The Dutch renewable energy market enjoyed accelerating rates of growth before falling into decline in 2010. The Dutch renewable energy market had total revenues of \$1.8bn in 2010, representing a compound annual growth rate (CAGR) of 8.9% for the period spanning 2006–10. In comparison, the German and Belgian markets grew with CAGRs of 12.0% and 23.4% respectively, over the same period, to reach respective values of \$16.7bn and \$1.1bn in 2010.

Market consumption volumes increased in the Netherlands at a CAGR of 8.2% during 2006–10 to reach a total of 12.6 billion kWh in 2010. The market's volume is expected to rise to 17.2 billion kWh by the end of 2015, representing a CAGR of 6.5% for the 2010–15 period.

However, the performance of the consumption volume market is forecast to decelerate, with an anticipated CAGR of 7.2% for the period 2010–15, which is expected to drive the market to a value of \$2.5bn by the end of 2015.

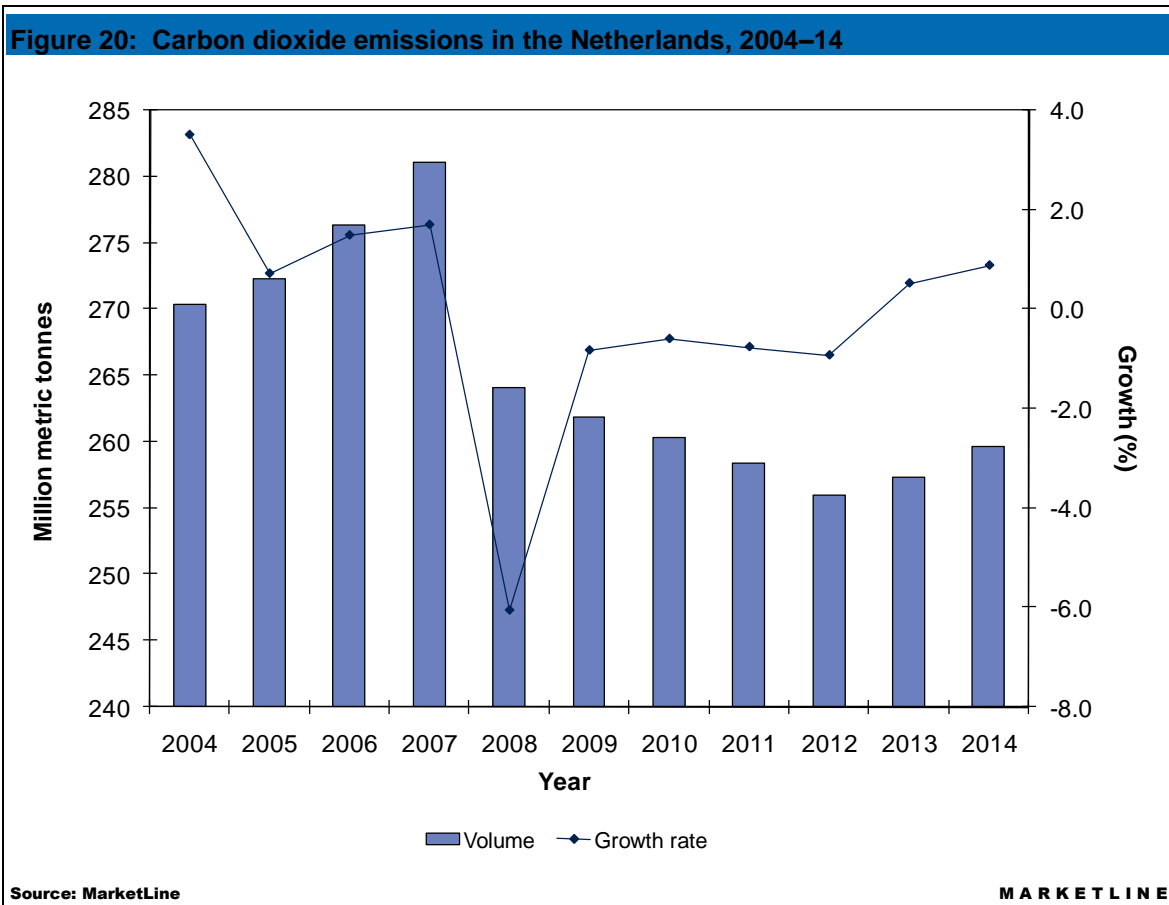
Comparatively, the German and Belgian markets will grow with CAGRs of 9.9% and 13.8% respectively, over the same period, to reach respective values of \$26.8bn and \$2.1bn in 2015.

Environmental Landscape

Environmental impact

Environmental impact in the Netherlands is not only monitored by the domestic government, but also by the EU. As part of the EU, the Netherlands was required to follow the National Emissions Ceilings directive (NEC). The NEC required EU member states to limit their emissions of sulfur dioxide, nitrogen oxides, ammonia, and non-methane volatile organic compounds to a certain minimum by 2010.

The Netherlands also has two emission trading programs in place for controlling emissions of carbon dioxide and nitrogen oxides. The carbon dioxide emission trading directive requires member states to develop a National Allocation Plan (NAP) and to indicate how they intend to allocate the allowances to individual installations. After the implementation of the NEC in 2001, the growth rate of carbon dioxide emissions has consistently declined. Dutch carbon dioxide emissions are mainly caused by road traffic, inland navigation, maritime shipping, and aviation. Carbon dioxide emissions fell from around 272 million metric tonnes in 2005 to around 260 million metric tonnes in 2010.



Outlook

As a major trade hub and a vital player in European trade, the Netherlands has prioritized a sustainable development path. As a result, the Dutch government adopted the Fourth NEPP, which outlines strategies to resolve several longstanding environmental problems. These include external safety, climate change, adverse effects on biodiversity, and health risks caused by chemical substances. Under the NEEP, the government has outlined a possible environmental crisis that could happen by 2030. In this outline, the government predicts loss of biodiversity, climate

Environmental Landscape

change, overexploitation of natural resources, increased threats to health and external safety, damage to the quality of the living environment, and many other unmanageable risks. Therefore, the government is emphasizing economic development that goes hand in hand with ecological improvement.

The obstacles presently faced are unequal distribution, institutional shortcomings, shortage of policy instruments, and lack of adequate precautions. Considering these things as possible challenges, the Dutch government has come out with certain guiding principles which are set to take the country on a balanced development path. These include sustainable development, prevention at source, taxes on pollution, and the international integration of environmental sustenance. In mid-2010, the Netherlands government entered into agreements with Vietnam and Georgia to undertake environmental projects in both countries. These are mainly in relation to environmental protection and safety, and water management.

APPENDIX

Ask the analyst

MarketLine's Country Analysis Practice consists of a team of economists, analysts, and researchers, all with expertise in their given fields. For any questions or comments about this report you can contact the author directly at reachus@marketline.com

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