2000 Country Reports on Economic Policy and Trade Practices
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NETHERLANDS

Key Economic Indicators 1/

(Billions of U.S. dollars unless otherwise indicated)

	1998	1999	2000 2/
Income, Production and Employment:			
Nominal GDP 3/	392.0	398.1	384.8
Real GDP Growth (pct) 4/	4.1	3.9	4.5
GDP by Sector:	347.8	346.0	336.4
Agriculture	11.1	11.4	11.1
Manufacturing	91.7	90.7	88.2
Services	204.3	204.3	198.6
Government	40.7	39.6	38.5
Per Capita GDP (US$)	24,968	25,194	24,354
Labor Force (000s)	7,229	7,368	7,495
Unemployment Rate (percent)	4.8	4.0	3.5
Money and Prices (annual percentage growth):			
Money Supply (M2) 5/	7.2	9.9	9.0
Consumer Price Inflation	2.0	2.2	2.5
Exchange Rate (guilders/US$ annual average)			
Official	1.98	2.07	2.30
Balance of Payments and Trade:			
Total Exports FOB 6/	197.6	198.9	210.3
Exports to U.S. 7/	7.6	8.5	9.0
Total Imports CIF 6/	183.9	188.0	201.2
Imports from U.S. 7/	19.0	19.4	20.0
Trade Balance 6/	13.7	10.9	9.1
Balance with U.S. 7/	-11.4	-10.9	-11.0
Current Account Surplus/GDP (pct)	4.1	5.6	5.25
External Public Debt 8/	0	0	0
Debt Service Payments/GDP (pct) 8/	9.4	12.3	7.6
Fiscal Deficit/GDP (pct)	-0.7	-1.0	-1.0
Gold and Foreign Exchange Reserves	31.6	26.7	29.9
Aid from U.S.	0	0	0
Aid from All Other Sources	0	0	0

1/ All figures have been converted at the average guilder/US$ exchange rate for each year.
2/ 2000 figures are official forecasts or estimates based on available monthly data in October.

3/ GDP at factor costs.
4/ Percentage changes calculated in local currency.
5/ Netherlands contribution to euro-zone monetary aggregates.
6/ Merchandise trade.
7/ Sources: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 2000 figures are estimates based on data available through October 2000.
8/ All public debt is domestic and denominated in guilders. Debt service payments refers to domestic public debt.

Sources: Central Bureau of Statistics (CBS), Netherlands Central Bank (NB), Central Planning Bureau (CPB).

1. General Policy Framework

The Netherlands is a prosperous and open economy, and depends heavily on foreign trade. It is noted for stable industrial relations; a large current account surplus from trade and overseas investments; net exports of natural gas; and a unique position as a European transportation hub with excellent ports, and air, road, rail, and inland waterway transport.

Dutch trade and investment policy is among the most open in the world. The government successfully reduced its role in the economy during the 1990s, and structural and regulatory reforms have been an integral part of a major reorientation of Dutch economic policy since the early 1980s. Telecommunication services have been fully liberalized since January 1 1998, and deregulation and privatization of the Dutch electricity and gas markets will take place in 2003. The government continues to dominate the energy sector, and will play an important role in public transport and aviation for some time.

Dutch economic policy is geared chiefly towards environmentally sustainable economic growth and development by way of economic restructuring, energy conservation, environmental protection, regional development, and other national goals. Economic policy is conducted within the framework of a national environmental action plan.

General elections in May 1998 resulted in a clear vote of confidence for the ruling three-party coalition, which returned to office for another four-year term. Policy intentions of the new coalition government are articulated in the 1998 coalition accord, with reductions in the tax burden and the fiscal deficit, as well as further labor and product market reforms as chief priorities. The government coalition accord is based on a "conservative" 2.25 percent average annual GDP growth scenario between 1999 and 2002. Average GDP growth so far has been close to four percent.

The Dutch economy remains strong, combining sustained GDP growth with falling unemployment and moderate inflation. The success of the Dutch economy can be attributed to the combination of a rigorous and stable macro-economic policy with wide-ranging structural and regulatory reforms. Boosted by vigorous consumer demand and strong growth in world trade, the Dutch economy is forecast to show 4.5 percent GDP growth in 2000 (the highest rate since 1989), followed by slightly lower 4 percent expansion in 2001. Exports (up 9.5 percent in 2000; up 9 percent in 2001) are expected to resume their role as major driving force behind the economy's expansion. A reduction in the burden of taxes and social security contributions is expected to fuel real disposable household incomes by average 5.5 percent, and provide further momentum to strong consumer spending (up 4.5 percent in 2000 and 2001). Despite warnings by the IMF and the OECD, there are no distinct signs that the Dutch economy may be overheating. The outlook for the labor market in 2000 and 2001 also remains favorable. Continued job growth is forecast to reduce the level of unemployment to just three percent of the labor force in 2001. Firming inflation thus seems the only cloud on an otherwise bright horizon. Imported inflation and a hike in indirect taxes (VAT) will cause consumer price inflation in 2001 to exceed the expected 2.5 percent CPI rise in 2000 by one percentage point and firm to 3.5 percent.

The Netherlands was one of the first EU member states to qualify for Economic and Monetary Union (EMU). Fiscal policy aims to strike a balance between further reducing public spending, and lowering taxes and social security contributions. The fiscal balance registered a surplus of one percent of GDP in 1999 and 2000 and is expected to remain in surplus in 2001 (0.7 percent of GDP) and beyond. The stock of public debt will fall from a high of 62.9 percent in 1999 to 52.3 percent in 2001. Both fiscal deficit and public debt have thus converged well below the deficit and debt criteria in the EMU's Growth and Stability Pact.

The deficit is largely funded by government bonds. Since January 1, 1994 financing has also been covered by Dutch Treasury Certificates (DTC). DTCs replace a standing credit facility for short-term deficit financing with the central bank that, under the Maastricht Treaty, was abolished in 1994.

2. Exchange Rate Policies

Since the European Central Bank (ECB) assumed monetary responsibility on January 1, 1999, monetary policy is no longer under the exclusive control of the Dutch authorities but determined by the Eurosystem (the European Central Bank and the 11 national Central Banks in the euro area), and are attuned to the euro area as a whole. On December 31, 1998 the exchange rate of the euro vis-à-vis the guilder was fixed at 2.20371 guilders to the euro. There are no multiple exchange rate mechanisms.

3. Structural Policies

Tax Policies: Partly with an eye to further EU integration, the Dutch recently took the first step towards a fundamental reform of the tax system. The new tax regime for the 21st century entails a shift from direct to indirect taxes, a broadening of the tax base, and a reduction of the tax rate on labor. When implemented in 2001, wage and individual income taxes will be lowered, while excise duties, "green" taxes and VAT rates will be raised. The highest marginal tax rate on wage and salary income will be reduced from 60 percent to 50 percent, while the top VAT rate will rise from 17.5 percent to 19 percent. The Dutch corporate income tax rate is among the lowest in the European Union. Effective January 1, 1998 the standard corporate tax rate paid by corporations (including foreign-owned corporations) was reduced from 36 percent to 35 percent on all taxable profits. Since January 1, 1997 the Dutch have been offering multinationals a more friendly tax regime for their group finance activities, effectively reducing tax on internal banking activities from 35 percent (the standard corporate tax rate) to 7 percent.

Regulatory Policies: Limited, targeted, transparent investment incentives are used to facilitate economic restructuring and to promote economic growth throughout the country. Measures blend tax incentives and subsidies and are available to foreign and domestic firms alike. There are also subsidies to stimulate research and development and to encourage development and use of new technology by small and medium sized firms.

Complying with EU competition legislation, new Dutch competition legislation became effective on January 1, 1998. The new Competition Law includes a provision for the supervision of company mergers by the Netherlands Competition Authority (NMA). The law is expected to boost competition, improve transparency, and provide greater de facto access to a number of sectors for foreign companies.

4. Debt Management Policies

With a current account surplus of well over five percent of GDP and no external debt, the Netherlands is a major creditor nation. The Dutch have run a surplus on current account since the early 1980s. During that period, gross public sector debt (EMU criterion) grew sharply, to 81.2 percent of GDP by 1993. Since the late 1980s, the Dutch fiscal balance has drastically improved. The debt to GDP ratio is also falling more rapidly than anticipated. Debt servicing and rollover in 2000 fell to roughly eight percent of GDP, with interest payments alone at three percent of GDP. All government debt is domestic and denominated in guilders. There are no difficulties in tapping the domestic capital market for loans, and public financing requirements are generally met before the end of each fiscal year. The Netherlands is a major foreign assistance donor nation with a bilateral and multilateral development assistance budget of 1.1 percent of GDP equal to $4.8 billion in 2001. Official Development Aid (ODA) amounts to 0.8 percent of GDP or $3.5 billion. The Netherlands belongs to, and strongly supports, the IMF, the World Bank, EBRD, and other international financial institutions.

5. Significant Barriers to U.S. Exports

The Dutch pride themselves on their open market economy, nondiscriminatory treatment of foreign investment, and a strong tradition of free trade. Foreign investors receive full national treatment, and the Netherlands adheres to the OECD investment codes and the International Convention for the Settlement of Investment Disputes. There are no significant Dutch barriers to U.S. exports, and relatively few trade complaints are registered by U.S. firms. The few trade barriers that do exist result from common EU policies. The following are areas of potential concern for U.S. exporters:

Agricultural Trade Barriers: These result from the Common Agricultural Policy (CAP) and common external tariffs, which severely limit imports of U.S. agricultural products, e.g., canned fruits (high tariffs), frozen whole turkeys and parts (high tariffs). Bilateral import barriers, although usually connected with EU-wide regulations, do arise in customs duties, grading, inspection and quarantine, e.g., fresh beef (hormones) and poultry (phytosanitary). EU rules and procedures sometimes hinder commodity and product entry. Although only a few cases have been reported to date, an increasing pattern of delayed or rejected shipments of agricultural commodities, food and beverages appears to have developed. Current EU-wide regulations, and the lack of timely approval processes for agricultural products, including Genetically Modified Organisms (GMOs), hinder U.S. exports. Some of these rejections or delays in clearance cause major financial and logistical problems to Dutch importers and U.S. exporters for particular products, thus dampening trade prospects and flows.

Offsets for Defense Contracts: All foreign contractors must provide at least 100 percent offset/compensation for defense procurement over five million Dutch Guilders (about $2.5 million). The seller must arrange for the purchase of Dutch goods or permit the Netherlands to domestically produce components or subsystems of the systems it is buying. A penalty system for noncompliance with offset obligations is under consideration.

Broadcasting and Media Legislation: The Dutch fully comply with the EU Broadcast Directive. However, U.S. television shows and films are popular and readily available. Commercial broadcasters may apply for temporary exemptions of the quota requirement on an ad hoc basis.

Cartels: Although the export sector of the Dutch economy is open and free, cartels have long been a component of the domestic sector of the economy. A new Cartel Law, which took effect in 1996, bans cartels unless its proponents can conclusively demonstrate a public interest. Since 1998, the United States has received no complaints by U.S. firms of having been disadvantaged by cartels in the Netherlands.

Public Procurement: Dutch public procurement practices comply with the requirements of the GATT/WTO Agreement on Public Procurement and with EU public procurement legislation. The Netherlands has fully implemented the EU's Supplies Directive 93/36/EEC, Works Directive 93/37/EEC, and the Utilities Directive 93/38/EEC. Implementation of EU and WTO public procurement obligations have contributed to greater transparency of the Dutch public procurement environment at the central and local government levels. Independent studies show that transparency and enforcement in this area can be deficient, especially at the local level, and procurement may be contingent on offset or local content requirements. As part of its plan to encourage electronic transactions, the government has declared its intention to begin posting all national and local government procurement tenders on websites in the near future. The EU Electricity Directive has led to more public notification and ended the duopoly in Dutch power generation and distribution. The EU Gas Directive is expected to end the monopoly in the distribution of natural gas by 2003.

6. Export Subsidies Policies

Under the Export Matching Facility, the government provides interest subsidies for Dutch export contracts competing with government subsidized export transactions in third countries. These subsidies bridge the interest cost gap between Dutch export contracts and foreign contracts which have benefited from interest subsidies. The government provides up to 10 million guilders (about $5.5 million) of interest subsidies per export contract, up to a maximum of 35 percent per export transaction. An export transaction must have at least 60 percent Dutch content to be eligible. For defense, aircraft and construction transactions, the minimum Dutch content is one-third.

There is a local content requirement of 70 percent for exporters seeking to insure their export transactions through the Netherlands Export Insurance Company.

Adhering to EU shipbuilding regime, the Dutch have discontinued generic support of their shipbuilding industry effective January 1, 2001.

7. Protection of U.S. Intellectual Property

The Netherlands has a generally good set of IPR legislation and regulations in place. It belongs to the World Intellectual Property Organization (WIPO), is a signatory of the Paris Convention on Industrial Property and the Bern Copyright Convention, and conforms to accepted international practice for protection of technology and trademarks. Patents for foreign investors are granted retroactively to the date of original filing in the home country, provided the application is made through a Dutch patent lawyer within one year of the original filing date. Patents are valid for 20 years. Legal procedures exist for compulsory licensing if the patent is determined to be inadequately used after a period of three years, but these procedures have rarely been invoked. Since the Netherlands and the United States are both parties to the Patent Cooperation Treaty (PCT) of 1970, patent rights in the Netherlands may be obtained if PCT application is used. The Netherlands is a signatory of the European Patent Convention, which provides for a centralized Europe-wide patent protection system. This convention has simplified the process for obtaining patent protection in the member states. Infringement proceedings remain within the jurisdiction of the national courts, which could result in divergent interpretations detrimental to U.S. investors and exporters.

The enforcement of anti-piracy laws remains a concern to U.S. producers of software, audio and videotapes, and textbooks. Some estimate as much as half of software used in the country is illegally copied. The Dutch government has recognized the need to protect intellectual property rights and law enforcement personnel have worked with industry associations to find and seize pirated software. Dutch IP legislation explicitly includes computer software as intellectual property under the copyright statutes.

8. Worker Rights

a. *The Right of Association:* The right of Dutch workers to associate freely is well established. One quarter of the employed labor force belongs to unions, but union-negotiated collective bargaining agreements are usually extended to cover about three-quarters of the workforce. Membership in labor unions is open to all workers including military, police, and civil service employees. Unions are entirely free of government and political party control and participate in political life. They also maintain relations with recognized international bodies and form domestic federations. The Dutch unions are active in promoting worker rights internationally. All union members, except most civil servants, have the legal right to strike. Civil servants have other means of protection and redress. There is no retribution against striking workers. In the European Union, the Netherlands has one of lowest percentages of days lost due to labor strikes. In 1999 some 76 labor days per 1000 workers were lost due to industrial disputes compared with 33 days in 1998.

b. *The Right to Organize and Bargain Collectively:* The right to organize and bargain collectively is recognized and well established. There are no union shop requirements. Discrimination against workers because of union membership is illegal and does not exist. Dutch society has developed a social partnership among the government, employers' organizations, and trade unions. This tripartite "Social Partnership" involves all three participants in negotiating guidelines for collective bargaining agreements which, once reached in a sector, are extended by law to cover the entire sector. Such generally binding agreements (AVVs) cover most Dutch workers.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor, including that by children, is prohibited by the constitution and does not exist.

d. *Minimum Age for Employment of Children:* Child labor laws exist and are enforced. The minimum age for employment of young people is 16. Even at that age, youths may work full time only if they have completed the mandatory 10 years of schooling and only after obtaining a work permit (except for newspaper delivery). Those still in school at age 16 may not work more than eight hours per week. Laws prohibit youths under the age of 18 from working at night, overtime, or in areas that could be dangerous to their physical or mental development.

e. *Acceptable Conditions of Work:* Dutch law and practice adequately protect the safety and health of workers. Although a forty hours workweek is established by law, the official average workweek for adults working full time currently averages 37 hours. Work-shortening programs (ADV) effectively reduce the average workweek to 36 hours. There is a trend to cut working hours further in order to create jobs or avoid layoffs, and recently concluded wage contracts include provisions for a 36-hour workweek. The gross minimum wage in mid-2000 amounted to about $1,021 per month. The legally-mandated minimum wage is subject to semiannual cost of living adjustment. Working conditions are set by law, and regulations are actively monitored.

f. *Rights in Sectors with U.S. Investments:* The worker rights described above hold equally for sectors in which U.S. capital is invested.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

(Millions of U.S. dollars)

Category		Amount
Petroleum		3,296
Total Manufacturing		19,508
Food & Kindred Products	2,311	
Chemicals & Allied Products	10,603	
Primary & Fabricated Metals	256	
Industrial Machinery and Equipment	694	
Electric & Electronic Equipment	3,636	
Transportation Equipment	112	
Other Manufacturing	1,895	
Wholesale Trade		8,498
Banking		(1)
Finance/Insurance/Real Estate		64,199
Services		9,031
Other Industries		(1)
TOTAL ALL INDUSTRIES		106,436

(1) Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis