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BETREFT Summary of NCA audit report *Use of natural gas revenues*

Use of natural gas revenues: facts, figures and scenarios

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The full report is only available in Dutch

Facts and figures

Natural gas revenues since 1960: approximately €265 billion
Natural gas production has been a substantial source of revenue for the Dutch State for more than 50 years. Between 1960 and 2013 the revenue totalled approximately €265 billion. The relative importance of natural gas revenues in the State's total revenue has declined over the years. This is not because they are lower than in the past but because other, chiefly fiscal, sources have increased sharply.

Precise use of most of the natural gas revenues cannot be identified
Natural gas revenues flowed into the State coffers during most of the period between 1960 and the present. The money was spent to achieve a variety of targets in the ministries' budgets and therefore cannot be matched with specific items of expenditure. The period 1995-2010 forms an exception. In those years some of the natural gas revenues were allocated to the Economic Structure Enhancing Fund (FES) and its ultimate use can therefore be traced to investment projects to strengthen the economic structure. Funding from the FES was divided among a number of ministries, with the FES acting as an allocating mechanism. In total, €33 billion was fed into the FES, of which €26 billion consisted of natural gas revenues. About 80% of the funding was invested in transport projects, such as the Betuwe and High Speed rail lines.

Economic Structure Enhancing Fund not managed consistently

The sources of FES funding and what the funds could be spent on was laid down in the FES Act when the fund was established. However, policy was regularly changed. A significant change was made in 1998 when the government decided to fund certain existing projects from the FES instead of from the Infrastructure Fund. This departed from a key principle that the FES could fund only 'additional' projects (i.e. projects that were not already included in a ministry's budget). The government later decided that the FES had to compete with current expenditure as from 2008. The FES was ultimately abolished in 2010.

What if the Netherlands had followed the Norwegian example?

Unlike Norway, which also has natural energy sources, the Netherlands never opted to place its natural gas revenues in a State capital fund. If it had done so from the outset in the same way that Norway did, the balance on 1 January 2014 would have been nearly €350 billion. In addition, 4% of the capital could have been transferred from the fund to the general budget ever year. In 2013 alone, this 'withdrawal' would have been equal to about €13 billion.

We also calculated how big a State capital fund would have been if the Netherlands had replaced an allocation fund (what the FES was in practice) with a State capital fund based on the Norwegian model. At the end of 2013, it would have been worth almost €40 billion. As there is no allocation fund in this scenario, however, considerably less would have been invested in infrastructure during the initial period.

Scenarios

We drew up three scenarios of how the Netherlands could use its natural gas revenues in the future.

1. Spend natural gas revenues through the general budget. This in effect entails maintaining the current situation. The benefit of this scenario is that there will be no additional financial shortfalls in the near future, which would be the case if the natural gas revenues were set aside in a separate fund. A disadvantage of this scenario is that the inevitable decline in natural gas revenues (gas reserves will be exhausted within the foreseeable future) will not be compensated for by permanent revenues from, for example, a capital fund.
2. Spend natural gas revenues through an allocation fund. This entails a return to a fund like the FES. A benefit of this scenario is that it guarantees funding for specific expenditures (e.g. investments). A disadvantage is that if the natural gas revenues are earmarked for certain goals, other policy goals of central government will not be eligible for funding. Other disadvantages are that an additional financial shortfall will arise in the near term and the decline in natural gas revenues will not be compensated for from permanent revenue sources.

3. Place natural gas revenues in a State capital fund. This entails following the Norwegian example. If this option is put into practice in the near term, it could produce a capital of about €150 billion by 2035. A disadvantage of this scenario is that it would initially produce an additional budget shortfall because natural gas revenues would no longer be added to the general budget. After 2027, however, the return on the capital fund would exceed the annual natural gas revenues. Compensation for the decline in natural gas revenues would then come from the permanent income on the capital accumulated, even when the natural gas revenues have been exhausted.

Recommendations

On the basis of our findings on the use of the FES in 1995-2010 we passed on three lessons for future funding to the House of Representatives. We did so with a view to the establishment of the Future Fund, which will be funded from windfalls in natural gas revenue. The three lessons are:

1. When forming a fund make a well-considered choice for a specific type of fund (capital/allocation fund). Ensure that the fund's objectives are clearly formulated and are appropriate to the type of fund. Also ensure that the procedures and criteria are unambiguous;
2. Ensure that the fund's management and the advice received on the allocation of funds are independent;
3. Make clear agreements on the provision of information and accountability for fund management and link any consequences to the outcomes of project evaluations.

Response

Response of the minister of Economic Affairs

The Minister of Economic Affairs thought our report suggested that the Netherlands should follow the Norwegian model and place natural gas revenues in a State capital fund. The Minister recognised the importance of spending natural gas revenues sensibly and referred to the plans for the Future Fund. He made three comments on our calculation of the models and thought that our audit paid too little attention to the fundamental considerations that must be made. Finally, the Minister considered the three lessons we presented for the future and responded to them in the light of the plans for the Future Fund.

In our afterword we noted that, contrary to the Minister's suggestion, we express no preference for a State capital fund. How the natural gas revenues are spent is a political decision. That the Minister compares the lessons with the plans for the Future Fund indicates that he will use our report as we had intended, as an aid to take democratic decisions on the future use of natural gas revenues.