



ROYAL NORWEGIAN MINISTRY OF
CLIMATE AND ENVIRONMENT

The Minister

Mr Miguel Arias Cañete
Commissioner for Climate Action and Energy

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Revision of the EU ETS Directive – Comments from Norway

Norway welcomes the Commission's consultation on the revision process of the EU ETS Directive. The EU ETS Directive is important for Norway as fifty percent of our emissions are covered by the scheme. The Norwegian Environment Agency has answered the open consultation. Norway has supported and signed the likeminded statement on the Market Stability Reserve together with a group of Ministers within the Green Growth Group. We would like to propose the following steps to further improve the functioning of the emission trading scheme.

Early measures must be taken to increase the efficiency of the system. The EU ETS should stimulate to a transition in line with the overall target. We therefore support the framework's conclusion on an increased reduction factor from 2021.

An efficient trading scheme requires a stable and predictable price signal to avoid unsound investments and lock-in of emission intensive solutions. Postponed investments due to a weak and uncertain price signal could increase the overall cost of reaching the target.

The current price signal reflects the large over-supply of allowances. A higher and more stable price signal would encourage early action and provide incentives for low emission solutions. Norway's opinion is that the most efficient way to reduce the negative effects of the over-supply is to permanently retire allowances.

Permanent retirement of allowances will increase the EU ETS contribution to emission reductions and further facilitate a reduction path in line with EU's long term 2050 goal.

However, Norway supports the proposed market stability reserve as an instrument to strengthen the price signal in the short term. It should be implemented as early as possible to provide certainty for stakeholders, and enhance early action.

Norway supports to permanently retire the backloaded volumes. Another option that is less preferable, but better than inaction, is that the volumes should not be reintroduced directly into the market, but placed in the stability reserve.

Measures to reduce the risk of carbon leakage are important, and should be limited and prioritize enterprises with the highest risk of carbon leakage. Due account should be taken to the risk of carbon leakage when shaping the framework for the EU ETS. However, the measures to reduce carbon leakage should be reduced as more countries enact comparable policy to reduce greenhouse gas emissions.

Carbon leakage is defined as the increase in emissions in the rest of the world as a result of climate policy in one country or region. The magnitude of the carbon leakages risk is uncertain but is considered highest for energy intensive industries that produce homogenous products that are traded internationally.

Free allocation of allowances and compensation for indirect carbon costs should be reserved for enterprises with a substantial risk of carbon leakages. In our view, the existing carbon leakages list is too extensive and includes sectors and enterprises that by the most relevant measures is not considered exposed to a substantial risk of carbon leakages. Thus, the criteria defining the list should be tightened. We would further emphasize the importance of equal treatment of enterprises facing the same risk of carbon leakages. Enterprises that fulfil the criteria defining the carbon leakages list should be defined as eligible for such measures.

Regarding the allocation rules, the benchmark methodology should include as many sectors and products as possible. Norway proposes that future benchmarks also are developed for ferroalloys. Current benchmarks should be updated where relevant.

The legal framework of the EU ETS is complicated. The revision process should be done with possible simplifications of the legal framework in mind.

Extending the scope of the EU ETS will contribute to increase the cost efficiency and environmental effect of the system. Norway proposes that the scope of the EU ETS is broadened to include the following sources and activities:

- CO₂ separated from natural gas and other fossil gases that are released into the atmosphere uncombusted.
- CO₂ from the combustion of municipal waste
- N₂O and CO₂ from fertilizer production.
- CO₂ from all forms of transport of CO₂ regulated under the CCS- directive, including transport by ship.

It is crucial to further develop, demonstrate and implement CCS technologies in Europe. It is reasonable to expect that fossil fuels will continue to be used in Europe's power generation as well as in other industrial processes for a long time to come. It is important to ensure that the increased funding through NER 400 is targeted effectively at this key technology, both for power generation and industrial projects.

Yours sincerely,



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