

Norwegian position on the proposed EU framework for climate and energy policies towards 2030

- The EU plays an important role as a global leader in climate policy and has a fundamental interest in strengthening European energy security. Norway welcomes a comprehensive approach to future climate and energy policies.
- We agree with the need for a strong and ambitious emissions reduction target, in line with the two-degree target. Increased efforts in renewable energy and energy efficiency will contribute to the 2030 goal.
- The EU ETS should continue to be the main climate policy tool in the EU, and the cap must be sufficiently tight and predictable to bring about an efficient transition to a low-emission future.
- Carbon capture storage (CCS) should be explicitly encouraged in the 2030 framework.
- As underlined by the IPCC, natural gas is the fossil fuel with the lowest emissions. It could contribute substantially towards a low-emission society, both as a replacement for coal and by supporting intermittent renewable energy supply.
- A well-functioning, integrated and commercially based energy market – for both gas and electricity – is the most important factor for energy security in Europe.
- A prerequisite for well-functioning gas markets is diversity among suppliers and buyers. If the concept of an energy union implies a joint purchasing body, this would have the opposite effect and should be avoided.

Explanation

The upcoming EU decisions on a framework for the climate and energy policies towards 2030 and on the Energy Security Strategy, come at a crucial point in time. Intensified efforts to mitigate climate change, to increase energy security and to enhance competitiveness, come together.

Norway is a large exporter of oil and gas. Almost all mainland electricity production is renewable. We are a major energy supplier to the EU and we are part of the internal energy market under the EEA Agreement. As an energy partner to the EU, we will continue to contribute to the further development of the EU 2030 framework and the Energy Security Strategy. As the Norwegian Government is now pursuing a more proactive stance on European issues, we will enter into dialogue with the Green Growth Group and consider cooperation on specific issues.

The EU plays an important role as a global leader in climate policy. Norway welcomes a comprehensive approach to future climate and energy policies. We agree on the need for a strong and ambitious framework in Europe that ensures emissions reductions in line with the two-degree target. As highlighted by the work of the IPCC, there is a need for substantial and sustainable reductions of greenhouse gas emissions if the world is to achieve this target.

Norway has recommended that the EU establish a new framework based on a single ambitious target for emissions reductions by 2030, in line with the two-degree target. We believe that a single ambitious emission reduction target would provide the long-term incentives needed for a cost-efficient path of development.

We take note of the current proposals for a framework consisting of targets for emissions reductions, the share of renewable energy on an EU level, and energy efficiency. The implementation of the final targets and measures will need to be carefully coordinated in order to avoid unintended and adverse effects in the energy market.

The EU Emissions Trading System – EU ETS

The EU ETS is – and should continue to be – our main climate policy tool. Participation in the EU ETS will remain an important part of Norwegian climate policy. This system covers almost 50 % of Norway's GHG emissions. The EU ETS cap must be sufficiently tight and predictable to provide the necessary incentives for an efficient transition to a low-emission future, spurring technology development and implementation. The system should encompass as many sectors and gases as possible.

The most efficient way to achieve this is an early decision to increase the annual reduction factor. We are concerned that the proposed increase in the reduction factor from 1.74 % to 2.2 % after 2020 is not sufficient. An increase in the reduction factor above 2.2 % or an earlier implementation of the proposed reduction factor would be a transparent, predictable and straightforward way to tighten the cap and increase the

price on carbon. Any additional measures, such as a market stability reserve, should be designed to ensure an adequate carbon price increase.

Carbon leakage

While working for an ambitious and effective EU ETS, Norway also finds it important to prevent an increase in global emissions due to companies shifting production outside of the EEA area ('carbon leakage'). Norway established a CO₂ compensation scheme in 2013. The compensation scheme is based on the EU guidelines on state aid in the context of the EU ETS. The purpose of the scheme is to prevent carbon leakage resulting from increased electricity prices due to the EU ETS.

CCS

We urge the EU to continue to encourage CCS explicitly in the 2030 framework. Further R&D efforts and commercial demonstration of carbon capture and storage technology is crucial if we are to reduce CO₂ emissions in line with the two-degree target. We look to the EU for continued support for CCS in Europe through a more ambitious EU ETS, in combination with flexible regulations on the transport and storage of CO₂.

Norway is committed to playing our part in the construction of at least one large-scale carbon capture demonstration facility by 2020. Further, we stand ready to consider how the EEA and Norway Grants can fund CCS projects in Europe.

European Energy Security

Norway supports the goal of high energy security in Europe. We are pleased to see that the European Energy Security Strategy puts strong emphasis on infrastructure development and the importance of continued efforts to make the European energy market as efficient as possible. Indeed, a well-functioning, integrated and commercially based energy market is the most important contribution to supply security in Europe.

As underlined by the IPCC, natural gas is the fossil fuel with the lowest emissions. It could contribute substantially towards a low-emission society, both as a replacement for coal and by supporting intermittent renewable energy supply. It is a paradox that in parallel with our efforts to reduce emissions, the use of coal in Europe is stable or even increasing. No new coal-fired power plants should be built in Europe without CCS. Norway can contribute to a cleaner, more low-emission energy sector in the EU as a provider of both renewable energy and natural gas.

A well-developed gas infrastructure, effective price signals and a diversity of supply sources are all important to ensure that gas flows where it is most needed, depending on supply/demand balances at any given time.

It is important that the role of natural gas in the energy mix in the decades to come is recognised. Uncertainty about the policy framework and lack of confidence in the market may distort long-term investment decisions.

Currently Norway meets more than one fifth of Europe's demand for natural gas. We have both the resources and the technology to remain a significant supplier for many years to come. All decisions on marketing of Norwegian natural gas are made by the producing companies.

Energy union

The events in Ukraine have, understandably, given rise to proposals for an energy union within the EU. The content of such proposals remains unspecified. If such a union is developed, it will be important that it builds on market elements introduced by the EU in recent years. According to some sources, a joint purchasing body for gas could be a main feature of the energy union. A prerequisite for well-functioning gas markets is a diversity of suppliers and buyers. A joint purchasing body would run contrary to this. It would in effect mean reversing the liberalisation of the gas markets that has taken place in Europe during the last decade – facilitated by EU legislation – and should be avoided.

Renewable energy

We take note that the Commission has proposed a target for the share of renewable energy in the EU in 2030 of at least 27 %. Based on cost effectiveness considerations, Norway has recommended a framework based on a single ambitious target for emissions reductions by 2030. However, increased efforts in renewable energy will contribute to the EU 2030 climate goal.

Norway is a large producer of renewable energy. Our electricity production is nearly entirely based on hydro power. In 2020, renewable energy will account for 67.5% of our total energy use. Norway has over time developed policies and management systems that focus on efficient production and transmission of renewables.

The electricity certificate scheme that Norway has implemented together with Sweden is the main policy instrument for increasing production of renewable energy in Norway. This scheme is the first example of a joint support scheme between states under the Renewables Directive.

Norway has considerable electricity interconnection with other northern European countries. The electricity interconnection capacity between Norway and the European Union is approximately 5.4 GW.

To facilitate trade, it is important that power and energy markets are well-functioning. In order to give the right incentives to investors and consumers in the long term, power prices should reflect actual cost. Markets also need a predictable policy framework that outlines how different policy measures will work together. Measures taken to support further development of renewables should be designed to avoid adverse market effects nationally and over borders.

Energy efficiency

Norway has an ambitious energy efficiency policy, and we support the overall objective of high energy efficiency. We have a support regime to trigger energy efficiency in buildings, households and industry through our publicly-owned enterprise Enova. Energy requirements in new and renovated buildings and taxes on energy use are important measures, in addition to information such as energy labelling.

There is great diversity in energy consumption and production in the different countries. Each country, in accordance with its national circumstances and capabilities, must be left to decide on appropriate policy tools within the common framework of a low-emission economy.

We take note of the proposal for an EU energy efficiency target of 30 % by 2030. An objective of setting an efficiency target appears to be to reduce energy import in general and gas import in particular. A desire to reduce gas imports to the EU is understandable, particularly in the current geopolitical situation. However, the expressed willingness to move beyond cost efficiency could raise concern that EU policies in the future will rely less on efficient markets.

Given the important role of natural gas in the European energy mix in the foreseeable future, it is crucial to further develop market mechanisms in order to ensure that investments in gas developments are attractive. Gas supply security is also about new gas field developments, pipelines, gas storage and LNG terminals. Clarity about the policy framework and confidence in the market will support long-term investment decisions.