

Royal Ministry of Finance

EFTA Surveillance Authority
Rue Belliard 35
1040 Brussels , Belgium

Your ref

Our ref
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Subject: Information concerning introduction of CO2 tax on gas - exemption for gas used for other purposes than heating

Reference is made to letter from the EFTA Surveillance Authority (the Authority) dated 11 July 2007 (Event No 425632) with request for additional information according to Article 5 (1) of Protocol 3 to the Agreement between the EFTA States on the Establishment of a Surveillance Authority and a Court of Justice. Reference is further made to letter from the Ministry of Finance (the Ministry) dated 10 August 2007 with request for extension of the deadline for submission of the wanted information until 22 September 2007, and letter from the Authority dated 14 August 2007 (Event No 433648) where the deadline is prolonged as requested.

Below, the Ministry will submit the additional information requested by the Authority. Please do not hesitate to contact if something is unclear or if you have any further questions.

1. Control possibilities

The CO₂ tax on gas is framed as a general tax on all natural gas and LPG with an exemption for gas for other purposes than heating of buildings. According to Regulation 11 December 2001 no 1451 concerning excise duties (forskrift om særavgifter) § 5-1 producers of taxable goods are obliged to register with the Norwegian Customs and Excise Authorities as liable for the tax. When all gas is taxable all producers of gas, including producers exclusively selling gas for other purposes than heating of buildings, will have to register with the Norwegian Customs and Excise Authorities according to the regulation.

According to § 5-8 registered companies are inter alia obliged to keep accounts which shows the quantity of the taxed products. Furthermore, registered companies are obliged to keep a stock account which has to fulfill certain criteria. Consequently, such registration improves the control possibilities for the Customs and Excise Authorities and implies that control possibilities for the Customs and Excise Authorities are facilitated.

If the tax is not framed as a general tax on gas (with exemption for gas for other purposes than heating of buildings), but as a tax on gas for heating of buildings, only producers which sell gas for heating purposes are obliged to register at the Customs and Excise Authorities, i.e. traders claiming selling gas only for other purposes than heating will not be registered. Consequently, these traders are not obliged to keep accounts etc. as described above. This implies that the control possibilities for the Customs and Excise are reduced.

2. Information on all use of gas

Table 1 gives the net domestic consumption of natural gas and LPG in 2006. Approximately 80 percent of the net domestic consumption of gas is related to manufacturing, mining and quarrying.

Table 1: Energy sources balance sheet for Norway, 2006

	<i>Natural gas</i> <i>Mill. Sm³</i>	<i>Liquefied gas</i> <i>1 000 t</i>
Net domestic consumption	293	188
Manufacturing, mining and quarrying	245	151
Energy-intensive industry	187	70
Manufacture of paper and paper products	10	3
Mining and quarrying and other industries	48	77
Transport	13	2
Other sectors	35	35

Source: Statistics Norway (URL: http://www.ssb.no/english/subjects/01/03/10/energiregn_en/tab-2007-04-12-01-en.html)

Table 2 gives a more detailed overview of the net domestic consumption of natural gas and LPG in 2005.

Table 2 Energy sources balance sheet for Norway, 2005

	<i>Natural gas</i> <i>Mill. Sm³</i>	<i>Liquefied gas</i> <i>1 000 t</i>
Net domestic consumption	263	185
Manufacturing, mining and quarrying	214	148
Mining and quarrying	5	1
Manufacture of paper and paper products	8	3
Manufacture of industrial chemicals	115	53

Manufacture of iron, steel and ferro-alloys	2	0
Manufacture of aluminium and other non-ferrous metals	46	15
Other manufacturing industries	38	76
Transport	11	2
Railways and subways	-	-
Air transport	-	-
Road transport	2	2
Coastal shipping	9	-
Other sectors	37	35
Fishing	-	-
Agriculture	18	2
Households	6	13
Other consumers	13	19

Source: Statistics Norway (URL:

http://www.ssb.no/english/subjects/01/03/10/energiregn_en/arkiv/tab-2006-10-20-01-en.html)

Table 3 “Net domestic consumption of natural gas 2006” gives the distribution of natural gas consumption between sectors. Table 4 “Gas consumption in establishments in manufacturing, mining and quarrying, by industry subclass” gives the consumption including gas made liquid such as LPG.

Only a small percentage of the domestic consumption is related to heating of buildings because the main consumption of natural gas is related to industrial purposes. The dominant part of this consumption is in the manufacturing sector. About half of the consumption in this sector is from Statoils methanol production plant at Tjeldbergodden – 146 mill Sm³ (124 047 ton) in 2005. Other larger consumers is manufacturing of aluminium. The largest consumer of natural gas is Hydro Aluminium AS Karmøy which used 18.5 mill Sm³ (15 732 ton) natural gas in 2005. Here the gas is delivered by pipeline and is used in the aluminium foundry and in anode production. Other aluminium plants use gas for the same purpose. To these the gas is transported in bulk and some use natural gas and some LPG. Gas is also used in manufacturing of fishmeal and fodder. Here the gas is used for drying of the products. Examples are: Biomar AS, Karmsundet, Karmøy (2.3 mill Sm³ natural gas in 2005), Karmsund Fiskemel, Karmøy (6 mill Sm³ natural gas in 2005), Egersund Sildoljefabrikk, Egersund (0.9 mill Sm³ propane in 2005).

Table 3 Net domestic consumption of natural gas. 2006. Mill. Sm³

	<i>Total</i>	<i>Natural gas transported in pipelines</i>	<i>CNG</i>	<i>LNG</i>
Total	293	218	8	66
Fishing and agriculture	18	18	-	-
Manufacturing, mining and quarrying	244	191	3	51

Mining and quarrying	7	2	-	5
Manufacture of food products	29	20	2	6
Textile	1	1	-	-
Manufacture of pulp, paper and paper products	10	-	-	10
Manufacture of wood and products of wood	0	0	-	-
Manufacture of chemicals	135	134	-	1
Non metallic mineral products	2	2	-	1
Manufacture of basic metals	52	26	-	25
Other manufacturing industries	9	5	0	4
Construction	0	0	-	-
Services	26	7	3	15
Hotels and restaurants	0	0	-	-
Commodity trade	1	1	-	0
Land transport	3	-	3	0
Sea transport	9	-	-	9
Supporting and auxiliary transport activities; Activities of travel agencies	1	1	-	-
Businesslike services and property management	1	1	-	0
Public administration	1	1	-	-
Education	1	1	-	0
Health and social work	8	2	0	6
Kulturell og personlig tjenesteyt.	1	1	-	0
Households	4	1	2	0

Source: Statistics Norway (URL: http://www.ssb.no/english/subjects/01/03/10/naturgass_en/tab-2007-04-12-01-en.html)

Table 4 Gas consumption in establishments in manufacturing, mining and quarrying, by industry subclass. Includes gas made liquid LPG etc. GWh. Final figures. 2005

		Purchased gas	Self-produced gas
		<i>GWh</i>	<i>GWh</i>
10,12-37	Manufacturing, mining and quarrying	5 093	11 505
10,12-14	Mining and quarrying	90	0
10,13	Coal and peat and metal ores	56	0
14	Other mining and quarrying	34	0
15-37	Manufacturing	5 003	11 505
15-16	Food products; beverages and tobacco	417	0
15.1	Meat and meat products	57	0
15.2	Fish and fish products	93	0
15.5	Dairy products	56	0
15.6-7	Grain mill products, starches and animal feeds	141	0
15.3-4/8	Other food products	69	0
15.9/16	Beverages and tobacco	0	0

17-19	Textiles and textile products, leather and leather products	13	0
17	Textiles	13	0
18	Wearing apparel; dressing and dyeing of fur	0	0
19	Leather and leather products	0	0
20	Wood and wood products	1	0
20.1	Sawmilling and planing of wood, impregnation of wood	0	0
20.2-5	Other products of wood	0	0
21	Pulp, paper and paper products	117	0
21.1	Pulp, paper and paperboard	90	0
21.2	Articles of paper and paperboard	27	0
22	Publishing and printing etc.	50	0
23-24	Refined petroleum products and chemical products	2 745	11 493
23/24.2-7	Refined petroleum products and other chemical products	30	8 558
24.1	Basic chemicals	2 715	2 935
25	Rubber and plastic products	4	0
26	Other non-metallic mineral products	630	0
27	Basic metals	809	12
27.1-3	Basic iron, steel and ferro-alloys	153	12
27.4	Aluminium and other non-ferrous metals	646	0
27.5	Casting of metals	10	0
28	Metal products, except machinery and equipment	38	0
29	Machinery and equipment n.e.c	37	0
30-33	Electrical and optical equipment	6	0
30	Office machinery and computers	0	0
31	Electrical machinery and apparatus n.e.c	5	0
32	Radio, television, communication equipment	0	0
33	Medical, precision and optical instruments	0	0
34-35	Transport equipment	82	0
34	Motor vehicles, trailers and semitrailers	5	0
35	Other transport equipment	77	0
36-37	Manufacturing n.e.c.	53	0
36	Furniture and manufacturing n.e.c.	4	0
37	Recycling	49	0

Source: Statistics Norway and Norwegian Pollution Control Authority

3. Gas as an ingredient and gas as a propellant

In the methanol production at Tjeldbergodden natural gas is used as a raw material and part of the energy used in the production of methanol comes from the use of natural gas in the process. In manufacturing of aluminium gas is used in foundries and anode production at high temperatures and other sources like biomass is not suitable for this purpose. Due to the use of natural gas at Hydro Karmøy the CO₂ emissions is reduced considerably because natural gas has substituted oil.

Where gas is used in the industry it is generally used as an integrated part of the production process or where you need high temperatures. Hence, the possibilities to use biomass as fuel in such facilities are not realistic. Bioenergy for stationary use is most suitable where the consumer need heat at low to medium temperatures such as for heating of buildings which is covered by the proposed CO₂-tax. We will also mention that larger plants such as Tjeldbergodden and other with fossil fuel energy facilities above 20MW installed capacity are covered by the Norwegian emission trading system. Through the emission trading system these emission sources has incentives to reduce emission from use of gas, i.e. by using other alternatives with less or no emission.

4. Statistics

Only a small percentage of the domestic consumption is related to heating of buildings because the key consumption of natural gas is related to industrial purposes. The dominant part of the consumption is in the manufacturing sector.

The use of gas in “households” and “other consumers” was in 2005 approximately 7 per cent of the net domestic consumption of natural gas and 17 per cent of the net domestic consumption of LPG, cf. Table 2.

There is no available statistics of the use of gas for heating purposes (heating of buildings). In our letter of 8 March 2007 the gas used as heating was estimated to 6 per cent of the total amount of gas sold in Norway. This is a very rough estimate.

5. Heating of buildings

According to regulation concerning excise duties new § 3-6-5 the exemption concerns gas used as “heating”. The same wording is used in the “høringsnotat” point 3.2. The complete expression is that the exemption concerns “heating of buildings”, i.e. the wording in the draft regulation (“heating”) does not indicate broadening the scope of the tax.

6. Companies which use gas both in the production and for the heating of buildings

The tax is levied on the gas uses as heating of buildings, but not on the gas used in production, i.e. if a company uses gas for both purposes only a part of the gas consumption is levied CO₂ tax. Consequently, the Authority’s understanding of the tax is correct.

7. CO₂ tax

The purpose of the CO₂ tax on mineral oil is to set a price on the damages on the environment caused by use of the taxed products and to encourage the use of other less environmental harmful products. The tax is applied to ensure a more efficient use of resources and thus lead to positive environmental effects. The tax is broad and general. Consequently, the exceptions in the Parliament's decision concerning CO₂ tax on mineral products section 2 are as narrow as possible. The exemptions are related to products which give no emission, are exported or due to other international agreements which limits the possibility to tax (i.e. international air traffic or NATO).

However, the main purpose of the CO₂ tax on gas for heating of buildings is narrower, i.e. to prevent that gas is preferred to more environmentally favorable alternatives such as bio energy. At present, neither gas nor bio energy are taxed. Consequently, the exception for gas used for other purposes than heating of buildings is a broad exception.

8. Basic tax on heating oil

The basic tax on heating oil is levied on mineral oil, but not on other mineral products such as gas, petrol, coal, coke.

9. Relation between the CO₂ tax and the Norwegian emission trading system

The Authority requests the Ministry to elaborate on the relation between the envisaged CO₂ tax reduction and the Norwegian emission trading system. Today, domestic use of gas is not levied excise duties. Consequently, the Ministry considers the proposal to imply introducing gas to the CO₂ tax, not a proposal of a tax reduction.

The Norwegian emission trading system was introduced in 2005. Norway's existing climate quota system is to be revised to ensure that the Norwegian system is in accordance with Directive 2003/87/EC, as this directive is expected to be a part of the EEA Agreement. The revised emission trading system will enter into force 1. January 2008.

Implementation of Directive 2003/87/EC into Norwegian law implies that the existing Norwegian quota system must be extended to comprise new sectors which are not included today. Some of these sectors are currently levied CO₂ tax. To avoid double regulation, it is presupposed that sectors subject to the revised Norwegian quota system, shall be exempted from the CO₂ tax. Such exemption will be notified to the Authority separately.

Consequently, there is no relation between the CO₂ tax on gas - and the exemption for gas used for other usages than heating purposes - and the Norwegian emission trading system.

10. Excise duty on bioenergy

Most excise duties are levied certain products (mineral oil, petrol etc). Bioenergy is not levied excise duty, i.e. bioenergy is not a taxed product and there is no tax base for bioenergy.

If a small part of biodiesel is added to mineral oil, the product will still be considered as mineral oil and thus the product as a whole (including the biodiesel) shall be levied tax. However, according to Regulation concerning excise duties section 3-10-3 the biodiesel in the mineral oil is exempted from the tax.

11. Bioenergy

Bioenergy is stored energy from the sun contained in materials such as plant matter and animal waste, known as biomass. Biomass is considered renewable because it is replenished more quickly when compared to the millions of years required to replenish fossil fuels. The wide variety of biomass fuel sources includes agricultural residue, pulp/paper mill residue, urban wood waste, forest residue, energy crops, landfill methane, and animal waste.

Energy in the form of electricity, heat, steam, and fuels can be derived from these sources through conversion methods such as direct combustion boiler and steam turbines, anaerobic digestion, co-firing, gasification, and pyrolysis.

Yours sincerely,

Torbjørn Flørenes
Deputy Director General

Grethe H. Dahl
Senior Adviser