

Consultation on the revision of the ETS Guidelines on certain State aid measures in the context of the amended EU Emissions Trading Scheme 2021-2030 – response from the Norwegian Government

Introduction

1. Reference is made to the European Commission's consultations on the revision of the Guidelines on certain State aid measures in the context of the amended EU Emissions Trading Scheme 2021-2030.
2. Norway welcomes the possibility to comment. The main points of the Norwegian position are set out below. We look forward to further discussing these issues with the Commission and the Member States.
3. Processing industry and metal production constitutes a large part of the Norwegian industry. Norway has about 3 % of the global aluminium production, about 4 % of the global production of silicon and ferrous silicon and more than 3 % of the global production of ferromanganese. The global production of these metals is dominated by Chinese producers.
4. The Norwegian industry is strongly integrated with the EU with respect to trade, ownership and production, in various parts of the value chain. For example, about 96 % of the Norwegian aluminium production is exported to the EU and about 17 % of the total demand for primary aluminium in the EU is met by Norwegian producers.
5. Similar to the industry in the EU, there has been a substantial reduction in Norwegian industrial emissions since 1990. At the same time the industrial production in Norway has increased. The environmental regulation may, among other factors, have resulted in improved energy efficiency and process optimization
6. Norway has ambitious goals for the reduction of greenhouse gas emissions. The EU Emissions Trading Scheme (hereinafter “the EU ETS”) has been an important element in the Norwegian policy for reducing greenhouse gas emissions since its establishment in 2005. In 2005 - 2007 Norway had a national ETS which was unilaterally linked to the EU ETS. Since 2008 Norway has participated in EU ETS through the EEA Agreement. As from 2013, about 50 percent of Norwegian emissions are covered by the EU ETS. An important consideration for Norway is to ensure that the EU ETS is an effective measure in the fight against global warming.
7. The Norwegian position on the revision of the ETS Guidelines is furthermore to ensure equal treatment of sectors and subsectors with the same risk of

carbon leakage. Those with the highest risk of carbon leakage should be prioritized. The compensation system should ensure that distortive effects on competition are minimized and state aid dependency avoided. Regarding the CO₂ emission factor, CO₂ prices play a significant role in the price formation in the Nordic electricity market.

The Norwegian CO₂ compensation scheme

8. The Norwegian CO₂-compensation scheme was established by the Norwegian Ministry of the Environment in 2013, pursuant to fiscal budget provisions adopted by the Parliament.
9. Today, 45 companies receive compensation, mainly in sectors such as aluminium, silicon and ferrosilicon, wood processing and chemical industry. This number has been relatively stable, but increased from 43 companies in 2013. Single payment varies a lot, from around 0,5 million NOK per year to the largest annual payouts in the area of 50-75 million NOK, depending on the EUA price. Total payment 2018 amounted to € 52,6 million. An internal evaluation of the scheme will be carried out shortly.
10. Norway has yearly submitted the annual reports required under Articles 48 and 49 of the 2012 ETS Guidelines

Year of production	2013	2014	2015	2016	2017	2018	2019
Year of payment	2014	2015	2016	2017	2018	2019	2020
EUA forward price in NOK (per allowance)	59.27	36.61	51.68	70.02	50.25	54.91	158.8
Total amount of state aid in NOK	223 000 000 (half year)	402 000 000	498 000 000	636 000 000	469 000 000	513 000 000	1 390 000 000

General policy considerations

11. The aim of the scheme is to compensate Norwegian industry for increasing power prices as a result of the EU ETS. The compensation should reduce the

risk of carbon leakage and prevent a potential increase in global emissions as a result of relocation of industry to countries with less stringent climate policy.

12. When revising the Guidelines, incentives for reduced energy consumption should be maintained. As in the Guidelines for the current period, aid should be based on historic levels of production and not actual electricity consumption. Continued use of electricity consumption efficiency benchmarks provide an added incentive for efficient production.
13. Norway emphasizes the importance of equal treatment of companies facing the same risk of carbon leakage. The list should seek to comprise sectors that are estimated to be equally exposed to the risk of carbon leakage, regardless of whether or not a specific sector is included at NACE level.
14. The actual magnitude of carbon leakage is uncertain. The compensation for indirect carbon costs should therefore prioritize sectors estimated to have the highest risk of carbon leakage. Thus, sectors eligible for aid under the Guidelines should be based on strict criteria. Indirect costs relating to greenhouse gas emissions passed on in electricity prices are expected to rise in the period 2021-2030. Due to an increased cost on EU ETS allowance, it is important to consider possible restrictions in order to allow for a budgetary sustainable scheme. This will reduce the potential for subsidy competition within Europe.

Aid intensity

15. The risk of carbon leakage is dependent on future climate regulations in other regions of the world. Stricter climate regulations globally will reduce the risk of carbon leakage and enable the European industry to carry the costs relating to greenhouse gas emissions passed on in electricity prices, without the need for state aid. To avoid aid dependency there should be strict efficiency benchmarks. This will force companies to carry out the necessary investment in energy efficiency in order to stay competitive. The aid intensity and efficiency benchmarks should be evaluated periodically, to adjust for technological developments and changes in climate regulations outside of Europe.
16. Norway observes that the possibility has been raised of introducing an upper limit for the total indirect emission costs compensation to all enterprises in a given Member State/EFTA State. We would stress that such an upper limit would be an arbitrary and discriminatory delimitation, not based on the actual overall effects of the scheme. The sum of all compensation in an EEA State depends on the size of the energy intensive industries eligible for compensation in that state. If the goal is to reduce total compensation, this could be done through prioritizing those with the highest risk of carbon

leakage or by reducing aid intensity, rather than introducing an upper limit for the total compensation at state level. An upper limit at state level would discriminate between companies within the same sector across different EEA States.

The Nordic power market

17. The Nordic market is dominated by hydro power with significant reservoir capacity, followed by nuclear power. Only a small fraction comes from thermal generation, and the Nordic power supply is mostly free of CO₂ emissions. Nevertheless, CO₂-prices play a significant role in the price formation in the Nordic markets.
18. The Nordic power market has been physically connected since the 1950s, and has been an integrated market since the 1990s. The region is interconnected with the continental market through a transmission network with the capacity of 5000 MW, and through market coupling.
19. Transfer volumes between and in/out of the Nordic markets are high, not solely due to the level of interconnection, but also due to the complementary nature of the generation mix in the connected countries. Additional interconnection capacity is being built between the Nordic and European markets.
20. Hence, the Nordic power price is influenced by the carbon price through market coupling and trade. In broad terms, continental thermal power plants influence the price level in the Nordic market and is a significant driver of the long-term prices. Continental prices are generally driven by the cost of producing electricity, including among others the cost of fuel and of purchasing CO₂ allowances.
21. In the past 10 years, there has been a strong link between the cost of coal generation and Nordic prices under normal conditions. In addition, hydrology causes variations in the Nordic power price: a strong hydrological balance tend to give lower prices and vice versa.
22. The interdependency and complexity of the Nordic and European electricity markets imply that the influence of CO₂-prices should not be decided with reference to the marginal power plant in the region. Power markets models should be applied to analyze the implicit effect of CO₂-prices on Nordic power prices. It is Norway's position that a method for estimating the CO₂ emission factor should be as close to the actual price increase of electricity due to the EU ETS as possible.