

Norway's preliminary views on the Energy Union

- Norway is a large supplier of energy to the EU and is fully integrated in the Nordic electricity market. We welcome the initiative on the Energy Union and support strengthening the energy partnership between Norway and the EU.
- Well-functioning and efficient energy markets – with adequate infrastructure and an effective legislative framework – are preconditions for security of supply, and for developing an effective climate policy in Europe.
- A possible mechanism for joint purchasing of gas would be a step in the wrong direction. It may reduce competition in the market and runs contrary to the liberalisation of the energy market.
- The EU Emissions Trading System should continue to be the main climate policy tool in the EU.

Norway is a large supplier of energy to the EU, and is part of the internal energy market through the EEA agreement. We also cooperate with the EU on energy matters in other institutional settings, such as the International Energy Agency. Consequently, Norway has an obvious interest in how the future energy framework in Europe is designed. In this paper we would like to express our initial views on the Energy Union Project.

Annually, Norway exports more than 100 bcm natural gas to the EU through pipelines. Most of the export goes to Germany, the UK, Belgium, and France. Norwegian gas accounts for between 20 and 40 per cent of total gas consumption in these countries. Upstream projects and pipelines are huge, capital intensive projects. Additional investments upstream, and in gas export infrastructure, are hence dependent on expectations on future market development, including the market signals for gas in Europe from EU energy policy.

In Norway almost 100 % of the electricity production is based on renewable resources. The Norwegian electricity grid is closely connected with our neighbours, with a level of electricity interconnections well above 15 percent of installed generation capacity. The planned interconnectors to Germany and the UK will increase Norway's interconnection capacity by almost 50 percent.

Norway has in place strong policies and measures to achieve sound resource management and to limit CO₂-emissions from the petroleum sector. We are part of the EU Emissions Trading System (ETS), and a high CO₂ tax has been in place since 1991 – giving incentives for lower emissions energy solutions in the petroleum sector, and resulted in the only three CO₂ capture and storage projects currently in operation in Europe.

The partnership between Norway and the EU in the energy field is of mutual benefit. Norway is a stable key supplier of energy to the EU, and the EU is our largest market. We have an active political energy dialogue in addition to the EEA agreement which is our legal basis for cooperation. Norway is ready to enhance this partnership even further.

The dimensions of the Energy Union are closely interlinked. Work under one dimension must be seen in relation to the other dimensions.

A new governance system is discussed as a follow up to the Climate and Energy Framework 2030. Generally, Norway thinks that reporting systems should have a light touch and should not imply heavy administrative burdens. A rational governance system could be obtained through non-legislative measures and cooperation between different EU countries.

In the following sections, we briefly highlight some important elements related to each of the dimensions. In a non-exhaustive manner – and without prejudice to the scope of the EEA Agreement – Norway would like to underline the following:

Security of Supply

To ensure secure energy supplies, Europe will need all sources of energy for many years to come. Norway is an important energy partner for the EU, being a key supplier of oil and gas. Norway is fully integrated in the Nordic electricity market. The Norwegian Shelf will remain a stable supplier for decades. By replacing more CO₂ intensive energy sources, gas can deliver large emission reductions in the short term. Being a flexible energy source, gas can also provide balancing in a system where the share of intermittent renewable energy is increasing. It is vital that the EU in the future phrasing of policies in general – and related to the Energy Union in particular – acknowledges the role of natural gas in the energy mix.

Improving energy and gas security of supply is important – for gas exporting as well as gas importing countries. Well-functioning energy markets and an adequate infrastructure is in our view the best way of providing an efficient and secure European energy system. Through the changes in the gas market since the turn of the century, security of supply is significantly strengthened in most EU countries.

A possible proposal for joint purchasing of gas is not a good idea. It may reduce competition in the market and runs contrary to the liberalisation of the energy market. It could also create uncertainty about the regulatory climate with companies and investors, resulting in less investment in necessary gas projects. Norway disagrees with proposals in this direction.

Further strengthening of energy infrastructure, diversification of routes, and supply sources and continued efforts to make the European energy market more efficient are

better ways to improve the situation for countries dependent on a single source of supply, as well as enhancing energy security in general.

Internal Energy Market

Norway fully supports the establishment of a well-functioning internal energy market, as it is a precondition for improving the security of supply and decarbonisation of the energy mix in the EU economy. Completion of the internal energy market is one of the most important challenges for the EU in the energy area. Norway is hence in favour of a full implementation of the third energy market package.

Norway is fully integrated in the Nordic electricity market. This model benefits all the countries involved. The Nordic electricity market has been a model for how regional cooperation can drive market integration. Norway supports a regional approach as a stepping stone to achieve a fully integrated market, and is ready to share knowledge from the Nordic experience.

Network codes are needed in order to complete the internal energy market. Cooperation within and between the ENTSOs and ACER is crucial. Norway is through the EEA agreement entitled to be a part of this process. New network codes need to be proportionate in relation to their objectives and should not lead to overregulation.

Interconnectivity is crucial for the functioning of the internal market. Priority should be given to the projects that contribute to economic welfare. Development of interconnectors should be based on voluntary agreements between the relevant TSOs and other developers.

Moderating energy demand and energy efficiency

Energy efficiency measures contribute to improved security of supply, competitiveness, and reduced emissions. An ambitious policy on energy efficiency should be based on domestic action adapted to national circumstances and comprehensive assessments of costs and benefits. It is vital that the work on energy efficiency takes into account the need for flexibility in the choice of policy instruments which are adapted to each country's energy situation.

Norway and the EU cooperate on energy efficiency through the EEA agreement. We have also contributed with considerable funding for energy efficiency projects in some EU member states through the EEA financing mechanisms.

Regulations on labelling and ecodesign should not create unintentional results, such as prohibition of certain electrical heating products – as is the case today. On the way to a low emission economy in 2050, discrimination of renewable electricity gives the wrong signals. It is important that the EU takes this into account when revising framework directives for ecodesign and labelling.

Lower emission in the energy mix (decarbonisation)

The EU Emissions Trading System (ETS) is a cornerstone in the climate policies of the EU and Norway. The cap must be sufficiently tight and predictable to bring about an efficient transition to a low-emission future. A strong ETS incentivises substitution of coal by gas, investments in renewable energy, energy efficiency, and low emission technologies such as Carbon Capture and Storage (CCS).

It is our view that a broad range of technologies may contribute to a low emission economy, and it will be important to let these technologies compete in the market if we are to reduce emissions at the lowest cost. However, further measures are necessary to support low emission technologies that are immature. Widespread implementation of CCS technology is needed to simultaneously meet the goals of increased energy security and reduced emissions in Europe. CCS should therefore have a prominent role in the Energy Union and there is a need to develop a European CCS strategy to enable commercial development of CCS both for the power sector and the industry.

Norway is a large producer of renewable energy, and has a renewable share of around 65 % percent in the energy mix. Almost 100 % of our electricity production is based on renewable resources. A common certificate market with Sweden has been implemented, to encourage even more production of renewable energy. Norway has extensive trade of electricity with EU countries.

Research and innovation

Research and innovation is essential to reduce costs and bring to the market innovative technologies that will enable the transition to a secure and competitive low emission energy system. R&I will stimulate investments, improve European competitiveness, and create growth and jobs.

It is important to ensure that the increased funding available through Horizon 2020 and other instruments is targeted effectively at key technologies in line with the SET Plan. Priorities should include renewable technologies, CCS and more energy efficient technologies.

As fossil fuels will continue to be used in Europe's power generation as well as in other industrial processes for decades to come, development and implementation of CCS technologies is crucial. It is vital to establish demonstration projects to prove CCS technologies' viability and to contribute to reducing costs.

Norway has through the cooperation under the EEA agreement worked with the EU on a wide range of R&D programmes and projects. Norway shares many of the EU's top priorities in the energy sector for R&D and innovation. The Energy Union debate on R&I will also facilitate the achievement of 2030 targets and eventually targets beyond this point. Norway actively supports efforts in the SET-plan and in Horizon 2020.