



DET KONGELIGE
FINANSDEPARTEMENT
Royal Ministry of Finance

EFTA Surveillance Authority
Rue Belliard 35
1040 Brussels , Belgium

Your ref

Our ref
06/3859 SL GHD/rla

Date
8 .03.2007

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

1. Introduction

According to Part I Article 1 (3) and Part II Article 2 of Protocol 3 to the Surveillance and Court Agreement, the Norwegian Ministry of Finance hereby notifies to EFTA Surveillance Authority (the Authority) of a planned amendment to the CO₂ tax.

The CO₂ tax is presently levied on mineral oil and petrol. The Government proposes to amend the CO₂ tax to include tax on gas used as heating from 1 July 2007.

The opinion of the Ministry, the proposed amendment does not constitute state aid within the meaning of article 61 (1) of the EEA Agreement. The amendment is however notified for reasons of legal certainty.

2. Introduction of CO₂ tax on gas used as heating

The Norwegian government considers environmental issues very important. According to the Soria Moria Statement¹ Norway shall be a leading country in environmental issues. The politics shall be based on the principle that any doubt goes in favour of the environment, the polluter pays principle and the use of best available technology.

¹ Policy statement drawn up by the three political parties (Arbeiderpartiet, Senterpartiet, Sosialistisk venstreparti) which constitute the government

According to the Norwegian constitution excise duties are decided every year by the Norwegian Parliament (the Storting). From 1 January 2007 the CO₂ tax is levied on mineral oil and petrol with respectively NOK 0.54 and NOK 0.80 per litre.

The purpose of the CO₂ tax 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.

In the budget proposal for 2007 the Norwegian government proposed introduction of CO₂ tax on gas used as heating. The objective of the new tax is described in St.prp. nr. 1 (2006-2007) Skatte-, avgifts- og tollvedtak page 69:

“Domestic use of gas is not subject to CO₂ tax. From 2005 gas used in some industries are subject to the climate quota system concerning CO₂. Other gas usages are not subject to means which motivates to the reduction of CO₂, i.e. gas used in dwellings, industrial houses and mobile sources. In the Soria Moria statement it is announced that the Government will examine the CO₂ tax to prevent that gas as heating is preferred to more environmental favourable alternatives.

The Government proposes the introduction of CO₂ tax on domestic use of gas as heating in dwellings and industrial houses [...].” (*The Ministry’s translation*)

The proposal was adopted by the Parliament. The tax is to be levied on natural gas and LPG with respectively NOK 0.47 per Sm³ and NOK 0.60 per kilo. LPG and natural gas are the gases used for heating.

Presently, there is no excise duty on gas either used for heating of buildings or for other purposes, i.e. gas is not subject to any other means in order to motivate the reduction of CO₂. In order to reduce CO₂ emissions, the CO₂ tax should in principle be levied on all uses of gas. However, the primary aim of the tax is to prevent that gas for heating purposes is preferred to more environmental favourable alternatives, such as bio energy. CO₂ tax on gas for heating of buildings will make more environmentally friendly alternatives cheaper compared to gas and the tax will stimulate to the use of such alternatives.

Technically, the tax on gas used for heating is adopted as a general tax on gas (cf. the Parliaments decision section 1 subsection 1 litra c and d), with an exemption for gas uses for other purposes than heating (cf. the Parliaments decision section 2 subsection 1 No 4). Alternatively, the tax could have been adopted as a tax on gas for heating purposes with no exceptions. However, such a framing of the tax would imply less control possibilities for the tax authorities. Accordingly, the technical framing of the tax is due to practical reasons.

Excise duties are further regulated in the Ministry’s Regulation 11 December 2001 No 1451 concerning Excise Duties. The Ministry is presently assessing such regulation.

3. Consumption of gas

The net domestic consumption of gas in Norway in 2005 was approximately 263 million Sm³ natural gas and 185 000 tons of liquefied gas. *Manufacturing industries* used approximately 214 million Sm³ natural gas and approximately 148 000 tons of liquefied gas, the use of gas in *transport* was approximately 11 million Sm³ natural gas and approximately 2 000 tons of liquefied gas and the use of gas in *private households* was approximately 6 million Sm³ natural gas and approximately 13 000 tons of liquefied gas. There is also some use of gas in agriculture and services. Gas used as heating is over all estimated to 6 per cent of the total amount gas sold in Norway.

Table 1: Net domestic consumption of gas

	<i>Natural gas</i> <i>Million Sm³</i>		<i>Liquefied gas</i> <i>1 000 tons</i>	
	Total net domestic consumption	Households	Total net domestic consumption	Households
1995	21	0	102	3
1996	29	0	92	3
1997	133	0	99	4
1998	159	0	106	4
1999	198	0	142	4
2000	203	0	199	6
2001	208	2	196	7
2002	160	2	209	9
2003	211	2	225	12
2004	247	3	201	13
2005	263	6	185	13

Source: Energy source balance sheet for Norway. 2005. Statistics Norway

4. Article 61 of the EEA Agreement

Article 61 (1) of the EEA Agreement reads: "... any aid granted by EC member States, EFTA States or through State resources in any form whatsoever which distorts or threaten to distort competition by favouring certain undertakings on the production of certain goods shall, in so far as it affects trade between the Contracting Parties, be incompatible with the functioning of this Agreement."

As shown above the total amount of gas used for heating of buildings, constitute a small part of the total quantity of gas sold in Norway. Thus, the main rule is that gas is not levied CO₂ tax. The exception is gas used for heating of buildings. On this background, the Ministry considers the tax to be a burden for those undertakings which are subject to the tax and not as state aid for those undertakings which are not subject to the tax.

Furthermore, the tax comprises all gas for heating of buildings, i.e. gas used by private households, all undertakings and all sectors. Consequently, all sectors/undertakings using the gas as heating of buildings are liable to the tax for this use. On the other hand, sectors/undertakings which use the gas in a production process or for any other purpose than heating of buildings, is not liable to the tax for this use.

Consequently, the Ministry considers the tax as a general measure compatible with the EEA Agreement.

As mentioned above, the Ministry will assess the need for further regulation of the tax in the Ministry's Regulation 11 December 2001 No 1451 concerning Excise Duties, i.a. for sectors/undertakings which use gas both for heating and other purposes.

4. Greenhouse growing industry

There is a question whether gas used in the greenhouse growing industry is to be considered gas for heating of buildings or not.

As the greenhouse growing industry and the goods this industry produces to fall outside the scope of the EEA Agreement, cf. the Agreement article 8 (3) litra b and protocol 3, which deals with processed agricultural products, this distinction is however of no relevance for the assessment under article 61 (1) of the EEA Agreement.

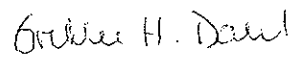
5. Conclusion

The Ministry considers the proposed amendment to the CO₂ tax from 1 July 2007 to fall outside the scope of article 61 (1) of the EEA Agreement.

The Ministry will submit the revised budget proposal in the middle of May 2007. Please don't hesitate to contact us if you have any questions or if you need any additional information regarding the proposed amendment.

Yours sincerely,


Heidi Heggenes
Deputy Director General


Grethe H. Dahl
Senior Adviser

Enclosure