

The Federation of Norwegian industries: ETS post 2030 position

The Federation of Norwegian Industries represent around 3.300 companies with approx. 150.000 employees. We are active members of several European industry federations in Brussels.

The Federation of Norwegian Industries supports the principle of carbon pricing, and the EU Emissions Trading System (ETS) has been a key market-based tool that has contributed to reducing emissions. The ETS should continue to be the key instrument in EU climate policy beyond 2030.

However, European industry is currently facing significant competitiveness challenges, in large part due to persistently high energy costs. These were exacerbated by the 2021-2022 energy crisis which significantly worsened the global competitiveness of European industry. Further, ETS prices lead to higher European power prices, due to the unique combination of the ETS and the marginal pricing system for power in Europe. Such ETS cost pass-through in the power price is not faced by competitors on the global market, and must continue to be compensated. The ETS must be reformed to avoid continued outsourcing of industry, jobs and emissions while moving towards climate neutrality in 2050.

The ETS is a complex set of rules for companies to adhere to. The revision should strive to simplify the administrative burden on industry.

1. Emissions trajectory

The ETS must remain in force until 2050 when climate neutrality is estimated to be achieved. Full decarbonisation of all ETS sectors before 2040 is not realistic with foreseeable available technologies and cost levels. The current linear reduction factor (LRF) should therefore be reduced to ensure that it reflects the actual technological development, and allow hard-to-abate industries which have not fully decarbonized by then, can continue to operate in Europe.

2. Market Stability Reserve (MSR)

The MSR should be adapted to a situation of increasingly scarce allowances by reducing the intake rate and reducing the MSR release threshold to allow a larger release of allowances when the mechanism is triggered as well as removing the invalidation rule. Previously invalidated volumes should be made available for release into the market, when trigger conditions are met. The MSR must be transparent and strictly rule based in order to provide predictability to the industry on carbon price signal.

3. Price containment mechanism

An effective price containment mechanism is necessary to safeguard the ETS against extreme price spikes and maintain confidence in the carbon market. The current mechanism under Article 29a of the ETS directive is highly unlikely to be triggered under existing conditions. To make it functional, trigger conditions should be clarified and thresholds lowered. Assessment periods should also be shortened to ensure timely response to rapid market movements.

4. Carbon leakage protection

The current level of carbon leakage protection is insufficient to bridge Europe's competitiveness disadvantages. As carbon costs increase, it becomes more important. If

CBAM does not prove effective, the phase-out of free allocation for CBAM sectors should be postponed and provision of free allocation prolonged after 2034 for CBAM sectors. Further, free allocation should be prolonged after 2039 for non-CBAM sectors.

5. Indirect cost compensation

The framework for indirect carbon cost compensation is a transparent, market-based solution that is widely accepted. It is a vital framework to combat carbon leakage and must be extended beyond 2030 to sufficiently compensate for the high Europe-only indirect carbon costs.

6. Carbon removals

Removals will be increasingly needed as we approach 2050 and can provide important flexibility for hard-to-abate sectors. Permanent removals should be recognized in the ETS for ETS sectors to use directly to meet compliance obligations.

7. Use of biomass

The 95% biogenic emissions threshold for exclusion from ETS1 should be removed. This penalises early movers, contradictory to the ETS aim to incentivise reduced emissions.

8. Inclusion of municipal waste incinerations

Fossil CO₂ emissions from municipal waste incineration installations should be included under the EU ETS legislation as soon as possible. Integrating municipal waste incineration in the EU ETS would encourage recycling of waste. It will also reduce the risk of tax competition between regions and provide an equal playing field between industrial co-incineration and municipal waste incinerators.

9. International carbon credits

The Federation of Norwegian Industry supports the inclusion of high-integrity international carbon credits (Paris Agreement Article 6.4) into the ETS as a complement to domestic decarbonisation and removal efforts. Such credits should be made available also to companies for directly meeting compliance obligations.

10. Investment and support framework

To reach the dual goals of decarbonisation and competitiveness, regulatory stability and continuity in the implementation of European climate legislation, notably the ETS and the CBAM, is essential. Predictable and long-term support mechanisms for decarbonisation, such as the ETS Investment Booster and the Industrial Decarbonization Bank, are needed and should be based on clear and transparent conditions. Long term CAPEX and OPEX support is needed for both the scaling up of mature technologies as well as for research and development of breakthrough technologies.

11. Lead markets

The need to create market premiums for low-carbon products is increasingly recognised, as seen in initiatives such as the Industrial Accelerator Act and the Critical Chemicals Alliance. Demand creation – through robust product and carbon intensity labelling schemes that take account of emissions throughout the value chain – is essential to drive the uptake of decarbonized products and should be a key component of the ETS review. ETS benchmarks should recognise the ability of different sectors to roll over carbon costs into products.