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Carbon Border Adjustment Mechanism – Preliminary Norwegian Positions

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Recipient: Vice-President Timmermans

High ambitions, collective effort and urgent action are needed to speed up the transition to a sustainable, resilient, climate neutral and environmentally friendly future.

Fighting climate change and promoting climate neutral growth is a defining task. Norway shares the European Commission's vision for a European Green Deal. We want to be a partner and contribute to the implementation.

The Agreement on the European Economic Area (EEA) is the cornerstone of the cooperation between the European Union and Norway. It integrates Norway, Iceland, and Liechtenstein as equal partners within the Single Market, with a level playing field that includes common rules on competition and state aid. In 2019, EU, Norway and Iceland agreed to deepen the long cooperation on climate change further, by applying the EU legislation on the Effort Sharing Mechanism outside the EU ETS, as well as the regulation on emissions from land use, land use change and forestry (LULUCF) in Norway and Iceland. Given Norway's special partnership with the EU within the Single Market, we are eager to engage in a continued dialogue on a possible proposal on a carbon border adjustment mechanism (CBAM).

The European Union and Norway share the view that a price on carbon emissions is in general the most cost-efficient way to reduce such emissions. Our common carbon pricing tool is the EU ETS which operates in all EU member states plus Iceland, Liechtenstein and Norway. If international partners do not share the same climate ambition as EU and Norway, there is a risk of carbon leakage and our efforts to reduce emissions in Europe will not result in a similar reduction in global emissions.

The Norwegian government shares the concerns and objectives of the European Commission in reducing the risk of carbon leakage to countries outside the Single Market. Key features of the EU ETS directives, with a certain level of free allowances, as well as the framework for compensation of indirect CO₂-costs, to exposed industries, are designed to reduce the risk of carbon leakage.

Norwegian businesses participate in the EU Emission Trading System on an equal footing with EU businesses, and they are included in a scheme for compensation of indirect CO₂-costs in line with EU/EEA regulations. It is important that the implications of a possible transition to CBAM are properly analysed for key industries, such as primary aluminium and fertilizers. We believe that the framework regarding compensation for indirect CO₂-cost and other measures should be continued until a well working mechanism, building on a broad analysis including EEA countries, is in place. We would in this context like to echo the views expressed by the German government in its position paper on the Fit for 55 package:

"Existing instruments to protect against carbon leakage (free allocation and electricity cost compensation) have to be prolonged to an appropriate extent, taking into account international competitiveness. Talks with third countries on joint climate action efforts should begin soon."

Furthermore, Norwegian businesses should not be targeted by a CBAM, as there is no risk of carbon leakage between EU and Norway. As long-term partners, with Norwegian companies already covered by all relevant European legislation, we ask the Commission to carefully consider three policy pillars when finalising the proposals on CBAM: