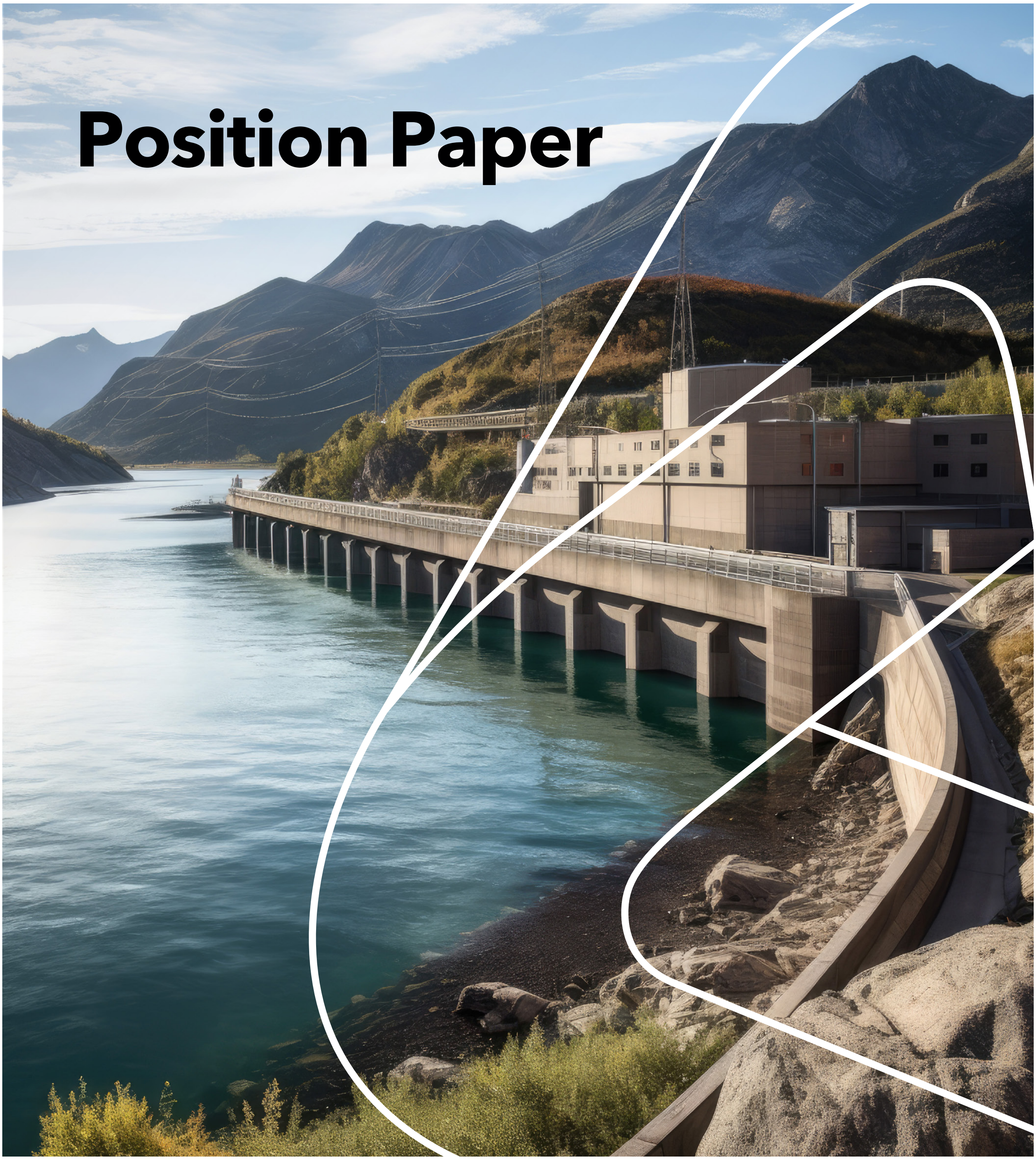
NHO Confederation of Norwegian Enterprise

Position Paper



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A Clean Industrial Deal to boost European competitiveness and sustainability

Position paper - A Clean Industrial Deal to boost European competitiveness and sustainability

The Confederation of Norwegian Enterprise (NHO) supports the European Union's (EU) ambition to continue its leading role in the global climate effort, and the need to build a more competitive, innovative, resilient and sustainable Europe.

Being a fully integrated member of the European Single Market through the European Economic Area (EEA) Agreement, it is crucial for Norwegian business that the Clean Industrial Deal (CID) succeeds in providing:

i. A favourable and predictable regulatory and investment framework to ensure Europe's long-term competitiveness, prosperity and leadership on the global stage;

ii. A continuation of an ambitious climate policy, including the upcoming 2040 targets, with an increased effort on providing the right policy prerequisites for reaching targets in a competitive manner;

iii. A platform fit for the whole EEA, with a regulatory framework including, by default, the EEA EFTA countries[1].

As highlighted by the Draghi report, the CID can only succeed if we manage to (i) improve the productivity and innovation of our industries, (ii) secure an energy transition with competitive energy prices and (iii) build more robust and resilient value chains. It is therefore vital to implement already approved legislation such as the fit-for-55 package and the Net-Zero Industry Act (NZIA), while also strengthening the single market by improving coordination and removing barriers to cooperation.

The single market must be made more robust and resilient on global market-based terms. It is therefore crucial that the CID helps strike a balance between Europe's leading role in the international climate effort and a more competitive commercial policy, to enable the necessary investments. If not, we risk that production moves out of Europe, which could result in increased imports of less sustainable goods, a weakened European economy, and ultimately, both Europe and the climate will lose.

NHO firmly believes that the clean transition is a long-term competitive advantage. However, there is a need to address the transitional challenges for businesses, in order to ensure the optimal framework conditions for a cleaner economy. Building on market-based mechanisms, we need to incentivise the uptake of the best available solutions, by targeting research, development and innovation (RDI) and other funding, based on excellency criteria. Employing risk-management tools might also help attract more private capital. Moreover, utilising cross-border projects and green public procurement, completing the single market and making it fit for a circular economy, will be important to create the right conditions for attracting both public and private investments.

The Clean Industrial Deal, including the Industrial Decarbonisation Accelerator Act, must foster innovation in cleaner tech and support the deployment of the best available solutions. This can be achieved through a combination of efficient and transparent permitting procedures, designed in a technology-neutral way. However, without the necessary infrastructure for a low-carbon energy system in place, limited access to greener energy at competitive prices will delay the transition. Public-private partnerships are therefore needed to de-risk, finance and build the infrastructure needed, locally, regionally and to interconnect Europe.

[1] The EEA EFTA states refer to Iceland, Liechtenstein and Norway, the three European Free Trade Association (EFTA) countries that make up the EEA together with the EU member states.

Recognising that a broad spectrum of low-carbon and renewable solutions are needed to reach the climate targets, competitive energy prices and improving security of supply, is crucial. Thus, it is important to further connect and develop a well-functioning internal energy market based on marginal pricing. There should be a particular focus on more efficient permitting procedures. Furthermore, barriers to market-based Power Purchase Agreements (PPAs) must be removed so that industry can benefit from predictable and stable prices. Innovative business models, services and digital solutions are essential, and the ambition should be that European industry becomes the leading solution provider in the clean transition, helping to accelerate decarbonisation globally, while strengthening our global market position.

The Clean Industrial Deal needs to jointly support the objective of achieving net-zero by 2050, while safeguarding the competitiveness of European industries through the transition. For this purpose, it is imperative that the carbon border adjustment mechanism (CBAM) works as intended. However, energy-intensive industry cannot survive in Europe if energy and carbon costs exceed profitability margins, or if foreign competitors have no such mechanisms. Yet, CBAM does not provide a solution for the industries in which prices are set globally and that are exporting out of Europe. Hence, compensation or allocation of emission allowances to "hard-to-abate" sectors cannot be phased out in the EU Emissions Trading System (EU ETS) until there are technological and affordable alternatives. This must be acknowledged by both the CID and the future EU climate framework to ensure that emissions that cannot be abated, stored or removed in time can be offset by international or European allowances.

Key aspects to be delivered by the Clean Industrial Deal to ensure a secure and competitive decarbonisation

The need for **reliable access to clean and affordable energy** by interconnected and flexible energy systems are crucial to the growth and competitiveness of European companies, and decisive for the energy-intensive industries. The CID must therefore be complementary to a regulatory framework that incentivises investments in renewable and low-carbon energy, including carbon management and a physically connected demand market, to ensure international competitiveness.

A **technology-neutral approach** is essential to accelerate the transition to a clean European energy mix. In this context, we welcome the Draghi report's clear recommendation to also promote low-carbon solutions such as carbon capture and storage (CCS) and low-carbon hydrogen. The uptake of these technologies will necessitate different incentives and support along the value chain. To succeed with CCS, both capture, transportation and storage projects must be incentivised. Moreover, CO_2 storage sites in the whole EEA, including the Norwegian Continental Shelf, will be essential for the achievement of the EU's long-term climate targets. Both the use of long-term contracts in partnerships, existing funding facilities (Connecting Europe Facility, Innovation Fund and Important Projects of Common European Interest), and new ones based on competition and excellence should be considered for these purposes.

The continued evolution of the **Energy Union** will necessitate a flexible and interconnected system that addresses key cross-border energy topics with a coherent systemic approach. A balance between the objectives of increasing build-out of interconnectors with the national responsibility for dispatchable generation and optimal design of bidding zones must be obtained. As sufficient grid capacity is necessary for the energy transition in Europe. Regulation must therefore provide sufficient incentives for grid investments to rapidly keep up with the drastically increasing demand for capacity and flexibility that we are experiencing. The Clean Industrial Deal must ensure incentives and funding to accelerate investments both in terms of grid reinforcement and renewal, digitalisation and cross-border interconnectivity without national, physical or economical barriers.

Only a **well-functioning electricity market** can achieve the most cost- and carbon-efficient solutions, rather than public interventions curbing price signals. There is no documented alternative to the **marginal pricing system**. Therefore, it should be maintained to ensure an efficient balance and the necessary investments in the energy system. Marginal pricing ensures appropriate investment signals in new production or grid capacity, as well as efficient use of resources, thereby providing signals for more flexibility, both on the supply and the demand side. Any barriers to signing PPAs should be removed, to make it possible for industry to limit fossil fuel commodity price variations on energy prices through long-term agreements. Moreover, the CID should further promote the use of two-way contracts for difference (CfDs) to de-risk investments in new renewables, low-carbon or carbon storage. Such contracts will contribute to establishing long-term price signals and ensure visibility and stability for both energy consumers and producers.

EU funding, such as the planned **European Competitiveness Fund**, needs to be strategic, sufficiently substantial and based on excellency. It should also be able to leverage private financing and rely on the expertise of the European Investment Bank (EIB). The Commission must ensure that the fund does not lead to an uneven playing field within the single market, whereby non-EU members are restricted from participating on equal terms, e.g. if funds are shuffled between framework programmes or supported by the EU's own funds. Simultaneously, the Commission must take action to safeguard a strict state aid framework, as weakening it might hamper European competitiveness.

To ensure increased **financing and investments**, the implementation and operationalisation of the green reporting standards, with the foreseen simplifications, will successively provide the data for the market evaluation of investments in sustainable energy and infrastructure. However, further work on the toolkit for transitional economic activity is needed. Regulatory reforms must be considered to facilitate investments in sustainable infrastructure projects and transition finance, ensuring a proper balance between investors' returns and long-term development project phases. Risk-mitigating tools can encourage private investments, while tax incentives are equally critical. A solid capital base is key for entities and projects seeking to secure funding, whether through bond issuance or lending.

The strategic use of **public procurement** can play an important role in increasing the demand for climate-friendly products and in boosting innovation. NHO firmly believes that a more strategic use of public investments and procurement can play an important role in speeding up the transition and help support European industrial development.

Research, Development and Innovation (RDI) should be considered a cornerstone of the CID, warranting prioritised actions and funding to support the achievement of the CID's ambitions and enhance competitiveness. Concerted RDI efforts should be developed in close collaboration with business and industry stakeholders, grounded in market needs to maximise impact. Additionally, incentives for both public and private investments should be considered to facilitate these efforts efficiently.

Lastly the energy transition is a complex endeavour that depends on **international cooperation**. Europe cannot tackle the climate challenge alone. While Europe might lead and push internationally, these efforts must be balanced with competitiveness through trade. If production moves out of Europe, it might result in increased imports of less sustainable goods, in which case both Europe and the climate lose. At COP29 the world finally agreed on the rulebook for carbon trading between countries, as well as businesses. If abatement proves difficult due to missing technology or high costs, the use of offsets should be a safety valve to keep production in Europe, while we develop cleaner solutions and scale them up to increase demand and profitability.

NHO

The Confederation of Norwegian Enterprise (NHO):
Norway's largest employer organisation, and leading business voice.
NHO is the Norwegian member of BusinessEurope.

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