OFFSHORE NORGE

5th August 2024

EUs Net Zero Industry Act - Offshore Norge's position

(This is a translated version of the original document in Norwegian)

Norway has ideal conditions for CO_2 Storage

The Norwegian continental shelf (NCS) and the offshore industry in Norway are very well-suited for providing permanent and safe storage of large amounts of CO_2. Norway has extensive experience with offshore CO_2 storage, and the companies on the Norwegian continental shelf aim to be significant providers of CO_2 storage solutions for Europe. The decisions we make regarding the Norwegian continental shelf today will be crucial in enabling the industry to succeed in establishing CO_2 storage facilities and infrastructure capable of receiving large volumes of CO_2 from the EU in the coming decades. Success in this area will ensure a long-term market demand for CO_2 storage on the Norwegian continental shelf. The Konkraft status report for 2024[1] contains an updated overview of the maturity level of existing storage projects.

On February 6, 2024, the EU Commission published its climate ambitions for 2040, proposing a 90% reduction in the EU's net greenhouse gas emissions by 2040 compared to 1990 levels. Alongside the 2040 target, the Commission presented its Industrial Carbon Management Strategy, contributing to the achievement of the 2040 target. The ambition is to realize an annual CO_2 injection capacity of 200-250 million tonnes of CO_2 by 2040, heading for climate neutrality by 2050. In this strategy, the Commission clearly states that CO_2 storage on the Norwegian continental shelf will be crucial for achieving the EU's long-term climate goals. The NZIA must be seen as a milestone towards achieving the long-term CO_2 storage targets, but it comes with significant costs and commercial uncertainties related to implementation requirements and obligations.

NZIA and negotiations in the EEA Committee

The EU has set a target in the NZIA for a CO_2 injection capacity of 50 million tonnes of CO_2 per year (Mtpa) in the EU by 2030. This target is to be met by and allocated to companies authorized to produce oil and gas in the EU, based on production during the period 2020-2023. Offshore Norway has closely followed the EU process and provided input, claiming that Norwegian CO_2 storage sites should be allowed used for meeting the EU's injection capacity target. The final text of the NZIA states that the 50 Mtpa target will be "adjusted accordingly" if the regulation becomes EEA relevant. However, it is not specified how much the injection capacity target will be adjusted or how this will be allocated to oil and gas companies in the EU and the EFTA EEA countries respectively. Therefore, Offshore Norway considers that the EEA Committee in addition to the

[1] statusrapport-2024-170624-ver5-final.pdf (konkraft.no)

adjustment of the injection capacity target must agree on how this target should be allocated to oil and gas companies in the EU and the EFTA EEA countries (i.e. Norway) respectively.

Generally, Offshore Norway considers that the polluter-pays principle must be the basis of effective climate measures. The NZIA deviates from this principle by imposing a requirement to establish CO_2 injection capacity for licensees based on production in the past. Offshore Norway expects and assumes that any injection capacity obligation must be met on a commercial basis.

The NZIA introduces a direct regulatory investment obligation with retroactive effect for oil and gas production during the period 2020-2023. Offshore Norway refers to Norway's response to the EU Commission's consultation July 2023, where Norway argues that this challenges fundamental principles in national and international law.

Licensees on the NCS can only take responsibility for an additional volume

If the NZIA is found EEA-relevant, any adjustment of the injection capacity target in the NZIA must be in the form of an additional volume allocated to licensees in Norway based on the production on the Norwegian continental shelf. The EU's injection capacity target of 50 Mtpa by 2030 is based on expected need for CO_2 storage in the EU. As 50 Mtpa is based on the EU's storage needs, allocating this injection capacity target to licensees in Norway would be inappropriate. Injection capacity in other EFTA EEA countries than Norway should be allowed used to meet the injection capacity under the NZIA, but should not impose an increased obligation on licensees on the Norwegian continental shelf.

Additional volume must be based on an actual need for storage

The NZIA target of an annual CO_2 injection capacity in the EU of 50 Mtpa by 2030 is based on expected market demand in the EU. If Norway commits to an additional volume, the target for this additional volume must be based on the expected need for CO_2 storage from capture projects in the EFTA EEA countries with associated infrastructure for delivery to storage.

The EU's injection capacity target of 50 Mtpa represents about 1.7% of the EU's CO_2 emissions. If a similar share should be applied to an additional target for Norway, it would amount to less than 1 Mtpa. According to the Norwegian Environment Agency, Norway's need to store CO_2 to meet the climate targets is estimated at around 4 Mtpa in 2030[2] and 5.5-8 Mtpa in 2035[3]. According to Zero there is a potential for capturing 5 Mtpa from 2030[4].

Contribution to the EU's injection capacity target must not be allocated to licensees on the NCS

The Norwegian continental shelf must take a position as a significant, safe, and commercial provider of CO_2 storage for the entire EEA area. Norway aims to be a significant provider of storage for CO_2 from Europe. The EEA's total storage needs must be met within the entire EEA, and CO_2 storage

[2] Klimatiltak i Norge mot 2030: Oppdatert kunnskapsgrunnlag om utslippsreduksjonspotensial, barrierer og mulige virkemidler - 2023 - Miljødirektoratet (miljodirektoratet.no)
[3] Klimatiltak i Norge: Kunnskapsgrunnlag 2024 - Miljødirektoratet (miljodirektoratet.no)
[4] Zerorapporten-2024-Elektronisk.pdf

sites on the Norwegian continental shelf must be accepted used to fulfill the obligations for licensees in the entire EEA under the NZIA. This will ensure the lowest possible storage price for customers and thus contribute to effectively achieving the CO_2 injection capacity targets.

If CO_2 storage sites on the Norwegian continental shelf can be used to meet the EU's target of 50 Mtpa, the industry in Norway, based on the expected project portfolio[5], can provide significant commercial injection capacity, if capture and infrastructure projects are fulfilled. Offshore Norway emphasizes that the additional injection capacity made available must not be adopted as an obligation to be allocated to licensees on the Norwegian continental shelf under the NZIA.

Exemption for licensees' injection capacity obligation

The NZIA contains a provision where Member States can apply to the EU Commission for an exemption of the injection capacity obligation for licensees if the total injection capacity for selected storage sites authorized in a country exceeds the sum of the obligations based on the oil and gas production.

Offshore Norway believes Norway should consider applying to the EU Commission for an exemption from the injection capacity obligation for licensees, if the criteria for this in the NZIA are met and the owners of the relevant storage projects approve the allocation of their injection capacity to the NZIA obligation exemption purpose.

Deadline for Norwegian licensees must be extended

The deadline for fulfilling the requirement must be adjusted in line with any delays in the EFTA/EEA Committee. Establishing a CO_2 injection capacity is very time and resource intensive. Therefore, the deadline for the obligation for licensees on the Norwegian continental shelf must be extended by the time it has taken from entry into force in the EU to any implementation in Norwegian law.

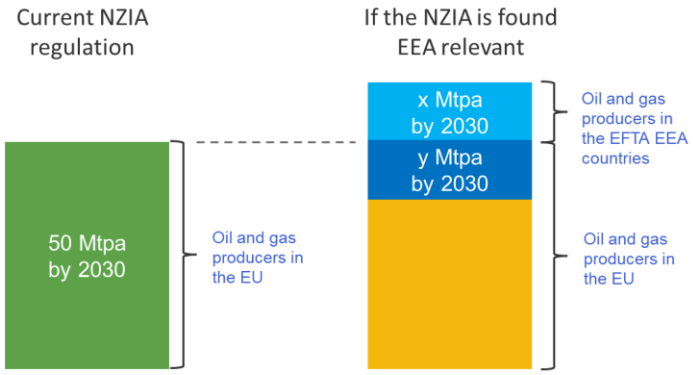
Competitiveness of CO_2 storage on the NCS

If the NZIA is not found to be EEA-relevant, this may result in a situation where storage sites on the NCS are not accepted used to meet the EU's injection capacity target, and thus likely not having access to any financial support schemes and other benefits under the NZIA. For Norwegian CCS projects, this could result in a competitive disadvantage compared to storage projects in the EU and weaken the interest in investing in storage on the Norwegian continental shelf.

Since the framework and any new support schemes are not in place yet, it is uncertain how significant the competitive disadvantage might be. Capture projects in the EU will be able to store CO_2 on the Norwegian continental shelf and receive exemptions from EU ETS quotas, regardless of the NZIA. However, it is important that all CO_2 storage projects in the entire EEA area are considered "Net-Zero strategic technologies" and have similar framework conditions as those outlined in the NZIA.

[5] statusrapport-2024.pdf (offshorenorge.no)

Offshore Norge's NZIA position – outline of principles



- Only the additional volume of x million tonnes per annum (Mtpa) can be allocated to oil and gas producers in the EFTA EEA countries (i.e. Norway).
- x Mtpa must be based on an expected need for storage of CO_2 from capture projects in the EFTA EEA countries (i.e. Norway, Iceland and Liechtenstein) with associated infrastructure.

- Norwegian CO_2 storage sites can additionally be made available for y Mtpa on commercial terms for the EU to meet the target of 50 Mtpa by 2030.
- y Mtpa must not be adopted as an obligation that is allocated to oil and gas producers in the EFTA EEA countries (i.e. Norway).