



17 FEB, 2025

# Norway`s carbon pricing model a benchmark for climate strategy

The Edge, Malaysia



## Norway's carbon pricing model a benchmark for climate strategy

Norway has set a global benchmark in using carbon pricing as a tool to enhance climate resilience and sustainability. By integrating high carbon taxes and participation in emissions trading, Norway has developed a strategic model that leverages financial incentives to drive innovation, reduce greenhouse gas (GHG) emissions and secure long-term economic sustainability. Introduced early in global climate efforts, Norway's carbon pricing mechanism now includes a carbon tax set at approximately NOK800 (RM317) per tonne of CO<sub>2</sub>. This high tax rate has created a clear financial structure, encouraging industries to reduce emissions and generating significant revenue for reinvestment in climate-focused initiatives.

**Key elements of Norway's strategy**  
Norway's approach includes both carbon taxation and engagement with the European

Union Emissions Trading System (EU ETS), creating a dual-pronged pricing mechanism. The carbon tax applies to sectors outside the EU ETS, while industries within it engage in emissions trading. This coverage spans critical sectors, including power generation, manufacturing (such as cement, steel and paper) and aviation. By extending carbon pricing to cover approximately 80% of its GHG emissions, Norway sends a strong signal that high emissions incur substantial financial costs, motivating industries to adopt cleaner technologies and practices.

The Norwegian government strategically reinvests carbon tax revenue in sustainability and innovation. In 2023, Norway collected around NOK70 billion from carbon taxes, approxi-



mately 0.25% of its gross domestic product (NOK27.4 trillion). This revenue fuels research and development in green technologies, renewable energy, and climate adaptation projects. Norway has led the development of carbon capture and storage (CCS) technology, investing in projects like Longship. This ambitious initiative, funded with NOK16.8 billion in 2020, aims to capture 1.5 million tonnes of CO<sub>2</sub> annually from industrial processes, demonstrating the feasibility of large-scale CCS deployment.

Norway's model emphasises strong partnerships between the government and the private sector. The government has encouraged businesses to invest in low-carbon technologies by using carbon revenue

to support grants and subsidies. Enova SF, a government enterprise, provided more than NOK3.6 billion in 2022 alone to support companies transitioning to greener operations. This co-funding model has facilitated substantial investment in sustainable development, advancing technologies like energy-efficient industrial processes and electric vehicle (EV) infrastructure. Today, Norway leads the world in EV adoption, with over 80% of new car sales in 2022 being fully electric.

Norway's climate strategy highlights that initial high costs can yield long-term economic benefits by fostering innovation and reducing emissions. Since 1990, Norway has achieved a 30% reduction in GHG emissions, significantly lowering its carbon intensity. Simultaneously, Norway's green sector has created over 50,000 jobs, contributing to public support for climate policies. Investments in sustainability have also enhanced Norway's energy security and



17 FEB, 2025

# Norway`s carbon pricing model a benchmark for climate strategy

The Edge, Malaysia



reinforced its global standing as a leader in sustainable practices.

**Lessons for Malaysia**

Malaysia stands to gain significantly from implementing a structured carbon pricing mechanism that deters emissions and drives innovation and resilience across industries. A phased approach, gradually increasing in scope and stringency, could help businesses plan and adapt, allowing for greater stability and commitment to long-term sustainability goals. Revenue generated through carbon pricing should be earmarked for reinvestment in critical areas, such as climate adaptation projects, renewable energy development, and technological advancement, ensuring these funds support the country's strategic transition to a low-carbon economy.

A successful example of this approach is Malaysia's recent exploration of carbon markets. In 2023, Bursa Malaysia launched the

voluntary carbon market (VCM) to facilitate carbon credit trading, providing a platform for companies to offset their emissions by purchasing credits from local and regional projects. The initiative has sparked growing interest across the private sector, with the potential to foster innovation by creating a financial incentive for companies to reduce emissions more cost-effectively. Expanding this system into a mandatory carbon trading scheme across high-emission sectors, including palm oil, manufacturing and oil and gas, could further accelerate the adoption of low-emission technologies and practices.

Collaboration with the private sector remains critical in advancing sustainable development, and the Malaysian government has recently initiated several partnerships to support this goal. Petrolim Nasional Bhd's CCS initiatives illustrate one avenue of such collaboration, with Petronas and several ministries working jointly to explore CCS deployment within Malaysia's oil and gas

industry. By expanding financial support and incentives for sectors exploring CCS and other advanced green technologies, Malaysia can foster private investment in solutions that reduce carbon emissions while sustaining economic growth.

Enhancing the country's public transportation infrastructure also offers a pathway towards substantial emissions reductions. Malaysia's Klang Valley Mass Rapid Transit, or KVMRT, project exemplifies a large-scale initiative to lower urban traffic emissions. However, further investment in public transportation networks across other urban areas, alongside incentives for adopting electric buses and other clean public transit options, would reduce reliance on private vehicles and bring environmental benefits to more regions.

Education and public awareness initiatives are equally essential in fostering a culture of sustainability. Campaigns that engage communities in understanding

low-carbon technologies' economic, environmental and health benefits would help shift public behaviour towards sustainable practices. Government and private-sector initiatives could partner with academic institutions to enhance public knowledge of sustainability, particularly by developing school curricula focused on climate science, environmental stewardship and renewable energy.

Adopting these strategic measures would allow Malaysia to position itself as a regional leader in climate resilience and sustainable development, creating a robust framework to meet its global commitments while driving economic and social progress. ■

**Nor Asmah Mohd Noor is a Global Reporting Initiative certified sustainability professional, Doctor of Business Administration candidate and currently building her expertise on climate strategy**