

25 October 2011

# Screening report

## Iceland

### Chapter 15 – Energy

**Date of screening meetings:**

Explanatory meeting: 12 May 2011

Bilateral meeting: 20 June 2011

## I. CHAPTER CONTENT

The objectives of EU energy policy are competitiveness, security of supply and sustainability. The energy *acquis* consists of rules and policies notably regarding competition and state aids including in the coal sector, conditions for equal access to resources for prospection, exploration and production in the hydrocarbon sector, the internal energy market (opening up of the electricity and gas markets), the promotion of renewable energy sources and energy efficiency, nuclear energy and nuclear safety and radiation protection. As regards international agreements, the chapter contains the Energy Charter Treaty and related instruments.

As regards **security of supply**, the *acquis* requires Member States to hold oil stocks of specified categories of fuel equivalent to 90 days of average daily net imports or 61 days of average daily inland consumption, whichever of the two quantities is greater, and to report regularly to the Commission on hydrocarbon production, imports and prices. A body for the management of crisis situations needs to be set up.

The completion of the **internal energy market** is based on the EU's rules on competition and state aids. Member States must ensure open and competitive markets for electricity and gas, adhering to the principles of transparency, non-discrimination, third-party access, cross-border transmission, security of supply and sustainability. Transmission and distribution system operators are to be unbundled. Universal electricity services must be guaranteed and vulnerable customers be granted adequate protection. An independent regulatory authority must be designated as responsible for the efficient functioning of the markets. An independent transmission system operator (TSO) is equally crucial for the functioning of the internal electricity and gas markets.

The promotion of **renewable energy** and **energy efficiency** includes requirements to transpose the *acquis* on energy from renewable energy sources, high efficiency cogeneration based on useful heat demand, the improvement of energy efficiency of buildings, energy services and various other initiatives. Energy-using products must fulfil eco-design requirements and household appliances must carry energy labelling. An enforcement body is required in particular for labelling and minimum efficiency standards.

As regards **nuclear energy**, the Euratom Supply Agency has exclusive rights to conclude contracts for the supply of nuclear materials, which must be notified (with exceptions). Undertakings also need to have relevant accountancy capacities. Member States must establish a national legislative, regulatory and organisational framework for the nuclear safety of installations, including a competent and independent regulatory authority. The European Council has repeatedly emphasised the importance of a high level of **nuclear safety** in candidate countries. Member States must ensure the protection of workers and the population from the risks arising from ionising radiation, by complying with the EU *acquis* on **radiation protection**, covering authorisation and reporting of practices and operational protection of workers and population in normal circumstances, strict controls on radioactive sources, supervision of shipments and of radioactive waste, environmental monitoring, control of contamination of foodstuffs and an appropriate framework for emergency preparedness.

## II. COUNTRY ALIGNMENT AND IMPLEMENTATION CAPACITY

This part summarises the information provided by Iceland and the discussion at the screening meeting held on 20 June 2011. Iceland indicates that it can accept the *acquis* regarding energy as of 1<sup>st</sup> June 2011 and does not expect any difficulties in implementing it by accession. However, it indicated that it will request special attention during negotiations as regards derogations that

Iceland has already negotiated on the basis of the EEA Agreement in the area of the *acquis* on registration for crude oil imports and deliveries in the Community, on energy performance of buildings, on the internal market in electricity and the internal market for natural gas.

In addition, Iceland indicated that it considered that its unique position in energy matters (an extremely high use of renewable energies and a low and declining use of fossil fuels) is such that special considerations should be devoted to the way certain elements of the *acquis* would need to be implemented in Iceland. Iceland has therefore indicated that it will request special attention as regards the way in which *acquis* on energy end-use and energy services would be implemented in Iceland in order to ensure that the benefits in terms of energy efficiency gains are proportional to the cost of implementing such measures.

Directive 2009/119/EC imposing an obligation on Member States to maintain minimum stocks of crude oil and/or petroleum products will require special attention in the negotiations: whilst the level of these stocks in Iceland corresponds to some 43 days of average daily net imports, Iceland's stated energy policy is to reduce, even eliminate use of fossil fuels.

It is Iceland's understanding that membership to the EU does not affect the ownership and utilisation of energy resources. For this reason, Iceland has indicated that application of the *acquis* will not affect ban on permanent devolution by public entities of water and geothermal rights continues to apply in accordance with its Act No. 58/2008.

Finally, it should be noted that nuclear energy is neither produced nor used in Iceland.

## **II.a. Characteristics of Iceland's energy system**

Iceland has an unusual energy profile. 80% of primary energy supply is from renewable resources, the remaining 20% comes from imported fossil fuels, which are mainly used in transportation and fisheries.

Renewable energy sources account for 99.9% of electricity production and 99% of space heating. As a result, around 67% of final energy consumption is from renewable energy resources.

Iceland's energy system has no gas production, infrastructure or market. There are no nuclear power plants or research reactors, and Iceland has no coal production, and no crude oil imports or oil refineries. There are no cross border connections. Nevertheless, Iceland is included in the EU internal energy market by virtue of having been a party to the EEA Agreement since 1994.

According to 2009 figures, Iceland has a total of 2579 MW in installed capacity at its power stations, of which 73% (1883 MW) is hydroelectric and 22,3% (575 MW) from geothermal capacity. Actual capacity was 16,835 GWh, of which 73% (12,279 GWh) from hydropower, and 27% (4553 GWh). The difference between installed capacity and actual production amounts to some 121 MW (4,7%) in fuel-fired plants, which actually produced a negligible quantity (3 GWh).

74% of Iceland's electricity consumption is used by the Aluminium industry, with ferrosilicon industries using a further 5% and other industries using a further 4%. Residential consumption is 5%. Iceland has managed to reduce the use of oil in space heating from over 50% in 1970 to a negligible quantity nowadays.

Iceland's current basic energy policy document is based on the Government Coalition Platform from 2009, the main aims of which were to formulate a comprehensive energy strategy, to boost research, development and production of domestic, environmentally friendly fuel, to encourage green industry, prepare an energy efficiency plan, finalise the renewable energy master plan, to promote transparency in agreements for sale of energy, and to encourage better energy use.

A formal comprehensive energy strategy for the year 2020 is to be finalised in December 2011. The main focus is on more explicit objectives, such as to replace imported energy with renewable energy sources and to adopt a precautionary and protective approach in hydroelectric and geothermal energy production, to support diversified industry (such as emphasising the development of ecologically beneficial high-tech industry), and to encourage better energy use.

## **II.b. Security of supply**

Iceland's level of oil stocks was estimated in June 2011 to be equivalent to around 43 days of average daily net imports. The stocks that Iceland is holding are commercial stocks, and are therefore not held under a stockholding obligation. Council Directives 2006/67/EC and 2009/119/EC are not part of the EEA Agreement and are therefore not implemented into Icelandic legislation.

Iceland is currently considering how to implement the *acquis* on minimum levels of oil stocks, and has not yet decided on its stockholding regime, nor has it decided on other measures that will need to be applied, such as the conditions of use of these stocks, demand restriction and contingency plans.

Iceland has considerable capacity for storing oil stocks, estimated at some 2,4 times the capacity needed to store Iceland's 90 days of capacity. Most of this capacity is owned by domestic oil companies, although additional capacity is owned by NATO and leased to the Icelandic Government. The large storage capacity in Iceland is due to storage space for the former NATO base in Iceland. Part of the storage space is now leased to foreign owners and part of the space is not in use.

Iceland does not implement Council Regulation (EC) 2964/95 on registration for crude oil imports and deliveries: Iceland was granted an exemption under the EEA from this Directive as long as there are no imports or delivery of crude oil. In addition, Iceland has no oil refineries. All of Iceland's fossil fuels are imported, although there are plans for exploration of hydrocarbons in Iceland's territorial waters. Iceland is also starting to produce biofuels to be used in the transport sector and plans to increase this production greatly.

Council Decision 1999/280 regarding a Community procedure for information and consultation on crude oil supply costs and the consumer prices of petroleum products is currently not implemented. So far no observations on this have been made by ESA. Icelandic experts are examining Council Decision 1999/280, and Iceland has expressed its intention to implement it by spring 2012.

Oil prices in Iceland are entirely liberalised. Iceland's oil prices, proportional to purchasing power, are very high given its dependency on imported products, and this has resulted in a decrease in traffic. Taxes account for 50.2% of the price of gasoline.

Iceland is exploring the costs and benefits of joining the IEA. However, oil use in Iceland is limited and decreasing: oil is used mainly for transport and fisheries (72% of total oil

consumption). Less than 0,2% of total oil consumption is for space heating. Oil amounts to 20% of Iceland's energy mix, and only about 20% of the Icelandic economy (GDP) is oil dependent. Iceland's energy policy has, as a key objective, to reduce the use of fossil fuels as much as possible, by reducing the need for imported fuel.

Directive 94/22/EC on the conditions for granting and using authorizations for the prospection, exploration and production of hydrocarbon is partly implemented into Icelandic legislation with Act No 13/2001 on Prospecting, Exploration and Production of Hydrocarbons (as amended). With the aim to align to the Directive, Iceland has adopted the Amending Act No 105/2011 in order to remove the requirement that an applicant sets up a company in Iceland, and that hydrocarbon activities must be operated from a base in Iceland for security reasons.

Iceland already implements Directive 2005/89/EC concerning measures to safeguard security of electricity supply and infrastructure investment, through its 2003 Electricity Act (as amended), which establishes the role of Iceland's Transmission System Operator and Distribution System Operator on network security and infrastructure investment.

Iceland does not implement Regulation (EC) No 994/2010 concerning measures to safeguard security of gas supply. This regulation is not yet part of the EEA agreement, but, like all EU / EEA legislation regarding gas, Iceland intends to request a total derogation from this element of the *acquis*: Iceland has no natural gas networks and no plans to be supplied by gas, and consequently considers that the EU Directive on the security of natural gas supply should not apply.

## **II.c. Internal energy market**

Iceland's legal framework for the electricity market is already largely in line with the existing so-called 'second package' of the internal energy market due to transposition of much of the existing *acquis* in the framework of the EEA, with important derogations negotiated under the EEA to take account of Iceland's unique energy situation. Iceland's electricity market is already open, and foreign companies and capital already operate in the market. Iceland's electricity prices are regulated. With regards to unbundling, all vertically integrated companies serving distribution areas with 10.000 or more inhabitants are required to separate distribution from other activities. This goes further than the 100,000 inhabitants limit in the Directive. All the Distribution System Operators except one already comply with this provision. Most of the production companies in Iceland are state-owned or municipality owned. Plans to transpose the 'third package' are already underway.

Directive 2003/54/EC concerning common rules for the internal market in electricity (the so-called 'second package' of the internal electricity market) is incorporated into Icelandic legislation by the Electricity Act No 65/2003. In the context of exceptions foreseen under the Directive, Iceland is considered as a "small isolated system" under Article 2(26) of the Directive, and it also has a derogation as set out in Article 15 as regards unbundling of distribution system operator under the EEA.

As regards Directive 2009/72/EC (the so-called "third package",) this has not been incorporated into the EEA Agreement. However, Iceland plans to implement this with legal amendments in the first half of 2012 to the Electricity Act, the act on the National Energy Authority and maybe other legislation (such as consumer legislation). In implementing Directive 2009/72/EC, Iceland considers that it will still be regarded as a "small isolated system" meaning that derogation in Article 44(1) shall apply, and that Iceland should benefit from derogations as regards unbundling of the Transmission System Operator.

Iceland foresees transferring the ownership of the TSO to the state or municipalities as of 2015 through amendments to the Electricity Act adopted already this year. Provisions of this act also aim to guarantee the independence of the TSO in the future.

As regards conditions for access to the network for cross-border exchanges in electricity, Iceland already applies Regulation (EC) No 1228/2003. Its successor, Regulation (EC) No 714/2009 has not been incorporated into the EEA Agreement and Iceland foresees Implementation with a regulation, on the basis of its 2003 Electricity Act, in the first quarter of 2012. Iceland does not foresee any particular problems concerning implementation or enforcement of Regulation (EC) No 714/2009: its predecessor has been implemented in Iceland despite the fact that the Icelandic electricity system is an isolated system, so this element of the *acquis* has limited effect.

Iceland already implements Commission Decision 2006/770/EC amending the Annex to Regulation (EC) No 1228/2003 on conditions for access to the network for cross-border exchanges in electricity.

Commission Regulation 774/2010/EC laying down guidelines relating to inter-transmission system operator compensation and a common regulatory approach to transmission charging, and Commission Regulation (EU) No 838/2010 on laying down guidelines relating to the inter-transmission system operator compensation mechanism and a common regulatory approach to transmission charging, will be implemented into Icelandic legislation with a regulation on the basis of the Electricity Act.

As regards all legislation covering natural gas (Directive 2009/73/EC concerning common rules for the internal market in natural gas, its predecessor, Directive 2003/55/EC, Regulation (EC) No 715/2009 on conditions for access to natural gas transmission networks and its predecessor Regulation (EC) No 1775/2005, and Commission Decision 2010/685/UE amending Chapter 3 of Annex I to Regulation (EC) No 715/2009 of the European Parliament and of the Council on conditions for access to the natural gas transmission networks), Iceland has not applied for any derogations or adaptations to the previous Gas Directive and no measures were taken to implement the Directive, under the justification that there is no market for natural gas and no natural gas undertakings in Iceland, and there are no networks for gas distribution. The EU's natural gas *acquis* was therefore considered not relevant for Iceland. After extensive consultations with the EFTA Surveillance Authority, Iceland considered that a mutual understanding had been obtained that no implementing measures for these elements of the *acquis* were necessary under the "second package". Iceland has applied for a total derogation from Directive 2009/73/EC and Regulation (EC) 715/2009 under the third package **in the EFTA framework**.

Iceland's Electricity Act designates two regulatory authorities: the National Energy Authority (NEA), which is a State Institution "under the auspices of the Minister of Industry, Energy and Tourism", and the Competition Authority under the Ministry of Business Affairs and Economy.

The NEA has a total staff of 35 persons, of which 2-3 work on energy market regulation, and the Competition Authority a staff of 23. Implementation and enforcement of the "second package" has not been problematic. Revision of the independence of the regulatory authorities under the third package might reveal the need for additional administrative capacity.

Iceland has indicated that it will need to improve the formal independence of the Regulator by removing it from the tutelage of the Ministry and implementing provisions as regards the independence of the NEA's board, budget etc.

As regards Regulation (EC) No 713/2009 establishing an Agency for the Cooperation of Energy Regulators, Iceland already participates in ERGEG (European Regulators' Group for Electricity and Gas) (which will be replaced by ACER). Iceland plans to implement this element of the *acquis* foreseen with an implementing regulation, on the basis of the Electricity Act, during the first quarter of 2012.

As regards Commission Decision 2003/796/EC on establishing the European Regulators Group for Electricity and Gas (ERGEG), as mentioned above this has already been implemented in Iceland and the NEA already participates in ERGEG.

As regards Directive 2008/92/EC concerning a Community procedure to improve the transparency of gas and electricity prices charged to industrial end-users (recast), Iceland was granted a derogation under the EEA to Directive 2008/92's predecessor, Directive 90/377 (an exemption from supplying the information requested by Directive 90/377/EEC). However, Iceland has indicated that it will implement Directive 2008/92/EC through a regulation on the basis of the Act on the National Energy Authority No 87/2003 in the first quarter of 2012.

As concerns international agreements, Iceland has signed the Energy Charter Treaty (ECT) and related protocols and amendments, but has not ratified these due to concern as regards the transfer of sovereignty that the Charter represents under the Treaty provisions on dispute resolution. Iceland has, however, indicated its intention to ratify the ECT and related protocols and amendments.

The Ministry of Industry is responsible for energy matters. Within the Ministry, four people work in the department of energy.

## **II.d. Renewable energy**

Iceland uses extensively its plentiful sources of renewable energies: 99.9% of its electricity production comes from either hydroelectric production or geothermal. Some 99% of space heating also comes from renewable energies. According to the methodology of the 2009 Renewable Energy Directive, the share of renewable energy in Iceland amounted to 67 % in 2009. Iceland's target for the share of renewable energy in the final energy consumption in 2020 is 64%, calculated in accordance with the methodology of the Renewable Energy Directive.

However, the 2020 target for the share of renewable energy in the transport sector is 10%, whereas Iceland's current share of renewable energy in the transport sector is less than 1%. One of the objectives of Iceland's energy strategy is that renewable energy sources in general replace imported energy (mainly fossil fuels in the transport sector). In the new comprehensive energy strategy, Iceland plans that 10% of all fuel use for the transport sector be from renewable energy sources by the year 2020, and that 75% of new cars in the year 2020 use renewable energy. The Ministry of Industry, along with the Ministry of Finance, has introduced economic incentives to promote the objective of increasing alternative fuels in the transport sector via incentives and active programs.

Despite having already implemented measures similar to the provisions of Directive 2009/28/EC (the Renewable Energy Directive), this Directive has not been formally

transposed into Icelandic legislation. Iceland foresees that this takes place through amendments to existing legislation in 2012.

The Ministry of Industry has started the work on a National Renewable Energy Action Plan (NREAP).

## **II.e. Energy efficiency**

Under the EEA Agreement, Iceland was granted a derogation from Directive 2002/91/EC on Energy performance of buildings due to special features of the Icelandic energy situation. Iceland has indicated that it intends to request a similar derogation from the recast Directive 2010/31/EC on Energy performance of buildings. Iceland justifies this due to its extremely high use of renewable energies (89% geothermal energy and a further 10% hydroelectric used for space heating). Space heating therefore contributes to only 0,5% of the greenhouse gas emissions in Iceland, compared to 36% in the rest of the EU. Space heating is consequently very cheap in Iceland so cost effective energy efficiency measures in building are very hard to achieve. National building codes in Iceland ensure that high levels of energy efficiency are attained: all European standards are entered into force as Icelandic standards. Harmonised standards and European Technical Approvals also are in force in Iceland. In addition, there are requirements for insulation, heat lost, heat transfer and change of air.

As regards Directive 2010/30/EU on the indication by labelling and standard product information of the consumption of energy and other resources by energy-related products (recast), Iceland has completely implemented the predecessor Directive 92/75/EEC and its implementing legislation. Directive 2010/30 should be implemented into Icelandic legislation in the first half of 2012 through amendments to the 1994 act that implement Directive 92/75/EEC. Iceland's Consumer Agency has the role to enforce this legislation.

As regards Directive 2009/125/EU on establishing a framework for the setting of ecodesign requirements for energy-related products, Iceland already implements the predecessor Directive 2005/32/EC. Iceland foresees to implement Directive 2009/125 in the first half of 2012 through amendments to Act 42/2009 which transposes Directive 2005/32/EC. Iceland's Ministry of Industry is authorised to establish regulations for the incorporation of measures implementing the Directive.

Regulation (EC) No 106/2008 (Energy Star) on an energy efficiency labelling programme for office equipment has been implemented into Icelandic law with Regulation n° 819/2010.

As regards Directive 2004/8/EC on the promotion of cogeneration based on a useful heat demand in the internal energy market, this has been implemented into Icelandic legislation through a 2010 Act amending Act No 30/2008 on the Guarantee of origin of electricity produced from Renewable Energy Sources. However, all electricity production in Iceland is based on renewable energy sources, of which 73% hydropower and 27% geothermal sources. Since the Co-generation Directive does not apply to cogeneration of electricity and heat from geothermal sources, this Directive has a limited effect in Iceland.

As regards Directive 2006/32/EC on energy end-use and energy services, this has not been implemented in Iceland (as it is outside the EEA). Iceland does not have a formal national energy saving target. Nevertheless, a number of measures are currently in place to promote energy efficiency. Iceland considers that implementation of this Directive, in the Icelandic context, would have a very limited impact in terms of reducing emissions of greenhouse gases and that its implementation would require expensive measures without any significant benefits in terms of the Directive's overall objectives.

Iceland's administrative capacity to implement the energy efficiency *acquis* is mainly in the National Energy Authority, with additional energy efficiency experts at the National Construction Agency, the Ministry of Industry, Energy and Tourism, and the Consumer Agency.

## **II.f. Investments in Infrastructure**

As regards Council Regulation (EU, Euratom) No 617/2010 concerning the notification to the Commission of investment projects in energy infrastructure within the European Union, as well as Commission Regulation No 833/2010 implementing Council Regulation No 617/2010 concerning the notification to the Commission of investment projects in energy infrastructure within the European Union, these have not been transposed into Icelandic legislation. However, the previous Regulations (EC) 1056/72 and 1215/76 were incorporated into the EEA Agreement and implemented into Icelandic legislation.

Iceland draws attention to Preamble 11 to Council Regulation 617/2010, and the "possibility to exempt Member States and undertakings from reporting obligations provided that equivalent information is supplied to the Commission pursuant to energy sector-specific legal acts" and therefore questions the need to implement this, referring to the possibility that these reporting obligations could be delegated to ENTSO-E as regards power transmission. Should implementation in Iceland be necessary, this could be carried out through amendments to existing Icelandic legislation.

Iceland does not foresee specific problems or administrative burdens not foreseen with the implementation or enforcement of the regulation

## **II.g. Nuclear energy**

Nuclear energy is not produced nor used in Iceland. 10 persons work at Iceland's nuclear safety authority (the Icelandic Radiation Safety Authority).

## **II.h. Nuclear safety and radiation protection**

As regards Council Directive 2009/71/Euratom of 25 June 2009 establishing a Community framework for the nuclear safety of nuclear installations, Iceland has no nuclear installations in Iceland at present and no plans for such installations. Iceland's current legislation is focused on radiation protection, not nuclear safety. The existing legislation is not aligned with directive 2009/71/Euratom. Iceland has indicated that it intends to implement the Nuclear Safety Directive through appropriate changes in legislation to ensure a legislative and regulatory framework for nuclear safety, reinforcing the role and independence of the national regulator. It anticipates no difficulties in implementation and foresees that implementation can be completed before accession.

Regarding the Radiation Protection *acquis* (Council Directive 96/29/Euratom of 13 May 1996 laying down basic safety standards for the protection of the health of workers and the general public against the dangers arising from ionizing radiation, Council Directive 97/43/Euratom of 30 June 1997 on health protection of individuals against the dangers of ionizing radiation in relation to medical exposure, and repealing Directive 84/466/Euratom, Council Directive 90/641/Euratom of 4 December 1990 on the operational protection of outside workers exposed to the risk of ionizing radiation during their activities in controlled areas, and Council Directive 2003/122/Euratom of 22 December 2003 on the control of high-activity sealed radioactive sources and orphan sources), Iceland's legislation is substantially (but not fully) aligned with the EU law. Iceland has indicated that it will revise its legislation

to achieve full alignment on issues such as outside workers, education, training and information and clinical audits. It anticipates no difficulties in implementation and foresees that implementation can be completed before accession.

On the 3 Council Regulations concerning the imports of agricultural products following the accident of the Chernobyl nuclear power station (Council Regulation (EC) No 1048/2009, Council Regulation (EC) No 733/2008 and Commission Regulation (EC) No 1635/2006), formal alignment is not in place and similar regulations have not been formally adopted by Iceland. However, Iceland has similar guidelines regarding maximum levels of radioactivity in food stuff/agricultural products following Chernobyl. Iceland has indicated that these regulations will be implemented through appropriate changes in legislation as needed, and it anticipates no difficulties in implementation and foresees that implementation can be completed before accession.

For Council Regulation (Euratom) 1493/93 of 8 June 1993 on shipments of radioactive substances between Member States, and Council Directive 2006/117/Euratom of 20 November 2006 on the supervision and control of radioactive waste and spent fuel between Member States and into and out of the Community, Iceland's present legislation not directly aligned with the regulation and directive, but all transport takes place in accordance with IAEA regulations. This is mainly shipments of "single" sources to Iceland and sometimes disused sources back to manufacturer. Radiation therapy sources (Ir-192) dominate these shipments. There is no spent nuclear fuel in Iceland. Iceland has indicated that it will implement these provisions through new/revised legislation as needed. Iceland anticipates no difficulties in implementation and foresees that implementation can be completed before accession.

Iceland has not formally transposed Council Decision 87/600/Euratom of 14 December 1987 on Community arrangements for the early exchange of information in the event of a radiological emergency or Council Directive 89/618/Euratom of 27 November 1989 on informing the general public about health protection measures to be applied and steps to be taken in the event of a radiological emergency. Nevertheless, the content of directive and decision are in line with current practices in Iceland. The nearest land based nuclear reactor is app. 1200 km away from Iceland. Radiological emergency preparedness and planning in Iceland is similar to other European countries. Iceland will implement the decision on early exchange of information and the directive on informing the general public through appropriate revision of legislation. Iceland anticipates no difficulties in implementation and foresees that implementation can be completed before accession.

Whilst Iceland is not formally a member of the European Community Urgent Radiological Information Exchange (ECURIE system) it nevertheless prepares to participate in the system and has nominated a national ECURIE correspondent. It has also signed a Memorandum of Understanding regarding participation in the European Radiological Data Exchange Platform (EURDEP system). As regards articles 35 and 36 of the Euratom treaty, Iceland carries out continuous monitoring of the level of radioactivity in the air, water and soil (but of gamma radiation only). Iceland intends to give access to the Commission to the monitoring facilities for verification of their operation and will communicate to the Commission the results from the monitoring checks.

Iceland has already ratified the international nuclear safety and security conventions (Convention on Nuclear Safety, Joint Convention on the Safety of Spent Fuel Management and on the Safety of Radioactive Waste Management, Convention on Early Notification of a Nuclear Accident, Convention on Assistance in the case of a Nuclear Accident or Radiological Emergency, Convention on physical protection of nuclear material), to which

both Euratom and its Member States are parties. Iceland also intends to ratify the amendment to the Convention on physical protection of nuclear material. It foresees no difficulties in complying with its obligations under the said conventions.

In the areas of nuclear safeguards, Iceland has presently a Comprehensive Safeguards Agreement (CSA), a Small Quantities Protocol (SQP) and an Additional Protocol (AP) with the IAEA. It reports directly to IAEA. Upon accession to the EU, Euratom Law will become applicable to the country. During a transition period, Iceland will have double reporting obligations, both towards Euratom (i.e. the European Commission) and the IAEA. After the country's accession to INFCIRC/193, Iceland's current CSA, AP and SQP will be suspended and replaced by the Trilateral Safeguards Agreement and its AP. Iceland has indicated that it will upon accession to the EU send initial reports and declarations to the Commission within set time-limits.

### III. ASSESSMENT OF THE DEGREE OF ALIGNMENT AND IMPLEMENTING CAPACITY

Overall, as an EEA member, Iceland has already attained a high level of alignment and implements a substantial part of the energy *acquis* in this chapter. Given this level of alignment, Iceland should have few difficulties implementing most of the additional *acquis* which is EEA relevant even the parts which are not yet transposed through the EEA (such as the 'third package' of the Internal Energy Market) by the time of accession. Most of the additional alignment can be made through amendments to existing acts, although Iceland's existing administrative capacity to implement this may not be sufficient. Careful attention should be paid to a few areas such as the timely build-up of oil stocks, and in developing a programme to ensure alignment with the nuclear safety *acquis*. The derogations that Iceland has already secured through the EEA due to its unique energy situation (from the entire natural gas *acquis*, from the Directive on energy efficiency performance in buildings, and the Directive on energy end-use and energy services) will have to be renegotiated in the context of Iceland's accession negotiations and the justification for exempting Iceland from applying these elements of the *acquis* carefully considered.

#### III.a. Security of supply

Iceland needs to develop concrete plans for *acquis* alignment on hydrocarbons, particularly the requirements to hold oil stocks equivalent to 90 days. Whilst its current oil stock levels are for the equivalent of 43 days of average daily net imports, and Iceland has sufficient stockholding capacity, Iceland has no implementation plan for this part of the *acquis*.

Iceland needs to establish a plan to implement the requirements of the *acquis* as regards minimum oil stocks. This plan will need to align Iceland's legislation with Council Directives 2006/67/EC (which has been repealed with effect from 31 December 2012) and 2009/119/EC, but it will also need to determine its regime for holding stocks, establish the necessary administrative capacity to control and manage these stocks, followed by a plan to increase Iceland's level of stocks to the required 90 days of average net daily imports. This plan could take account Iceland's stated energy policy objective of reducing use of fossil fuels, therefore consumption of oil products.

Iceland does not import crude oil, has no oil refineries and does not intend to import crude oil, which explains its request for a derogation from Council Regulation (EC) 2964/95 on registration for crude oil imports and deliveries.

Iceland amended its legislation on Prospecting, Exploration and Production of Hydrocarbons with the aim of full implementation of Directive 94/22/EC on the conditions for granting and

using authorizations for the prospection, exploration and production of hydrocarbons. However, this full alignment remains to be confirmed. Iceland has already achieved full alignment with Directive 2005/89/EC concerning measures to safeguard security of electricity supply and infrastructure investment.

In the absence of any natural gas networks or any plans to be supplied by natural gas, Iceland does not implement Regulation (EC) No 994/2010 concerning measures to safeguard security of gas supply. Iceland has obtained a derogation from previous element of EU natural gas *acquis* under the EEA, and intends to request a derogation from Regulation 994/2010.

### **III.b. Internal energy market**

Iceland has achieved a high level of level of legal alignment with most of the internal energy market *acquis* where this was considered, under the EEA, to apply to Iceland. Most of the ‘third package’ of internal energy market measures are planned to be adopted into Icelandic legislation during the first half of 2012, mainly through amendments to existing legislation. Iceland does not foresee substantial difficulties in implementing this legislation, provided that derogations that Iceland has obtained under the EEA would be applied to Iceland as an EU Member State. Such derogations would have to be renegotiated under the accession process.

These two derogations concern, firstly, the entire *acquis* for natural gas, and secondly that Iceland can be considered a ‘small isolated system’ under Directive 2009/72/EC. The latter would allow Iceland derogations from provisions of Chapters IV, VI, VII, and VIII of the Directive.. It would, however, seem questionable that Iceland would fully meet the criteria to be considered a small isolated system. It is isolated but it does not meet the criteria for a small system (consumption of less than 3000 GWh in the year 1996). This issue will require careful consideration.

In implementing the Directive 2009/72/EC, Iceland will need to conform with provisions as regards the ownership of the TSO, as the Icelandic TSO, Landsnet, is jointly-owned by a number of power companies. In addition, the board of Landsnet needs to be independent of other companies engaging in the generation, distribution or sale of electricity.

Concerning administrative capacity, Iceland’s regulatory authority has adequate capacities to implement the ‘second package’ of the internal energy market, and liberalisation in Iceland is effective. Implementation of the ‘third package’ is within the existing capacities of the NEA. However, Iceland will need to ensure separation of the regulatory authority from the Ministry responsible for energy, and implement further measures to ensure independence of budget and board. Iceland will also need to pursue ownership unbundling of the TSO from the energy companies.

Iceland will need to ratify the Energy Charter Treaty and related protocols and amendments and has indicated an intention to do so. It is examining the possibilities to reconcile such ratification with the transfer of sovereignty that the Charter represents under the Treaty provisions on dispute resolution.

### **III.c. Renewable energy**

The share of Iceland’s energy from renewable energy sources is currently higher than the target under the Renewable Energy Directive, due to its unique energy situation. Iceland will nevertheless need to transpose the Directive and to make sure that the overall renewable

energy target for 2020 will be met in 2020. As for the transport sector, Iceland will need to strengthen its efforts to increase the share of renewable energy in this sector, with a view to reaching the 10% target in 2020 as required by the Directive.

### **III.d. Energy efficiency**

Iceland's particular energy situation poses some questions regarding its alignment to the energy efficiency *acquis*, given that renewable energy supply is abundant and there are no security of supply concerns. Iceland has already attained a certain degree of alignment of parts of the energy efficiency *acquis* through the EEA. Given Iceland's success in implementing the existing EEA-relevant energy efficiency *acquis*, there is every reason to foresee that recently-adopted energy efficiency *acquis* (such as Directive 2010/30/EU on the indication by labelling and standard product information of the consumption of energy and other resources by energy-related products, and Directive 2009/125/EU on establishing of framework for the setting of ecodesign requirements for energy-related products) can be implemented without problems. The current administrative capacity to implement the energy efficiency *acquis* is, however, limited and should be monitored.

Two areas which will require close monitoring are Directive 2010/31/EC on Energy performance of buildings, and Directive 2006/32/EC on energy end-use and energy services. Neither have been implemented in Iceland (the latter is outside the EEA and the former has yet to be transcribed into the EEA). However, Iceland has indicated that it questions the relevance for implementation in the unique Icelandic energy context, in particular whether the (high) costs of this implementation would be proportional when compared to relatively limited benefits in terms of improved efficiency and reduced greenhouse gas emissions. In particular, Iceland would like to take into account that, given the high use of renewable energies in Iceland (almost 100% for space heating) there is very little scope for improvement. Nevertheless certain elements of the energy services directive would be of importance for Iceland, notably for the promotion of energy efficiency in transport and industry (such as on fisheries vessels).

### **III.e. Investments in Infrastructure**

Iceland considers that Preamble 11 to Council Regulation 617/2010, provide Iceland with the scope for an exemption from reporting obligations and it has requested that these reporting obligations could be delegated to ENTSO-E as regards power transmission.

However, Iceland has indicated that, should implementation in Iceland be necessary, this could be carried out through amendments to existing Icelandic legislation. Iceland does not foresee specific problems or administrative burdens with the implementation or enforcement of the regulation.

### **III.f. Nuclear energy**

In the absence of nuclear energy production nor use in Iceland, much of this chapter is of limited relevance to Iceland. Iceland will have to consider membership of Euratom Supply Agency and participation in Advisory Committee. In the field of safeguards, the country will have to prepare itself to accede to the Trilateral Safeguards Agreement between the EU Non-Nuclear-Weapon States, the European Atomic Energy Community and the IAEA ("INFCIRC/193").

### **III.g. Nuclear safety and radiation protection**

As regards nuclear safety and radiation protection, detailed legislation is in place in Iceland concerning most aspects of the relevant *acquis*, much of which is however not formally fully in line with EU obligations. Iceland will need to pursue alignment further by preparing and adopting the outstanding implementing legislation. Existing administrative capacity should be sufficient to meet the demands of the nuclear safety and radiation protection *acquis*. As regards Council Decision 2008/114/Euratom of 12 February 2008 establishing Statutes for the Euratom Supply Agency, in the absence of nuclear industry, Iceland will need to consider membership of the Agency and participation in the Advisory Committee, although it stated that such membership and participation would be rather unlikely.