

Act no. 65/2007 on the emission of greenhouse gases

Chapter I General provisions

Article 1

Goals

The objective of the Act is to create conditions for the government to abide by Iceland's international obligations on the limitation of greenhouse gas emissions.

Article 2

Scope

The Act applies to the registration and accounting of greenhouse gas emissions in Iceland and in Iceland's economic zone and the binding of carbon in vegetation and soil as well as allowances for the emission of carbon dioxide from certain industries in accordance with Article 7.

Article 3

Definitions

In this Act the meaning of words and phrases is as follows:

1. *Operators*: All activities allowed in accordance with provisions of an operating license that is issued in accordance with the Act on hygiene and pollution control.
2. *Decision 14/CP.7*: Decision of the 7th Conference of the Parties to the United Nations Framework Convention on Climate Change on the effect of particular projects on emissions during the obligation period, 1 January 2008 to 31 December 2012.
3. *Greenhouse gases*: Carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFC), perfluorocarbons (PFC), sulphur hexafluoride (SF₆).
4. *Emission of greenhouse gases*: Release of greenhouse gases into the atmosphere by human beings.
5. *Emissions allowance*: Authorization to release carbon dioxide. One emissions allowance is the equivalent of authority to release one ton of carbon dioxide per year

Article 4

Supervision

The Ministry for the Environment supervises the implementation of this Act as specified in greater detail in this Act in consultation with the relevant ministry.

A three-member Emissions *Allowance* Allocation Committee, appointed by the Minister for the Environment in accordance with nominations, on which sit representatives of the Ministry of Industry, Ministry for the Environment and the Ministry of Finance, allocates emissions *allowance* for operators falling within the scope of the Act during the period 1 January 2008 to 31 December 2012. The nominating parties bear the cost of their representatives' participation in the Allocation Committee.

The Environment and Food Agency handles the implementation of this Act regarding accounting for greenhouse gas emissions, the recording system and monitoring of carbon dioxide emissions from operators in accordance with Article 7. The Environment and

Food Agency shall advise the Allocation Committee, cf. paragraph 2, regarding applications for emissions permits and other things the committee requests assistance with.

Chapter II **Accounting and recording system**

Article 5

Accounting for greenhouse gas emissions

The Environment and Food Agency maintains accounts for the greenhouse gas emissions and binding of hydrocarbons in vegetation and soil in accordance with Iceland's international obligations in this area.

The Agricultural University of Iceland shall collect the information regarding land use, land-use change and forestry that is required for the accounting, cf. paragraph 1, as well as information about the greenhouse gas emissions in agriculture, and submit them to the Environment and Food Agency. The National Energy Authority shall gather and submit the information about energy affairs to the Environment and Food Agency that is required for the accounting.

The Environment and Food Agency shall prepare instructions on the submission of information requested in consultation with the Agricultural University of Iceland and the National Energy Authority. The Minister for the Environment confirms the instructions of the Environment and Food Agency.

Article 6

Recording system

The Environment and Food Agency houses a recording system on Iceland's emissions allowances for greenhouse gases and sees to its operation.

The recording system keeps track of the issue, holdings, assignment and invalidation of the Icelandic State's authorizations in accordance with the Kyoto Protocol, in addition to emissions allowances for operators in accordance with Article 7 and other legal entities. The Minister for the Environment may set more detailed provisions in a regulation on the implementation of the recording system, the information that shall be recorded in the system, cooperation and linkage with other systems, operation of the system, and how the issue of holdings shall be handled as well as invalidation of Iceland's authorizations, in addition to emissions allowances for business operations under Article 7.

The minister, after getting proposals from the Environment and Food Agency, sets a fee tariff regarding what business operations under Article 7, and other legal entities with an account in the recording system, shall pay. The amount of the fee shall take into account the cost of the services and implementation of particular tasks and shall be based on an operating plan where the points determining the fee are justified. The fee may not exceed the cost. The tariff shall be published in the *Law and Ministerial Gazette, B-division*. Fees may be collected by distraint.

Chapter III **Emissions allowances for operators**

Article 7

Duty of operators to acquire emissions allowances

A operator, cf. paragraph 2, may not operate during the period 1 January 2008 to 31 December 2012 unless it has acquired emissions allowances or presented a plan on how it

will acquire emissions allowances during the period or for the period planned for operations, and that the Allocation Committee has agreed on.

The following operators must acquire emissions allowances for the emission of carbon dioxide during the period 1 January 2008 to 31 December 2012:

- a. local energy production by the burning of fossil fuels annually emitting more than 30,000 tons of carbon dioxide,
- b. local industrial production annually emitting more than 30,000 tons of carbon dioxide.

Article 8

Application for allocation of emissions allowances

Operators shall apply to the Environment and Food Agency for allocation of emissions allowances no later than 9 months before the planned start of operations. The application shall state the following:

- a. information about the business activity (manufacturing), owner, location and operator,
- b. information about the parts of the activities that is the source of emissions,
- c. measures taken to keep the emissions to a minimum,
- d. plan for how the emissions of carbon dioxide will be monitored,
- e. the total quantity of emissions allowances requested for the relevant operators for the period.

Operators falling under the conditions set regarding the allocation of special allowances for Iceland in accordance with Decision 14/CP.7 shall specify how the emissions of carbon dioxide meet the conditions set in this decision.

The Environment and Food Agency must review an application for allocation of emissions allowances and forward it to the Allocation Committee along with the agency's opinion stating whether the application fulfils the conditions of paragraphs 1 and 2.

The Emissions Quota Allocation Committee may demand further information from a business activity on the basis of the Environment and Food Agency's opinion, and if it is not forthcoming, may reject the application.

Operators applying for allocation of emissions allowances shall pay the Environment and Food Agency an application fee of ISK 250,000, which shall defray the agency's costs of reviewing the application.

Article 9

Plan for allocation of emissions allowances

The Emissions Allowances Allocation Committee shall publish a plan no later than 1 October 2007 on the allocation of emissions allowances to a business activity for the period 1 January 2008 to 31 December 2012.

The Allocation Committee's plan shall specify how many emissions allowances it plans to allocate for each business activity applying, cf. Article 8, each year of the period. The Allocation Committee's plan is binding regarding an allocation to a operators unless the provisions of paragraph 4 apply. The Allocation Committee, in preparing the plan, shall follow the provisions of Article 11 regarding allocation to a operators.

The total quantity of emissions allowances that the Allocation Committee has for allocation for the period 1 January 2008 to 31 December 2012 is 10,500,000 emissions

allowances, of which 8,000,000 emissions allowances must meet the conditions set out in Decision 14/CP.7.

The Allocation Committee shall review the plan annually, taking into consideration the operators reports, cf. Article 13, new applications and evaluation of changed circumstances. Emissions allowances for a operators that has got assurances of an allocation in a plan, cf. paragraphs 1 and 2, may only be reduced if changes have occurred in the operations causing them or emissions from them to be less than anticipated when the plan was issued.

Article 10

Allocation of emissions allowances

The Emissions Allowances Allocation Committee annually allocates its emissions allowances for a business activity applying for allocation in accordance with an emissions allowances allocation plan. The Allocation Committee sends the Environment and Food Agency information each year on the allocation to an operator, cf. paragraph 2.

On 1 March each year, emissions allowances allocated by the Allocation Committee are entered by the Environment and Food Agency into the account of the relevant operator in the recording system.

Article 11

Criteria for allocation of emissions allowances

The Emissions Allowances Allocation Committee shall have the following criteria in preparing a plan for the allocation of emissions allowances for an operator for the period 1 January 2008 to 31 December 2012:

- a. For an operator in operation before 1 January 2007, an allocation shall take into account the measured or estimated average emissions of carbon dioxide in 2005 and 2006.
- b. If a operator has not been in operation for one or more of the criteria years, or other circumstances make the period 2005-2006 nondescriptive of the average emissions, other criteria years may be used, or it may be shown what the average emissions of the business activity are in another comparable manner.
- c. For a operator starting up after 1 January 2007, or which plans to increase manufacturing after that time, planned admissions shall be used as a criterion, based on the assumption that best available techniques for minimizing carbon dioxide emissions will be used.

If the combined applications for emissions allowances for the period 2008-2012 exceed the emissions allowances available to the Allocation Committee, the first allocation shall be made to the operator that has commenced operations before the first obligation period begins on 1 January 2008. What is then left for distribution shall be allocated to other applicants planning to begin operations or increase them after 1 January 2008. Applicants already having operating licenses, and/or that are far along in preparing operations, shall have priority in the determination of emissions allowances in the Allocation Committee's plan vis-à-vis others whose preparations are not as far along.

Article 12

Recording and handling of emissions allowances

Before 1 May each year, an operator is required to have emissions allowances shall enter sufficiently many emissions allowances in accordance with a report on last year's emissions allowances into a special final account in the recording system.

An operator that has been allocated emissions allowances may transfer unused authorizations between the years, provided that the party involved still fulfils all conditions for the allocation of emissions allowances.

On 31 December 2012, an operators unutilized emissions allowances will become the property of the State and will be entered as such in the recording system.

Article 13

Monitoring, plan and reporting

In allocating emissions allowances to an operator, there shall be an accompanying written report with conditions on the monitoring and enforcement of the plan and the requirement of an annual report on carbon dioxide emissions.

A business activity that is allocated emissions allowances shall, on 1 March 2009, and annually after that, submit a report to the Environment and Food Agency on carbon dioxide emissions. Information shall appear in the report on the status of emissions allowances at the beginning of the previous year, carbon dioxide emissions during the year and the status of emissions allowances at the end of the year, in addition to other information required upon the allocation of emissions allowances. Emissions allowances shall be calculated or measured in the annual report in accordance with rules set in a regulation by the minister, after receiving proposals from the Environment and Food Agency. The regulation shall stipulate what information on carbon dioxide emissions shall be submitted, when and in what form. It shall also stipulate the Environment and Food Agency's authority to require confirmation of the reliability of provided information.

The Environment and Food Agency must review each report on carbon dioxide emissions in accordance with such rules. The agency must send a report on carbon dioxide emissions to the Emissions Allowances Allocation Committee, along with an exposition.

Operators that have been allocated emissions allowances must also submit information to the Environment and Food Agency on the emissions of other greenhouse gases. The information shall be submitted with an annual report on carbon dioxide emissions or in another report to the agency.

After obtaining proposals from the Environment and Food Agency, the minister sets a fee tariff for review of the report on carbon dioxide emissions that must be submitted to the agency. The fee amount shall take into account the cost of the services and execution of particular tasks and shall be based on an operating plan where the points determining the fee are justified. The fee may not exceed the cost. The tariff shall be published in the *Law and Ministerial Gazette, B-division*. Fees may be collected by distraint.

Article 14

Acquisition of emissions allowances without allocation

An operator may acquire emissions allowances in a manner other than allocation of emissions allowances under Article 9, such as by financing projects for the binding carbon in vegetation and soil, participating in projects in the field of climate-friendly

development assistance or joint implementation or purchase of emissions allowances from abroad. The Minister for the Environment may set a regulation with more detailed provisions on which emissions allowances he accepts as valid, after obtaining proposals from the Environment and Food Agency.

Chapter IV

Sanctions and entry into force

Article 15

Sanctions

The Environment and Food Agency imposes government fines on a operators required to have emissions allowances, but that has not put sufficient authorizations for the previous year into a final account prior to 1 May each year. The fine shall be ISK 9000 for each missing emissions quota in accordance with a report on carbon dioxide emissions from that year's operators, cf. paragraphs 2 and 3 of Article 13. Fines under this article shall go to the State Treasury.

The Environment and Food Agency may determine fines of up to ISK 100,000 if an operator does not comply with its duty to submit a report in accordance with Article 13.

Article 16

Entry into force

This Act enters into force immediately, and Act No. 107/2006 on the recording of greenhouse gas emissions shall at the same time be invalid.

Temporary provisions

An operator falling under the scope of the Act shall apply by 1 June 2007 at the latest for emissions allowances for the period 1 January 2008 to 31 December 2012, cf. Article 8.

Enacted by Althingi on 17 March 2007