

Avosetta Meeting

May 29th/30th 2026 – Copenhagen

“Instruments of Climate Mitigation and Energy Transition”

Introduction

1

The EU is pursuing a comparatively ambitious climate policy. However, it is increasingly coming under pressure. Achieving the self-imposed targets appears uncertain.

In Regulation (EU) 2021/1119 establishing the framework for achieving climate neutrality (“European Climate Law”), the EU committed itself to achieving climate neutrality by 2050 and reducing net greenhouse gas emissions by 55% by 2030 and by 90% by 2040 (compared to 1990 levels).

The central instrument for achieving these targets is the EU Emissions Trading System (ETS I).

From 2028 onwards, emissions from the buildings and road transport sectors are to be included in the EU Emissions Trading System (ETS II).

For areas that (so far) are not fully integrated into emissions trading, the Effort Sharing Regulation 2018/842 (ESR) applies. It sets national reduction targets for the Member States. Member States that fail to meet these targets will in the future have to buy emission allowances from other EU countries that have overachieved their targets.

In addition to these more or less market-based instruments, the EU also relies on regulatory measures. With the Renewable Energy Directive 2023/2413 (RED III), the EU target for the share of renewable energy in 2030 was raised to 42.5% (with the aim of reaching 45%). There are also stricter energy efficiency requirements.

In the transport sector, the EU initially adopted a ban on combustion engines from 2035 onwards but has since moved back significantly from this position.

In the land-use sector (LULUCF), the EU obliges Member States to increase the removal of CO₂ through natural sinks (forests, wetlands) (“no debit rule” plus restoration targets).

To cushion the social impacts of the measures under ETS II in particular, the EU has created a compensation mechanism, the Social Climate Fund. In addition, the Just Transition Mechanism is intended to help regions that are heavily dependent on fossil-fuel-based industries finance structural change.

Objective of the Copenhagen Meeting

The aim of our meeting and of the subsequent questionnaire is to make the national implementation of EU environmental policy requirements transparent. Implementation

successes and shortcomings should be highlighted, as well as nationally independent climate policy and regulatory approaches.

Questionnaire

The following questionnaire is intended to give us some common ground for discussion and analysis. Please feel free to choose the topics that are particularly relevant while leaving out the questions that are irrelevant in your national context.

2

Please remember also the obligation to provide a brief **National Report on Recent Developments in Environmental Law**, including a section on Recent Developments in Climate Litigation.

1. Political Situation

Is EU climate (and energy transition) policy generally supported or viewed critically in the respective national political context? How has national climate (and energy transition) policy developed in recent years? What are the prospects for future political developments? What are the key climate (and energy transition) policy controversies in the national political debate? What has been the role of the Courts in your national context?

As far as EU climate and energy transition policy is incorporated into the EEA Agreement and operationalized via transposition into the Icelandic legal system, it is generally supported by the current Government (a coalition of three parties; social democrats, a rightish party and a leftish middle party). At the same time, some aspects of these policies have been viewed critically, thought to place too heavy burdens on the economy, and have led Government(s) to seek special understanding or even exemptions from legal requirements, *inter alia*, in the field of climate policy. While policy development has in many respects followed the EU pattern, it is lagging behind and causing legal problems. This relates to a systemic failure, or the time it takes to incorporate new EU Acts into the EEA Agreement, which may sometimes be considerable.

It would not be unreasonable to state that the policy controversies relating to the energy transition have been more transparent and better voiced in the national political debate than key climate issues. Since enhanced availability of electricity (and necessary infrastructures) is key and perhaps a fundamental component of the energy transition in Iceland, further usage of renewable energy sources (hydropower, geothermal power and wind) is thought to be inevitable for a successful transition.

To fully comprehend the situation, the Icelandic context is in many ways different from the rest of Europe's. The electricity production is nearly exclusively generated by renewable energy sources, whereas ~70% originates from hydropower and the remaining ~30% stems from geothermal sources. Currently, the annual electricity production is around 21 TWh. With an emphasis on the policy of energy transition, and to live up to the Icelandic climate target of net-zero by 2040 at the latest, more electricity is thought to be needed. In this respect an increase of 5 TWh or more the next 10–15 years is often talked about.

The Icelandic electricity market is geographically isolated, and the national power grid does not interconnect to any other system. Due to this reality, the economy must solely rely on national production of electricity, in which hydropower plays a sizeable role. Therefore, the political debate has very often been concerned with prioritizing renewable energy options for production.

While Icelandic Courts have not yet had any role in the field of the climate policy, depending on how one defines the energy transition policy, there has been some involvement in that field recently relating to the licensing of new hydropower plants and the water framework directive.

2. Overall Climate Policy Targets

Are the EU's overall climate targets (2035/2040/2050) considered adequate / too ambitious / insufficient in national politics? Has the Member State set more ambitious national climate targets ("gold plating")? If so, what additional national targets are being pursued?

As Regulation (EU) 2021/1119 establishing the framework for achieving climate neutrality, with amendments, known as EU's Climate Law, has not been incorporated into the EEA Agreement, Iceland relies on its own overall climate targets, which was decided in 2012.

First, pursuant Article 1(c) of the Climate Act No 70/2012, one of the Act's climate targets, is to reach net-zero, at the latest, by 2040. While the concept of net-zero is further defined by the Act's Article 3(6) as being the situation when balance has been reached between GHG emissions and the binding of carbons caused by human activities resulting in zero-emissions this has been causing confusion as the reference "human activities", is not defined any further.

Secondly, Article 6(a) of Act No 70/2012 stipulates reductions in ESR emissions not falling under ETS 1 from 1 January 2021 until 31 December 2030, however, the amount of the reduction is not found in the provision.

Thirdly, in line with Article 6(c) of the Act, EEA/EFTA LULUCF obligations should not result in any net emission during 2021–2025, on the one hand, or during 2026–2030/2035, on the other.

Fourthly, several policies have been prepared and issued by the Ministry of the Environment, Energy and Climate. Among them is a new Action Plan of 150 actions to be reached by 2030/2035, but prioritizing five of them: (1) wetland reclamation, forestation and land reclamation, reduction target set at 405 thousand tons CO₂ equivalent, (2) accelerating of the usages of electric vehicles and the speeding up of the energy transition in transportation with reduction target set at 519 thousand tons CO₂ equivalent, (3) investments in green agriculture where the reduction target is set at 54 thousand tones CO₂ equivalent, (4) innovation and technical development, and (5) better data and knowledge relating to land-based GHG emissions. The Action Plan is by many considered to be too general and not realistic.

The overall emission has nonetheless increased, total of 1.7% the last few years, and since 1990 the increase amounts to 6.2%.

Finally, for information, in the latest NDC update (2025) to the Paris Agreement Iceland's commitment is 50–55% reduction target by 2035 compared to 2005 under the ESR. For the LULUCF, the annual net commitment is 400–500 thousand tons reduction of CO₂ equivalent by 2035 compared to 2025. For industrial emissions falling under the EU-ETS, the emphasis is placed on innovative technology, such as CCS, with focus on industries falling under the system.

3. Emission Trading System I (Industry)

Is ETS I considered appropriate? If not, what reforms are viewed as priorities from the national perspective?

The legal framework for ETS I is currently provided for by Act No 96/2023 on the European Union Emissions Trading System. The ETS I is generally not considered inappropriate while sometimes criticized.

Iceland is a direct participant in the ETS I and EU's climate objective. According to official data, the CO₂ equivalent increase from stationary industries in Iceland grew by 4.2% between the years 2023–2024, and since 2005 it has grown by 122%. Nonetheless, there has been an overall European reduction.

The Icelandic aviation industry, basically Icelandair, which operation is base is Iceland, has been critical towards the system. This relates to the North-Atlantic flight route and competitiveness, as airlines flying directly from Europe to North America and vice versa do not fall under the system. This led the Icelandic Government (with the acceptance of the EU) to use about 400 million ISK (2.772.002 EUROS) of its auctioning revenues to receive allowances, which were allocated free to Icelandair (and a small Italian charter company) for their flying operation in 2024. This will continue for operations in 2025 and 2026, and probably until 2030 but is conditioned on the volume of the usage of sustainable aviation fuel (SAF). An additional argument relates to the situation of Iceland being a geographically isolated island in the North Atlantic.

4. Emission Trading System II (Buildings and Road Transport)

What share of national total energy consumption is attributable to buildings and road transport? Is the postponement of ETS II to 2028 viewed positively? Are buildings and road transport already part of a national regulatory regime that anticipates elements of ETS II? How are the prospects for decarbonizing the national building and transport sectors assessed?

While Directive 2023/959 has been incorporated into the EEA Agreement and transposed into the Icelandic legal system (Act No 106/2025) there is surprisingly scarce information available on this issue. However, the explanatory notes with the bill which became Act No 106/2025 and amended the Icelandic ETS Act, state that the Act is not implementing a ETS II system for buildings, road transportation or additional sectors.

5. Double regulation?

Is there a discussion about the topic of 'double' regulation: e.g. energy efficiency in ETS installations / build environment, National taxes on/pricing of CO₂ emissions, Emission Limit Values in environmental permits?

Apparently, there is very little discussion about these issues in Iceland.

6. Effort Sharing

Is the Member State “on track” to meet its national reduction targets under the Effort Sharing Regulation 2018/842? Is failure / compliance / over-achievement of the EU requirements expected? What are the main challenges or success factors influencing compliance or non-compliance with the EU requirements? Does the state intend to sell its own emission credits or to purchase such credits from other Member States?

The Icelandic target was 29% reduction during 2021–2030 and is expected to be on track. While Regulation 2018/842 has been incorporated into the EEA Agreement by using Protocol 31 (on cooperation in specific fields outside the four freedoms (the issue is considered to exceed the scope of the EEA Agreement)) but not Annex XX (Environment) of the Agreement, Regulation 2023/857 is still under scrutiny by the Joint EEA Committee.

7. Renewable Energy

What progress has been made in the transition towards a national energy supply based on renewable energy? What is the current energy mix, and what are the projections up to 2050? What differences exist in the transformation of the electricity market versus the broader energy market (including non electric heating, transport and other energy use)? What are the major national regulatory instruments to support the transition to renewables? What major obstacles hinder a faster transition to renewable energy at the national level? Are adjustments to the EU’s regulatory framework considered necessary? If so, which ones?

Generally, the progress towards energy transition is positive. Against the total energy supply, around 85% is derived from renewable energy sources (hydropower and geothermal). The remaining 15% consists of imported fossil fuels. Geothermal energy heats round 90% of homes and other space heating. Same is used for baths and swimming pools. Regarding Directive 2018/2001 (RED II) the entry into force of the Joint EEA Committee Decision is still pending and Directive 2023/2413 (RED III) is under scrutiny.

8. Land Use

How exactly are emissions from the land-use sector recorded nationally? What trends can be derived from this data? What strategies are being pursued at the national level to strengthen the land-use sector’s contribution to emission reductions and to comply with the LULUCF-Regulation 2018/841?

As outlined under question 2, wetland reclamation, forestation and land reclamation have been prioritized. According to official data, the emissions for 2024 were similar compared with previous years or 6.3 million tons of CO₂ equivalent. The emissions from the land-use sector are largely estimated according to the National Inventory Document of 2024 (NID).

While regulation 2018/841 has been incorporated into the EEA Agreement through Protocol 31, regulation 2023/839 is still under scrutiny by the Joint EEA Committee.

9. Special National Strategies, Programmes, and Ideas

What special strategies, regulatory programmes, and ideas—beyond those already mentioned—are being pursued nationally for climate mitigation? How do these national concepts and legal instruments relate to EU climate policy? Does a programme for carbon capture and storage exist?

National concepts and legal instruments could be better related to EU climate policy.

There is no programme for CCS.

10. Social and Regional Compensation Mechanisms

Are there national mechanisms to provide social or regional compensation for the burdens arising from climate protection measures? Is any form of “climate dividend” or “climate payment” being issued?

There are no national mechanisms for social or regional compensation for the climate burdens, and no form of climate dividend or climate payment have been issued.

11. Adaptation

Are there national programmes for climate adaptation? How can these be briefly described? Should the EU, from a national perspective, develop climate adaptation programmes, or should this remain the responsibility of the Member States?

Several issues relating to climate change adaptation have been highlighted and are referred to as a general plan (programme). These include an emphasis monitoring natural phenomena, such as increase in natural disasters, extreme weather events, glacier retreats, the rise in sea levels, warming and the acidification of the sea, finally, systemic risks.

12. New liability/compensation regime in the Air Quality Directive (2024/2881) and the amended IE Directive (2024/1784)

The new Air Quality Directive 2024/2881, art. 28. and the amended IE Directive (2024/1785) requires Member States to establish a liability/compensation regime regarding persons suffering damage to human health caused by violation of the EU-obligations under the two directives. The new EU-obligation should be seen in light of the CJEU-ruling in C-61/21 in which the CJEU rejected Member State liability for human health damage based on the (old) Air Quality Directive. The new obligations place Member States as the one who should pay compensation for the damage, but the legal implications of the new regimes are not entirely clear. How is the new obligation on liability/compensation in the new Air Quality Directive and the amended IE Directive intended to be implemented in your Member State?

ICELAND

AÐALHEIÐUR JÓHANNSDÓTTIR PROFESSOR OF LAW
FACULTY OF LAW, UNIVERSITY OF ICELAND

Neither of the above obligations have been made part of the EEA Agreement but are under scrutiny by EEA/EFTA. I am not aware of any discussions on these issues in Iceland. However, EFTA Surveillance Authority (ESA) has recently opened a case against Iceland relating to the implementation of (old) Directive 2008/50/EC, which is (poorly) implemented in Iceland but still the obligation in force through the EEA Agreement.