

## Iceland

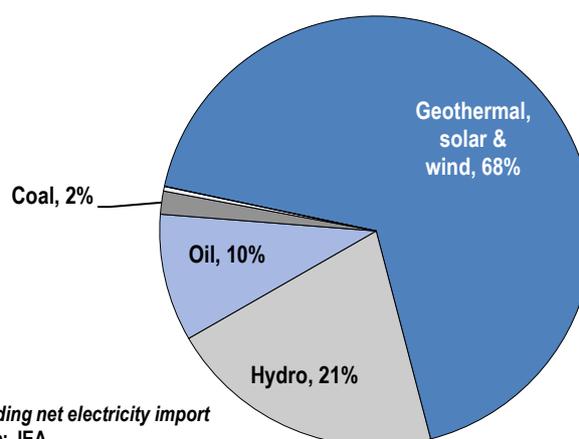
The OECD Inventory of Support Measures for Fossil Fuels identifies, documents and estimates direct budgetary support and tax expenditures supporting the production or consumption of fossil fuels in OECD countries, eight partner economies (Argentina, Brazil, the People's Republic of China, Colombia, India, Indonesia, the Russian Federation, and South Africa) and EU Eastern Partnership (EaP) countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine).

### Energy resources and market structure

Iceland is unique among OECD countries, as 89% of its primary energy supply and almost 100% of its electricity are obtained from renewable-energy sources. The country produces no fossil fuels and hence imports all of its petroleum products, which are mostly consumed in the transport and fishing sectors.

Iceland converted from oil to geothermal district heating during the period 1940 to 1975. Today, 97% of heating output comes from geothermal sources and most of the rest is provided by electricity.

Total Primary Energy Supply\* in 2018



Private companies supply Iceland with petroleum products while publicly-owned companies dominate the rest of the country's energy economy. *Landsvirkjun* (the National Power Company), the nation's largest electricity producer, is fully owned by the Icelandic State since 2007. The company, which also owns the majority of the national grid, sells its generated power as wholesale to local utilities and directly to power-intensive industries. Another municipally-owned company, *Reykjavík Energy*, through its subsidiaries, provides hot water to half of Iceland's population, and also generates electricity from geothermal steam. Privately-owned *HS Orka*, the third main energy firm in Iceland, operates two geothermal power plants and distributes electricity nationwide.

Iceland's annual per-capita electricity consumption is the highest in the world, standing at about 54.50 MWh per person in 2018. More than 85% of it is consumed by the industrial sector, mainly in aluminium-smelting.

### Energy prices and taxes

Energy prices in Iceland, except for petroleum products, are set by the energy companies. Electricity for the general public is sold by licensed traders which in turn purchase their power from generating companies (*Landsvirkjun* or from their own if they are autoproducers) on fixed contracts. Electricity contracts for power-intensive projects are concluded on a long-term basis.

Petroleum fuels used for transport are taxed both directly and indirectly through several taxes. All motor fuels used by road vehicles are subject to a general excise tax, a supplementary road tax for transport fuels, a carbon tax, as well as the standard 24% VAT rate. Transport fuels used in aircraft are exempted from excise taxes.

Iceland's carbon tax, introduced in 2010, covers four categories of fuels: gas diesel oil, motor gasoline, heavy fuel oil and LPG. Fuels used by the fishing fleet are fully subject to the carbon tax and VAT, and to no other forms of taxation.

Also introduced in 2010 was an energy tax collected on the sales of electricity and hot water which has since been reduced to cover only hot water sales since 2016. In 2020, the tax on fluorinated gases was implemented.

A recurrent weight charge is also applied to heavy road vehicles.

### Recent developments and trends in support

Motor vehicles are charged an excise duty at the port of import. Starting in January 2011, the *ad-valorem* excise duty levied on motor vehicles for private use or tourist services started to be based on a vehicle's CO<sub>2</sub> emissions, with rates ranging from 0% for vehicles emitting between 0 and 74 grams of CO<sub>2</sub> per km, to 65% for vehicles emitting 250 grams or more according to New European Driving Cycle. Reduced rates are levied on vehicles intended for use as taxis and for cars that are capable of being partially fuelled by methane. Since the 2011 reform, the recurrent tax on motor vehicles has been calculated based on CO<sub>2</sub> emissions. Exemptions apply for automobiles used by disabled persons, rescue services and for cars older than 25 years.

Motor fuels consumed for off-road uses and diesel used for space heating or in stationary engines are exempt from the road tax. Additionally, liquefied petroleum gas (LPG), as well as compressed natural gas and aviation fuel, are exempt from the excise tax.

A reduced VAT rate of 11% is levied to residential space heating and swimming pools irrespective of energy source (e.g. geothermal, electricity, fuel oil). Passenger transport services and highway tolls are also subject to the reduced VAT rate.

In order to reduce the high cost of space heating for households in remote rural areas where geothermal heating is currently unavailable, households may apply for financial support from the government. This budget expenditure item amounts to 0.07% of the country's GDP. Research efforts to increase the access and consequently share of geothermal energy in space heating in rural Icelandic communities continue.

#### Example of measures

##### Lower VAT Rate on Oil for Space Heating

A reduced VAT rate of 11% (in lieu of the standard rate of 24%) applies to fuel oil used for space heating and swimming pools in Iceland. Estimates of the revenue forgone as a result of this measure are currently not available.