



EUROPEAN COMMISSION

Ursula von der Leyen
The President

Brussels, 23. 08. 2022
Ares (2022) 4470444

Dear Prime Minister,

I would like to thank you for your letter setting out your views on the possible impacts of 'Fit for 55' legislative proposals on the aviation sector for Iceland. Your letter highlights the importance of aviation for Iceland, such as for the connectivity of your citizens, tourism, economy, and the business model for the Icelandic aviation sector. Given Iceland's geographic situation, I agree that aviation connectivity is vital.

Your analysis of the situation has been studied by the Commission services and discussed with Icelandic representatives in several meetings. At technical level, the Commission services have highlighted that several assumptions made in this analysis do not reflect the European legislation in place today. The results presented differ from qualitative and quantitative analysis in the Commission's impact assessment (SWD(2021)603) and the assessment of Eurocontrol¹ (which is independent from any European Commission assessment). Constructive bilateral exchanges at technical level are ongoing.

Nonetheless, the services have acknowledged your concerns, in particular regarding geographical location. The EU ETS has applied to flights since 2012, and the Commission proposal makes only marginal changes to the geographical scope. This is also the case for the Council's general approach. The main change with respect to the ETS in the Commission's proposal is the gradual phase-out of free allocation of allowances (which co-legislators support). As part of the broader 'Fit for 55' package, the Commission, with support from co-legislators, is extending the ETS to other sectors of the economy. In this context, and considering the need for increased climate action to which you have also referred, the aviation ETS must be preserved.

In bilateral meetings, the Commission services have also acknowledged that the 'Fit for 55' package includes additional measures which, together with the EU ETS, could have a cumulative impact on the aviation sector. Therefore, the Commission has welcomed suggestions to support aviation decarbonisation. This was not part of the Commission's proposal, but we welcome support to facilitate the transition to carbon neutrality in all sectors of the economy, including the

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¹ *Objective Skygreen 2022-2030 The economics of aviation decarbonisation towards the 2030 Green Deal milestone (more information on this can be found here : https://www.eurocontrol.int/publication/objective-skygreen-2022-2030#:~:text=Our%20%E2%80%9CObjective%20Skygreen%202022%2D2030,recent%20EUROCON TROL%20Aviation%20Outlook%202050.)).*

H.E. Ms Katrín Jakobsdóttir
Prime Minister of Iceland

aviation sector. The Commission remains open to suggestions on how to decarbonise the sector efficiently and effectively.

As regards the situation of Iceland, the specific concerns regarding combined costs, and the need to avoid displacing emissions ('carbon leakage'), it is important to note that a key principle of the EU ETS is equal treatment of airlines on the same route. This helps to avoid displacing emissions from one jurisdiction to another and has economic benefits because it maintains a level playing field. In addition, airlines have worked with this system for the past decade, with compliance rates consistently very close to one hundred percent. The Commission proposal, which Member States endorsed on 28 June 2022, contains only minor changes. The European Parliament and the Council are now negotiating the proposal. Both have agreed positions that include ETS-financed support to bridge the remaining price gap for sustainable aviation fuels. The Council's position includes a mechanism to support the uptake of sustainable aviation fuels, financed by up to twenty million allowances taken from the EU ETS. The European Parliament's position includes a similar mechanism, financed by twenty million allowances (or forty million, depending on geographical scope), with more support for synthetic fuels, in particular renewable fuels of non-biological origin. Iceland, with its high availability of carbon-free electricity production, could become an important producer of sustainable aviation fuels. If this support system is part of the final legislation, it would in all likelihood address some of the key concerns raised in your letter.

My services remain available for more detailed exchanges at a technical level.

Yours faithfully,



Ursula von der Leyen