

## New laws in Iceland provide for a great opportunity in bio-methane production and sales.

New laws were passed by the Icelandic parliament, Alþingi, in December 2010 and enforced on January 1 2011, that reflect a systematic change in taxation on motor vehicles and fuels. No longer will motor vehicles in Iceland be taxed based on engine size or total weight of but instead based on documented emission of CO<sub>2</sub>/km of fossil origin. All motor vehicles in Iceland carry an excise duty based on the CIF cost of the vehicles that will range from 0-65% by the year 2013 - but from 0-52% in 2011 and 0-59% in 2012. In addition, a VAT of 25,5% is placed on all vehicles regardless of the energy system or origin of the fuel used.

Both the excise duty and VAT have been placed on motor vehicles in Iceland in the past but the %-range for the excise duty have been widened placing an added cost on vehicles releasing GHG, of fossil origin, over 160gr/km. Bio-fuels will carry a VAT of 25,5% as before but the new law confirms that a special fuel fine that is placed on petrol and diesel will not be placed on bio-methane or bio-diesel for some years to come.

By letting the tax on vehicles reflect the CO<sub>2</sub> omissions of fossil origin the government is responding to the call of seeking ways to reduce the accumulation of GHG of fossil origin in the atmosphere. The new laws reflect knowledge of the fact the usages of bio-methane in transportation, in replacement of fossil fuel, yields substantial comparative environmental advantage regardless of the CO<sub>2</sub> omitted from vehicles running on bio-methane. Or in other words, reflect the knowledge that from an environmental standpoint there is a great difference between emission of CO<sub>2</sub> of fossil origin and CO<sub>2</sub> from a fuel that is manufactured by treatment of organic waste or biomass from the surface of the earth today.

The new law provides for the ability to import vehicles, capable of using bio-methane as a primary fuel, without paying an excise duty up to the maximum deduction of 1.250.000kr (app. 7900 EUR). The deductions apply for all bi-fuel vehicles with two fuel tanks, a methane tank and a petrol tank, as well as dual-fuel cars (methane/diesel).

Deduction of excise duty up to 1.250.000kr per car ( app. 7900 EUR) applies to the following imports:

- New and used car originally sold as bi-fuel car (methane/petrol) from the manufacturer, as well as mono-fuel methane vehicles - family car and pickup-trucks.
- New and used Light-Duty vehicle originally sold as bi-fuel vehicle (methane/petrol) from the manufacturer and intended primarily for cargo up to 5000 kg
- New and used vehicle originally sold as a petrol car from the manufacturer but upgraded to a bi-fuel car (methane/petrol) and officially registered as such in a foreign country. Same applies for a dual-fuel cars (methane/diesel)
- New car originally sold as petrol car from the manufacturer but upgraded in Iceland to a bi-fuel car (methane/petrol) prior to a registration. Same applies for a diesel car upgraded in Iceland to a dual-fuel car (methane/diesel).

The law provides for a special offer for the first 1000 used vehicles in the country that will be up-graded in Iceland from a petrol-car to a bi-fuel car or a diesel car to a dual-fuel car. The offer provides for a 20% discount, of the total up-grading cost, up to a maximum of 100.000 kr./ car ( app. 630 EUR/car) .

Also, the new law places a bi-fuel car and a dual-fuel car in the lowest category for the annual vehicle-fee, 5000 kr/year (app.31 EUR/year), as opposed to a high as 73.800 kr/year (app. 466 EUR/year) for each passenger car. This will apply regardless of how the car became registered as a bi-fuel or dual-fuel car.

Finally, the new laws confirmed that the government has no intent in placing a special fuel fee on bio-fuel usage in transportation in Iceland. And presumably so for the next 4-5 years at least based on the written comment attached to the bill. This will apply to bio-methane and bio-diesel to mention a few. In case the bio-fuel will be blended into petrol (methanol, ethanol) or diesel (bio-diesel) the proportion of the fuel that is not of fossil origin will be exempt from a special fuel-fees amounting to approximately 63 kr./L (app. 0,39EUR/L) in case of petrol.

The systematic change initiated by the new laws has been in the making for quite a time and comes at a time of great challenges in the Icelandic economy. Nevertheless, there are reasons to be optimistic and expect good results soon. Thanks to a remarkable success by SORPA bs, in collection of landfill gas (biogas) and developing of an up-grading facility for bio-methane production, the waste management company for the seven municipalities in the Reykjavik area, can supply bio-methane for thousands of cars with a short notice. In 2010 the sale of bio-methane for transportation increased by 17.9% and forecasts indicate an increase in 2011 by 70-100% amounting to over one million Nm<sup>3</sup> of bio-methane used by over 1000 vehicles

by the end of 2011. Currently, this trend is driven by soaring demand for up-grading of petrol cars to methane/petrol cars and the number of vehicles using bio-methane is expected to increase fast in the coming months and years.

## Bio-Methane Production Chain in Iceland



Since 1999 Metan hf has marketed and sold Icelandic bio-methane of highest quality, up to 98% purity and indication are strong that the current supply capacity via SORPA's biogas collection from the land fill site in Álfsnes might be fully utilized within few years. Plans are under way to speed up previous intentions to build a digestion plant and use numerous additional sources of organic material for bio-methane production. In doing so, Metan Ltd and SORPA bs will seek financial cooperation within the country as well as abroad and strong indications that governmental and municipal support and involvement will be very feasible for the project.

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