

Brussels, 18 December 2020  
Case No: 85892  
Document No: 1168595  
Decision No 169/20/COL

Ministry of Finance and Economic Affairs  
Arnarhvoli  
101 Reykjavík  
Iceland

**Subject: COVID-19 Compensation to Keflavík Airport**

## 1 Summary

- (1) The EFTA Surveillance Authority (“ESA”) wishes to inform Iceland that, having assessed the notified compensation in favour of the operator of Keflavík Airport, Isavia ohf. (“Isavia”), for the damage it suffered from 1 March 2020 to 30 June 2021 (“the measure”), it considers that the measure constitutes state aid within the meaning of Article 61(1) of the EEA Agreement and decides not to raise objections to the measure,<sup>1</sup> as it is compatible with the functioning of the EEA Agreement pursuant to its Article 61(2)(b). ESA has based its decision on the following considerations.

## 2 Procedure

- (2) The Icelandic authorities notified the measure on 17 December 2020.<sup>2</sup>

## 3 Description of the measure

### 3.1 The COVID-19 pandemic in Iceland and the containment measures taken by Icelandic authorities

- (3) Like other countries, Iceland has adopted a number of containment measures to prevent the spread of COVID-19 in the country. On 29 January 2020, the Chief Epidemiologist of Iceland publicly advised cancelling all unnecessary travels to China. On 28 February 2020, the Civil Protection alert level was raised to [Alert Phase](#),<sup>3</sup> following a confirmation of the first COVID-19 case in Iceland. On 6 March 2020, the alert level was raised to [Emergency Phase](#).<sup>4</sup>
- (4) On 20 March 2020, the Icelandic authorities, in accordance with the European Commission’s recommendations to the Schengen Member States,<sup>5</sup> implemented travel restrictions on the basis of Act No 80/2016 on Foreign Nationals<sup>6</sup> and

<sup>1</sup> Reference is made to Article 4(3) of the Part II of Protocol 3 to the Agreement between the EFTA States on the Establishment of a Surveillance Authority and a Court of Justice.

<sup>2</sup> Documents No 1170041, No 1170043, No 1170045 and No 1170047.

<sup>3</sup> See Regulation No 650/2009, Article 3(2)(e).

<sup>4</sup> See Regulation 650/2009, Article 3(3)(d).

<sup>5</sup> Communication from the Commission to the European Parliament, the European Council and the Council, COVID-19: Temporary Restriction on Non-Essential Travel to the EU, 16.3.2020, available online at: <https://ec.europa.eu/transparency/regdoc/rep/1/2020/EN/COM-2020-115-F1-EN-MAIN-PART-1.PDF>.

<sup>6</sup> Available online at: <https://www.althingi.is/lagas/nuna/2016080.html>.

Regulation No 866/2017 on cross-border travel.<sup>7</sup> These restrictions entailed that non-EEA nationals were not allowed to enter Iceland, unless they could demonstrate that their travel was essential.<sup>8</sup> The measures remained in force until 1 July 2020, at which time less stringent measures were put in place to minimise the risk of the virus spreading.

- (5) After 1 July 2020, everyone arriving to Iceland could either undergo a COVID-19 test upon arrival or a two-week quarantine. As of 19 August 2020, those arriving to Iceland need to undergo two screening tests for COVID-19, separated by a five-day quarantine until the results of the second test are known. It is not known when these requirements will be lifted.<sup>9</sup>
- (6) The preventive measures taken globally, as well as domestically, have had an unprecedented effect on business activity in Iceland. A small open economy, such as Iceland, is susceptible to interruptions in global supply chains. A large share of domestic consumption and investment products is imported, and the economy is heavily dependent on exports. Sectors related to tourism have increased in significance over the past decade – around 25 000 jobs are related to tourism, and foreign tourists represent about 70% of value creation in the tourism sector. The first impact assessments conducted in Iceland assumed that this sector would be the one most affected by the pandemic.<sup>10</sup>
- (7) Since March 2020 numerous countries, which had scheduled flights going to and from Iceland, have introduced lock-downs and travel restrictions, advised against unnecessary travel or closed their borders in an attempt to contain the spread of the COVID-19 virus.
- (8) Keflavík International Airport (“Keflavík Airport”) is an international airport located on the Reykjanes peninsula in south-west Iceland. It is by far the largest airport in Iceland, in terms of size and passenger numbers, with more than 7 million passengers in 2019 (see image 2 below). Keflavík Airport is a hub airport and handles international traffic. The operator of Keflavík Airport is Isavia.
- (9) From March to mid-June 2020, passenger traffic through Keflavik Airport was practically eliminated, due to global responses to and the effects of the pandemic. This can be seen in the below chart from Isavia (see figure 1). Although the traffic statistics show some recovery in June, as a result of COVID-19 screening at the airport, that recovery lasted only until August when the screening procedure was changed (see paragraph (5)). The impact on passenger airlines flying to and from Iceland is also severe.

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<sup>7</sup> Regulation No 238/2020 amending Regulation No 866/2017 on travel across borders, available online at: <https://www.stjornartidindi.is/Advert.aspx?RecordID=9cb48a0f-0d4d-4984-a13c-b2602bb4e6b0>.

<sup>8</sup> Essential travel includes passengers in airport transit, health and care workers on professional travel, transportation crews (airlines and freighters), individuals requiring international protection, individuals travelling because of acute family incidents, and diplomats, international organisation staff, members of armed forces travelling to Iceland for duty, and humanitarian aid workers.

<sup>9</sup> Up to date information available at: <https://www.covid.is/categories/tourists-travelling-to-iceland>.

<sup>10</sup> In the [commentary](#) to the bill of law which introduced [partial unemployment benefits](#), presented to the parliament on 13 March 2020, the tourism sector is mentioned specifically. The commentary provided that about 25 thousand jobs were directly related to tourism and that foreign tourists represent about 70% of value creation in tourism.

Figure 1: Comparison of passengers in 2019 and 2020.<sup>11</sup>

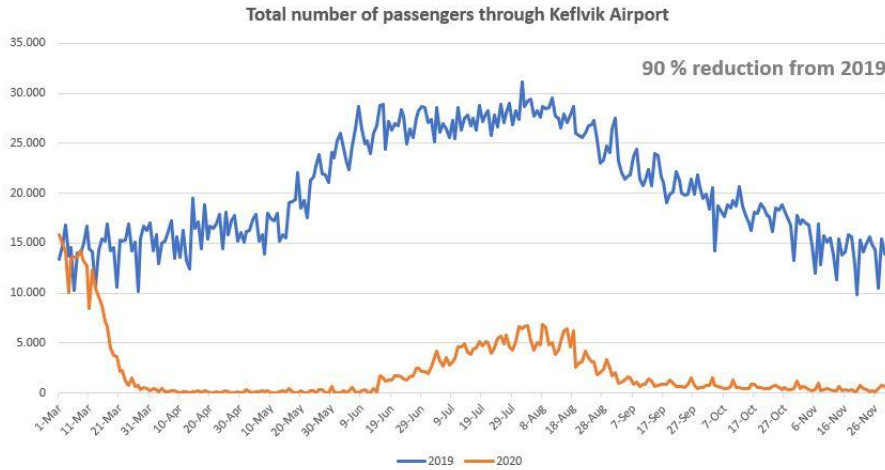
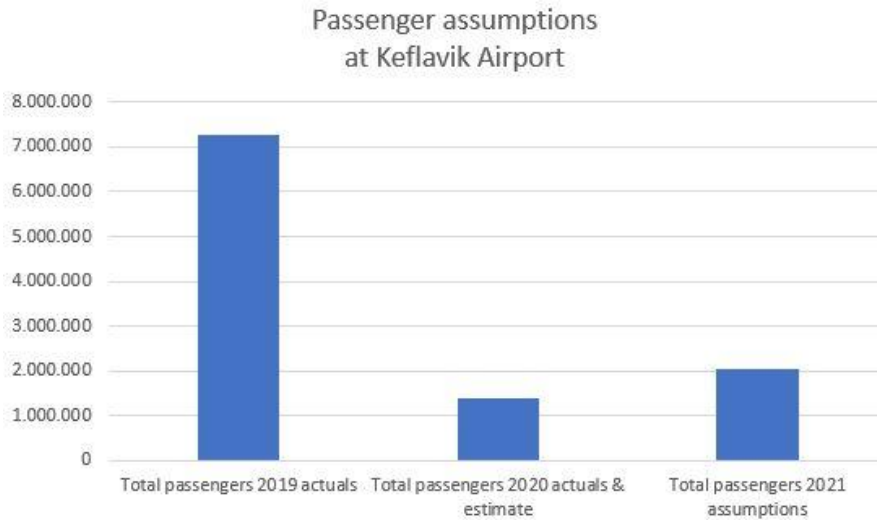


Figure 2: Comparison of passengers in 2019, 2020 and 2021, based on actual and estimated numbers.

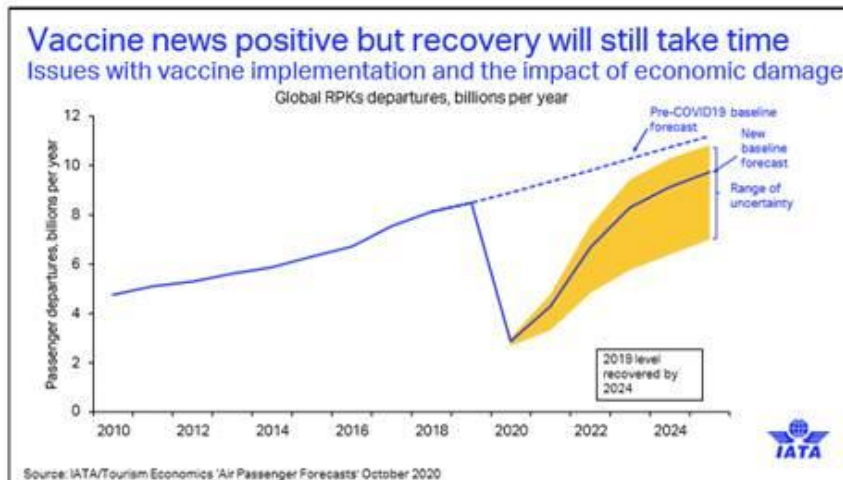


(10) Currently, there are no expectations of recovery in the coming months. The most recent expectations from the International Air Transport Association (“IATA”) are that recovery will take substantial time regardless of positive vaccine news: *Outlook for Air Transport and the Airline Industry*, presentation by Chief Economist B. Pearce at IATA Annual General Meeting, 24.11.2020 (“[IATA presentation](#)”).<sup>12</sup>

<sup>11</sup> Numbers for WOW-air, which ceased operations on 28 March 2019, are excluded.

<sup>12</sup> IATA presentation, slide 11.

Figure 3: IATA projection on recovery in the passenger aviation sector.



But even with an effective testing regime in place we are cautious about the extent to which this can quickly boost air travel.

We assume a vaccine(s) is deployed in the second half of 2021, but it looks likely that there will be production and distribution challenges that mean it will only be in late 2021 and in 2022 when air travel rises back substantially.

On this basis we don't expect 2019 levels to be regained until around 2024.

We should also acknowledge the huge amount of uncertainty over virus behavior, vaccine effectiveness and government responses. The yellow area represents various scenarios and indicates that the risk to our baseline forecast remains on the downside.

- (11) IATA currently reports a disappointingly weak revival on international markets, while domestic traffic has fully revived in parts of the world (China and Russia).<sup>13</sup> Keflavík Airport is however a hub airport situated between Europe and North-America that handles international flight traffic and virtually no domestic traffic, which suggests an even slower recovery.
- (12) The Icelandic authorities have stated that traffic to and via Keflavík Airport in 2021 will largely depend on the development in other countries, in Europe and North America in particular. In that regard, containment measures are expected to be in force in some form at least until the second half of 2021 and the Airports Council International ("ACI") has stated that "international passenger volume will remain weak in the first half of 2021, but will pick up in the second half of the year, as an increasing number of people get vaccinated and travel restriction[s] are gradually lifted."<sup>14</sup>

### 3.2 Objective

- (13) The objective of the measure is to compensate Isavia for the damage related to the operation of Keflavík Airport in the period 1 March 2020 to 31 June 2021 ("the compensation period") as a direct consequence of the COVID-19 pandemic and the containment measures adopted by Iceland and other countries.
- (14) The measure will only compensate the damage of Isavia's parent company, which operates Keflavík Airport. It does not cover the operations of other subsidiaries such as those responsible for air navigation services and the domestic airport operation, etc.

<sup>13</sup> IATA presentation, slides 6 and 7.

<sup>14</sup> [The ACI advisory bulletin of 8 December 2020](#), page 2.

### 3.3 Beneficiary

- (15) Isavia is a private limited liability company fully owned by the Icelandic State. The company is responsible for the operation, maintenance, and development of Keflavík Airport. Its subsidiaries manage other scheduled and non-scheduled primarily domestic airports and landing sites in Iceland under a service agreement with the Ministry of Transport and Local Government, duty free stores at Keflavík Airport, as well as air navigation services for domestic and international flights covering the large area of the North Atlantic. The company is regulated and licensed by the Icelandic Transport Authority.
- (16) The only beneficiary of the aid, within the Isavia group of companies, is the parent company, which is responsible for Keflavík Airport. The airport serves international flights and had 7 247 820 passengers in 2019. Around 28% of the passengers were transfer passenger on North Atlantic routes between North America and Europe.
- (17) Prior to COVID-19, the operation of Isavia was profitable, with the group delivering on average 14% return on equity in the years 2011–2019.
- (18) The Ministry of Finance and Economic Affairs handles the State's stock in the company and appoints the members of the board of directors.

### 3.4 National legal basis

- (19) The legal basis for the aid is provided in the supplementary budget act for 2020<sup>15</sup> and the budget bill for 2021.<sup>16</sup> The measure is financed through the Icelandic Treasury.

### 3.5 Aid granting authority

- (20) The Ministry of Finance and Economic Affairs will grant the aid and manage its conditions.

### 3.6 Aid instrument, budget and duration

- (21) The maximum budget of the measure is ISK 15 billion. The aid takes the form of a share capital increase by the Icelandic State, as the owner of Isavia.
- (22) ISK 4 billion were authorised in a supplementary budget act for 2020 in April 2020 and were paid out in June 2020 (“the first instalment”). The Icelandic authorities did not notify the first instalment to ESA prior to its disbursement. The rest of the aid (up to ISK 11 billion) will be disbursed in 2021 (“the second instalment”).

### 3.7 Modalities of compensation, eligible costs and aid intensity

#### 3.7.1 Introduction

- (23) The eligible costs correspond to the damage suffered by Isavia due to the COVID-19 pandemic from 1 March 2020 to 30 June 2021. The damage is defined as the net losses, comparing the loss of revenue (aeronautical, non-aeronautical and other revenue), and avoided costs during the compensation period (EBIDTA), with the corresponding months in 2019 (“the reference period”). The results of Isavia in the reference period is a proxy for the counterfactual, which is what Isavia's results would have been absent the exceptional occurrence.

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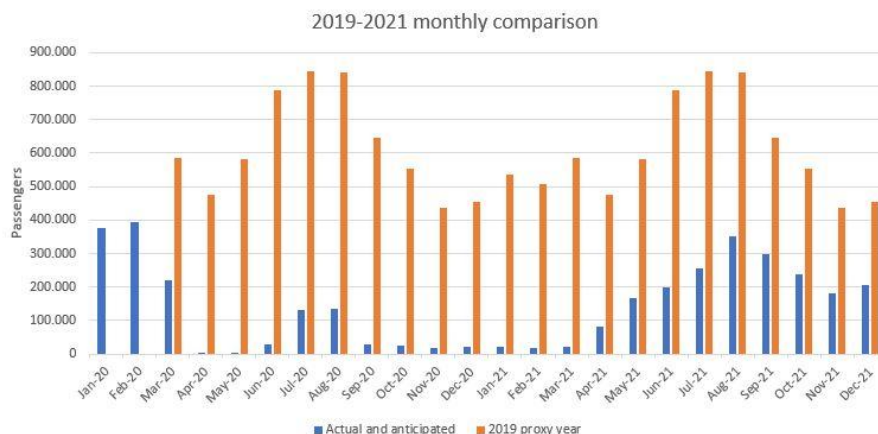
<sup>15</sup> <https://www.althingi.is/altext/150/s/1207.html>.

<sup>16</sup> <https://www.althingi.is/altext/151/s/0001.html>.



- (24) The Icelandic authorities note that it is not possible at this stage to calculate precisely the damage suffered by Isavia in the compensation period. In estimating the damage, the Icelandic authorities rely on actual numbers for the period March through September 2020, current estimates for the period October through December 2020, and estimated figures for the period January through June 2021.
- (25) Figure 4 shows actual and anticipated development in number of passengers at Keflavik Airport in 2020 and 2021 compared to the results in 2019.

Figure 4: Actual and expected development of passengers at Keflavík Airport 2019–2021.



### 3.7.2 Calculation of damage

- (26) The quantification of the damage considers the following:
- (i) Loss of revenue
    - Aeronautical revenue: landing charges, security charges, terminal and passenger charges, aircraft parking charges, service agreements and PRM (persons with reduced mobility) charges.
    - Non-aeronautical revenue: traffic related real estate and concession revenue, transportation and car parking revenue, marketing revenue, duty free concession revenue and fueling revenue.
    - Other revenue: for example, service revenue from related companies for the provision of financial services, human resource services, etc.
  - (ii) Avoided costs
    - All costs that Isavia would have incurred had its activity not been affected by the pandemic, and that the company has not actually incurred in the compensation period, due to its suspended activities. They are calculated by comparing the costs actually borne during the period and the costs incurred in the same month in the reference period. Therefore, avoided costs correspond to the difference between actual/estimated cost during the compensation period versus actual cost incurred in the reference period, month for month.
- (27) All revenue and costs are included for the parent company (which operates Keflavik Airport and support services), but none from subsidiaries (air navigation service provider, domestic airports, etc.), except for service agreements between the companies for support and other services rendered, which have also been adjusted based on cost-cutting measures throughout the company.

- (28) The Icelandic authorities note that to incentivise airlines to continue flying to Keflavík Airport after the outbreak of the pandemic in Europe, Isavia offered a 100% discount on airport charges, in the period 13 March to 31 July 2020. According to the Icelandic authorities, this choice served to reduce the overall damage caused by the COVID-19 pandemic. The Icelandic authorities have confirmed that if airlines would have fully stopped their services to Keflavík Airport, as routes became unprofitable, Isavia would still have had almost the same costs (as most staff were on notice) and, as a result, no aeronautical revenue and no non-aeronautical revenue.
- (29) As regards avoided costs, Isavia's operations have a high percentage of fixed costs and high asset associated costs. This is also true for other airport operators and it makes cost avoidance slower and more difficult. Uncertainties related to the development of the pandemic and its effects on air travel make budgeting difficult and operational decisions extremely challenging.
- (30) Isavia has nevertheless implemented extensive cost-cutting measures. More than 200 employees have received redundancy notices since March. The redundancy actions were primarily focused on front line workers at Keflavík Airport. In addition, work contracts for 50 employees have been reduced from full to part time and another 30 have reduced their work contracts to part time temporarily from September 2020. Isavia has reduced its staff from 728 at the end of February 2020 to 467 at the beginning of September 2020, which amounts to a 36% decrease.
- (31) Furthermore, Isavia's mandatory retirement age was reduced from 70 years to 67 years, affecting 15 employees this year. The company's summer hire program, which routinely employs around 180 individuals during the summer months, predominately students, was also cancelled due to the COVID-19 pandemic. Maintenance costs have been temporarily reduced and most non-essential costs have been reduced. Outsourced work has been reduced and/or cancelled.
- (32) Based on the methodology described above, the Icelandic authorities have estimated the damage suffered by Isavia in the compensation period as follows:

Table 1: Estimated damage.<sup>17</sup>

	Revenue loss	Avoided costs	Total estimated damage
<b>March – December 2020</b>	ISK 15.7 billion	ISK 2.7 billion	ISK 13 billion
<b>January – June 2021</b>	ISK 7.7 billion	ISK 1.7 billion	ISK 6 billion
<b>Entire compensation period</b>	ISK 23.4 billion	ISK 4.4 billion	ISK 19 billion

(33) Based on a maximum aid grant of aid ISK 15 billion and an estimated damage of slightly more than ISK 19 billion, the intensity would be approximately 78.7%. The final calculation of the damage will be based on actual results, as set out below in the commitments undertaken by the Icelandic authorities.

(34) The Icelandic authorities confirm that the aid may not be cumulated with other aid for the same eligible costs.

### 3.8 Commitments

(35) The Icelandic authorities commit to submit to ESA, no later than 30 September 2021, the results of a preliminary analysis of the *ex post* quantification of the damage suffered by Isavia and the amount of aid granted.

(36) The Icelandic authorities commit to carry out, no later than 15 April 2022, an *ex post* assessment of the damage suffered by Isavia as a result of the COVID-19 pandemic, quantifying the damage precisely, based on operating accounts for 2020 and 2021, audited and duly certified by an independent body.

(37) The Icelandic authorities commit to ensure that Isavia repays any over-compensation, should the *ex post* assessment show that the total state aid received by Isavia to compensate the damage suffered as a direct consequence of the COVID-19 pandemic exceeds the actual loss. In this respect, the Icelandic authorities acknowledge the importance of checks for what at the moment of notification are considered “future losses” due to the uncertainties of how the pandemic will develop, what containment measures will be in place and other external factors that may influence Isavia’s operations. Such losses may not be linked, or only be indirectly linked, to the COVID-19 pandemic. Therefore, should the *ex post* evaluation show that some losses are not related to the COVID-19 pandemic and the containment measures adopted by Iceland and other countries, any compensation for those losses will be recovered.

(38) The Icelandic authorities confirm that the payment made to Isavia shall be net of any amount recovered by insurance, litigation, arbitration or other source for the same damage. If the aid is paid out before the insurance, the authorities will recover the insurance amount.

<sup>17</sup> Decimal points are averaged. The precise estimated damage is ISK 19.06 billion.



- (39) Finally, the Icelandic authorities commit not to grant aid to Isavia, if they are responsible for the damage suffered and/or did not conduct their activities with due diligence or in compliance with applicable legislation, or did not take any measures to mitigate its damages.

#### **4 Presence of state aid**

- (40) Article 61(1) of the EEA Agreement reads as follows: “Save as otherwise provided in this Agreement, any aid granted by EC Member States, EFTA States or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between Contracting Parties, be incompatible with the functioning of this Agreement.”
- (41) The qualification of a measure as aid within the meaning of this provision therefore requires the following cumulative conditions to be met: (i) the measure must be granted by the State or through State resources; (ii) it must confer an advantage on an undertaking; (iii) favour certain undertakings (selectivity); and (iv) threaten to distort competition and affect trade.
- (42) The measure is granted by the Ministry of Finance through the Icelandic Treasury, and is therefore granted by the State through State resources.
- (43) Moreover, Isavia operates an airport, which is considered economic activity.<sup>18</sup> Therefore, Isavia is an undertaking.
- (44) Furthermore, by compensating Isavia for its damage related to the COVID-19 pandemic, the measure relieves Isavia of charges that are normally borne from its budget and thereby confers an advantage on Isavia. Moreover, the measure is selective, since it is granted to a single beneficiary, namely Isavia.
- (45) The measure is also liable to distort competition, since it strengthens the competitive position of Isavia compared to its competitors. It also affects trade between Contracting Parties, since Isavia is active in the aviation sector, in which there is intra-EEA trade.
- (46) In view of the above, ESA finds that the notified measure constitutes state aid within the meaning of Article 61(1) of the EEA Agreement.

#### **5 Procedural requirements**

- (47) Pursuant to Article 1(3) of Part I of Protocol 3 to the Agreement between the EFTA States on the Establishment of a Surveillance Authority and a Court of Justice (“Protocol 3”): “The EFTA Surveillance Authority shall be informed, in sufficient time to enable it to submit its comments, of any plans to grant or alter aid. ... The State concerned shall not put its proposed measures into effect until the procedure has resulted in a final decision.”
- (48) The Icelandic authorities have notified the aid before granting the second instalment of the measure. Therefore, with regard to the second instalment, the Icelandic authorities have complied with the obligations under Article 1(3) of Part I of Protocol 3

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<sup>18</sup> See the Guidelines on the notion of state aid as referred to in Article 61(1) of the EEA Agreement (“the NoA”) ([OJ L 342, 21.12.2017, p. 35](#)), paragraph 202.

- (49) However, the Icelandic authorities did not notify the first instalment of the measure to ESA, i.e. the ISK 4 billion granted in June 2020. Moreover, the Icelandic authorities have put that measure into effect before ESA has adopted a final decision. ESA therefore concludes that the Icelandic authorities have not respected their obligations pursuant to Article 1(3) of Part I of Protocol 3 with regard to the first instalment. The granting of aid through the first instalment must therefore be considered unlawful.

## 6 Compatibility of the aid measure

### 6.1 Introduction

- (50) ESA shall declare state aid compatible with the functioning of the EEA Agreement under its Article 61(2)(b), provided that certain compatibility conditions are fulfilled. This provision reads as follows: “The following shall be compatible with the functioning of this Agreement: aid to make good the damage caused by natural disasters or exceptional occurrences”. ESA has no discretion in assessing the compatibility of aid that falls within this category and meets the terms of Article 61(2)(b) of the EEA Agreement.
- (51) For all measures taken under Article 61(2)(b), there must be a direct causal link between the aid granted and the damage resulting from the exceptional occurrence for each beneficiary, and the aid must be limited to what is necessary to make good the damage.

### 6.2 COVID-19 as an exceptional occurrence

- (52) Neither the EEA Agreement, nor any EEA relevant legislation contains a precise definition of “exceptional occurrence”.<sup>19</sup> Article 61(2)(b) is an exception to the general principle, as stated in Article 61(1), which must be interpreted narrowly.<sup>20</sup> The characterisation of an event as an exceptional occurrence is made by ESA on a case-by-case basis. The event must be: (i) unforeseeable or difficult to foresee,<sup>21</sup> (ii) significant scale/economic impact,<sup>22</sup> and (iii) extraordinary.
- (53) On 9 March 2020, European Commission’s President Ursula von der Leyen made a statement that companies affected by the COVID-19 outbreak would in principle be eligible for state aid under Article 107(2)(b) of the Treaty on the Functioning of the European Union (“TFEU”). On 11 March 2020, the COVID-19 outbreak was classified as a pandemic by the World Health Organisation.<sup>23</sup> On 12 March 2020, the European Commission adopted a decision concluding that the COVID-19 pandemic qualifies as an exceptional occurrence for the purpose of Article 107(2)(b) TFEU,<sup>24</sup> which corresponds to Article 61(2)(b) of the EEA Agreement,

<sup>19</sup> See Commission Decision in case SA.56685 [C\(2020\) 1698 final](#) (Denmark) *Compensation scheme for cancellation of events related to COVID-19*, paragraph 24.

<sup>20</sup> See Commission Decision in case SA.32523 [C\(2012\) 4218 final](#) (Cyprus) *Compensation scheme for air carriers registered in Cyprus for additional costs linked to the impossibility to overfly the Turkish airspace*, paragraph 50. See also Commission Decision in case SA.56685 [C\(2020\) 1698 final](#) (Denmark) *Compensation scheme for cancellation of events related to COVID-19*, paragraph 24.

<sup>21</sup> Commission Decision in SA.32163 [C\(2011\) 5495 final](#) (Slovenia) *Remediation of damage to airlines and airports caused by seismic activity in Iceland and the volcanic ash in April 2010*, paragraph 31.

<sup>22</sup> Commission Decision in SA.33487 [C\(2012\) 2447 final](#) (Hungary) *Agricultural and fisheries aid to compensate for damage due to exceptional occurrence*, paragraph 36.

<sup>23</sup> [WHO Director General's opening remarks at the media briefing on COVID-19 on 11 March 2020](#).

<sup>24</sup> Which corresponds to Article 61(2)(b) of the EEA Agreement.

as it is an extraordinary, unforeseeable event having a significant economic impact.<sup>25</sup>

- (54) The spread of COVID-19 ultimately resulted in far-reaching disruption of various economic sectors. That disruption was thus clearly outside the normal functioning of the market. In order to avoid an exponential increase in the number of cases, accompanied by social alarm and severe economic consequences, containment measures needed to be adopted. Consequently, governments all over the world adopted various measures that aimed to limit the spread of the coronavirus, e.g. travel restrictions for non-essential travels, closure of borders, closure of non-essential shops, obligation for companies to organise working from home for every position where this is possible, and various social distancing measures.
- (55) In view of the above, the COVID-19 pandemic qualifies as an exceptional occurrence, as it was not foreseeable and is clearly distinguishable from ordinary events, by its character and its effects on the affected undertakings and the economy in general, and therefore falls outside the normal functioning of the market.
- (56) Consequently, ESA considers the COVID-19 pandemic as an exceptional occurrence within the meaning of Article 61(2)(b) of the EEA Agreement.

### **6.3 Causal link between the exceptional occurrence and the measure**

- (57) Only damage caused by the exceptional occurrence may be compensated for under Article 61(2)(b).<sup>26</sup> In the case at hand, there is a direct link between the damage caused by the exceptional occurrence and the state aid.
- (58) As previously described, the COVID-19 pandemic has resulted in travel restrictions all over the world and the close-down of the vast majority of passenger air transport. Those containment measures, aimed at avoiding the spread of the virus, negatively affected the aviation sector, including most airports.
- (59) The damage suffered by Isavia is directly linked to the COVID-19 pandemic through the travel restrictions and other containment measures imposed by the Icelandic authorities (as well as other authorities around the world), which led to a sudden and lasting reduction of flights at Keflavík Airport.
- (60) Regarding damage suffered by Isavia in 2020, the Icelandic authorities have provided evidence of a dramatic fall in passengers and revenue in the months of March to December (see paragraph 9 and image 1 and 2), which can be directly attributed to the pandemic and the measures enacted by national authorities in response.
- (61) The damage suffered from December 2020 through June 2021 is currently based on estimated numbers. As explained in paragraphs (11) and (12), both the Icelandic authorities and other international organisations expect that passenger numbers will remain severely depressed due to the pandemic and restrictions through at least the first half of 2021.

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<sup>25</sup> Commission Decision in SA.56685 [C\(2020\) 1698 final](#) (Denmark) *Compensation scheme for cancellation of events related to COVID-19*, paragraphs 26–30.

<sup>26</sup> See Commission Decision in case SA.32163 [C\(2011\) 5495 final](#) (Slovenia) *Rectification of consequences of the damage caused to air carriers and airports by earthquake activity in Iceland and the resulting volcano ash in April 2010*, paragraph 34.

(62) Consequently, ESA concludes that there exists, and will continue to exist, a direct causal link between damage suffered by Isavia during the period from 1 March 2020 to 30 June 2021 and the exceptional occurrence, i.e. the COVID-19 pandemic.

#### **6.4 Proportionality**

(63) In order to be compatible under Article 61(2)(b) of the EEA Agreement, the aid must be proportional to the damage caused by the exceptional occurrence. Aid must not result in overcompensation of damage and should only make good the damage caused by the exceptional occurrence.

(64) ESA considers the measure proportionate for the following reasons.

(65) First, the COVID-19 crisis is still ongoing at this stage and its full impact on Isavia's operations is not yet known. Therefore, the Icelandic authorities are not currently in a position to quantify precisely the damage suffered by Isavia. The estimated damage of Isavia is established based on the methodology set out in Section 3.7.

(66) Under the methodology, the damage is defined as the net loss in the compensation period as compared to the reference period. The damage is calculated according to the following principle: loss of revenue minus avoided costs (see Section 3.7.2).

(67) However, since the calculation of damage is an estimate, Isavia will be obliged at a later stage to present actual audited figures, confirmed by an external auditor, so that the actual damage can be calculated. In this regard, the Icelandic authorities have committed to submit to ESA, no later than 30 September 2021, the results of a preliminary analysis of the *ex post* quantification of the damage suffered by Isavia and the amount of aid granted. Furthermore, the Icelandic authorities commit to carry out, no later than 15 April 2022, an *ex post* assessment of the damage suffered by Isavia as a result of the COVID-19 pandemic, quantifying the damage precisely, based on operating accounts for 2020 and 2021, audited and duly certified by an independent body. Isavia will be required to repay any overcompensation, should the actual damage prove lower than the estimated damage.

(68) Consequently, ESA concludes that the methodology used to calculate the damage is appropriate.

(69) Second, using the calculation methodology described above, the Icelandic authorities have estimated the damage suffered by Isavia in the period of March 2020 through June 2021 to be slightly more than ISK 19 billion. The aid to be granted to Isavia will be at most ISK 15 billion, or 78.7% of the estimated damage.

(70) Finally, the Icelandic authorities have confirmed that the payment made to Isavia shall be net of any amount recovered by insurance, litigation, arbitration or other source for the same damage. If the aid is paid out before the insurance, the authorities will recover the insurance amount. Moreover, Isavia will not receive aid for damage that they are responsible for due to lack of due diligence, compliance with applicable legislation, or measures to mitigate its damages.

- (71) In light of the above, ESA considers that the total aid amount granted to Isavia will not exceed what is necessary to make good the damage estimated to have been incurred by Isavia due to the COVID-19 pandemic.

## **7 Conclusion**

- (72) On the basis of the foregoing assessment, ESA considers that the compensation to Keflavík Airport constitutes state aid within the meaning of Article 61(1) of the EEA Agreement. Since ESA has no doubts that the aid is compatible with the functioning of the EEA Agreement, pursuant to its Article 61(2)(b), it has no objections to the implementation of the measure.
- (73) The Icelandic authorities have confirmed that the notification does not contain any business secrets or other confidential information that should not be published.

For the EFTA Surveillance Authority,

Yours faithfully,

Bente Angell-Hansen  
President  
Responsible College Member

Frank J. Büchel  
College Member

Högni Kristjánsson  
College Member

For Carsten Zatschler  
Countersigning as Director,  
Legal and Executive Affairs

*This document has been electronically authenticated by Bente Angell-Hansen,  
Catherine Howdle.*