



Incentives for electric vehicles beyond 2017

A Bellona Europa Recommendations Paper

I. Introduction

While the Norwegian government has agreed to keep incentives for electric vehicles (EVs) until 2020, Norway is obliged to seek permission from the EFTA Surveillance Authority (ESA) for prolongation after 2017. The current incentives offered to EV drivers in Norway include:

- Tax exemptions: no VAT, no one-off registration tax
- Lowered annual circulation tax
- Free parking and charging (in coordination with local authorities)
- Free use of transfer ferries and bus lanes (in coordination with local authorities)
- Road tolls for EVs to be no higher than 50% of the full price for fossil fuelled vehicles

According to media sources, ESA is looking into curbing EVs exemption from VAT from the beginning of 2018. Meanwhile, the Norwegian Government has stated in its state budget proposal for 2018, to introduce a tax based on the weight of vehicles. This would impact all EVs weighing above 2 000 kg, meaning those with more powerful batteries and longer range. In this paper Bellona provides arguments as to why it is crucial to retain EV incentives, e.g. tax exemptions, and prevent at all cost the introduction of an EV tax based on weight in order to avoid undermining consumer and investor confidence, and thereby threatening the future development of the Norwegian EV market.

II. Arguments

Incentives help people of all income classes to choose low- and zero-emission alternatives

Sceptics question the climate impact of Norwegian tax exemptions by arguing these make it easier for people to own more cars (as opposed to fully substituting their fossil car with an EV) and are favouring the wealthier. Data from the Norwegian EV Association (Elbilforeningen) shows this to be false as an increasing number of households own and fully rely on EVs as their only car (29%). On average, drivers

state that the EVs have replaced 82% of international combustion engine (ICE) vehicle trips. A total of 19% drivers also state that the EV has replaced flights¹.

What is more, sales figures from September 2017 show strong growth in EVs, with an increase of 33% from the beginning of the year. EVs accounted for 29% of new car sales in September, and the CO₂ emission figures have never been lower with an average of 71 g/km; this being 17 g/km lower than in September 2016².

At the same time, sales of ICE vehicles decreased significantly in September 2017, with a fall of 25% compared to the same month last year³. Most EV owners quote 'cost savings' as the primary reason for choosing the electric option. EV models are offered in different price classes, making EVs economically beneficial for people of all incomes.

We see the start of a mass market, but a strong EV growth trajectory and stable regulatory framework will need to be sustained to reach the government's goal of only selling zero-emission vehicles (ZEVs) in 2025.

Still too few EV models that meet the needs of people

A frequently used argument to justify cuts in EV incentives is that a sufficient amount of EV models are offered to consumers to choose from today.

The combination of Norway's vast geographical size and scattered population means that most Norwegians look for larger vehicle models suitable for long distance driving which can accommodate the whole family. Half of vehicle sales in Norway are large and medium-sized vehicles, and only Tesla offers EV models of this size today. For many, this will still be the only EV available on the market that meets their needs. What is more, the introduction of an EV tax based on weight would not only affect commuter families, but also electrified municipal- and service vehicles (e.g. police cars, taxis) which travel longer distances on average.

EV incentives should be maintained until EV models in all sizes are available on the market, and can compete in price with ICE alternatives. This is also why Bellona strongly disapproves the proposed weight tax in the Norwegian State Budget for 2018.

EV battery prices have already dropped by 65% since 2010, and the trend continues. A recent study by Bloomberg New Energy Finance predicts that EVs' total cost of ownership (TCO) will have fallen below that of ICEVs already by 2022⁴. As a result these positive developments, Dutch Bank ING projects that all new car sales in Europe will be electric as early as 2035.

Avoiding a repetition of the "Danish scenario"

There is no doubt that the EV policy works, but when the Parliament urges citizens to choose ZEVs, it is

¹ <https://elbil.no/debattinnlegg-statens-beste-investering/>

² According to data from Elbilforeningen, <https://elbil.no/elbilsalget-fortsetter-a-oke/>

³ <http://www.ofvas.no/bilsalget-i-september/category744.html>

⁴ <https://www.theguardian.com/environment/2016/feb/25/electric-cars-will-be-cheaper-than-conventional-vehicles-by-2022>

an additional responsibility to keep promises to avoid consumer confusion. The Norwegian Ministry of Finance uses the same arguments in their letter to ESA requesting a prolongation of the incentives.

Bellona fears that a too rapid introduction of EV fees would create public scepticism toward EVs and relegate EV ownership in Norway to the same doldrums they have hit in Denmark. When Copenhagen phased out its EV incentives and imposed a 20% tax on the sticker price of EVs in 2016, sales dropped by 72% from 2015 to 2016⁵.

In 2015, 4605 electric cars were sold in Denmark. After the 20% registration fee hit the next year, sales dropped to 1300. The registration fee climbed again this year to 40%. As a result, a mere 17 electric cars had been sold in to private owners in Denmark as of July 2017⁶.

In Norway, some municipalities started charging ZEVs for parking, which has created massive misunderstanding and uncertainty among their owners. In Bergen, for example, local incentives such as free parking and tolls exemptions have been kept in place, and every one in ten vehicles is electric. In Tromsø, by comparison, where full payment for parking of EVs has been introduced, the share of EVs is stagnating at a low 1.2%⁷.

This shows the fragility of the EV market and its dependence on stable regulatory and economic signals to avoid fluctuations. Municipalities that offer more local usage benefits usually have a larger penetration of EVs, according to Elbilforeningen's overview of June 2017.

EVs: most promising means to attaining climate targets

Calculations from the Transport Economics Institute (TØI)⁸ show that we can cut CO₂ emissions from passenger vehicles by approximately 60% by 2030, if only ZEVs are sold from 2025. Reaching Norwegian and global climate targets will be impossible without the large scale uptake of ZEVs, something the IEA also states in its «World Energy Outlook 2016»⁹.

The TØI report, "Road to climate-friendly transport", states that EV support has the greatest effect of all environmental measures. The Environment Directorate (Miljødirektoratet) places measures related to EVs in the middle cost category, they also point out that technology development will make EVs an increasingly affordable climate measure.

EVs in Norway today still account for no more than 5% of all passenger vehicles (the total fleet), and according to the Elbilforeningens 2017 EV survey, local fiscal and usage incentives have had a significant impact on consumers' transition towards electro-mobility.

Electro-mobility is rapidly being embraced as the way forward for the transport sector worldwide. China's industrial minister recently announced a ban on the sale of fossil cars "in the near future", and already requires its car makers to meet minimum ZEV sales quotas¹⁰. India will end fossil car sales in

⁵ <https://www.bloomberg.com/news/articles/2017-06-02/denmark-is-killing-tesla-and-other-electric-cars>

⁶ <https://www.tu.no/artikler/da-elbilsalget-tok-av-gjeninnforte-danmark-registreringsavgiften-resultat-kun-17-dansker-har-kojpt-elbil-i-ar/398307>

⁷ <https://elbil.no/ny-elbil-regel-i-2018-maks-halv-takst-for-parkering-ferge-og-bom/>

⁸ <https://www.toi.no/publikasjoner/kjoretovparkens-utvikling-og-klimagassutslipp-framskrivinger-med-modellen-big-article34059-8.html>

⁹ <http://www.iea.org/newsroom/news/2016/november/world-energy-outlook-2016.html>

¹⁰ car makers in China will have to meet EV sales quotas of 8% by 2018, 10% by 2019 and 12% by 2020.

2030. France and England announced a ban only from 2040.

Norway has committed itself to cutting 40% of its national CO₂ emissions by 2030, and the transport sector is the largest source of CO₂ emissions (31% of total emissions)¹¹. The goal of selling ZEVs only from 2025, can be achieved only if the government sets clear targets for boosting the number of EVs and charging infrastructure over the next four-year period. Elbilforeningen believes that there must be 400 000 EVs on Norwegian roads by 2020⁶. This leaves no room for consumer confusion at this crucial stage.

III. Conclusion

Bellona strongly advises ESA to allow the Norwegian government to keep EV incentives until at least 2020, in this crucial time where we are so close to achieving the set climate goals. What is more, Bellona warns against the introduction of a tax on EVs based on weight, which would act to disadvantage EVs with heavier, more powerful batteries able to travel longer distances. A stable regulatory framework is key to safeguarding consumer and investor confidence, and thereby securing the EV market's future growth.

¹¹ <http://www.miljostatus.no/tema/klima/norske-klimagassutslipp/utslipp-av-klimagasser-fra-transport/>