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MINISTRY OF FINANCE

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Your ref

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Date

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Notification - prolongation of VAT benefits for battery electric passenger vehicles

1. INTRODUCTION

Pursuant to Part I Article 1 (3) and Part II Article 2 of Protocol 3 to the Surveillance and Court Agreement, the Ministry of Finance (hereafter referred to as the Ministry) on behalf of the Norwegian Government hereby would like to notify to the EFTA Surveillance Authority (hereafter referred to as the Authority) a prolongation of the existing measures regarding zero rated value added tax (VAT) for battery electric passenger vehicles (BEPVs). The notification comprises:

- Prolongation of the existing zero VAT rate on supply and import of BEPVs, up to the threshold of NOK 500 000, with the standard VAT rate (25 per cent) on the amount exceeding the threshold.
- Prolongation of the existing zero VAT rate for leasing of BEPVs, with the additional rules which reflect the threshold of NOK 500 000.

The current zero VAT rate on supply and import of BEPVs up to the threshold of NOK 500 000 and the additional rules for leasing of BEPVs, is approved by the Authority until 31 December 2024, cf. the Authority's Decision No 227/22/COL.

The Ministry on behalf of the Norwegian Government would like to notify to the Authority a prolongation of these measures for two more years, from 1 January 2025 until 31 December 2026.

The prolongation of the VAT measures applies to battery electric passenger vehicles (BEPVs). Passenger vehicles comprises passenger cars, motorcycles, mopeds, motor caravans, 5 seat combi vans (class 1 vans) and minibuses. Hence, commercial electric vehicles, such as 2/3 seat vans (class 2 vans), trucks, buses and

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other vehicles not defined as passenger vehicles, will continue to be subject to standard VAT rate.

The term “electric vehicles” comprises battery electric vehicles (“BEV”), and fuel cell electric vehicles (“FCV”). BEVs are propelled by one or more electric motors powered by rechargeable battery packs. No other fuel source is used, and there is no internal combustion engine on BEVs, thus different types of hybrid electric vehicles are excluded from the definition. FCVs are electric vehicles that use a fuel cell instead of a battery, or in combination with a battery, to power its on-board electric motor. As from 1 January 2024, the VAT exemption for supply and leasing of fuel cell electric vehicles was abolished. In the following, the term “electric vehicles” (“EV”) and (“BEV”) will be used for battery electric vehicles. As mentioned above, the prolongation of the zero VAT rate for BEVs, with the threshold of NOK 500 000, is confined to battery electric *passenger* vehicles. In the following the term “BEPVs” will be used for battery electric passenger vehicles.

The current zero VAT rate on supply and import of BEPVs up to the threshold of NOK 500 000 and the additional rules for leasing of BEPVs, has been in effect since 1 January 2023. The purpose of the additional rules for leasing of BEPVs is to ensure equal treatment of purchase and leasing of BEPVs. These rules are further described in Chapter 3, Section 3.2, where the description of the notified measures is given.

It is the Government’s position that the notified measures likely constitute State aid according to Article 61 (1) of the EEA Agreement. The Ministry although raise the question if aid in the form of indirect nature is relevant when analysing state aid due to the principal lay down in Council Directive (EU) 2022/542, which allow reduced VAT rates for goods and services that “aim at benefiting the final consumer and pursue objectives of general interest”. However, in our view the aid is compatible with the functioning of the EEA Agreement according to Article 61 (3).

The Ministry further assumes that aid for the purchase and leasing of BEPVs in the form of VAT exemptions may be provided according to the regulations in the General Block Exemption Regulation (“GBER”). The Ministry refers to Article 36b of the regulation. It can be difficult to quantify the additional costs of purchasing or leasing a BEPV compared to a conventional car in the same category. The assessment is therefore made according to the general rules for State aid.

To support the Authority's factual and legal assessment, we will give an overview of the measures in Chapters 2 and 3, before considering the question of state aid in Chapter 4. Finally in Chapter 5, the compatibility provisions of the aid measure in Article 61 (3) will be considered in detail.

2. BACKGROUND

2.1. Norwegian Climate Policy and implications for the transport sector

As a part of the Paris Agreement, Norway is committed to take action to keep global warming in line with the global long-term temperature goal. Under the Paris Agreement Norway has committed to reduce emissions by at least 55 per cent by 2030 compared to 1990-levels.

In EEA Joint Committee Decision No 269/2019 the EU, Iceland and Norway formally agreed to cooperate on fulfilling our respective emission reduction targets. By that decision, Iceland and Norway take part in all three pillars of the EU climate framework. This includes participation in the Effort Sharing Regulation (ESR), which regulates emissions not covered by the EU Emissions Trading System (EU ETS). Through the participation in the ESR, Norway's commitment is to reduce the non-ETS emissions by 40 per cent by 2030 compared to 2005 levels. In the Norwegian strategy to fulfil the commitments under the ESR, uptake of EVs is a cornerstone. To substantially reduce transport emissions, we need a large scale introduction of EVs in the passenger vehicle segment, as this is a segment where one has seen a growing popularity of the BEPV models already available.

2.2. General overview of the Norwegian VAT system

VAT was introduced in Norway with effect from 1 January 1970. The tax is levied on the final consumption of goods and services and is considered as a fiscal tax to secure state revenue.

The VAT provisions are laid down in the [Act on Value Added Tax of 19 June 2009 No. 58¹](#) (hereafter referred to as the VAT Act) and the [Regulation concerning Value Added Tax of 15. December 2009 No. 1540²](#) (hereafter referred to as the VAT Regulation). The obligation to pay VAT and the VAT rates are adopted annually by the Norwegian Parliament³ (hereafter referred to as the Parliament). Exemptions and zero rates are laid down in the VAT Act and are not adopted annually. However, since exemptions and zero rates have economic effects, their adoption and repeal form part of the annual budget process.

Norwegian VAT is levied on the supply of goods and services falling within the scope of the VAT Act. The importation and self-supply of goods and services are also considered taxable events.

¹ <http://lovdata.no/dokument/NL/lov/2009-06-19-58>

² [Forskrift til merverdiavgiftsloven \(merverdiavgiftsforskriften\) - Lovdata](#)

³ Available at <https://lovdata.no/forskrift/2019-12-13-1826>

Persons engaged in trade or business, whose taxable supplies exceed a financial limit of NOK 50 000 over a period of 12 months, must be registered in the VAT register and are liable to pay the tax.

A registered person may deduct input VAT on goods and services for use in the business cf. Section 8-1 of the VAT Act. The deduction right for businesses implies that VAT is not finally levied until the goods or services are sold to a customer without a right to deduction. Thus, VAT is a tax on the final consumption.

When reporting VAT to the tax authorities, the input VAT will be set off against the output VAT for the same period. If the input VAT exceeds the output VAT, the excess amount of input VAT shall be refunded claimed from the tax authorities.

The general VAT rate is 25 per cent of the net price (taxable base). The VAT rate on foodstuff is 15 per cent. Certain services are levied a reduced rate of 12 per cent, e.g., passenger transport, admission fees to cinemas and museums, and hotel accommodation.

Certain supplies, including health care and social services, are exempted from VAT. An exemption means that no output VAT is levied on the supply of the exempted goods and services, and suppliers are not entitled to deduct input VAT.

Some goods and services, however, are levied output VAT, but at a zero rate. Suppliers of such goods and services are still entitled to deduct input VAT. Most of the zero rated groups of goods and services have existed since the introduction of the VAT in Norway, e.g. the zero rating on newspapers, books, periodicals, and electricity for domestic use in northern parts of Norway. Due to the right to deduct input VAT, the zero rate only effects the sales of goods or services to private persons and other businesses without a right to deduct input VAT.

Sales of used motor vehicles, i.e., previously registered in the Norwegian Central Motor Registry, are subject to zero VAT rate. Instead, previously registered vehicles are subject to the re-registration tax when the vehicle is registered on a new owner. This system has been in place since the introduction of the VAT system in 1970.

The zero VAT rating for sale and import of EVs was introduced 1 July 2001 and extended to include leasing of EVs and supply/import of batteries for such vehicles 1 July 2015.

The current zero VAT rate on supply, import and leasing of BEPVs up to the threshold of NOK 500 000, has been in effect since 1 January 2023. These rules are further described in Chapter 3, Section 3.2.

The zero VAT rate for the batteries for EVs was abolished from 1 January 2023.

2.3. Other measures in favour of electric vehicles

Current measures in force

There are several measures adopted by the Norwegian authorities in favour of EVs.

The following measures, all of them designed to stimulate the demand for EVs, are in force:

- Reduced rates on toll-roads. Previously, EVs were granted free use of toll-roads. Currently, according to the guidelines⁴ concerning toll-roads, the rates for EVs must not exceed 70 per cent of those of conventional vehicles. Local governments may opt for lower rates for EVs on toll-roads and toll-rings, and the rates therefore vary.
- Reduced rates on road ferries. According to the guidelines concerning duty on ferries, point 1.3 rates⁵ for EVs must not exceed 50 per cent of those of conventional vehicles. EVs have for many years been subject to reduced or zero rates on road ferries. At first, they were usually granted a full exemption.
- Free or reduced rate parking at public parking places. Free parking for EVs was previously (from 1993) widely used throughout Norway. Currently, most municipalities in Norway, including all the major cities, have introduced parking fees for EVs. According to the Norwegian EV association⁶, four municipalities have zero parking fees for EVs, 9 municipalities have 50 percent reduced fees, and at least 48 municipalities have no reduced fees for parking.
- Access to bus lanes. EVs enjoy an authorisation to drive in bus lanes, according to the regulation relating to pedestrian and vehicle traffic (traffic rules)⁷ - Section 5(2). This measure has been in force since 2006. In its Decision No 150/15/COL the Authority concluded that the authorisation granted to EVs to drive in bus lanes does not involve any commitment of State resources, and hence is not state aid. Many municipalities in Norway have watered down this measure. For instance, Oslo and Akershus recently removed EV access from bus lanes for a three year period.
- Many Norwegians have access to private parking spaces, so they primarily charge at home. However, sufficient fast charging infrastructure is a precondition for the market development of EVs. In most areas, fast charging infrastructure has been developed, and there are currently approximately 8378 fast chargers in Norway⁸. These chargers have been predominately built on commercial terms. The state enterprise Enova previously provide support for fast chargers for cars, but these schemes have since been terminated.

⁴ Available at: [takstretningslinjer-for-bompengeprosjekt-pa-offentlig-veg---juni-2024---ver2.pdf](https://www.vegvesen.no/globalassets/fag/trafikk/ferje/riksregulativ-for-ferjetakster-gjeldende-fra-1-januar-2024.pdf) ([autopass.no](https://www.autopass.no))

⁵ Available at: <https://www.vegvesen.no/globalassets/fag/trafikk/ferje/riksregulativ-for-ferjetakster-gjeldende-fra-1-januar-2024.pdf>

⁶ <https://elbil.no/elbil-fordeler/parkering/>

⁷ Available at: <https://lovdata.no/forskrift/1986-03-21-747/§5>

⁸ In May 2024. Available at: [Ladestasjoner - Norsk elbilforening](https://www.ladestasjoner-norsk-elbilforening.no/)

Back scaling of measures – overview

- As from 1 July 2001 EVs had unlimited zero VAT rate for the supply and import. The tax exemption was extended to include leasing of EVs from 1 July 2015. As from 1 January 2023 the current threshold of NOK 500 000 on supply, import and leasing of BEPVs was introduced.
- The zero VAT rate for supply and import of batteries to EVs was abolished from 1 January 2023. This tax exemption had been in force since 1 July 2015.
- The zero VAT rate for commercial EVs was abolished from 1 January 2023. That includes 2/3 seat vans (class 2 vans), trucks, buses and other vehicles not defined as passenger vehicles.
- EVs were previously exempted from insurance tax. Insurance tax was introduced for EVs with a reduced rate in 2021, and with the same rates as conventional vehicles in 2022. In 2024, EVs are subject to a higher insurance tax than conventional cars.
- All vehicles, except large lorries and buses are levied a one-off registration tax when they are being registered in the Norwegian Central Motor Vehicle Register for the first time. The registration tax is determined by three factors: weight, emissions of CO₂, and emissions of NO_x. EVs have been exempted from registration tax since 1991. A new additional weight tax component was introduced in 2023, applicable to passenger cars irrespective of propulsion. This new weight tax component therefore also applies to EVs. The current rate is NOK 12.08 per kilogram of the car's weight over 500 kilograms. The tax objects and tax rates and tax exemptions for the registration tax follows from the Parliament's decision concerning excise duties. Further regulations can be found in Regulation of 19 March 2001 No 268 on the registration tax.
- EVs were previously exempted from re-registration tax. As from 1 May 2022 EVs were subject to re-registration tax with a reduced rate at $\frac{1}{4}$ of the rate for other cars. As from 1 January 2023, the same rate applies to EVs as to conventional fuel vehicles and EVs.
- As from the income year 2022, the taxable benefit from the private use of the employee's EV was increased from 60 per cent to 80 per cent of that of a conventional car with the same listing price. From the income year 2023, the favourable income tax calculation for employees benefitting from private use of electric company vehicles was abolished.
- Favourable depreciation rules for electric vans were abolished from 2024. Under the Norwegian system for depreciation for tax purposes, the depreciation rates reflect the expected economic lifetime of the operating assets. Electric vans had an increased depreciation rate from 2017 to 2024. The rate was 30 percent for electric vans and 24 percent for conventional vans. Electric vans now have a regular depreciation rate of 24 percent.
- EVs was previously widely exempted for parking fees or subject to reduced rates. These measures have been scaled back considerably by the municipalities during the last years., as aforementioned.
- Previously, charging at publicly accessible charging stations was free of charge at many locations. This practice has all but disappeared in recent

years, and payment is required for charging at almost all public charging stations.

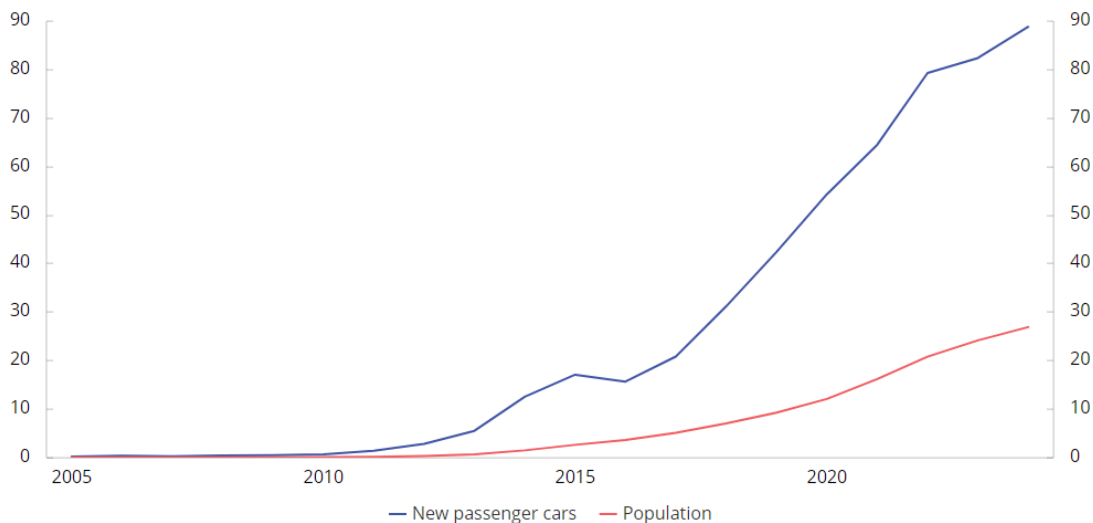
- As from 1 January 2024, the VAT exemption for supply and leasing of fuel cell electric vehicles was abolished.

2.4. Current market status and availability

Status of the battery electrical vehicle market in Norway

BEPVs have been widely available in the Norwegian passenger car market for many years. The sale has increased considerably over the last decade and BEPVs have been sold in substantial amounts the last few years. The share of new BEPVs registered in Norway, as a percentage of all new passenger cars, has increased from 18 per cent in 2015 to 82 per cent in 2023. In 2024 (January– October), 89 per cent of new passenger cars sold were BEPVs. The development of BEPVs, as share of registration of passenger cars, is shown in the blue line in Figure 1.

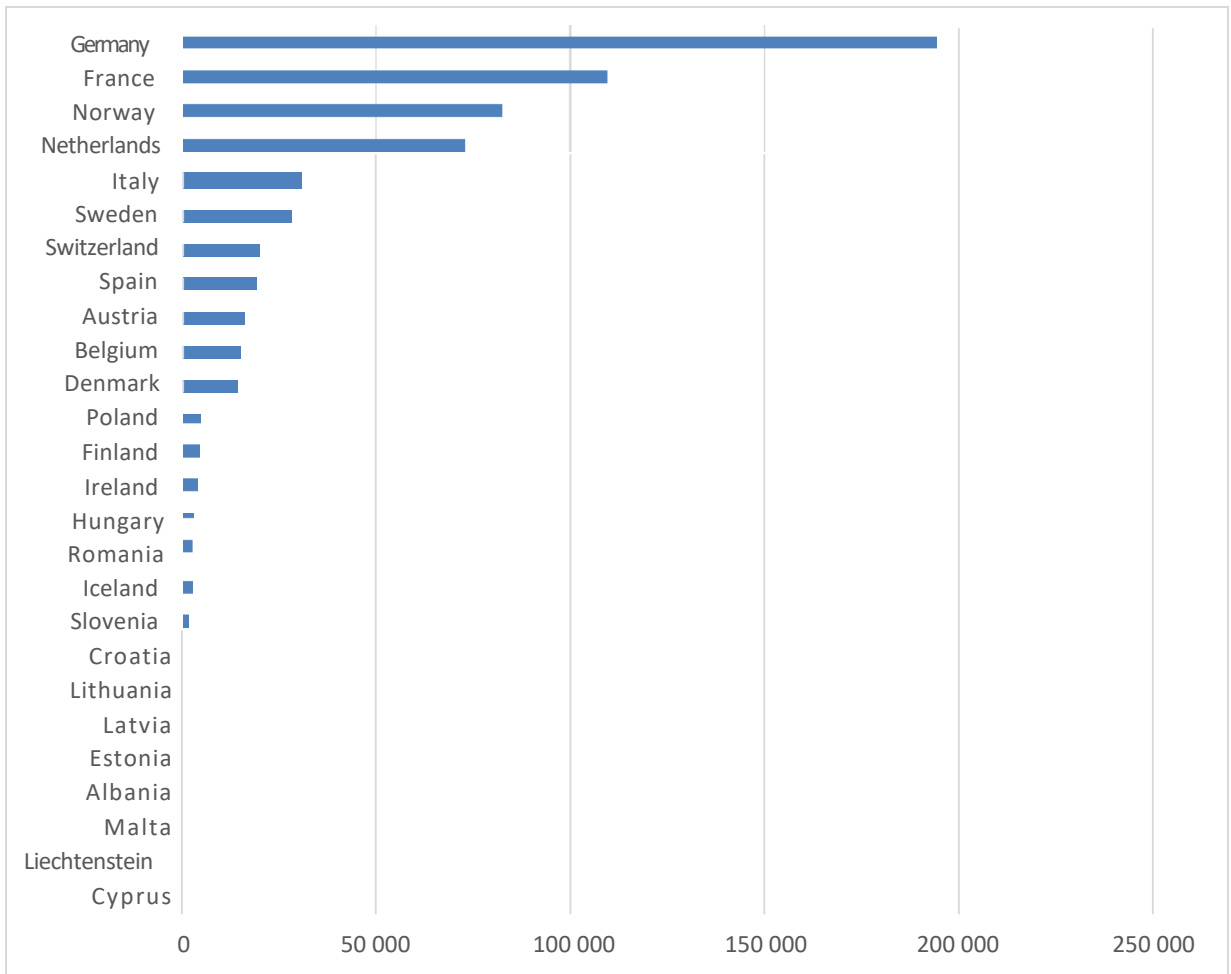
Figure 1 - Shares of electric vehicles per year of new passenger cars and of the stock of passenger cars in Norway 2005–October 2024



Source: Opplysningsrådet for Veitrafikken (OFV)

In Figure 2, the number of BEPVs in total sales in European countries in 2020 is shown. The figure shows that the number of sold BEPVs in Norway is high in absolute terms compared to other, bigger European countries. Only Germany and France have larger sales number than Norway.

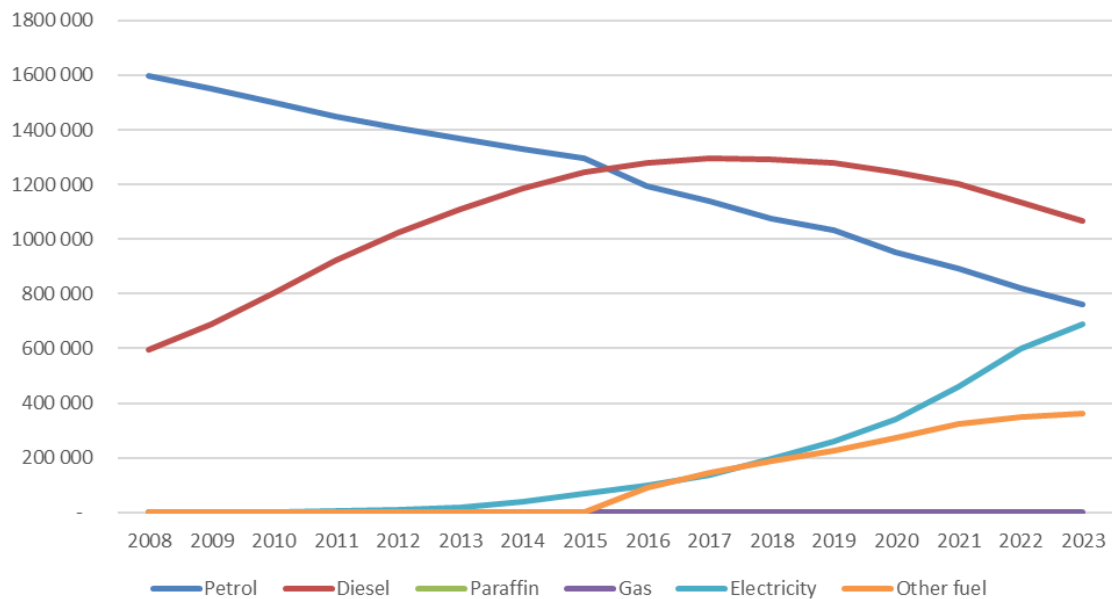
Figure 2 - Number of battery electric vehicles of new passenger cars in European countries (2020)



[Source: Eurostat](#)

However, the total number of BEPVs registered is still relatively small compared to the number of conventional fossil fuel vehicles in Norway. The development of registered vehicles by fuel type in the stock of passenger cars is shown in Figure 3. The light blue line depicts the share of BEPVs, that reached 24 per cent at the start of 2024. At the beginning of 2024, 689 000 BEPVs were registered in Norway. The numbers of BEPVs and hybrid cars have been increasing, but the total numbers are still significantly lower than petrol and diesel cars.

Figure 3 - Stock of registered vehicles by type of fuel, Norway



Source: Statistics Norway

Status of the fuel cell electric vehicle market

The market for fuel cell vehicles will still be limited in 2024 and 2025. Both the production cost of fuel cell vehicles, fuel cells and the hydrogen itself relies on a much larger scale production than it is today. In 2023, only 2 new passenger cars using hydrogen were registered.

3. THE NOTIFIED MEASURES

3.1. Previously approved measures and prolongations

In Decision No 150/15/COL the Authority considered the following measures as compatible state aid within the meaning of Article 61(3)(c) of the EEA Agreement in favour of the indirect beneficiaries of those measures, i.e. manufacturers and dealers of EVs and batteries:

- the zero VAT rating for the supply and import of EVs
- the zero VAT rating for the leasing of EVs
- the zero VAT rating for the supply and import of batteries for EVs
- the reduced annual vehicle tax for EVs
- the exemption from road tolls for EVs
- the free boarding on classified national road ferries for EVs
- the favourable income tax calculation for employees benefitting from private use of electric company cars.

The Authority found that the outlined measures did not entail State aid within the meaning of Article 61(1) of the EEA Agreement in favour of their direct beneficiaries, i.e. the buyers, importers or lessors of electric vehicles or buyers or importers of

batteries for electric vehicles. These measures were found by the Authority to constitute indirect aid in favour of the manufacturers and dealers of EVs and batteries.

In the same decision, the Authority found that the following measures in favour of EVs constituted existing aid measures, as they had been in place before the EEA Agreement entered into force in Norway on 1 January 1994.

- exemption from registration tax
- free charging at public charging stations
- free parking in public parking.

By letter dated 6 November 2017, the Ministry notified a package of several tax measures in favour of EVs, including:

- prolongation of the zero VAT rating for the supply and import of EVs
- prolongation of the zero VAT rating for the leasing of EVs
- prolongation of the zero VAT rating for the supply and import of batteries for EVs
- new full exemption for EVs from annual tax/insurance tax
- new exemption for EVs from re-registration tax
- new more favourable depreciation rate for electric cargo vans.

The measures were notified for a period of six years from 1 January 2018 until 31 December 2023, except for the zero VAT rate measures in favour of EVs, which were notified for a period of three years from 1 January 2018 until 31 December 2020.

In its decision No 228/17/COL, the Authority concluded that the notified measures constituted state aid within the meaning of Article 61(1) of the EEA Agreement. Since no doubts were raised as to their compatibility with the functioning of the EEA Agreement pursuant to its Article 61(3)(c), the Authority had no objections to their implementation.

By letter dated 10 November 2020, the Ministry notified a package of several tax measures in favour of BEVs, including:

- prolongation of the zero VAT rating for the supply and import of BEVs
- prolongation of the zero VAT rating for the leasing of BEVs
- prolongation of the zero VAT rating for the supply and import of batteries for BEVs

The measures were notified for a period of two years from 1 January 2021 until 31 December 2022.

In its decision No 148/20/COL, the Authority concluded that the notified measures constituted state aid within the meaning of Article 61(1) of the EEA Agreement. Since no doubts were raised as to their compatibility with the functioning of the EEA Agreement pursuant to its Article 61(3)(c), the Authority decided not to raise objections to the prolongation.

By letter dated 9 March 2022, the Ministry notified two tax measures in favour of EVs, including:

- Replacement of the exemption from re-registration tax with a reduced rate for EVs,

- Reduction in the favourable income tax calculation for employees benefitting from private use of electric company vehicles, setting the taxable benefit to 80 per cent of that of a conventional vehicle.

In the notification the Ministry explained that the notified measures would reduce the current aid intensity under the approved measures.

In its decision No 068/22/COL, the Authority concluded that the notified measures constituted state aid within the meaning of Article 61(1) of the EEA Agreement. Since no doubts was raised as to their compatibility with the functioning of the EEA Agreement pursuant to its Article 61(3)(c), the Authority had no objections to their implementation.

By letter dated 7 December 2022, the Ministry notified a package of several tax measures in favour of BEPVs, including:

- prolongation of the zero VAT rate on supply and import of BEPVs but with the introduction of a threshold of NOK 500 000, and a standard VAT rate (25 per cent) on the amount exceeding the threshold,
- prolongation of the zero VAT rate for leasing of BEPVs, but with additional rules to reflect the threshold of NOK 500 000

The measures were notified for a period of two years from 1 January 2023 until 31 December 2024.

In its decision No 227/22/COL, the Authority concluded that the notified measures constituted state aid within the meaning of Article 61(1) of the EEA Agreement. Since no doubts was raised as to their compatibility with the functioning of the EEA Agreement pursuant to its Article 61(3)(c), the Authority decided not to raise objections to the measures.

The notification presented in this letter refers to the current measures for supply, import and leasing of battery electric passenger vehicles (BEPVs) which are approved by the Authority in Decision No 227/22/COL, until 31 December 2024. A prolongation of the existing VAT regulations regarding supply, import and leasing of BEPVs is being notified for a period of two years, from 1 January 2025 until 31 December 2026.

3.2. Description of the notified measures

The notification comprises the current measures mentioned in this chapter, which the Ministry on behalf of the Government, would like to prolong for two more years.

The measures concern the prolongation of: (i) the existing zero VAT rate on supply and import of BEPVs, up to the threshold of NOK 500 000, with the standard VAT rate (25 per cent) on the amount exceeding the threshold; and (ii) the existing zero

VAT rate for leasing of BEPVs, with the additional rules which reflect the threshold of NOK 500 000.

The current measures of zero VAT rate up to the threshold of NOK 500 000 for BEPVs are laid down in the VAT Act Section 6-8 and 7-1. Sales of BEPVs are regulated in Section 6-8 subsection (1) and leasing in subsection (2). Section 7-1 in the VAT act lays down that goods, as mentioned in Section 6-8 subsection (1), shall be exempted from VAT on import of goods.

Purchase of BEPVs is exempted for VAT for the purchase price up to NOK 500 000. For the part of the purchase price that exceeds NOK 500 000, VAT must be paid with the standard VAT rate (25 per cent). This applies to supply, self-supply, import and withdrawal of BEPVs. In the invoice, taxable persons must split the purchase amount in a taxable and a non-taxable section. The purpose of the additional rules for leasing of BEPVs is to ensure equal treatment of purchase and leasing of BEPVs. If the purchase price exceeds NOK 500 000, when the leasing company acquires the vehicle, VAT shall be calculated of the rent multiplied with the purchase price that exceeds NOK 500 000 divided with the purchase price.

The VAT on the leasing is calculated according to this formula:

$$M_L = \frac{P - G}{P} * l * m$$

ML = VAT on leasing

P = Purchase price ex. VAT

G = Threshold (NOK 500 000)

l = rent

m = VAT rate (25 per cent)

These rules for leasing apply to the rental of both new and used BEPVs where the lease period according to a written agreement, is at least 30 days. For businesses with the right to deduct input VAT, the VAT on the rent is deductible.

Businesses involved in car-hire services (including leasing) and passenger transport have right to deduct input VAT when acquiring passenger vehicles. Such businesses are entitled to deduct input VAT for the part of the purchase price that exceeds the threshold of NOK 500 000 when acquiring battery electric passenger vehicles, cf. Section 8-4 in the VAT Act.

The prolongation of the VAT measures applies to battery electric passenger vehicles (BEPVs).

BEPVs are propelled by one or more electric motors powered by rechargeable battery packs. No other fuel source is used, and there is no internal combustion engine on BEVPs, thus different types of hybrid electric vehicles are excluded from the definition.

Passenger vehicles comprises passenger cars, motorcycles, mopeds, motor caravans, 5 seat combi vans (class 1 vans) and minibuses. The delimitation corresponds to the list in the VAT Regulation Section 1-3-1 Passenger vehicles subsection (1) (excluding letter f and h, which are non-engine vehicles). Hence, commercial electric vehicles, such as 2/3 seat vans (class 2 vans), trucks, buses and other vehicles not defined as passenger vehicles, will continue to be subject to standard VAT rate.

Revenue effects

In 2023, VAT was introduced on the purchase of BEVPs for the amounts over NOK 500 000. The additional revenue from the amendment is estimated to be approximately NOK 1.5 billion in 2024.

3.3. Objective

As a part of the Paris Agreement, Norway is committed to take action to keep global warming in line with the global long-term temperature goal. Under the Paris Agreement, Norway is committed to reduce emissions by at least 55 per cent by 2030 compared to 1990-levels. In EEA Joint Committee Decision No 269/2019 the EU, Iceland and Norway formally agreed to cooperate on fulfilling their respective emission reduction targets. By that decision, Iceland and Norway are taking part in all three pillars of the EU climate framework. This includes participation in the ESR, which regulates emissions not covered by the EU ETS.

Through the participation in the ESR Norway has a legal commitment to reduce the so-called non-ETS emissions by 40 per cent by 2030 compared to 2005 levels. Moreover, as Norway under the ESR, has received an annual emission allocation for each year in the period from 2021 to 2030, it has large value to accelerate the transition to zero emission technology as early in the period as possible. Norwegian emissions exceeded the emission allocation for 2021 and 2022. Preliminary assessments of emissions in 2023 indicate that Norwegian emissions exceeded the emission allocation for 2023 by approximately 1 million tonnes of CO₂-equivalents under the current legal commitment.

In addition, emission reduction goals have been strengthened in the EU, emphasizing the importance of continuing with strong climate measures. Following the amended Effort Sharing Regulation (EU) 2023/857, reduction targets for member states have been strengthened. The Norwegian Government has the intention to continue the cooperation on climate policies with the EU and is in dialogue with the EU whether, and on which terms, the amended regulation shall apply for Norway.

More than half of Norwegian greenhouse gas (GHG) emissions are in the ESR sector, where the transport sector is the primary source of emissions. Within the

transport sector, the passenger car segment is the largest emitter with emissions of 4 million tonnes CO₂ eq. in 2022. This is 46 percent of the GHG emissions from road traffic and approximately one quarter of the total GHG emissions in the transport sector.⁹

In the Norwegian strategy to fulfil the commitments under the ESR, uptake of EVs is a cornerstone. To substantially reduce transport emissions, we need a large scale introduction of EVs in the passenger car segment, as this segment both has the largest emissions, while also being the one where zero emission technology is most readily available for deployment.

To achieve its emission reduction goals, in the White paper on the National Transport Plan for 2018–2029¹⁰, the Government at that time established several new targets:

- in 2025, 100 per cent of new private cars and light vans will be zero-emission vehicles. All new city buses will be zero-emission vehicles or use biogas
- by 2030, all new heavy vans, 75 per cent of new long-distance buses, and 50 per cent of new lorries will be zero-emission vehicles
- by 2030, the distribution of goods in major city areas will be more or less emission free.

The White Paper on National Transport Plan 2018–2029 was adopted by the Parliament in June 2017. The targets have been continued in the subsequent National Transport Plans, including the most recent plan for 2025-2036.¹¹ Among these targets, it is the target for zero emission passenger cars that by far has the largest potential when it comes to GHG emissions reduction. In order for the targets to be achieved, the Government relies on technological development. At the same time it is critical with an effective incentive regime, as we can see from the EV market share in Norway compared to other countries.

In the projections of future emissions based on existing policies and measures, emissions from passenger cars will be reduced by 68 percent in 2030 compared to 2022 levels. This is primarily due to the increased share of BEVs in the vehicle stock, based on assumptions that 100 percent of new passenger cars will be BEVs from 2025.

It also follows from the Hurdal platform that *"The government will (...) make it attractive to choose low- and zero-emission vehicles with the goal that 100 percent of new passenger cars are fossil-free by the end of 2025."*

In addition, it is important to emphasize that while the targets for EVs are political objectives themselves, they are essential for meeting the overall reduction goals.

⁹ [13931: Klimagasser, etter utslippkilde, energiprodukt og komponent, GWP-verdier etter Parisavtalen \(AR5\) 1990 - 2023. Statistikkbanken \(ssb.no\)](#)

¹⁰ [Meld. St. 14 \(2023–2024\) \(regjeringen.no\)](#)

¹¹ Meld. St. 14 (2023-2024) Nasjonal transportplan 2025-2036
https://www.regjeringen.no/contentassets/aaee20cf5a9e468ea97fd51638c42407/no/pdfs/stm20232024_0014000dddpdfs.pdf

The zero rating of BEPVs in the VAT system has been, with the introduction of a threshold of NOK 500 000 from 2023, merely one of several measures to achieve these targets.

3.4. National legal basis and aid granting authority

The national legal basis is the VAT act. The current measures of zero VAT rate up to the threshold of NOK 500 000 for supply, leasing and import of BEPVs are laid down in the VAT Act Section 6-8 and Section 7-1.

Section 6-8 reads as follows (unofficial translation):

Section 6-8 Vehicles powered by electricity.

- (1) The supply of passenger vehicles powered by electricity and where the electricity is delivered from a rechargeable battery pack which can be charged from an external power source, shall be exempt from VAT up to an amount of NOK 500 000.
- (2) Leasing of passenger vehicles powered by electricity and where the electricity is delivered from a rechargeable battery pack which can be charged from an external power source, shall be exempt from VAT if the leasing business' purchase price for the leased passenger vehicle is NOK 500 000 or less. If the cost price is higher, VAT shall be calculated of the rent multiplied with the purchase price that exceeds NOK 500 000 divided with the purchase price. With leasing means the hiring of passenger vehicles where the rental period according to a written contract is at least 30 days.
- (3) The Ministry may issue regulations prescribing the types of vehicles that are covered by subsection (1) and (2).

Section 6-17 in the VAT act lays down that withdrawal of goods is exempt from VAT if the corresponding supply is exempt in the same chapter of the VAT act.

Section 7-1 in the VAT act lays down that goods, as mentioned in Section 6-8 subsection (1), shall be exempted from VAT on import of goods.

With regard to Section 6-7 below, we refer to the description in Chapter 2, Section 2.2 in this notification. Sales of *used* motor vehicles, i.e., previously registered in the Norwegian Central Motor Registry, are subject to zero rate VAT. Instead, previously registered vehicles are subject to the re-registration tax when the vehicle is registered on a new owner. This system has been in place since the introduction of the VAT system in 1970.

Section 6-7 reads as follows (unofficial translation):

Section 6-7 Vehicles covered by the Norwegian Parliament's decision on motor vehicle registration tax

- (1) The supply of vehicles covered by the Parliament's decision on motor vehicle registration tax, shall be exempt from VAT if the vehicle has been registered here in Norway. The exemption also applies to vehicles covered by the Parliament's decision Section 1 letter c if the vehicles have permissible total weight of 7 500 kg or more.
- (2) The Ministry may issue regulations prescribing that the exemption in subsection (1) shall include goods other than the vehicle itself and work that is performed on the vehicle.

The VAT rates are adopted annually by the Parliament. Exemptions and zero rates are laid down in the VAT Act and are not adopted annually. However, since exemptions and zero rates have economic effects, their adoption and repeal form part of the annual budget process.

The aid granting authority is the Norwegian Ministry of Finance.

3.4. Beneficiaries

The direct beneficiaries of the notified prolongation of zero VAT rating on BEPVs up to the threshold of NOK 500 000 are the consumers, i.e. the final users. This includes both private individuals and businesses.

Due to the right to deduct input VAT for undertakings, VAT is in principle not an expense for undertakings registered in the Norwegian VAT system. Except for undertakings involved in car-hire services (including leasing) and passenger transport, VAT on passenger vehicles cannot be deducted. As a consequence, without the zero VAT rate under the threshold, VAT would be a cost for undertakings acquiring BEPVs, in the same way that VAT is a cost for undertakings acquiring conventional passenger vehicles. Consequently, undertakings established in Norway will benefit directly from the notified prolongation of the existing measure of zero VAT rating under the threshold of NOK 500 000 per BEPV.

Manufacturers and dealers of BEPVs, as well as undertakings buying, importing or leasing BEPVs to use as company cars may obtain an indirect advantage.

There are no geographical, sectoral, or other kinds of limitations to obtaining the benefits herewith notified.

3.5. Form of aid, eligible costs and intensity

The notified prolongation of the aid measure implies continuation of the zero VAT rating on BEPVs with the threshold of NOK 500 000.

All BEPVs are eligible to zero VAT rate up to purchase amounts of NOK 500 000 (per BEPV), while amounts exceeding the threshold of NOK 500 000 are subject to ordinary VAT rate (25 per cent). The measure does not discriminate between car manufacturers since all models or types of battery electric passenger vehicles are eligible to zero rate up to an amount of NOK 500 000 (per BEPV).

No electric cars are manufactured in Norway. All end users – private and undertakings – are able to purchase, lease or import BEPVs for their own use. Consequently, all end users are eligible for zero VAT rating up to an amount of NOK 500 000 per BEPV.

The notified aid measure will cover part of the expenditure incurred for the purchase, lease or import of a BEPV. The zero rate for BEPVs, with the threshold of NOK 500 000, will still aim to increase the share of EVs and thereby reduce GHG-emissions by compensating for the extra cost and disadvantages of EVs in comparison to conventional vehicles. The Norwegian Government wishes to lower the costs of BEPVs for consumers by bringing BEPVs to a price level lower than that of conventional cars.

3.6. Duration and budgetary implications

The Ministry notifies a prolongation of the zero VAT measure up to an amount of NOK 500 000 for the supply, import and leasing of BEPVs for a period of 2 years from 1 January 2025 to 31 December 2026.

The actual duration will depend on the annual adoption of taxes by the Parliament.¹²

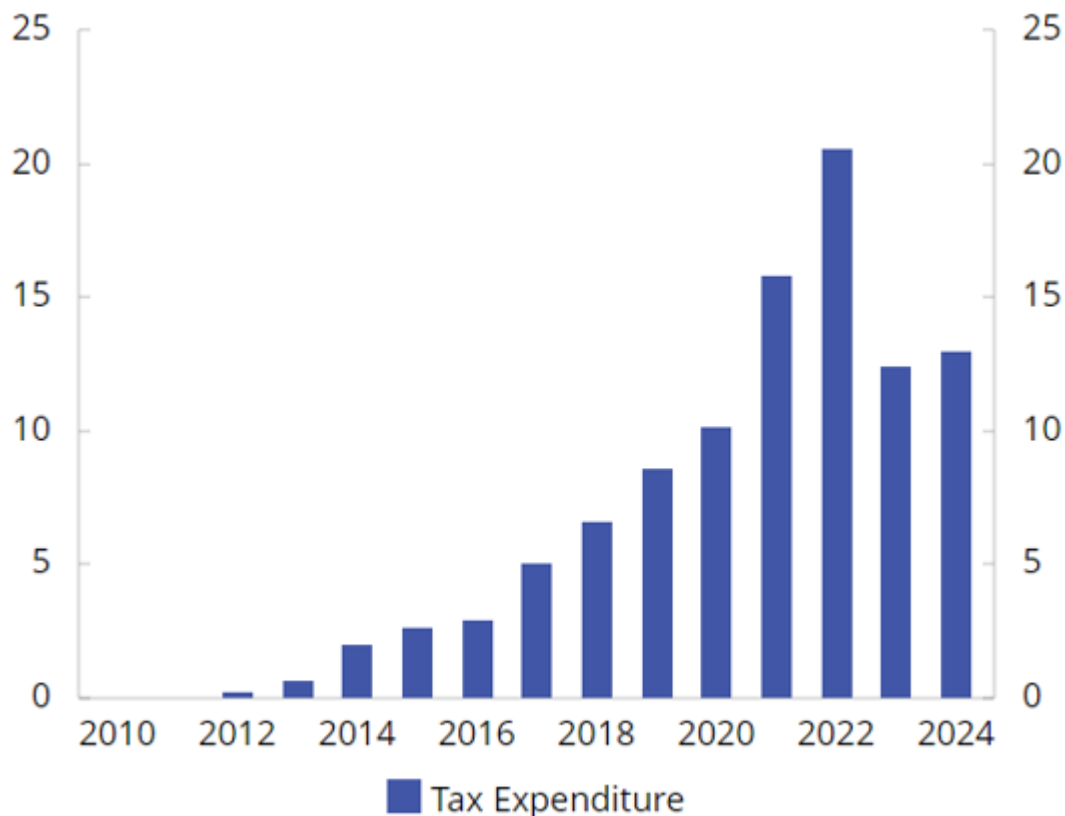
The prolongation of zero VAT rate with the threshold of NOK 500 000 for BEPVs results in a loss of revenue compared to a situation where BEPVs are charged the standard rate (25 pct.) in the VAT system. The estimated tax expenditure depends on the number of BEPVs sold as well as their sales price. In 2024, the value of the zero rating

¹² This sentence refers to the formalities regarding the adoption of taxes by the Parliament in Norway. The Parliament is competent to impose taxes, duties, customs and other public charges *on a yearly basis*, cf. Section 75 a in the Norwegian Constitution. Thereby, the Parliament imposes a number of decisions on taxes, duties, customs and other charges, on a yearly basis by the adaption of the State budget.

for BEPVs under the threshold of NOK 500 000 is estimated to amount to approximately NOK 13 billion.

The estimated tax expenditure caused by the zero rating for the supply, leasing and import of EVs¹³ since 2005 is shown in Figure 4.

Figure 4 - Estimated yearly tax expenditure from zero VAT rating sales of EVs. 2005 to 2024. Billion NOK in 2024-prices



Source: The Ministry of Finance.

Figure 4 shows that the estimated value of the zero-rate has declined the last two years. This is due to the introduction of the threshold in 2023 and the fact that a record number of cars were sold in 2022.

¹³ Electric battery commercial vehicles have been subject to standard VAT rate since 1 January 2023. Cars using Hydrogen cars have been subject to standard VAT rate since 1 January 2024. As companies has the right to deduct input VAT and the number of hydrogen cars sold in Norway is very limited, the tax expenditure estimate reflects the cost for the state from the zero rating for the BEPVs.

The estimated tax expenditure/revenue loss of the other advantages for EVs is presented below¹⁴. The numbers given are annual estimates for 2024 for each measure, unless stated otherwise:

- exemption from the registration tax: around NOK 15 billion per year
- value of advantages from EVs in road tolls: around NOK 2 600 million in 2023
- value of transport for EVs on road ferries: around NOK 184 million in 2023

For zero-emission vehicles the toll rate cannot be set higher than 70% of the normal. In most toll projects, electric vehicles pay 50% of the normal rate, but there are still some toll projects where electric vehicles are exempt. Previously we have only reported the value of the exemptions, since there was no method for estimating the advantages from reduced toll rates. However, now we have established a method for doing such calculations. Hence, the value of the advantages in road tolls has increased considerably.

4. ASSESSMENTS OF AID

4.1. State aid within the meaning of Article 61(1) EEA

Article 61(1) of the EEA Agreement Article reads as follows:

- (1) 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.*

In order to constitute state aid within the meaning of Article 61(1), a measure must meet the following cumulative criteria:

1. the measure is granted by the State or through state resources
2. the measure confers an economic advantage on an undertaking
3. the measure is favouring certain undertakings or the production of certain goods (selectivity)

¹⁴ Tax expenditures are estimated revenue losses due to special rules, advantages and exemptions compared to general rules. The estimates are calculated based on actual EV sales and other EV activity and do not take into account that changes can affect behaviour.

4. the measure distorts or threatens to distort competition and has an effect on trade between the EEA States

The Ministry acknowledges that a prolongation of the notified measures may constitute state aid within the meaning of article 61(1) of the EEA Agreement. Consequently, the criteria will only be discussed briefly below.

4.2. The measure is granted by a Member State or through state resources

The form in which the aid is provided is not relevant to its assessment under Article 61 (1) of the EEA Agreement. Tax reliefs or more favourable tax rules may constitute aid granted through State resources.

VAT is mainly levied in order to raise revenue. The zero VAT rate under the threshold of NOK 500 000 for BEPVs entails a loss of State revenues, as the measures constitute foregone tax revenues for the state. The measures are also granted by the State since they are adopted by legislative acts.

On this basis, the Ministry finds that the first criterion is met.

4.3. The measure confers an advantage on an undertaking

In order for a measure to constitute state aid, it must confer an economic advantage on an undertaking. According to established case law an economic advantage is an economic benefit which an undertaking could not have obtained under normal market conditions, i.e., without State intervention. Hence, the definition of aid is more general than that of a subsidy because it includes not only positive benefits, such as subsidies themselves, but also State measures which, in various forms, mitigate charges that are normally included in the budget of an undertaking and which thus, without being subsidies in the strict sense of the word, are similar in character and have the same effect.

A tax exemption can constitute an economic advantage, as well as a loss of State resource, even though it does not involve a transfer of State resources. A measure must be assessed in relation to its effects not to its form, aim or causes. As a consequence, neither the fiscal nature of a measure, nor its environmental aim is sufficient to place it outside the scope of the State aid rules. It follows that a measure, by which the public authorities grant to certain undertakings a tax or a fee exemption that places the entity to whom the exemption applies in a more favourable financial situation than other entities, constitutes an advantage within the meaning of Article 61(1) of the EEA Agreement.

The VAT system is designed as a general tax on the final consumption of goods and services, and hence carried by the consumer. The zero-rating under the threshold of

NOK 500 000 is a favourable position in the VAT system due to the undertakings' right to deduct input VAT without any output tax. This type of VAT benefits are shared between buyers and sellers of the product which benefits from reduced VAT. The allocation of the tax benefit depends on the market conditions amongst other factors. As follows in Section 5.5, the Ministry concludes that the benefit of zero rate VAT on EVs in general is passed on to the car purchasers.

Private individuals purchasing, importing or leasing BEPVs are not subject to state aid rules. State aid rules are only applicable to undertakings, i.e., an entity engaged in economic activities.

However, as pointed out by the Authority in Decision No 227/22/COL, undertakings established in Norway purchasing BEPVs may obtain a direct economic advantage through the proposed measures. Due to the right to deduct input VAT for undertakings, VAT is in principle not an expense for undertakings registered in the Norwegian VAT system. With the exception of undertakings involved in car-hire services (including leasing) and passenger transport, the right to deduct VAT does not compromise VAT on passenger vehicles. As a consequence, without the zero VAT rate up to the threshold of NOK 500 000, VAT would be a cost for undertakings acquiring passenger BEPVs, in the same way that VAT is a cost for undertakings acquiring conventional passenger vehicles.

Furthermore, by stimulating demand, the measures may indirectly favour other undertakings such as manufacturers and dealers. In the Authority's Decision No 227/22/COL the Authority concluded that the zero VAT rate under the threshold of NOK 500 000 per BEPV confer an indirect advantage in favour of the manufacturers and dealers of BEPVs. This indirect advantage includes increased demand for BEPVs compared to a reference situation absent the aid.

A prolongation of zero rate VAT under the threshold of NOK 500 000 per BEPV, will keep stimulate the demand for BEPVs. This increased demand for BEPVs translates into an indirect advantage for dealers, importers and manufacturers of BEPVs as compared to dealers, importers and manufacturers of conventional vehicles. Such indirect advantages, may constitute an advantage, in order for a measure to constitute state aid.

On this basis, the Ministry finds that a prolongation of the notified measures directly and indirectly will give undertakings an economic advantage.

4.4. Selectivity

In order to constitute state aid, a measure must be selective by favouring certain undertakings or the production of certain goods. When assessing the selectivity criterion, it may be distinguished between state aid measures and general measures of tax or economic policy. Advantages resulting from a general measure applicable

without distinction to all economic operators do not constitute state aid within the meaning of Article 61(1) of the EEA Agreement¹⁵.

According to established case law¹⁶ the assessment of the condition of selectivity, which is a constituent factor in the concept of State aid, it is clear that Article 61(1) EEA requires assessment of whether, under a particular statutory scheme, a State measure is such as to favour certain undertakings or the production of certain goods in comparison with other undertakings which are in a legal and factual situation that is comparable in the light of the objective pursued by the system in question.

In the Authority's Decision No 150/15/COL, Decision No 228/17/COL and Decision No 148/20/COL the Authority concluded that the zero VAT rate was not selective for the direct beneficiaries. The zero VAT rate under the threshold of NOK 500 000 per BEPV is open to all sectors of the economy and all kinds of companies. Hence, the advantage applies to all economic operators. The Ministry considers that a measure of zero VAT rate under a threshold of NOK 500 000 per BEPV is not selective for the direct beneficiaries, i.e. the undertakings purchasing, importing or leasing BEPVs.

In the Authority's Decision No 148/20/COL the Authority concluded that the zero VAT rating measures concerned, constituted State aid to the manufacturers and dealers of EVs (indirect beneficiaries referred to as "the manufacturing sector"). In the Authority's Decision No 227/22/COL, the Authority referred to this conclusion. The Authority considered that the amendments introduced by the measurers, the NOK 500 000 threshold and limiting the zero VAT rating to BEPVs, did not alter the conclusion drawn in Decision No 148/20/COL.

For the indirect beneficiaries of the zero VAT rate with a threshold of NOK 500 000, i.e., the manufacturers and dealers of BEPVs, the measures will be selective as only certain companies will benefit, resulting in an exemption from the system of reference, which refers to the car industry in general.

On this background, the Ministry takes the view that the BEPV measure fulfil the selectivity criterion in Article 61(1) of the EEA Agreement. The Ministry although notes that the lately increase in the proportion of companies producing and offering BEPVs alongside conventional vehicles, the question could be raised if the measure still is selective.

¹⁵ Judgment in *Air Liquide Industries and others*, C-393/04 and C-41/05, EU:C:2006:403, para. 32.

¹⁶ Judgments in *GIL Insurance*, C-308/01, EU:C:2004:252, paragraph 68; *Heiser*, C-172/03, EU:C:2005:130, paragraph 40; *Portugal v Commission*, C-88/03, EU:C:2006:511, paragraph 54.

4.5. Distortion of competition and effect on trade

According to case law and administrative practise, the threshold for considering this criterion to be fulfilled is low.

Given that the indirect beneficiaries, such as manufacturers and dealers, compete in a market encompassing conventional and electric vehicles, the Ministry finds that the measure has a potential to distort competition, though probably marginal due to the lately increase in the proportion of companies producing and offering BEPVs alongside conventional vehicles.

Such distortion can be presumed to have an effect on trade if it strengthens the position of an undertaking compared to other companies competing in the EEA-trade.¹⁷ The Ministry finds that there is significant trade in both conventional and electrical vehicles in the EEA, and that manufacturers and dealers of conventional vehicles may have reduced opportunities to offer their services and trade in Norway due to a prolongation of the measures.

The Ministry although would highlight that Council Directive (EU) 2022/542, amending the VAT Directive to provide greater flexibility to Member States in setting VAT rates, asserts that a higher degree of diversity in VAT rates (including zero-rate), under a system where the supply of goods and services is taxed in the Member State of destination, would not "disrupt the functioning of the internal market nor create distortions of competition." It is worth noting that the Norwegian VAT Act operates on the same principle of taxing the supply of goods and services at the place of destination. The mentioned Council Directive furthermore emphasis that "Member States should be given the possibility to contribute to a climate-neutral and green economy by means of applying reduced rates on environmentally friendly supplies while, at the same time, preparing the phasing out of the existing preferential treatment of environmentally harmful supplies". The latter is the purpose of the measures, and in the Ministry's view relevant when analysing state aid question.

The measures will likely distort competition by giving an indirect advantage that may have an effect on trade between the Contracting Parties. It is the Ministry's view that this type of distortion in principle should not be relevant in the state aid assessment due to the purpose of the measures, conf. Council Directive (EU) 2022/542 sited above. The measure also aims at "benefiting the final consumer".

4.6. Conclusion

The Ministry concludes that a prolongation of the notified measures constitute State aid in favour of manufacturers and dealers¹⁸ of BEPVs, cf. Article 61(1) of the EEA

¹⁷ Decision No 150/15/COL paragraph 111.

¹⁸ Manufactures and dealers will be in code 45.1 Sales of motor vehicles (45.111 Commission and wholesale trade of cars and light motor vehicles, except motorcycles and/or 45.112 Retail sale of cars and light motor vehicles, except motorcycles) and/or 45.4 Sale, maintenance and repair of motorcycles

Agreement. The Ministry would like to raise the question of whether this form of indirect advantage is relevant when analysing state aid due to Council Directive (EU) 2022/542, which allow reduced VAT rates for goods and services that “aim at benefiting the final consumer and pursue objectives of general interest”.

5. COMPATIBILITY OF THE AID MEASURE

5.1. Compatibility with article 61(3)

According to the EEA Agreement Article 61 (3) (c) state aid may still be compatible with the functioning of the agreement, if the purpose is to “facilitate the development of certain economic activities or of certain economic areas” and the aid does not adversely affect trading conditions to an extent contrary to the common interest.

Regarding state aid for environmental purposes in relation to Article 61 (3), the European Commission adopted on 27 January 2022 Guidelines on State aid for climate, environmental protection and energy 2022 (“CEEAG”), which replace the former Guidelines on State aid for environmental protection (“EEAG”). On 9 February 2022 the Authority adopted [CEEAG](#), cf. [Decision No 029/22/COL](#). According to CEEAG Section 2.1 (12), they are applicable to state aid “granted to facilitate the development of economic activities in a manner that improves environmental protection, as well as activities in the energy sector that are governed by the Treaty ...”, under the condition that the measures fall under the list of accepted measures in Section 2.2.

In Decision No 228/17/COL, the Authority noted that the EEAG 36 in Section 1.1 (10) states that the EEAG do not apply to “the design and manufacture of environmentally friendly products, machines or means of transport with a view to operating with fewer natural resources [...]”. The Authority therefore assessed the measures directly under Article 61(3)(c) of the EEA Agreement. In its Decision No 148/20/COL, the Authority also considered that the prolongation of the zero VAT rate should be assessed directly under Article 61(3)(c) of the EEA Agreement, as the Authority noted that no changes had been introduced to the EEAG since the adoption of ESAs Decision No 228/17/COL that would change the Authority’s conclusion in Decision No 228/17/COL.

In the Ministry’s view CEEAG Section 2.1 (13) (a) corresponds to EEAG Section 1.1 (15) (a). CEEAG Section 2.1 (13) (a) states that the CEEAG do not apply to “the design and manufacture of environmentally-friendly products, machinery, equipment or means of transport with a view to operating with fewer natural resources [...]”.

In Decision No 227/22/COL, the Authority considered that there were no existing State aid guidelines applicable to the measures in the presented case. The Authority considered that the prolongation of the zero VAT rate with the introduction of the

and related parts and accessories (45.401 Commission and wholesale trade of motorcycles, parts and accessories and/or 45.402 Retail sale of motorcycles, parts and accessories) of the Standard Industrial Classification: [Classification of Standard Industrial Classification - Statistics Norway \(ssb.no\)](#).

threshold of NOK 500 000, should be assessed directly under Article 61 (3) (c) of the EEA Agreement.

The Ministry further assumes that aid for the purchase and leasing of BEPVs in the form of VAT exemptions may be provided according to the regulations in the General Block Exemption Regulation (“GBER”). The Ministry refers to Article 36b of the regulation. It can be difficult to quantify the additional costs of purchasing or leasing a BEPV compared to a conventional car in the same category. The assessment is therefore made according to the general rules for State aid.

The Ministry assumes that there are no other State aid guidelines applicable to the measures presented in this notification.

The Ministry therefore concludes that the notified measures of zero VAT rate under NOK 500 000 per BEPV must be assessed directly under Article 61 (3) (c) of the EEA Agreement.

In the following, the Ministry will thus assess the prolongation of zero VAT rate with the threshold of NOK 500 000 for BEPVs directly pursuant to Article 61 (3) (c) of the EEA Agreement. In assessing whether the aid measure can be deemed compatible with the EEA Agreement, the positive impact of the aid measure in reaching an objective of common interest must be balanced against its potentially negative side effects by distortion of trade and competition.

The assessment will be based on the following common principles:

- contribution to a well-defined objective of common interest;
- need for state intervention;
- appropriateness of state aid as a policy instrument;
- existence of an incentive effect;
- proportionality of the aid amount (aid limited to minimum necessary);
- avoidance of undue negative effects on competition and trade; and transparency.

The assessment presupposes a balancing of the positive impact of the measure in reaching the objective against the potential negative effects on trade and competition.

5.2. Objective of common interest

State aid must aim at a well-defined objective of common interest that has been recognised by the Contracting Parties.

The objective of the notified measures is to enhance the share of BEPVs in the vehicle stock in Norway in order to reduce CO₂ emissions from the transport sector. It is also to prevent the share of electric vehicles in new car sales from decreasing. In

its Decision No 227/22/COL the Authority acknowledged that the measures effectively lead to the decarbonisation of the Norwegian transport sector. In its Decisions No 227/22/COL, No 148/20/COL, and its Decisions No 228/17/COL and No 150/15/COL, the Authority pointed out that increased uptake of EVs will contribute to reduced emissions from new passenger cars and concluded that the aid aims at an objective of common interest. Reducing CO₂-emissions from vehicles is one of the objectives of the EEA environmental policy. This will also be in line with the European Green Deal where one of the key objectives for sustainable transport is to boost considerably the uptake of clean vehicles and alternative fuels in order to reduce greenhouse gas emissions. It also follows from the Council Directive (EU) 2022/542 mentioned above in paragraph 4.5 that reduced VAT rates, including zero-rates, is an acceptable measure to contribute to climate-neutral and green economy. And the importance of electric vehicles for the environment is also the reason why support up to a certain amount is covered by GBER.

The incentive to purchase or lease BEPVs, by application of zero rate VAT under NOK 500 000 per BEPV, will aim at increasing the market share of EVs and thus protecting the environment. Updated analysis of targets and measures needed to reduce emissions in 2030 by at least 40 per cent shows that reaching the targets for EVs will contribute to substantial reductions in emissions. It also shows that it will be extremely difficult to reach our climate goals without a substantial contribution from EVs.

The Ministry concludes that increased uptake of EVs that contribute to reduced emissions from new passenger vehicles still is an objective of common interest. For further explanation of Norwegian climate commitments see Section 2.1 and 3.3.

5.3. Need for state intervention

State aid measures can under certain conditions, correct market failures and thereby contribute towards achieving the common objective to the extent that the market on its own fails to deliver an efficient outcome.

In order to assess whether state aid is effective to achieve the identified objective of common interest, it is necessary first to identify the problem that needs to be addressed.

As pointed out in the Authority`s Decision No 227/22/COL, and as well in its Decisions No 148/20/COL and No 228/17/COL, State aid should be targeted towards situations where aid can bring a material improvement that the market alone cannot deliver.

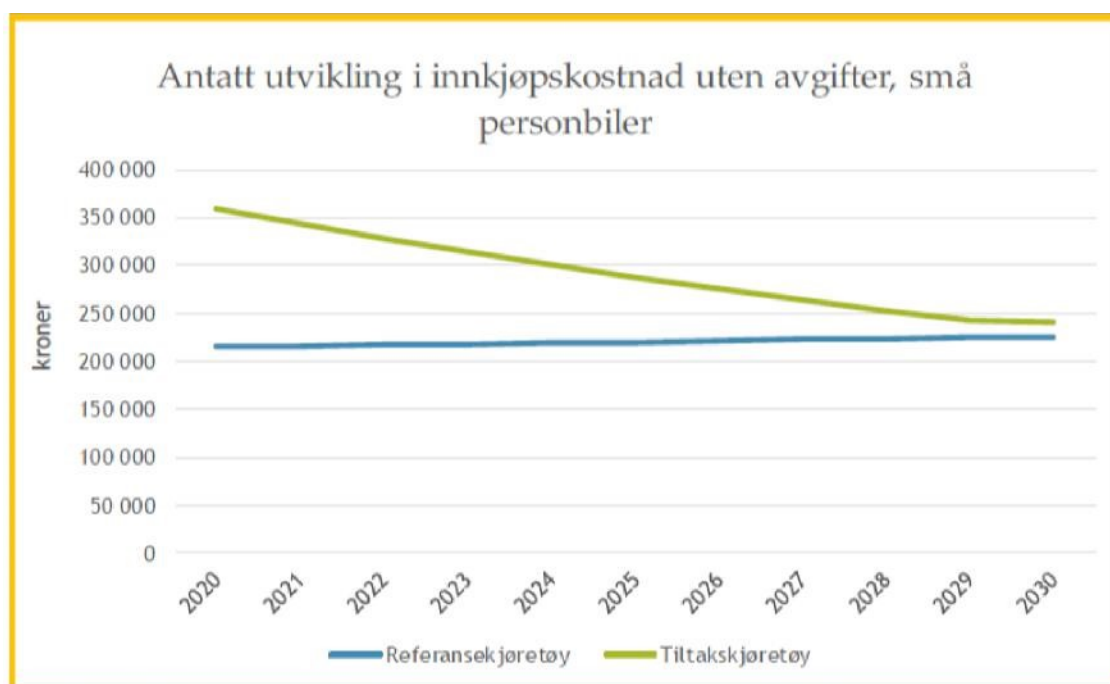
Environmentally harmful emissions from vehicles represent a negative externality that economic agents may disregard when making the decision to buy or lease a new vehicle. Economic theory suggest that these agents may not be willing to pay for the extra costs linked to environmental protection if those costs are not compulsory or subsidised. In other words, consumers will have little incentive to acquire (more costly) goods (in this case BEPVs) that limit environmental pollution, since consumers

will typically consider only their own private costs and benefits, and not take into account the environmental effect of their choices. Negative environmental externalities therefore represent a market failure, which justifies state intervention in the market.

The cost of producing a BEPV is still higher than the cost of producing a conventional vehicle, and this is reflected in the purchasing price before incentives. In the analysis performed by the Norwegian Environmental Agency in Klimakur 2030, they estimated the additional cost for battery electric passenger cars compared to a conventional car, in two car segments. Without taxes, both segments were significantly more expensive¹⁹. The analysis in Klimakur 2030 expected the purchase price of battery electric passenger cars to decrease by 4-5 per cent annually in the period 2021-2030.

The two figures below are based on the Norwegian Environmental Agency's analysis in Klimakur 2030 and show expected development in investment for small and large passenger cars, without taxes.

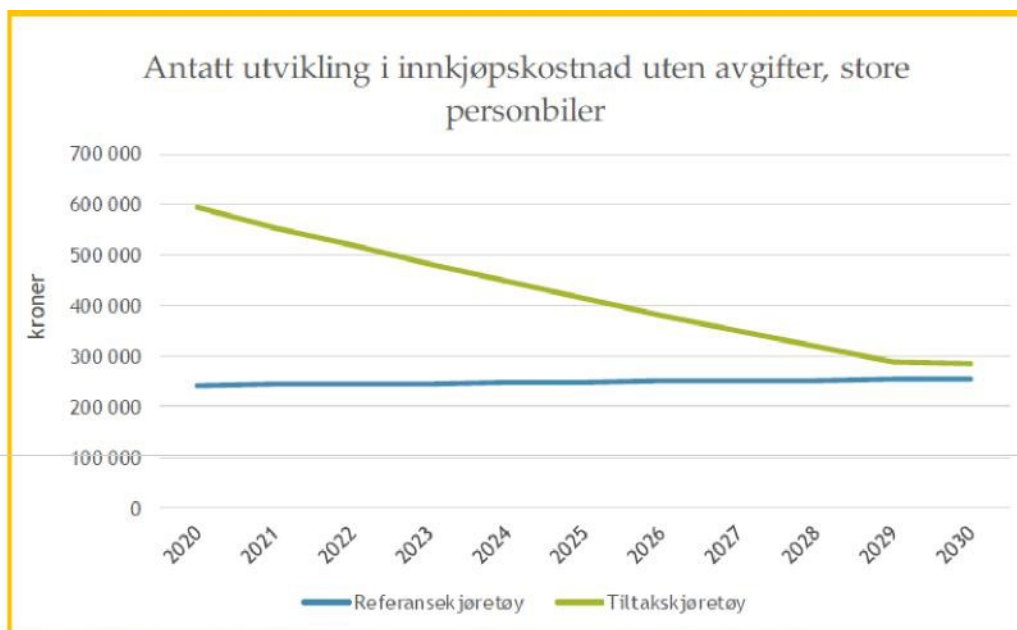
Figure 5 - Expected development in purchaser price without taxes, small passenger cars.



Figur 14. Utvikling i innkjøpskostnad uten avgifter for små personbiler (2019-kroner).

¹⁹ In Klimakur 2030, the reference vehicle for small ICE passenger cars is a gasoline powered Volkswagen Golf. The reference vehicle for large ICE passenger cars is a gasoline powered Volkswagen Tiguan. The so called "tiltakskjøretøy" or "model vehicle" is a hypothetical battery electric version with more or less the same qualities. There exists one "tiltakskjøretøy" mirroring the small ICE passenger car and one mirroring the large ICE passenger car.

Figure 6 - Expected development in purchaser price without taxes, large passenger cars.



Figur 15. Utvikling i innkjøpskostnad uten avgifter for store personbiler (2019-kroner).

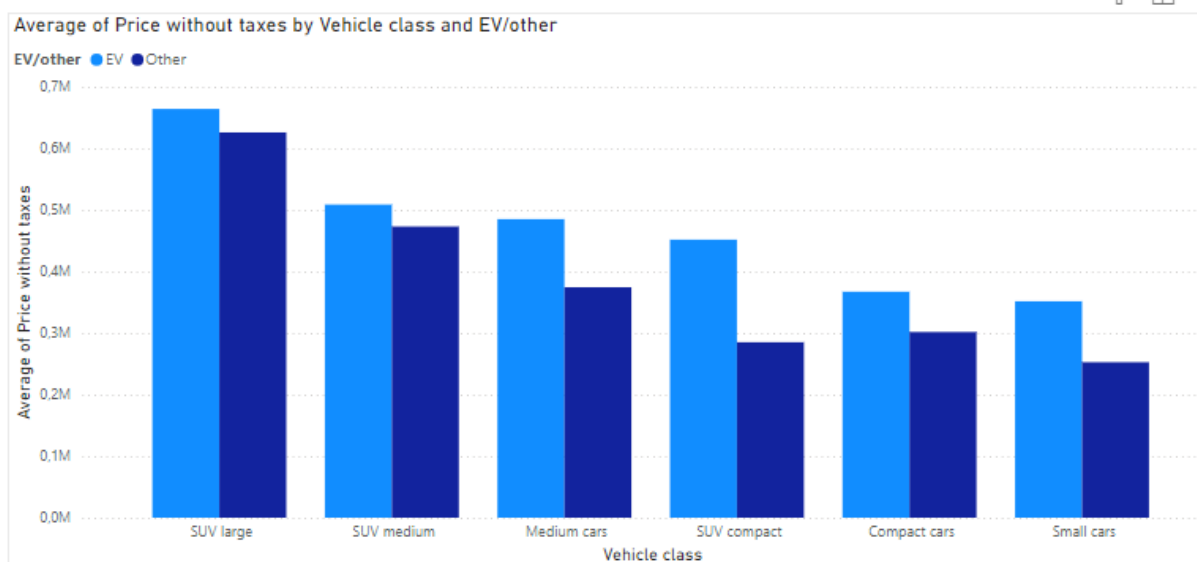
A continued significant cost reduction for batteries, dedicated production lines for BEPVs and production for a broader large-scale consumer market is expected. A combination of reduced costs and increased energy efficiency in batteries will initially increase the range of these cars, and subsequently reduce the cost for a given range. All this means that BEPVs should become increasingly competitive in the coming years. A number of reports point to BEPVs becoming competitive in price, without taxes, before the end of this decade (see for instance *Klimakur 2030*, Miljødirektoratet 2020; BNEF 2019²⁰; and TØI 2020).

An analysis (Figure 7, below) of the prices of the most common models²¹ of new cars sold in Norway in 2023s confirms that before taxes, BEPVs are still more expensive than conventional and hybrid cars. This is valid for all passenger car classes.

²⁰ <https://about.bnef.com/blog/battery-pack-prices-fall-as-market-ramps-up-with-market-average-at-156-kwh-in-2019/>. See also: <https://about.bnef.com/blog/electric-cars-reach-price-parity-2025/> for the same argument in 2017.

²¹ Based on information of available passenger car vehicle models from <https://www.skatteetaten.no/globalassets/tabeller-og-satser/listepris-bil/ofv-bilpriser-2023.pdf> and car sales in 2023 from the Norwegian Vehicle Registry. Of 128 572 new cars sold in the 2023, variants

Figure 7 - Price of BEPVs and conventional/hybrid cars, before taxes. Grouped by passenger car class.



Source: Ministry of Climate and Environment

In addition to higher costs, BEPVs have real and perceived disadvantages compared to conventional cars. In the study 'Battery electric vehicle user experiences in Norway's maturing market' (TØI-report 1719/2019), TØI has collected user experiences and opinions from both owners of EVs and owners of conventional fuel vehicles. Owners of conventional fuel vehicles lists the following as the most important disadvantages with EVs: Driving range, car size, practical characteristics like size of the storage/luggage space and missing possibilities for tow bar ('tilhengerfeste'), all of which are important for long travels and flexible car use.

When surveying existing owners of electric vehicles, costs have consistently been the main motivation for choosing BEPVs over conventional vehicles. In the Norwegian EV association's survey for 2021, 59 per cent of BEPV owners stated that low costs were their main motivation for buying an BEPV, while only 19 per cent stated that environmental concerns were their main motivation.

BEPVs may have lower operating expenditures related to fuel costs and maintenance. Electricity as a fuel, per kilometre has historically been much cheaper than petrol and

where over 50 cars were sold within the classes were selected. In total 111 174 cars were in the selection, representing 86 per cent of the total cars sold in 2023.

diesel. Partly, this is due to lower energy prices and higher efficiency of BEPVs, partly this is due to fuel taxes. Recent years' developments in energy prices, however, have disproportionately increased the average electricity prices relative to fossil fuel prices, reducing the benefit of reduced operation expenditures for BEPVs compared to conventional vehicles.

The numbers of BEPV models in the market have increased and are expected to increase further, but still there are variations between segments and price ranges, that to some extent can force BEPV owners to buy a car that not fully compensate for the characteristics they are searching for. This can also be considered as an extra cost of owning a BEPV. Battery degradation is a significant concern for car owners, and there is uncertainty whether the battery will have full capacity for the lifetime of the chassis. These disadvantages are difficult to quantify, and they will also differ to a large degree between consumers.

In the Authority's Decision No 227/22/COL, the Authority pointed out that with the notified measures, the perceived and real disadvantages are offset by making BEPVs cheaper than conventional cars. The Authority concluded that the measures is necessary, in order for BEPVs to maintain a sufficiently high market share, and to achieve the necessary emission reductions in the coming few years.

The share of BEPVs is still low in most countries, due to the price difference and the disadvantages related to buying an BEPV, (see Figure 9, page 36). The comprehensive set of measures in place has led to Norway having the highest rate of BEPVs in the world. The market shares of new BEPVs have increased over the last years, in line with the necessary trajectory to achieve the Government's targets. Continuation of the measures, however, is necessary to continue on the trajectory. Taking this into account the Ministry concludes that there still is a need for state intervention by continuing the measures until the end of 2026. State intervention is still necessary to stimulate further increases in BEPVs sales to reach the very ambitious climate goals of the Norwegian government.

5.4. Appropriateness of state aid

State aid must be an appropriate instrument to address the identified market failure and help reach the identified objective of common interest. An aid measure is not compatible with the functioning of the EEA Agreement if the same positive contribution is achievable through other less distortive policy instruments, or other less distortive types of aid instruments. As stated, the main objectives of the notified measure is to enhance the market of BEPVs in the Norwegian vehicle stock in order to reduce CO₂ emissions from the transport sector.

There is no production of EVs in Norway, and the support instruments must therefore primarily be aimed at the consumers. Norway has had in place numerous measures to promote the uptake of EVs for many years. Since the 1990s, EVs have been exempted from registration tax, benefitted from free parking and have been

exempted from tolls etc. The zero VAT rate for the supply and import of EVs was adopted in 2001.

The impact of the different support instruments for BEPVs have been subject to several surveys. Survey results²⁵ of consumer choices consistently indicate that economic aspects (the exemption from registration tax and the zero VAT rate) have been the most important factor for the majority of people in the choosing of a BEPV over a conventional car. According to the survey

Elbilisten survey in 2021²² the zero VAT rate is the most important BEPV advantage. When asked to choose the three most important EV advantages for themselves the zero VAT rate was chosen by the highest share, 69 per cent. Following second and third are the exemption from the registration tax and free or reduced toll roads fares. According to the Elbilisten survey in 2022²³, 47 percent of BEPV owners would choose a conventional vehicle without the VAT exemption.

In large part because of the combination of measures, Norway has the world's highest share of BEPVs as percentage of the passenger car fleet. However, even as the share has increased in the vehicle stock, BEPVs still have certain real and perceived disadvantages as compared to petrol and diesel cars. None of the above mentioned measures would alone enable BEPVs to compete with conventional cars, and a package consisting of several measures is therefore considered necessary.

However, with the increase in the BEPV share in the vehicle stock, a number of the early measures have been scaled back in later years, as follows from Section 2.3. BEPVs have previously been granted free use of toll-roads, free use of road ferries, free parking and access to bus lanes. Payment for toll-roads, currently at reduced rates applies for BEPVs on most toll-roads and toll rings in Norway. The same goes for payment on road ferries. Most municipalities in Norway, including all the major cities have introduced parking fees²⁴ for BEPVs, and the access to many bus lanes for BEPVs have been subject to limitations. Charges on toll-roads and road ferries are primarily payment for the use of infrastructure, while separate bus lanes and parking fees are established to facilitate public transport, and regulate congestion. As a consequence of the increasing share of the BEPVs in Norway, the Government has scaled back several of the usage incentives even further, to uphold the original purpose and sustainability of these systems. That is also the case for several of the tax benefits for BEPVs. The exemption from insurance tax for electric vehicles was

²² Elbilisten is an annual survey (spørreundersøkelse) by the Norwegian EV Association since 2013. In 2021 the survey was sent to Norwegian EV owners (both member and non-members of the association) and received 15 464 answers. The purpose of the survey is to examine Norwegian BEPV owners' car use, attitudes and experiences with BEPVs and charging. Articles on the findings can be found (in Norwegian) on <https://elbil.no/elbilisten-2021-de-fleste-av-oss-velger-elbil-av-okonomiske-arsaker/> and <https://elbil.no/elbilisten-2021-momsfritak-aller-viktigst-for-at-vi-velger-elbil/>

²³ <https://elbil.no/undersokelse-indikerer-at-regjeringen-setter-elbilsatsingen-i-fare/>

²⁴ Certain municipalities have reduced rates for EVs, cf Section 2.3.

abolished in 2022. In 2022 the favourable income tax calculation for employees benefitting from private use of electric company vehicles was amended and as from 1 May 2022. As from 1 January 2023 both the favourable re-registration tax for EVs and the favourable income tax calculation for employees benefitting from private use of electric company vehicles has been abolished.

The scale back reduced the incentives to purchase BEPVs, and consequently reduced the impact of these measures. This in turn enhanced the importance of a continuation of the measure of zero VAT rate up to the threshold of NOK 500 000, for BEPVs in the coming two years.

The zero VAT rate has been both a substantial economic incentive to favour of EVs and also a tool that is intuitive to understand and calculate the impacts of. In order to correct for consumers' inclination to disproportionately favour short term costs and benefits related to BEPVs, incentives at the time of buying a vehicle can be more effective than incentives over the lifetime of owning a vehicle. The notified measure of zero VAT rate under NOK 500 000 per BEPV is an economic measure to give incentives at the time of buying a vehicle in favour of BEPVs.

The Ministry concludes that the zero VAT rate together with other measures, has been important for the steadily growing increase in the share of BEPVs and that the notified measure of zero VAT rate under NOK 500 000 per BEPV will continue to be so in the coming two years. Several of the other important measures which promoted BEPVs have been scaled back as the BEPV vehicle stock has increased, to uphold the sustainability in these systems, e.g. toll roads, bus lanes and parking. In particular, the zero VAT rate under the threshold of NOK 500 000 per BEPV, is well suited to reduce the price difference between BEPVs and conventional fuel vehicles. The Ministry concludes that the zero VAT rate with the threshold of NOK 500 000, for BEPVs is an appropriate measure.

5.5. Incentive effect

State aid is only compatible with the functioning of the EEA Agreement if it has an incentive effect. An incentive effect occurs when the aid induces the beneficiary to change its behaviour to further the identified objective of common interest, a change in behaviour which it would not undertake without the aid.

The objective of zero VAT rating under the threshold of NOK 500 000 per BEPV is to enhance the market share of BEPVs in Norway in order to reduce CO₂ emissions from the transport sector. The general proposition is that the price on vehicles influences the consumption level: lower prices are expected to lead to higher consumption, while increased prices are expected to lower consumption. The zero VAT rate on EVs has been meant to result in a higher demand for EVs at the expense of conventional cars. A prolongation of zero VAT rate with the threshold of NOK 500 00 will continue to stimulate to a higher demand for BEPVs at the expense of conventional vehicles.

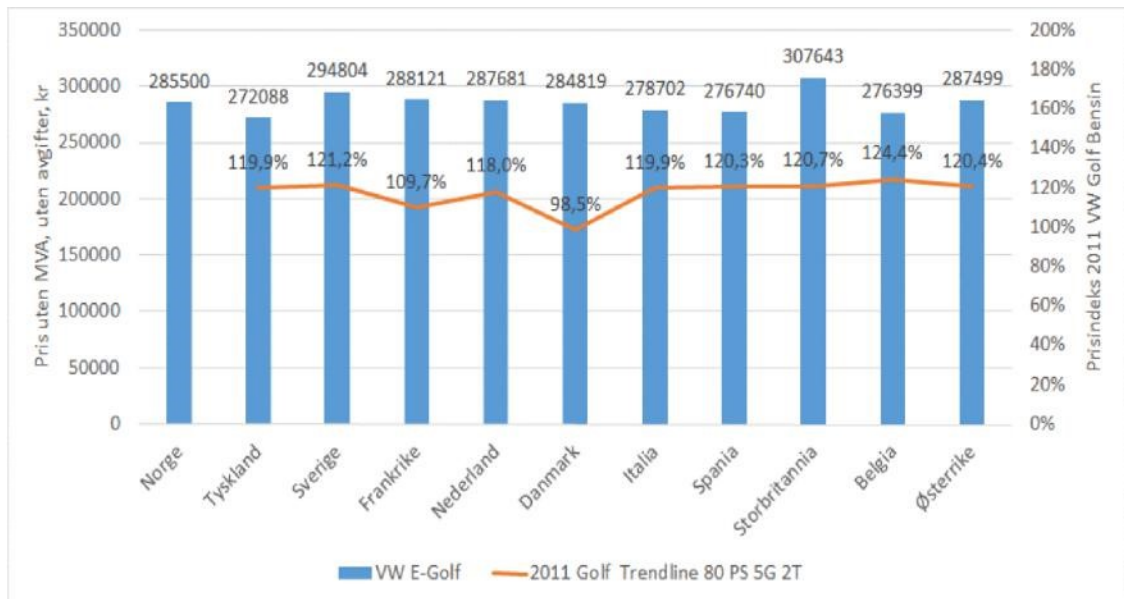
There are several studies that concern the effect reduced VAT rates have on the pricing and the demand of certain goods and services. In a paper published by the European Commission, Copenhagen Economics²⁵ states the following: *“It is important from the outset to stress that there is little doubt that permanently lowering the VAT rate on a particular good (or service) sooner or later will lead to a reduction in the price of the good more or less corresponding to the monetary equivalent of the lower VAT rate”*.²⁶ Consequently, the zero VAT rate under NOK 500 000 per BEPVs will lead to lower prices for the consumers, compared to a situation with a VAT charged at 25 per cent.

TØI (2020) also has a short discussion of who benefits from the zero VAT rate. They point to several factors that may influence the distribution, among them the elasticity of the supply, how fierce competition there are, risk of parallel import, transport costs as well as differences in car models and level of extra equipment. They also include a comparison of price without taxes on one model, VW E-Golf, in several European countries (blue bars in Figure 8, below). They find small price differences between the countries, commenting that small differences in price are not necessarily evidence against a higher margin some places than other, but that it is an indication that if an effect like that exists, it is small.

²⁵ Copenhagen Economics (2007) Taxation Papers, Study on reduced VAT applied to goods and services in the Member State of the European Union, Working Paper NO 13 2007, European Commission, available at: https://taxation-customs.ec.europa.eu/document/download/218d969d-5d74-452b-8740-bda1e6ac78c6_en?filename=taxation_paper_13_en.pdf&prefLang=bg.

²⁶ Copenhagen Economics study, page 10.

Figure 8 - Price of Volkswagen E-Golf without taxes in different countries



Figur 13.31: Pris Volkswagen E-Golf uten avgifter i ulike land, det vil si det bilen ville kostet ut til forbruker uten MVA og uten andre avgifter. Kilder: E-Golf: Listepriiser i henhold til fabrikantens nettside i hvert enkelt land, hentet inn 19.11.2019, fratrukket MVA og eventuelle avgifter. Bensin-Golf: Data hentet fra konkurranse rapport laget av EU (EU 2011), prisindeks uten avgifter. Kilde: Egne beregninger.

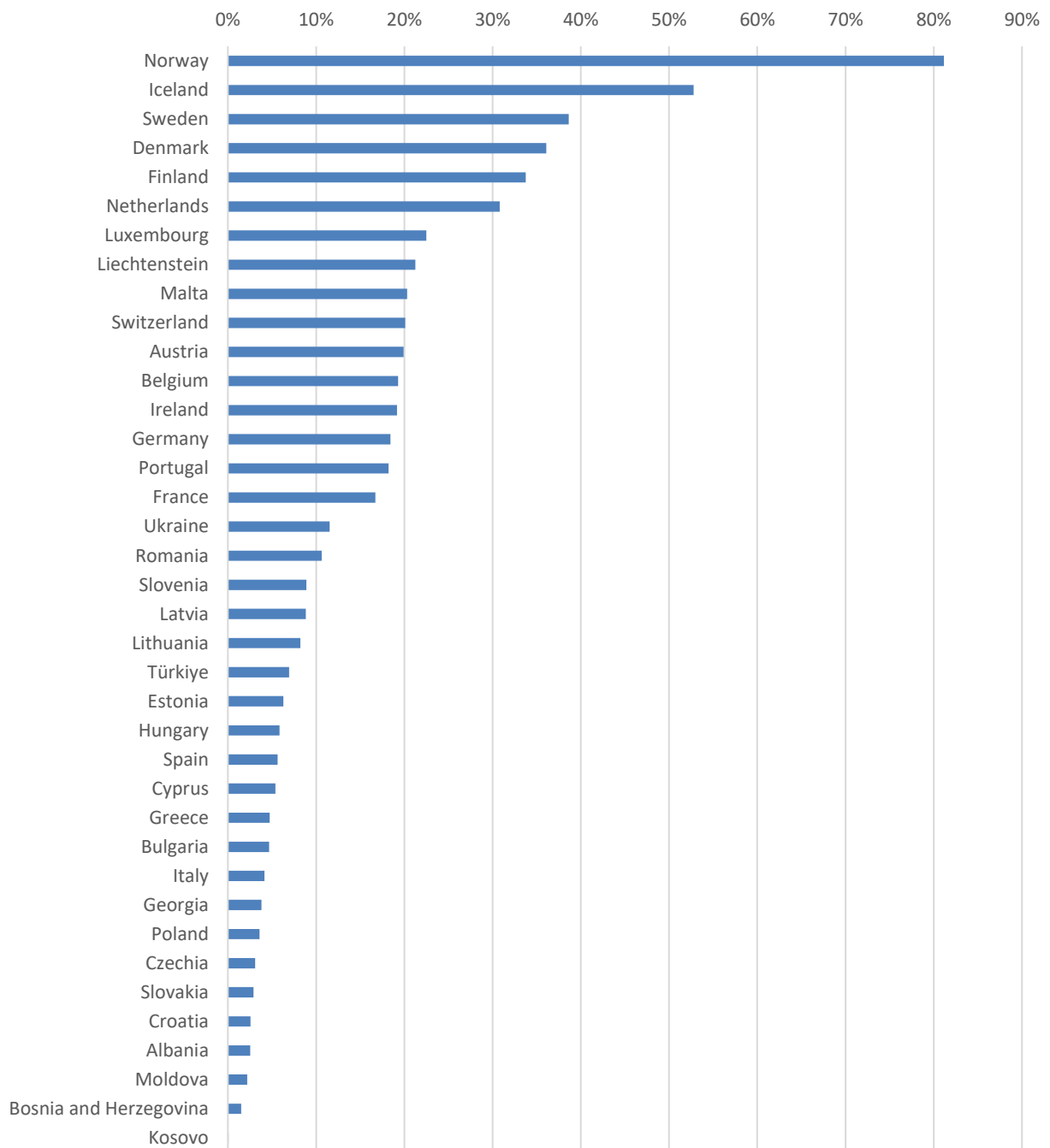
As part of the midterm review submitted to the Authority on 29 June 2020, the Ministry has provided empirical evidence that supports our claim that the zero VAT rate results in lower price for the consumer. This description is still valid in 2024. Our empirical model uses a similar setup to the difference-in-difference strategy known from causal empirics. By comparing the price difference between conventional and battery electric cars in Norway and Sweden we account for any factors affecting either both types of vehicles in one of the countries. Such factors may be different market conditions and sales costs, or one type of vehicle in both countries, such as production costs, transportation costs etc. The Ministry argues that our model effectively isolates the effect of the zero VAT rate on prices, and that it can be interpreted as a causal effect.

The Ministry also gives a brief summary of existing theoretical and empirical literature on tax incidence. Both the theoretical predictions and empirical findings are heterogeneous, supporting the notion that both the level and the direction of pass-through depends heavily on specific market conditions. Using empirical studies on other markets or products to determine pass-through in the Norwegian market for EVs should only be done with caution. Furthermore, the zero VAT rate was introduced before any substantial market for EVs existed, which further invalidates any use of empirical findings from existing markets as predictive tools on the Norwegian market.

As described in Section 2.3, Norway still has in place other measures to promote the uptake of EV. The incentive effect of the combined measures is reflected by increased market shares of BEVs the last decade, leaving Norway with a higher share than other

countries, as shown in Figure 9. The increase is to a large degree considered to be a result of the support measures in place. TØI (2020) investigates goals, incentives and results with regard to EVs in Finland, Sweden, Denmark, Germany, France and China. All these countries have incentives in place, which can have a value of up to EUR 60 000, but typically less. Many of the incentives take form of favourable taxation rules for the private use of electric company cars. None of the countries comes close to Norway when it comes to market shares for EVs, as shown in Figure 9. A conclusion of the report is that countries with the most incentives have the highest EV shares. Further, a finding which is reported is the importance of the long-term nature of the Norwegian EV incentives, and the relative predictability. This has been very important for there to be a functioning second hand market, which is imperative when taking a decision of buying a car.

Figure 9 - Share of battery electric vehicles of new passenger cars in European countries (2023)



Source: Eurostat ([File:New passenger cars by type of engine fuel, 2023 \(number\) Table 1 v3.png - Statistics Explained](#))

In an EEA-study from "The European Topic Centre on Air Pollution and Climate Change Mitigation"²⁷ in 2019 one of the conclusions is the following: Countries such as Norway and the Netherlands, which have promoted EVs more than any of the other countries in the study, managed to achieve significant reductions in emissions, both in terms of CO2 and air pollutants. Many EVs were introduced into these countries' fleets because policies specifically target these technologies. The leading country in terms of emission savings is Norway. One likely reason for

²⁷ <https://www.eea.europa.eu/publications/fiscal-instruments-favouring-electric-over>

this relatively high performance is strong incentives for promoting purchase and ownership of EVs.

It is difficult to separate the effect of the zero VAT rate, but in a study from 2018 TØI uses the model BIG to predict changes in composition of car sales with different tax changes. One of the tax changes they estimate is removing of the zero VAT rate, finding that this would result in a 70 per cent reduction of the BEPV-sales. Furthermore, in studies by for example Vista Analyse²⁸ and Yan S. and G. S. Eskeland (2018)²⁹ the introduction of environmental differentiation of the registration tax is analysed. The findings that the CO₂-component in the registration tax have had significant influence on the CO₂-emissions from new cars, also strengthens the hypothesis that tax advantages at the time of purchase, like the zero VAT rate impact the composition of car sales.

In the Authority's Decision No 227/22/COL, the Authority concluded that in the absence of the zero VAT rate, the demand for BEPVs would not have been the same, and consequently the development of the economic activities, and the objective of achieving emission reductions would not have been facilitated to the same extend.

In Section 5.3, results from different surveys are presented. These results leave little doubt that the VAT advantage is an important measure to increase the purchase of BEPVs. The answers from surveys of existing BEPV-owners in Norway, indicate that a significant share of the BEPVs would not have been purchased without the zero VAT rate.

The Ministry concludes that the zero VAT rate under the threshold of NOK 500 000 therefore has an incentive effect for consumers by bolstering their demand for BEPVs.

5.6. Proportionality

State aid is proportionate if the aid amount is limited to the minimum needed to achieve the identified objective of common interest.

In its Decision No 228/17/COL, the Authority excluded overcompensation for several reasons. First, the measures assessed only entailed state aid for the indirect beneficiaries of such measures (the manufacturing sector), and the aid intensity received by those beneficiaries was significantly reduced. Second, there were still significant differences between conventional vehicles and EVs (limited range, a limited number of models, longer charging time and uncertain regarding the second-hand market). On this background the Authority concluded that the notified measures were proportionate to the aim to be achieved without resulting in overcompensation. In its Decision No 148/20/COL the Authority noted that based on information provided by the Norwegian government, BEVs would still have several non-price drawbacks for consumers for some time. The Authority considered that, when taking into account the information submitted by the Norwegian authorities on the market developments and projections, Norway's climate goals and the relatively short duration of the prolongation, the

²⁸ Report by Vista Analyse: <https://vista-analyse.no/no/publikasjoner/evaluering-av-endringer-i-kjopsavgiften-for-nye-biler-fra-2006-2011/>

²⁹ <https://www.sciencedirect.com/science/article/pii/S0095069617301249>

measures would continue to be proportionate to the aim to be achieved. The Authority thus excluded overcompensation. The Authority also noted that there was no discrimination between manufacturers or between dealer, and that the lack of discrimination contributed to ensuring the proportionality of the prolongation of the measures.

In its Decision No 227/22/COL, the Authority referred to the conclusions in the decisions mentioned above, and considered that they still applied to the notified measures. Furthermore, the Authority pointed out, based on the information provided by the Norwegian authorities, that without the VAT measures, the BEPVs would be more expensive, and become less competitive. By lowering the price for BEPVs, it makes BEPVs more attractive to consumers, and make BEPVs able to compete with conventional vehicles. The Authority also pointed out, that the introduction of the threshold of NOK 500 000, would make the measures more targeted towards the vehicles that require support, while scaling back the amount of support for the more expensive vehicles.

In its Decision No 227/22/COL, the Authority further concluded that any negative effects of the aid on competition and on trade were limited. The Authority pointed out that the positive effects of the measures outweigh possible distortions of competition and adverse impact on trade, since the measures contributes to reduce the emissions from transport in an environmentally friendly manner. Therefore, in the Authority's view, the aid does not unduly affect trading conditions to an extent contrary to the common interest.

The objective of the notified measures is to increase the market share of BEPVs in order to reduce CO₂-emissions from the transport sector. It is also to prevent the share of electric vehicles in new car sales from decreasing. The measures reduce the price of BEPVs and compensates for the disadvantages of using a BEPV for consumers (such as limited range, longer charging time, limited number of models and uncertain second hand market). In practice, this will make BEPVs more attractive to consumers, and make BEPVs able to compete with conventional vehicles.

The measures thus has a clear environmental purpose. Norway has ambitious climate goals. Reduced emissions from the transport sector are a critical contribution to achieve Norway's climate targets in the period towards 2030. Providing incentives to accelerate uptake of EVs in the transport sector is considered one of Norway's most important and so far most successful climate policies.

Although the sale of BEPVs has increased somewhat since the year of the last notification, from approximately 78 per cent in 2022 to about 89 per cent from January to October 2024, there is still a distance from achieving the contributions needed from higher BEPV shares in order to reach our climate goals. The average lifespan of a conventional car in Norway is 16–18 years³⁰, and a transition towards zero emission technology in the vehicle stock therefore happens slowly, even with a high share of BEPVs in the sales of new vehicles. Therefore, the total number of BEPVs is still small compared to the number of conventional vehicles (24 per cent at the start of 2024).³¹

³⁰ TØI (2022) Kjøretøyenes demografi <https://www.toi.no/getfile.php?mmfileid=72976>

³¹ <https://www.ssb.no/transport-og-reiseliv/statistikker/bilreg/aar>

The share of BEPVs mentioned above imply that Norway is ahead of other countries, but the transition towards zero emission technology in accordance with political goals is still challenging.³² Even though we have witnessed substantial increases in the share of BEPVs the last years, currently around 11 percent of new passenger cars are not EVs. To reach the 2025- and the 2030-targets, continued strong growth in the share of EVs in the years ahead will be necessary. It is also necessary to avoid the share of electric vehicles in new car sales decreasing. Removing or reducing the VAT exemption could lead to a decline in the share of electric cars in new car sales. Due to the long lifespan of vehicles, every new fossil fuelled car in the Norwegian vehicle stock will contribute to emissions until well after 2030.

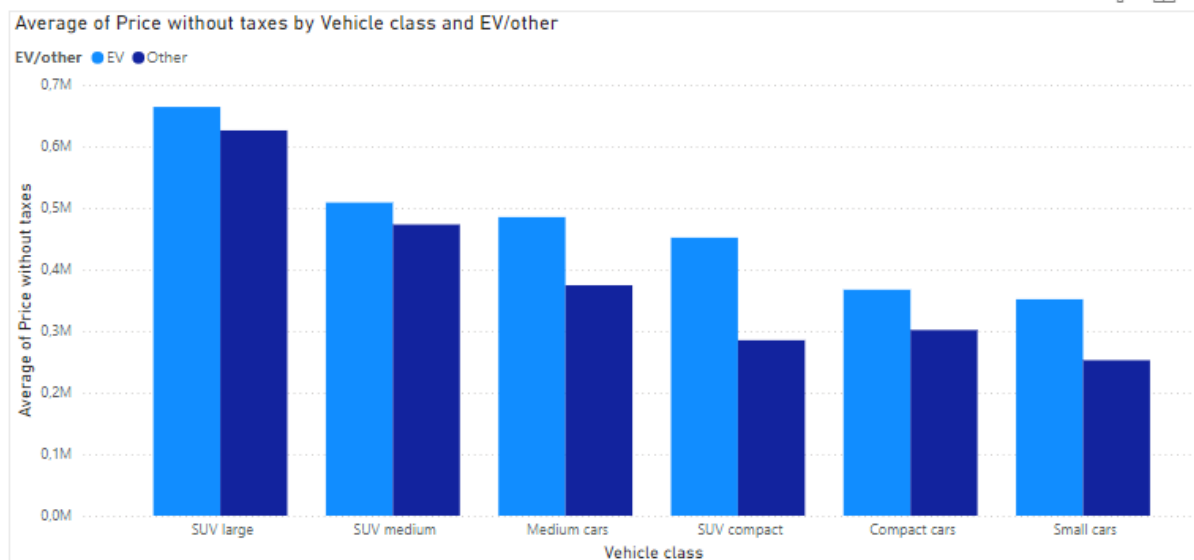
As discussed in Section 5.3, electric vehicles still are more expensive to produce. The Norwegian tax advantages are needed and appropriate measures to incentivise purchase of BEPVs at the expense of conventional vehicles.

It is not straightforward to conclude what model of a car that is equivalent to a certain BEPV. The choice of the concrete model will affect the comparison, especially related to battery capacity. However, an attempt is made to analyse the passenger car models³³ in the Norwegian market for 2023 both without taxes and including taxes in 2024 and the VAT exemption for BEPVs). The competitiveness of different engine technologies varies between the different classes of vehicles. Without taxes, BEPVs are more expensive in all classes, as seen in Figure 12.

³² The Commission has proposed EU fleet-wide CO2 emission reduction targets of 100% for new passenger cars and vans by 2035, with an intermediate target for 2030. https://ec.europa.eu/clima/eu-action/european-green-deal/delivering-european-green-deal/co2-emission-performance-standards-cars-and-vans_en

³³ The Commission has proposed EU fleet-wide CO2 emission reduction targets of 100% for new passenger cars and vans by 2035, with an intermediate target for 2030. https://ec.europa.eu/clima/eu-action/european-green-deal/delivering-european-green-deal/co2-emission-performance-standards-cars-and-vans_en

Figure 12 - Comparison of purchase costs (in NOK) in 2024 between BEPVs and conventional/hybrid cars, excluding taxes (By class of car)



Source: Ministry of Climate and the Environment

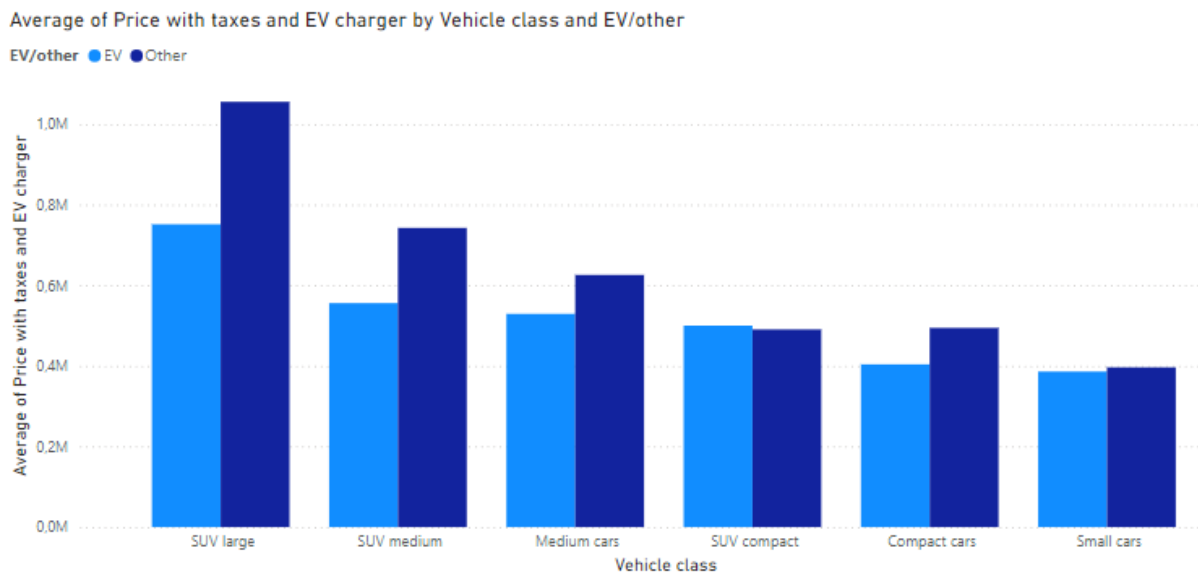
In Figure 13 below, the average market price including taxes³⁴ (in NOK) is illustrated for each vehicle variant³⁵, grouped by engine technology and passenger car class. In the two smallest classes, BEPVs are on average slightly less expensive than conventional and hybrid cars. The exception is for SUV compacts, where the BEPVs are slightly more expensive, even after taxes and VAT measures. In the larger classes, BEPVs are on average significantly less expensive than conventional cars. While the figure does not necessarily compare equivalent models to each other, it does indicate that, when including taxes, that the price competitiveness of BEPVs in the higher price ranges is higher, and that an upper threshold to the exemption from VAT for BEPVs may be possible without significantly reducing the BEPV share in these segments.

Smaller conventional and hybrid cars are, before taxes, less expensive than BEPVs. On average, they are slightly less expensive than BEPVs, even after taxes are applied. Based on the models sold, conventional and hybrid larger cars are less expensive than BEPVs before taxes, but on average more expensive than BEPVs after taxes are applied.

³⁴ Including the costs of installation of a home charger for BEPVs.

³⁵ It is important to note that even in the same class, the average prices are not necessarily comparable. Each vehicle model has different specifications, related to performance, range, and other attributes, and there are systematic differences within and between the different classes. In addition, certain producers list models with a multitude of variants, while other producers list very few variants per model. When analysing the prices of the models, producers with many variants become over-weighted in the average.

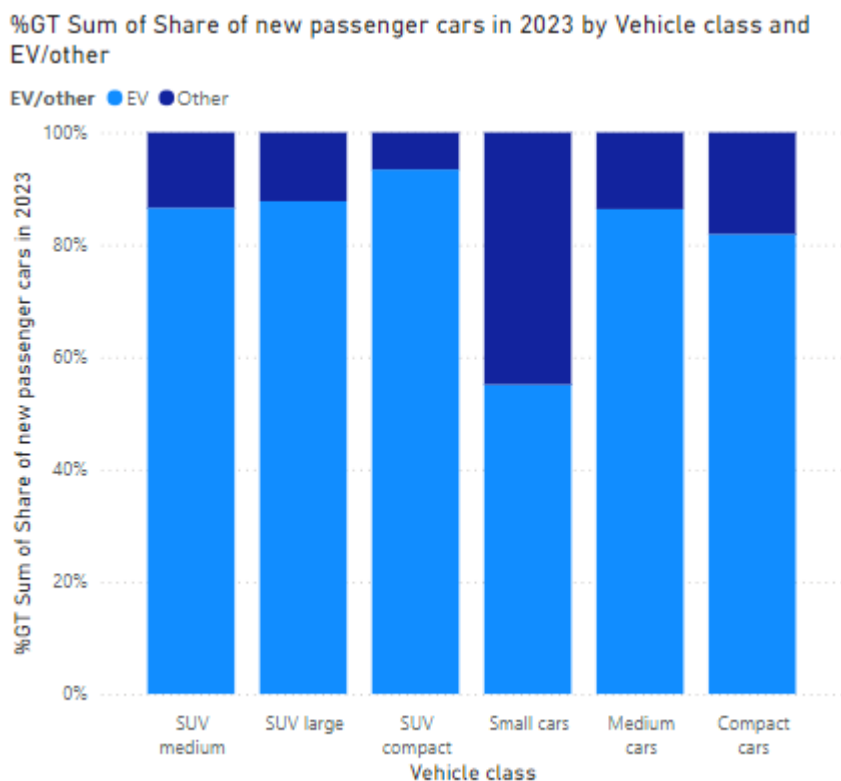
Figure 13 - Comparison of purchase costs (in NOK) in 2024 between BEPVs and other cars, including taxes and VAT for BEPVs above NOK 500 000.



Source: Ministry of Climate and the Environment

Even so, when comparing the BEPV share grouped by the different vehicle classes (Figure 14, below), we see that conventional and hybrid cars represent a significant share of new vehicles in all classes. The BEPV share is lowest in the small car class, and highest for large SUVs. This is an indication that a significant share of consumers considers BEPVs, even if they have lower purchase prices, to be inferior to conventional and hybrid cars.

Figure 14 - Share of BEPVs and conventional/hybrid cars in new sales, in 2023.



Source: Ministry of Climate and the Environment

Without the VAT exemption, BEPVs would be significantly more expensive across all categories. Comparative to conventional vehicles, especially small/mid-sized and more moderately priced cars, BEPVs would become much less competitive. A continued VAT exemption with the threshold of NOK 500 000, increases the price only for BEPVs above that threshold. On average, these are the groups which appear to currently have a more significant price advantage compared to conventional vehicles, and slightly higher BEPV shares. The threshold of NOK 500 000 is a targeted measure to ensure more proportionality of the VAT exemption.

We know that price is important for car buyers. The annual report from Norstat, *Bilundersøkelsen 2024*, show that price is the most important factor for people when buying a new car.³⁶ Figure 12 and 13 shows that with current tax rules and VAT exemption/discount, BEPVs are less expensive in most categories. The Norwegian Automobile Federation (NAF), the Norwegian association for car owners, routinely presents reports about Norwegian car owner's preferences and concerns. One of the issues is prospective car ownership. According to the latest figures, from 2023, 47 percent of the respondents in the NAF survey answered that they would want their next car to be a BEPV. This share has increased slightly from 43 percent in 2021, but there are significant regional differences. In the Oslo area, 55 per cent of respondents would like their next car to be a BEPV, while in Innlandet, only 35 per cent wanted a BEPV to be their next car.³⁷ Although these numbers also entail used cars, the numbers are quite interesting. The actual car sales of new cars also tell us that there are still many people that prefers conventional cars over BEPVs. This is likely due to BEPVs still having drawbacks for consumers which are not reflected in the purchasing price.

As explained above in Section 5.3, there are still significant disadvantages related to EVs, perceived and real, including limitations in range, size of the storage space and charging capacity. Some of the models may, for example, have less comfort and possibilities for extra equipment. The disadvantages can represent a significant non-monetary cost for an BEPV buyer and needs to be included in the calculation of costs and benefits of buying an BEPV relative to a fossil fuelled car. Other disadvantages related to buying an EV are uncertainties regarding the expected lifetime of batteries and the BEPVs value in second hand market.

Even with BEPVs being competitive in the smaller passenger car classes, and less expensive in the larger classes, currently 11 per cent of passenger cars are not BEPVs, distributed along all classes, (see Figure 14 on page 42). This indicates that at least some consumer groups experience significant disadvantages associated with BEPVs. The continued technological development is expected to reduce these disadvantages, but they will remain an important factor in the time span of this notification. Due to such disadvantages, BEPVs may still be considered by many car buyers as an inferior alternative to fossil fuel vehicles. To offset such disadvantages in this period, BEPVs must probably be cheaper than a conventional car, in order to maintain a sufficiently high market share to achieve necessary emission reductions in the coming few years.

These graphs and analyses above show the purchase price of different types of vehicles and do not take into account any difference in cost between BEPVs and conventional cars over the lifetime of the car. An BEPV owner will on average have lower expenditures related to fuel costs and maintenance (regular motor services for example) over the lifetime of the car. However, fuel costs are highly dependent on whether charging is performed at private homes or at publicly

³⁶ [Bilundersøkelsen 2024 \(Master\) Bilnytt](#)

³⁷ <https://www.naf.no/politikk-og-samfunn/samferdsel/trafikanbarometer>

available charging stations. The fuel costs of charging at public charging stations have increased in later years. For fast chargers the price varies, with most companies currently pricing at between 5-6 kr/kWh.³⁸ per kilometre, these prices are comparable³⁹ to the current fuel prices for conventional vehicles.

Furthermore, as explained in Section 2.3, user benefits (toll road tax exemption, lowered rates on ferries, access to bus lanes, free public slow charging, free public parking) that so far have been important advantages, are being scaled back, for reasons discussed in Section 5.4, which increase the lifetime costs of using a BEPV.

Norway is a sparsely populated country with long distances, and the battery range of BEPVs is a major concern. Charging EVs might be challenging due to limited availability of charging stations, despite the current developments in charging infrastructure. Recharging the battery of BEPVs takes much longer time than refuelling a tank with petrol or diesel. With fast charging stations, it takes minimum 40 minutes to fully recharge a BEPV, but for most cars this is significantly more. More common chargers take between 5 and 8 hours, leaving the vehicle out of service for several hours a week. Furthermore, if fast charging stations are occupied or out of service, the BEPV user might risk a long wait or running out of energy for the car. Indeed, in a 2024 survey, 32 per cent of BEPV owners reported experiencing anxiety for charging when they drive long distances.⁴⁰ This is a slight decrease from the previous year. The Government continues to make targeted efforts towards facilitating a robust and market-driven development of charging infrastructure. These policies are considered successful, but rapid increases in the number of BEPVs in combination with relatively long lead-times for deployment of charging infrastructure may lead to some transitional challenges for BEPV owners.

The current measure of zero VAT rating, also with the threshold of NOK 500 000 from 2023, has been an important instrument to increase the purchase of new BEPVs. The measure of zero VAT rating for BEPVs must be seen in context with other favourable tax measures such as the reduced rates on toll-roads, reduced rates on road ferries and public parking, access to public lanes and registration tax (but full weight tax component). The former exemption from re-registration tax, insurance tax and favourable income tax calculation for employees benefitting from private use of electric company vehicles have also been important measures for the purchase of BEPVs. The Government has as mentioned started to scale back many of the EV-incentives, see Section 2.3. The development is being monitored. Annual overviews over the development of EVs in all transport segments that are covered by the Government targets are published every year

³⁸ <https://elbil.no/dette-koster-hurtiglading/>

³⁹ Based on fuel consumption for small cars of 0,55 liters/10 km, at 20 kr/liter, and 1,65 kWh/10 km, the break-even cost of charging is 6,66 kr/kWh.

⁴⁰ <https://elbil.no/faerre-elbilister-har-ladeangst/>

as part of the budget proposals. Depending on the market development, the Government will consider necessary changes in policy measures.

Part of the explanation of why more consumers do not choose BEPVs is that consumers seem to favour immediate costs and benefits more than future costs and benefits (positive discount rate). With a high degree of uncertainty regarding the future development, consumers are expected to place a lower weight on future costs and benefits. Also, some consumers may disproportionately favour effects in the near term relative to mid and long term effects. This is called myopic behaviour. BEPVs represents a new and rapid changing technology and the lack of necessary information and uncertainty about future costs and benefits as well as disadvantages may be substantial.

Both real and perceived uncertainty regarding the expected costs and benefits may make consumers unable to take fully into considerations the future costs and benefits of buying and owning a BEPV. There may also be uncertainty for many purchasers whether the tax advantages and other policy measures towards BEPVs will exist over the lifetime of the car at the time of purchase.

In TØI (2020), the prospects of reaching the 2025-target are summarized as follows: *“The passenger car target for 2025 is demanding due to the wide variation in user preferences. Strong measures will be required.”* The current and future system of car taxation is the topic in TØI (2019)⁴¹ and the zero VAT rate is considered decisive for the competitiveness and marked share of the EVs. The projected price development of electric cars, discussed in Section 5.3, along with the discussion on car buyers’ preferences in this section, further supports the need to continue the VAT exemption under the threshold of NOK 500 000 for the next two years. The discussion of incentive effect in Section 5.5 further supports the important role of economic incentives. Model results show that tax advantages at the time of purchase affects behaviour and that removing the zero VAT rate entirely would lead to a significant drop in the BEPVs’ share.

As discussed in Section 5.5, existing knowledge of mechanisms of pricing in the car market, makes it reasonably safe to conclude that the majority of the zero VAT rate is passed on to the car purchasers. Hence, the measure at hand only entails state aid for the indirect beneficiaries, i.e. the manufacturing sector including dealers. As a consequence, the state aid intensity received by those beneficiaries is limited to the indirect aid caused by a higher demand for their products. It must also be recalled that the lack of discrimination between manufacturers or dealers contributes to ensuring the proportionality of the measure.

⁴¹ <https://www.toi.no/publikasjoner/dagens-og-morgendagens-bilavgifter-article35804-8.html>

The Ministry considers the zero VAT rate under the threshold of NOK 500 000 an integral and necessary part of the policy to give incentives to reach the target for the transition to EVs and achieve the goal to reduce CO₂-emissions. With the introduction of a threshold of NOK 500 000 from 2023, the zero VAT rate are more targeted towards the vehicles that require more support, while scaling back the amount of support for the more expensive vehicles. Furthermore, evidence supports the conclusion that the negative effects are relatively limited. The policy is now regarded necessary to reach the ambitious climate goals. The Ministry concludes that the notified measures are proportionate.

5.7. Avoidance of undue negative effects on competition and trade

For state aid to be compatible with the functioning of the EEA Agreement, the negative effects of the aid measure in terms of distortions of competition and impact on trade between Contracting Parties must be limited and outweighed by the positive effects in terms of contribution to the objective of common interest.

As noted by the Authority in Decision No 227/22/COL, as well as in Decision No 228/17/COL and Decision No 148/20/COL, the Norwegian state only grants State aid to the indirect beneficiaries of the measures, not to their direct beneficiaries. This implies in itself that the potential distortion of competition and trade is limited. The measure is designed in a neutral and objectively transparent manner in accordance with the purpose of the measure, which leads to no discrimination between operators in the manufacturing sector.

The Authority also underlined in its decisions mentioned above that the benefits obtained by those indirect beneficiaries, i.e. the increase of demand for EVs, is necessary for achieving the objective pursued by the scheme. On these grounds the Authority concluded that the measures do not entail undue distortions of competition and trade and the overall balancing exercise has a positive outcome. The Ministry find this also to be the case in the time frame of the measure.

5.8. Transparency

According to the CEEAG Section 3.2.1.4 information concerning the measure and the beneficiaries shall be published on a comprehensive State aid website. The Ministry will make sure that this obligation will be fulfilled.⁴² Furthermore, the relevant rules and regulations will be published on www.lovdato.no, as they are approved and enter into force.

⁴² The information will be available on the following website: <https://data.brreg.no/rofs>

6. CONCLUSION

It is the Ministry's position that the zero VAT rate with a threshold of NOK 500 000 for BEPVs is compatible with the functioning of the EEA Agreement according to Article 61(3)(c).

The Ministry hopes that the provided information will enable the Authority to start an assessment of the notified measures.

Yours sincerely,

Frédéric Wilt
Deputy Director General

Anniken Beatrice Bergstrand
Legal Advisor

This document is signed electronically and has therefore no handwritten signature