Brussels, 11 December 2024
Case No: 93164
Document No: 1493423
Decision No 213/24/COL

Ministry of Trade, Industry and Fisheries
PO Box 8090 Dep
0032 Oslo
Norway

Subject: **Prolongation of VAT benefits for battery electric passenger vehicles**

1 Summary

(1) The EFTA Surveillance Authority ("ESA") wishes to inform Norway that, having assessed the notified prolongation of the existing zero VAT rate in favour of battery electric passenger vehicles ("the measure"), it considers that the measure constitutes State aid within the meaning of Article 61(1) of the EEA Agreement and decides not to raise objections[1] to the measure, as it is compatible with the functioning of the EEA Agreement, pursuant to its Article 61(3)(c).

2 Procedure

(2) The Norwegian authorities notified the measure on 29 November 2024.[2]

3 Description of the measure

3.1 Background

(3) The measure is a prolongation of an existing aid scheme approved by ESA's Decision No 227/22/COL ("the current scheme"). The aid scheme was first approved by ESA in Decision No 150/15/COL, and later prolonged and amended several times, see Decision No 228/17/COL, Decision No 148/20/COL and Decision No 227/22/COL. The current scheme expires on 31 December 2024.

3.2 Description of the measure

(4) The notification concerns the prolongation of the current scheme, which includes the following support instruments: (i) the existing zero VAT rate on the supply and import of battery electric passenger vehicles ("BEPVs"), up to the threshold of NOK 500 000; and (ii) the existing zero VAT rate on the leasing of BEPVs, with additional rules, which reflect the threshold of NOK 500 000.[3]

(5) The zero VAT rates apply to BEPVs. The term BEPVs comprises battery electric vehicles ("BEVs") insofar as they are passenger vehicles.

[1] Reference is made to Article 4(3) of Part II of Protocol 3 to the Agreement between the EFTA States on the Establishment of a Surveillance Authority and a Court of Justice.
[2] Document No 1502491.
[3] The threshold of NOK 500 000 reflects the purchase value of the BEPV.

(6) 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. Hybrid electric vehicles are excluded from the definition of BEVs. In the following, the term “electric vehicles” (“EVs”) will be used for BEVs.

(7) Passenger vehicles are defined as passenger cars, motorcycles, mopeds, motor caravans, class 1 vans and minibuses. Commercial electric vehicles, such as class 2 vans, trucks, buses and other vehicles not defined as passenger vehicles, will continue to be subject to the standard VAT rate (25%).

(8) The following incentives in favour of EVs are being, or have been, scaled down by the Norwegian authorities since the last notification was submitted:

(i). **Insurance tax**: 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 fossil fuel vehicles in 2022. In 2024, EVs are subject to a higher insurance tax than conventional cars.

(ii). **Zero VAT threshold**: As from 1 July 2001, the supply and import of all EVs were subject to a zero VAT rate. The tax exemption was extended to include the leasing of EVs from 1 July 2005. As from 1 January 2023, the threshold of NOK 500 000 on the supply, import and leasing of BEPVs was introduced.

(iii). **Zero VAT for battery import:** The zero VAT rate for the supply and import of batteries for EVs that had been in place since 1 July 2015 was abolished from 1 January 2023.

(iv). **Zero VAT rate for commercial EVs**: The zero VAT rate for commercial EVs (class 2 vans, trucks, buses and other vehicles not defined as passenger vehicles) was abolished from 1 January 2023.

(v). **Favourable depreciation rules:** Under the Norwegian system for depreciation for tax purposes, the depreciation rates reflect the expected economic lifetime of the operating assets. From 2017, electric vans had an increased depreciation rate of 30% compared to 24% for conventional vans. The favourable depreciation rate was abolished in 2024, and electric vans now have a regular depreciation rate of 24%.

(vi). **Registration tax**: EVs have been exempted from a one-off registration tax applicable to all other vehicles except for large lorries and buses, which was determined based on weight, CO_2 emissions and NOx emissions. A new additional weight tax component of the registration tax was introduced in 2023, which is applicable to all vehicles including EVs. The tax rate is NOK 12.08 per kilogram of the vehicle’s weight over 500 kilograms.

(vii). **Parking fees**: EVs were previously widely exempted from parking fees or subject to reduced rates, which have been scaled back considerably by the municipalities in the last years.

(viii). **Fuel cell electric vehicles**: The zero VAT rate applicable to fuel cell electric vehicles was abolished on 1 January 2024.

3.3 Objective

(9) The objective of the measure is to incentivise end-users to purchase BEPVs to decarbonise the Norwegian passenger transport sector. It is also to prevent the share of EVs in new car sales from decreasing. This is in order to ultimately reduce the Norwegian greenhouse gas ("GHG") emissions to comply with Norway's legally binding GHG emissions reduction targets under the Paris Agreement[4] and the Effort Sharing Regulation.[5]

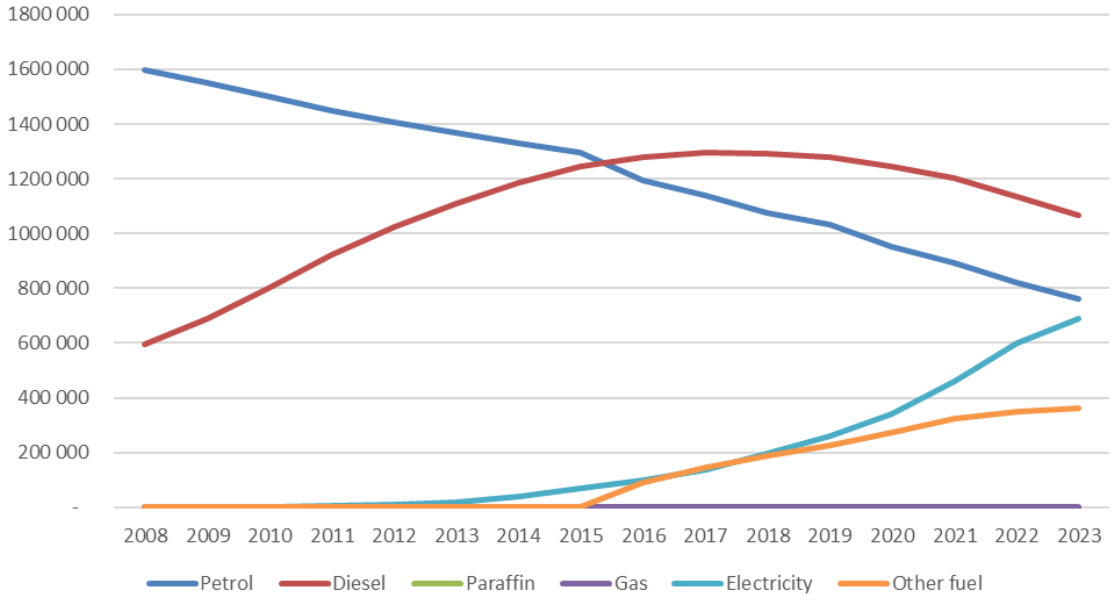
(10) The measure aims to incentivise end-users to purchase BEPVs by applying a zero VAT rate on the supply, purchase and lease of BEPVs with a price of less than NOK 500 000 to render the prices of BEPVs competitive with those of conventional fossil fuel vehicles.

(11) For further details regarding the context of the measure, reference is made to section 3.1 of Decision No 227/22/COL, which provides a detailed description of the policy background to the current scheme which the measure seeks to prolong.

3.4 The current BEPV market in Norway

(12) The Norwegian authorities indicated that although 89% of the new passenger cars sold in Norway in 2024 (January-October) were BEPVs, the total number of BEPVs is still small compared to the number of conventional fossil fuel vehicles in Norway, as Figure 1 below shows. The Norwegian authorities note that at the beginning of 2024, the share of BEPVs compared to conventional fossil fuel vehicles reached 24% and that 689 000 BEPVs were registered in Norway.

Figure 1 – Stock of registered vehicles by type of fuel and year in Norway



Source: Statistics Norway

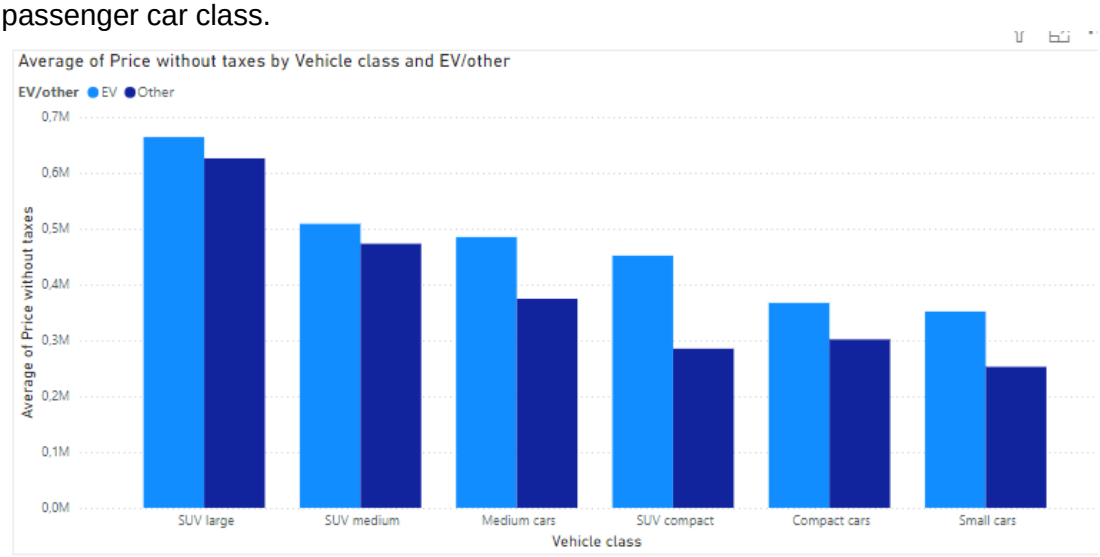
(13) Furthermore, the Norwegian authorities have explained that BEPVs have real and perceived disadvantages compared to conventional fossil fuel vehicles. These

[4] The Paris Agreement was adopted on 12 December 2015 at the twenty-first session of the Conference of the Parties to the UNFCCC (COP21) held in Paris from 30 November to 13 December 2015, and entered into force on 4 November 2016.

[5] See EEA Joint Committee Decision No 269/2019.

disadvantages include, *inter alia*, price disadvantages (as shown in Figure 2 below), battery range limitations, long charging times and storage constraints for smaller BEPVs. The Norwegian authorities assert that these disadvantages still render BEPVs inferior to conventional fossil fuel passenger vehicles in the eyes of a large percentage of customers. In this regard, the Norwegian authorities point to a 2023 survey from the Norwegian Automobile Federation (NAF) that shows that only 47% of the respondents would want their next car to be a BEPV, with significant regional differences.[6] They also point out that the share of registered BEPVs is lower than the share of registered conventional fossil fuel vehicles (as shown in figure 1 above), indicating that customers still prefer conventional cars over BEPVs.

Figure 2 – Price of BEPVs and conventional/hybrid cars, before taxes. Grouped by passenger car class.

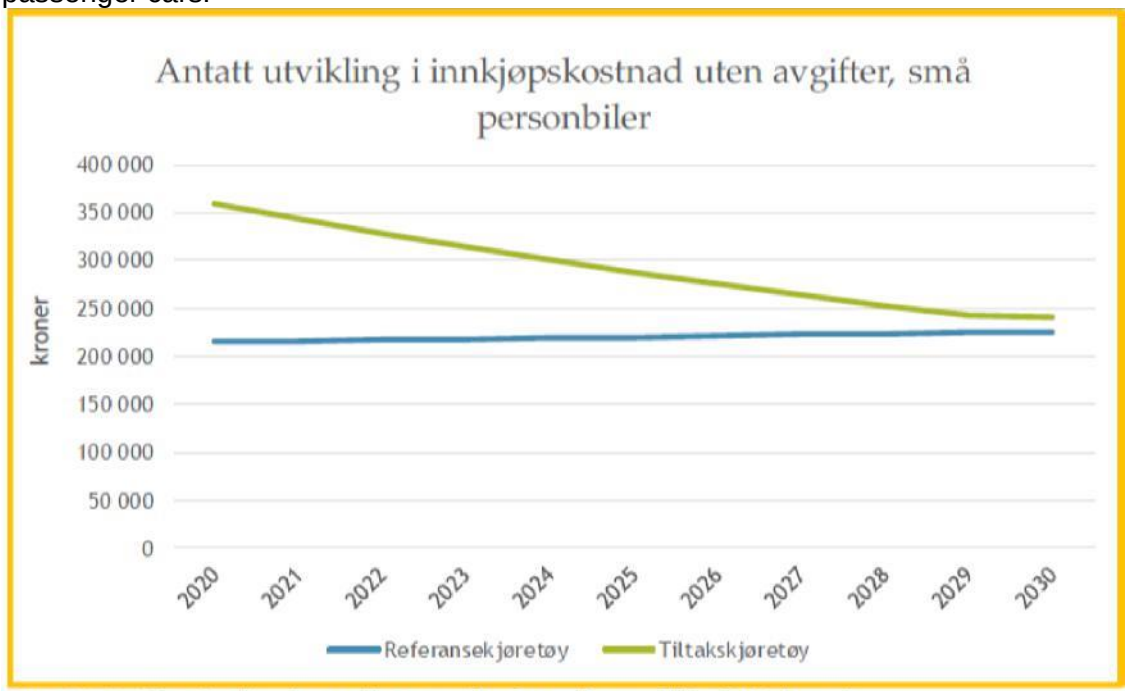


Source: Norwegian Ministry of Climate and Environment

(14) The Norwegian authorities, furthermore, present figure 3 and 4 below that indicate that the price of BEPVs will not become competitive with conventional fossil fuel vehicles until 2028 – 2029.

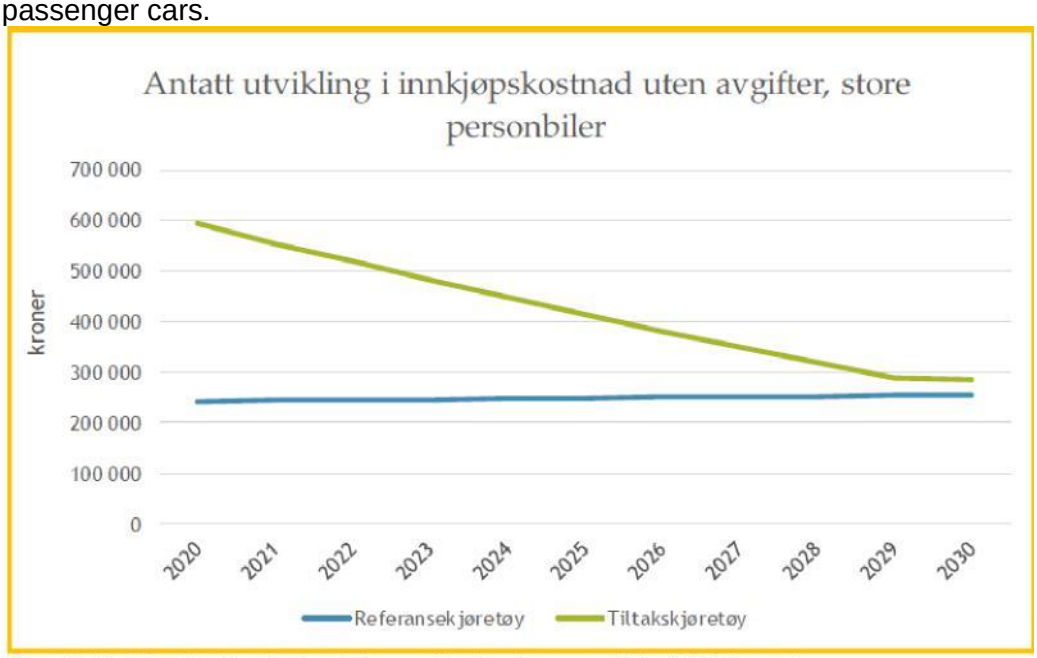
[6] https://www.naf.no/politikk-og-samfunn/samferdsel/trafikantbarometer.

Figure 3 – Expected development in purchase price without taxes, small passenger cars.[7]



Figur 14. Utvikling i innkjøpskostnad uten avgifter for små personbiler (2019-kroner).
Source: The Norwegian Environmental Agency

Figure 4 – Expected development in purchase price without taxes, large passenger cars.

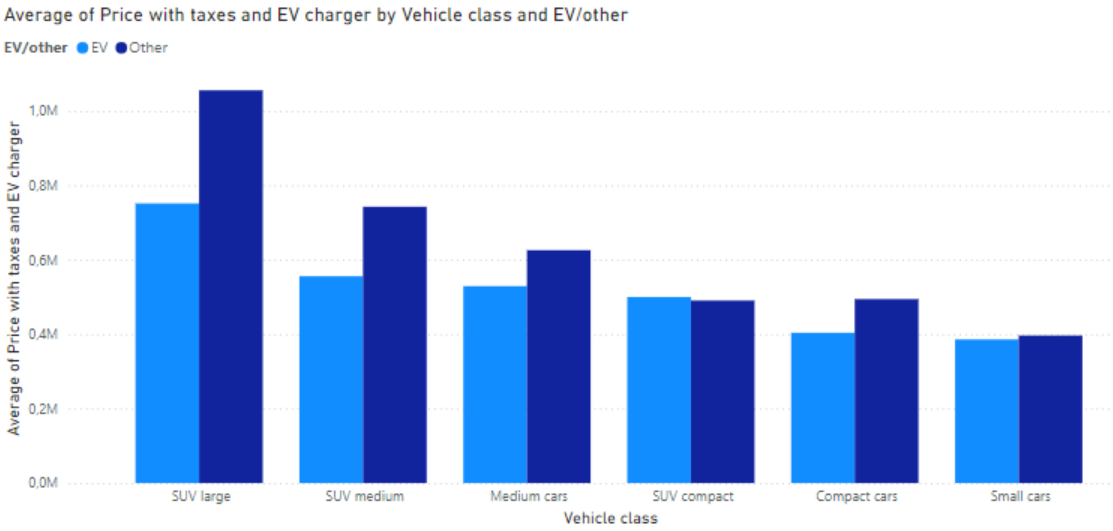


Figur 15. Utvikling i innkjøpskostnad uten avgifter for store personbiler (2019-kroner).
Source: The Norwegian Environmental Agency

[7] Klimakur 2030 is a report written by Norwegian public agencies, led by the Norwegian Environmental Agency. The reference vehicle for small internal combustion engine ("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.

(15) To mitigate the disadvantages of BEPVs, the Norwegian authorities submit that it is necessary to prolong the current scheme for the next two years to render the price of BEPVs competitive with that of conventional fossil fuel passenger vehicles as seen in Figure 5. Due to reports showing that the price is the most important factor for customers when buying new cars,[8] they explain that a prolongation is required to continue the trajectory of increasing the market share of BEPVs in Norway and prevent the share of BEPVs in new car sales from decreasing. This is in order to ultimately decarbonise the transport sector in line with Norwegian GHG emissions reduction targets.

Figure 5 – Comparison of purchase costs (in NOK) in 2024 between BEPVs and other cars, including taxes and introducing VAT for BEPVs above NOK 500 000.



Source: Norwegian Ministry of Climate and the Environment

(16) For further details regarding the BEPV market in Norway, reference is made to section 3.4 of Decision No 227/22/COL.[9]

3.5 National legal basis

(17) The national legal basis is the Act on Value Added Tax of 19 June 2009 No. 58 ("the VAT Act"). The rules concerning the zero VAT rate up to the threshold of NOK 500 000 for the supply, leasing and import of BEPVs are laid down in Sections 6-8 and 7-1 of the VAT Act.

(18) For a more detailed description of the Norwegian VAT system and the legal basis of the zero VAT rates, reference is made to sections 3.2 and 3.5 in Decision No 227/22/COL, respectively.[10]

[8] Norstat, Bilundersøkelsen 2024 (Car Survey 2024).
[9] In their notification, the Norwegian authorities provided updated graphs from the ones presented in Decision No 227/22/COL. However, the updated graphs do not deviate significantly from those provided in the referenced Decision and, in ESA's view, still underline the necessity and proportionality of the measure.
[10] As there have been no material changes in the Norwegian VAT system or the legal basis for the zero VAT rate since Decision 227/22/COL was adopted, ESA finds the referenced sections to still provide an accurate description of these aspects.

3.6 The duration, budget and revenue effects of the measure

(19) The current scheme is approved by ESA until 31 December 2024. The Norwegian authorities have notified the prolongation of the current scheme for a period of 2 years from 1 January 2025 to 31 December 2026.

(20) The zero VAT rate with a threshold of NOK 500 000 for the sale, supply and leasing of BEPVs results in a loss of revenue for the State compared to a situation where BEPVs are charged the standard rate (25%) in the VAT system. The size of the loss depends on the vehicle sales. For the year 2024, the value of the zero VAT rate for BEPVs is estimated by the Norwegian authorities to amount to approximately NOK 13 billion.

4 Presence of State aid

(21) In its Decision No 227/22/COL, ESA considered that the current scheme constituted State aid to the manufacturers and dealers of BEPVs within the meaning of Article 61(1) of the EEA Agreement.[11] Considering that the notified measure is a pure prolongation of the current scheme approved in Decision No 227/22/COL, ESA finds that there is nothing in the present case to alter the conclusions drawn in that Decision as regards the existence of aid. ESA therefore considers that the notified measure constitutes State aid within the meaning of Article 61(1) of the EEA Agreement.

5 Lawfulness of the aid

(22) Pursuant to Article 1(3) of Part I of Protocol 3 to the Agreement between the EFTA States on the Establishment of a Surveillance Authority and a Court of Justice ("Protocol 3"): "The EFTA Surveillance Authority shall be informed, in sufficient time to enable it to submit its comments, of any plans to grant or alter aid. … The State concerned shall not put its proposed measures into effect until this procedure has resulted in a final decision."

(23) The Norwegian authorities have notified the measure and have yet to let it enter into force. They have therefore complied with the obligations under Article 1(3) of Part I of Protocol 3.

6 Compatibility of the aid

(24) In the previous Decision No 227/22/COL, ESA assessed the compatibility of the current scheme under Article 61(3)(c) of the EEA Agreement. ESA concluded that the current scheme facilitated certain economic activities, namely the decarbonisation of the Norwegian transport sector and the development and manufacturing of BEPVs,[12] and that it did not adversely affect trading conditions to an extent contrary to the common interest.[13] ESA therefore concluded that the current scheme was compatible aid within the meaning of Article 61(3)(c) of the EEA Agreement.[14] ESA considers that this assessment remains valid with regard to the notified prolongation.

[11] Decision No 227/22/COL, paragraph 73.
[12] *Ibid*, paragraphs 81 – 83.
[13] *Ibid*, paragraph 127.
[14] *Ibid*, paragraph 130.

6.1 Facilitation of development of certain economic activities or areas

(25) The objective of the measure is to enhance the share of BEPVs in the vehicle stock in Norway, in order to reduce CO_2 emissions from the transport sector. With the measure, the costs borne by the buyer are reduced and the purchase or lease of BEPVs are incentivised. The measure thereby effectively leads to the decarbonisation of the Norwegian transport sector. Furthermore, the measure facilitates the development of BEPVs, including the manufacturing of BEPVs by car manufacturers.

(26) The prolongation of the zero VAT rate is meant to continue to stimulate a higher demand for BEPVs instead of conventional vehicles. Without the VAT exemption, BEPVs would be more expensive, as explained in section 3.4 above. Consequently, BEPVs would consequently become less competitive compared to conventional fossil fuel vehicles.

(27) In view of the above, ESA considers that the aid measure contributes to the development of the BEPV market and has an incentive effect.

6.2 Whether the aid adversely affects trading conditions to an extent contrary to the common interest

(28) The updated information provided by the Norwegian authorities, which is referenced in section 3.4 above, shows that there are still inefficiencies in the Norwegian BEPV market that necessitate State intervention to be mitigated. The information received from Norway indicates that the notified measure is likely to incentivise end-users to buy BEPVs by rendering the prices of BEPVs competitive with those of conventional fossil fuel vehicles. Thus, the measure is likely to continue the trajectory of the BEPV market. Consequently, ESA finds that the notified measure is necessary and appropriate to address the inefficiencies of the BEPV market.

(29) Furthermore, the share of BEPVs is still significantly lower than that of conventional fossil fuels passenger cars. The Norwegian authorities also note that a strong growth in the share of BEPVs over the next two years is still required to comply with Norway's legally binding GHG emissions reduction targets. ESA concluded in its Decision No 227/22/COL that the current scheme, which the prolongation concerns, was proportionate to this aim. Considering that several incentives applicable to EVs have been scaled down since then (see paragraph (8) above), ESA does not find reason to alter its previous conclusion regarding the proportionality and consequently finds that the measure is proportionate to its objective.

(30) Taking into account the necessity and proportionality of the measure, ESA considers that the measure does not adversely affect trading conditions to an extent contrary to the common interest. Therefore, ESA concludes that the compatibility assessment in its previous Decision remains valid with regard to the notified measure.

(31) The Norwegian authorities have confirmed that the aid award, should it exceed EUR 100 000, will be published in the national transparency register. Therefore, the measure fulfils the transparency requirements.

7 Conclusion

(32) On the basis of the foregoing assessment, ESA considers that the measure constitutes State aid within the meaning of Article 61(1) of the EEA Agreement. Since ESA has no doubts that this aid is compatible with the functioning of the EEA Agreement, pursuant to its Article 61(3)(c), it has no objections to the implementation of the measure.

The Norwegian authorities have confirmed that the notification does not contain any business secrets or other confidential information that should not be published.

For the EFTA Surveillance Authority,

Yours faithfully,

Arne Røksund President Responsible College Member	Árni Páll Árnason College Member	Stefan Barriga College Member

Melpo-Menie Joséphidès
Countersigning as Director,
Legal and Executive Affairs

This document has been electronically authenticated by Arne Roeksund, Melpo-Menie Josephides.