

Recommendations for the Improvement of Allocation of Incentives for Cleaner Transport

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American Chamber of Commerce in Croatia *Američka gospodarska komora u Hrvatskoj*

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Introduction

Transport accounts for almost a quarter of European greenhouse gas emissions. Among various forms of transport, road traffic is by far the greatest greenhouse gas emissions polluter with a share of over 70%.

With the global transition to a low-carbon circular economy, in July 2016 the European Commission adopted a Strategy for low-emission mobility aimed at ensuring Europe's competitiveness and responding to people's challenges and needs regarding mobility.

Cleaner transport and increasing the energy efficiency of transport systems certainly play an important role in achieving the European Union's objectives. Vehicles that use renewable energy sources and have reduced CO₂ emissions, primarily plug-in hybrid vehicles and electric vehicles, are one of the key solutions for achieving ambitious European targets.

Since plug-in hybrid vehicles and electric vehicles are currently more expensive than traditional vehicles due to the advanced technologies they use and the fact that their significant presence on European roads is yet to come, incentives for the purchase of electric vehicles and the construction of electric vehicle charging stations implemented by the Environmental Protection and Energy Efficiency Fund should certainly be welcomed.

With this position paper, AmCham proposes measures for the further improvement of the incentives system for cleaner transport with the aim of increasing the share of e-vehicles on Croatian roads, as well as expanding the network of charging stations on the Croatian territory.

Incentives for environmentally friendly vehicles

During 2018, The Environmental Protection and Energy Efficiency Fund awarded the following incentives:

For citizens:

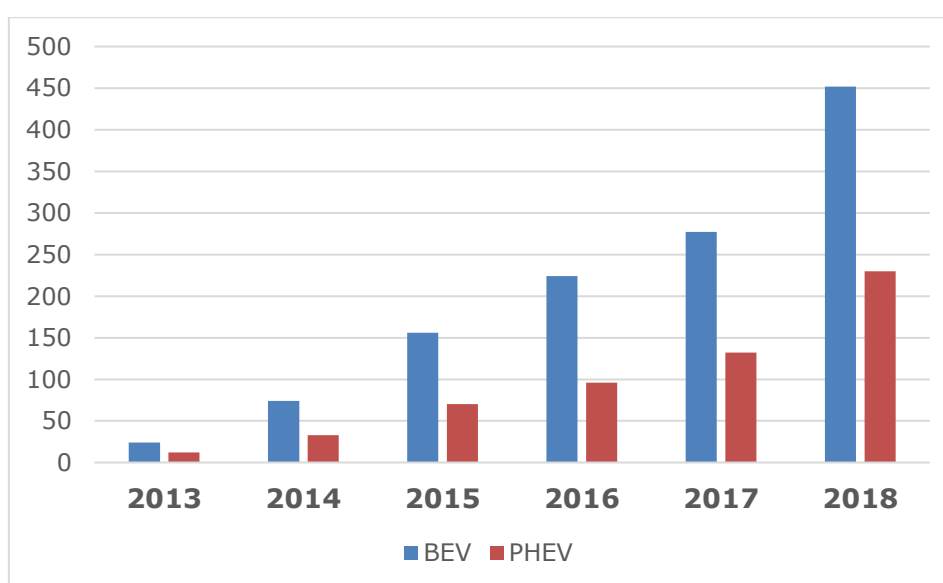
| Type of vehicle | Amount | Value |
|---------------------|--------|------------|
| Electric bicycle | 224 | 935,000 |
| BEV | 133 | 10,460,000 |
| PHEV | 1 | 40,000 |
| Electric motorcycle | 56 | 520,000 |
| Total | 414 | 11,955,000 |

For companies:

| Type of vehicle | Amount | Value |
|--|--------|------------|
| Electric bicycle | 286 | 1,200,000 |
| BEV | 122 | 8,600,000 |
| Light commercial vehicles powered by natural gas | 29 | 2,000,000 |
| Mopeds, light quadricycle and similar | 69 | 1,000,000 |
| Total | 506 | 12,800,000 |

The total amount of allocated funds amounted to approx. HRK 24,800,000. BEV refers to battery electric vehicles; PHEV refers to plug-in hybrid electric vehicles.

Table 1: Number of registered BEV and PHEV vehicles in the Republic of Croatia



Source: Center for Vehicles of Croatia, <https://www.cvh.hr/tehnicki-pregled/statistika/>

| Number of registered BEV and PHEV vehicles in the Republic of Croatia | | | | | | |
|---|------|------|------|------|------|------|
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| BEV | 24 | 74 | 156 | 224 | 277 | 452 |
| PHEV | 12 | 33 | 70 | 96 | 132 | 230 |

Source: Center for Vehicles of Croatia, <https://www.cvh.hr/tehnicki-pregled/statistika/>

Incentives were granted on the “fastest finger first” principle and were fully reserved within minutes.

Recommendations for the improvement of the program for allocation of incentives:

1. Public call budget

AmCham believes that the Fund's budget for the procurement of environmentally friendly vehicles should be increased. In 2017, the Fund generated revenues in the amount of HRK 1,241,007,743. In accordance with the implementation of the Financial Plan, during the same year the Fund paid HRK 5,617,149 to end users under the activity K2022 Promoting Cleaner Transport, which accounts for 0.45% of the Fund's total revenues for that year¹. The implementation of the Fund's financial plan for 2018 is not indicated, since it was not publicly available at the time the position was drafted.

The Fund finances activity K2022 projects from the proceeds from the sale of auctioned emission allowances auctioned in the EU Emissions Trading System under the Air Protection Act.

It should be pointed out that the Fund is financed on a “polluter pays” basis and accordingly receives approximately HRK 230 million from the Transport Sector through the Special environmental fee for motor vehicles, which are used, according to Article 5 (2) of the Ordinance on the conditions and method of allocation of the Fund's resources, for financing other Fund activities assessed as a priority by the Fund's Board of Directors.

AmCham believes that the abovementioned proceeds of the Fund should be used to reduce CO₂ emissions and harmful emissions of the transport sector, taking into account national strategies and other documents in the field of environmental protection and energy efficiency in transport.

2. Continuity

For the co-financing of the procurement of energy-efficient vehicles for 2018, the recipients were able to apply for a period shorter than 2 hours without the exact announcement of when the applications would start.

AmCham believes that for the benefit of recipients and suppliers any type of incentive should be planned and continuous.

¹ <http://www.mfin.hr/hr/drzavni-proracun-2017-godina>, accessed on 7/14/2019

In the case of passenger vehicles, importers should plan and order the vehicles at least five to six months before production and delivery to showrooms in Croatia. Uncertainty regarding the amount and duration of incentives in 2018, as well as the uncertainty about the type and characteristics of the vehicles to be covered by the incentives, resulted in a lack of vehicles on the Croatian market, which forced citizens to individually import e-vehicles from other EU markets. In this way, budgetary funds are directed to the development of the automotive industry, i.e. the procurement of more energy-efficient vehicles, in other EU Member States, and not in Croatia. It would be better to provide incentives with lower absolute amounts which are continuous than to have the fastest finger first principle incentives with high amounts but without discontinuity.

This would ensure a greater number of electric vehicles on the road, and state incentives would, in addition to ecology, also stimulate the Croatian economy.

Considering the resources available mentioned in the first paragraph of this document, AmCham believes that the public call for co-financing of energy-efficient vehicles should be constantly open, which would significantly facilitate the planning and implementation of vehicle procurement for end-users and importers.

3. Transparency

In 2018, the following criteria applied:

BEV – co-financing up to HRK 80,000 per vehicle, but not more than 40% of the price including VAT. Only A, B and C segment vehicles were incentivized. The criterion of belonging to the mentioned segments is not transparent, since there is no official and exact categorization of vehicles in this respect. This is a commercial and "colloquial" categorization, so the Hyundai Kona vehicle is for example excluded from being able to apply for the incentive, although it offers one of the best returns on investment in the BEV market.

PBEV – co-financing up to HRK 40,000 per vehicle, but not more than 40% of the price including VAT. Only A, B and C segment vehicles were incentivized. As with BEV vehicles, there is no official and exact categorization of vehicles in this regard, which makes the criteria non-transparent.

4. Responsibility

All persons who have reserved funds from the Fund based on an enclosed supplier's offer have been able to cancel the purchase of the vehicle without any consequences. Canceling the purchase of a vehicle after the incentive has been approved and reserved negatively affects other people interested in incentives and discourages vehicle suppliers from creating the stock necessary for normal delivery of environmentally friendly vehicles. Unfortunately, precisely because of this practice some suppliers prefer their vehicles not being covered by incentives.

5. Simplification of required documentation

When applying for e-mobility incentives, in cases when a company or a sole proprietorship purchases a vehicle, at least 12 different documents must be collected (six basic and six specific ones for companies and sole proprietorships). The Fund also reserves the right to request where appropriate that additional documentation be submitted. A significant part of the required documents relates to information known to other public institutions. AmCham believes that it is necessary to simplify the administrative process of collecting documentation and that the Fund should be able to directly request all documents/data held by other institutions from the competent authorities so that companies/sole proprietorships do not have to obtain them themselves.

In comparison, the public call for e-vehicles for individuals required five documents and the time period available to reserve the funds was extremely short. In the case of the public call for companies published on May 22, 2019, it was still open two months after it had been launched. Also, in 2015, a public call for legal entities required eight documents and the provided funds were reserved within two weeks.

Incentives for the construction of electric vehicle charging stations

Recommendations for the improvement of the program for allocation of incentives:

1. Public call budget

AmCham believes that the Fund's budget for the construction of electric vehicle charging stations should be increased based on the same explanation as in the case of public calls for procurement of vehicles. As with the procurement of vehicles, the public call for co-financing the construction of electric vehicle charging stations should be constantly open, which would significantly facilitate the planning of project implementation for end users and equipment suppliers.

2. Eligible costs of the project for the construction of electric vehicle charging stations

In contrast to the 2015 call, in the 2019 call the Fund did not consider the cost of the distribution system and installation of the power cable from the existing main switch cabinet to the charging station unit as eligible cost. In addition, the Fund has never considered the costs for electricity connection eligible, although these costs, together with the above-mentioned distribution system costs, represent the bulk of the costs for an individual project.

In a concrete example, the Fund accepted to co-finance just over HRK 10,000 or 10.51% of the total value for the project of the construction of an electric vehicle charging station worth approximately HRK 100,000, since it considers almost all costs to be ineligible, with the exception of the costs for the charging station itself. The low share of the co-financing of projects for the construction of e-vehicle

charging stations can demotivate potential investors. As the network of e-vehicle charging stations in Croatia is not yet covered to a satisfactory level, AmCham believes that this situation could change with stronger incentives. Also, the cost of connected power, as well as the cost of the distribution system and installation of the power cable from the existing main switch cabinet to the charging station should be co-financed by the Fund.

3. There is no mechanism for monitoring energy consumption at co-financed charging stations

Following the public call by the Fund, it is currently possible to register the construction of charging stations that are not "smart", or more precisely which do not support billing, reporting and analytics. It is not possible to determine how much energy is spent on the needs of the charging stations and how much is spent on other electrical consumers at the connection points where such charging stations are connected. AmCham believes that a "central register of energy consumption at charging stations" should be established at the national level, which would be connected to all installed charging stations in Croatia by a communication protocol, allowing for the real-time exchange of energy consumption data. By establishing such a mechanism, the Fund would have a realistic insight into the energy consumption at the charging stations and would not depend on the manual reports by users which often do not display the real situation. In addition, the Ministry of Environmental Protection and Energy would have at its disposal real data available for the purposes of reporting to the European Commission on the achieved targets on the use of RES in the transport sector, and to carry out analyses from these data that could further improve the process of electrification of the Croatian transport system.

4. Simplification of required documentation

When applying for e-mobility incentives, in cases when a company or a sole proprietorship constructs a charging station, at least 19 different documents must be collected (11 basic and 8 specific ones for companies and sole proprietorships). The Fund also reserves the right to request where appropriate that additional documentation be submitted. A significant part of the required documents relates to information known to other public institutions. AmCham believes that it is necessary to simplify the administrative process of collecting documentation and that the Fund should be able to directly request all documents/data held by other institutions from the competent authorities so that companies/sole proprietorships do not have to obtain them themselves.

In comparison, a public call for the construction of charging stations by local and regional self-government units requires the collection of 11 basic documents and only one additional document.

Recommendations for improvement of incentives

AmCham believes that incentives for co-financing cleaner transport would be improved by implementing the following activities:

1. Increasing the budget and achieving a continuity of grants for the construction of charging stations, as well as for the procurement of BEV and PHEV vehicles, if necessary also by reducing the absolute amount of incentives.
2. Simplifying the required documentation for the public call for procurement of vehicles as well as for the construction of charging stations.
3. Accepting costs for electricity connection and all costs of installation and distribution of the power cable from the existing main switch cabinet to the charging station unit as eligible.
4. Introducing a tax relief for the private use of official plug-in vehicles. If a company owns plug-in vehicles (BEV and PHEV) and its employees use them for private purposes, AmCham believes that such use should be exempt from taxes on fringe benefits in kind as in the United Kingdom and the Netherlands.
5. Granting an incentive solely for the vehicle from the offer enclosed with a request on the basis of which the incentive had been granted.
6. Elimination of the “colloquial” criteria such as belonging to A, B or C segment.
7. Penalizing irresponsible behavior of subsequent relinquishing of a granted incentive.
8. Establishment of a digitized system for monitoring the consumption of energy at charging stations.

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