

# Pollution Charges for Environmental Protection

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

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## Pollution Charges

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The average age of vehicles in Croatia is about 12 years, which means that the majority of vehicles were manufactured at a time when ecological standards were set much lower, and such vehicles pollute the environment with harmful emissions. The older age of vehicles is a cause of decreased traffic safety. Reduced fees would mean a reduction in the prices of new vehicles, which would be an impetus for larger sales. Thereby, both the age of vehicles would decrease as well as environmental pollution.

Automotive industry turnover decreased by 65% in 2009 and by an additional 15% in 2010. Only in 2011 did the industry record a small increase. Due to decreased sales of new vehicles, the number of jobs in the Croatian automotive industry also decreased since this industry is a vehicle importer in the area of vehicle maintenance as well.

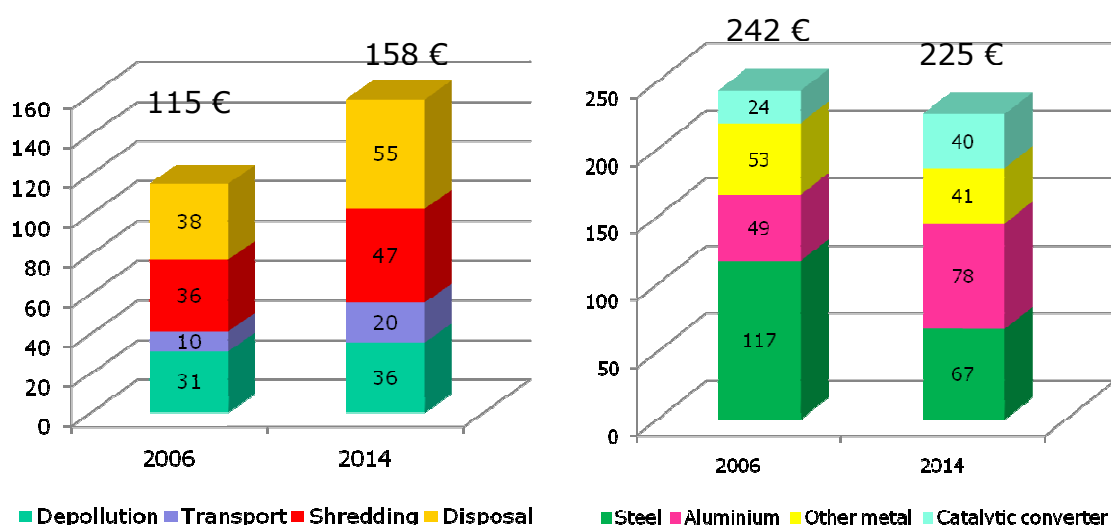
The automotive industry pays monthly charges of 0.85 HRK per kilogram of each imported vehicle, on customs' procedures. The fees are paid for M1 (passenger vehicles with up to 9 seats) and N1 (light commercial vehicles with a gross vehicle weight of less than 3.5 tones) vehicle categories.

Annually, approximately 35,000 vehicles are imported into Croatia, which means that some 30 million HRK fees are levied. The funds are paid to the Fund for Environmental Protection, which uses them at its discretion in compliance with the valid Law. We propose amendments to the Law on the Fund for Environmental Protection and Energy Efficiency (the official gazette 'Narodne Novine', issue 107/03) in that the funds collected through the fees for waste management of end-of-life vehicles would be used exclusively for that intention, which is in accordance with the EU legislation, and that the fee is redefined as shown further in this document.

## The Fee for Recycling of ELV Vehicles

The payers of the fee for waste management of end-of-life vehicles which is paid to the Fund are vehicle manufacturers that pay the fee during import, and before the marketing of motor vehicles. The grounds for calculation of the fee for waste management of end-of-life vehicles is the motor vehicle mass as laid out in homologation documents, reduced by the driver mass of 75 kg. The fee for imported or manufactured motor vehicles amounts to 0.85 HRK/kg.

### European Waste Management of End-of-Life Vehicles



Source: Opel

It is obvious from the above chart that recyclers of end-of-life vehicles generate profit from their business by sales of recycled material, even without additional fees from the state.

### Proposal:

We propose amendments to the following provisions of the Regulation on Waste Management of End-of-Life Vehicles (official gazette 'Narodne Novine' issues 136/06, 31/09 and 156/09):

- Provisions of Art. 20. Sec. 1. of the Regulation, so that the Payers of the fee for waste management of end-of-life vehicles (manufacturers) have the obligation to pay the fee after the vehicle sale, instead of while marketing the motor vehicle as currently prescribed.

- Provisions of Art. 21. Sec. 2. of the Regulation, so that the Fee for imported or manufactured motor vehicles amounts to 0.45 HRK/kg, instead of 0.85 HRK/kg as currently prescribed.

We also suggest that in the future a new model is found for ELV management, with the aim of abolishing fees altogether. This would lower the financial burden on the automotive industry, but also contribute to a better environment protection.

### *Benefits:*

- The motivation of buyers to purchase a new car because of the decreased price of vehicles and the renewal of vehicle fleets which, because of new technologies, contributes to lower environmental pollution by harmful emissions of CO<sub>2</sub>, i.e. decreased average age of the vehicle fleet in Croatia (less emissions of CO<sub>2</sub>, more traffic safety).
- Manufacturers are released from excessive fees which are an additional burden, thus enabling them to keep employment levels.
- The owners are motivated to hand over the vehicle for recycling as they receive an appropriate fee, which contributes to reduced burdens for the environment in terms of waste.

### *Tire Recycling Fee*

The fee for waste management of tires is fee paid by manufacturers or importers covering the expense of collection, transportation, storage and disposal of waste tires.

It is to be paid by manufacturers and importers of vehicles, or a product which includes tires. This fee is paid upon importation of a vehicle, i.e. during the customs procedure, for all types of vehicles (cars, airplanes, tractors, and similar).

The fee is paid to the Fund for Environmental Protection, for tires which are part of imported personal vehicles, buses, cargo vehicles, machinery etc., and according to vehicle categories:

- For personal vehicles the fee amounts to 10 HRK per tire,
- For vans and delivery vehicles of maximum load below 3.5 tons and tractors 15 HRK per tire,
- For cargo vehicles of N2 category 85 HRK per tire,

- For construction machinery 250 HRK per tire,
- For airplanes 250 HRK per tire.

During the filing of monthly reports on import of vehicles and payment of the above fee for waste management of end-of-life vehicles in compliance with the Regulation on Management of Waste Vehicles and the Regulation on Waste Management of Tires, the tires are exempted from the entire vehicle, and then reported in compliance with the Regulation on Waste Management of Tires as a separate fee. Hence, the fee is paid additionally for tires, which are part of vehicles.

Although such a fee, in compliance with provisions of Art. 22. Sec. 3. of the Regulation on Waste Management of End-of-Life Vehicles, should be included in the Fee for Waste Management of End-of-Life Motor Vehicles, the implementation of such provisions is questionable.

The practice in the EU is such that there are no additional fees during import or included in other fees during import, and it is not calculated either separately or subsequently.

#### *Proposal:*

We propose amendments to the following provisions of the Regulation on Waste Management of End-of-Life Vehicles (official gazette NN 40/06):

- Provisions of Art. 10. Sec. 1. of the Regulation, so that the vehicle importers are removed from the group of the mandatory payers of the fee for the waste management of tires, instead of being included in the mandatory payment of an additional type of fees – as is currently prescribed.

#### *Benefits:*

- The motivation of buyers to purchase a new car because of the decreased price of vehicles and renewal of the vehicle fleet which, because of new technologies, contributes to lower environmental pollution by harmful emissions of CO<sub>2</sub> i.e. the lower average age of the vehicle fleet in Croatia (less emissions of CO<sub>2</sub>, more traffic safety).
- Manufacturers are released from excessive fees which are an additional burden, thus enabling them to keep employment levels.
- The owners are also motivated to hand over the vehicle parts (tires) for recycling, because they receive an appropriate fee, which contributes to reduced burdens for the environment with waste.

# Reduction of CO<sub>2</sub> Emissions from Road Motor Vehicles

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The valid Ordinance on Unit Fees, Corrective Coefficients and Particular Criteria for Ascertaining Special Pollution Charges for Motor Vehicles (NN 02/2004) prescribes unit fees and corrective coefficients that serve as grounds for calculation of the special pollution charges for motor vehicles, as well as particular criteria for ascertaining the special fee.

According to the valid provisions of the Ordinance, without taking into consideration the degree of a motor vehicle's exhaust, a single fee is paid for emissions of road motor vehicles. Thereby, new vehicles which meet the high environmental standards (EU 5, EU 6) are treated unequally in comparison with vehicles with a high content of harmful substances in exhaust gas emissions, although they meet all conditions at the technical review.

## *Proposal:*

To modify the calculation method for the unit fees in such manner that the factor of vehicle age is replaced by the factor of exhaust gas emissions, i.e. by the eco-standard. In such way, vehicles that pollute the environment more with the harmful emissions of exhaust gases would pay an accordingly higher fee.

We propose the following amendments to the Ordinance on Unit Fees, Corrective Coefficients and Particular Criteria for Ascertaining Special Pollution Charges for Motor Vehicles (NN 02/2004):

- Provisions of Art. 2. Sec. 2. of the Ordinance, so that the K3 corrective coefficient dependent on the vehicle age is replaced by a K3 corrective coefficient for exhaust gas emissions.
- Provisions of Art. 6. K3 corrective coefficient for exhaust gas emissions (eco standard):

Vehicles with a valid eco-standard for import of new vehicles: K3=0

Vehicles with one degree lower eco-standard than the valid standard for new vehicles: K3=1

Vehicles with two degrees lower eco-standard than the valid standard for new vehicles: K3=1.5 etc.

### *Benefits:*

- The motivation of buyers to purchase a new car because of the lower price of vehicles and renewal of the vehicle fleet which, because of new technologies, contributes to lower environmental pollution by harmful emissions of CO<sub>2</sub> i.e. the lower average age of the vehicle fleet in Croatia (less emissions of CO<sub>2</sub>, more traffic safety).
- Funds collected in this way would be used exclusively as an incentive for the import of vehicles with reduced CO<sub>2</sub> emissions, hybrid, electrical vehicles and vehicles fueled by alternative fuels. The incentive is received directly by the vehicle buyer, directly from the Fund.
- Harmonization with EU regulations in that area of environmental protection.

<b>Country as in December 2010</b>	<b>Tax Rebates Panamera S Hybrid (159 g/km) vs. Panamera S (242 g/km)</b>
USA	Up to \$2,200 / lump sum National subventions for hybrid vehicles with tax rebates (by the end of 2010, prolongation currently studied)
China	about 13,700 EUR / lump sum derives from consumption tax rebates
Germany	204 EUR / annually Decreased tax on motor vehicles
Japan	4,000 EUR / lump sum Decreased taxes, among others the acquisition tax through achieving values below national limits of fuel consumption and exhaust emissions
France	1,850 EUR / lump sum Decreased fees at car registration
Spain	4,475 EUR / lump sum 5% tax on registration (<159 g/km)
The Netherlands	8,584 EUR / lump sum Decreased fees for CO <sub>2</sub> at car registration

Source: market information



# Use of Funds Collected from Fees

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The Law on the Fund for Environmental Protection and Energy Efficiency (NN 107/03) prescribes that the Fund shall use the funds collected from the fees for financing environmental protection and energy efficiency, and among other things, also for incentives for sustainable economic activities, i.e. sustainable economic development.

Previous practice has shown that the major part of the funds was used for projects intended for local self-governments, while the economy (legal entities and physical persons) received a smaller share of the funds in rather rare calls for public procurement through loans, subventions, aid and donations.

## *Proposal:*

To direct the funds collected through the fees according to the grounds of their collection, whether:

- Fees for environmental pollution,
- Fees for environmental users,
- Fees for environmental pollution with waste or
- Special environmental fees for motor vehicles.

For example, we propose that funds from the fees for management of waste vehicles are used through public procurement for incentives for import and registration of ecological vehicles: hybrids, electrical vehicles and vehicles with reduced emissions of CO<sub>2</sub>. Similar incentives are in place in many European countries.

## *Legal grounds:*

- Amendments to the Law on the Fund for Environmental Protection and Energy Efficiency (NN 107/03) - in general

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