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WORKING DOCUMENT

From: To:	General Secretariat of the Council Working Party on Land Transport
N° Cion doc.:	17016/1/25 REV1 + ADD1 REV1 + ADD2
Subject:	Proposal for a Regulation of the European Parliament and of the Council on clean corporate vehicles - Comments from Estonia

Delegations will find, attached, comments and questions from **Estonia** on the above-mentioned proposal.

Estonian comments on the Clean Corporate Vehicles Regulation

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Estonia would like to provide the following comments and questions on the proposal of clean corporate vehicles. We have a general scrutiny reservation on the proposal and all comments are preliminary.

Estonia is highly sceptical towards setting mandatory targets in the regulation because of a number of aspects, including the following:

- Following the discussion of the WP on Land Transport of 13 January, to our understanding, leasing companies are included under the regulation in case they fulfil the requirements set out in directive 2013/34/EU (which most companies that do business in leasing Estonia currently do fulfil), including the vehicles that these companies lease out to clients. In Estonia, leasing companies hold a lion share of new registrations and corporate fleet portfolios. A very considerable amount of these portfolios in turn are leases to SMEs and private citizens (according to our information, private citizens alone account for about 44% of the leasing companies' portfolios in Estonia; for SMEs leasing may also be the only financial option available). Therefore, the proposal would affect vehicles that would be used by citizens and SMEs but registered and owned by the leasing company, running counter to the proposed proportionality of the proposal.
- Therefore, to achieve the proposed targets, Estonia most likely would need to take measures towards these leases to SMEs/private citizens even though this is supposedly not the aim of the proposal. The only plausible option, which would not be clear-cut market interference in the business model of these private companies, would be financial incentives. This would in turn lead to unequal treatment of private citizens and SMEs. Those who can buy a vehicle would not be in the scope of this regulation while those who need leasing assistance to purchase a vehicle will be. Any financial incentives available to all vehicles being purchased would be extremely difficult in the current budgetary situation – Estonia's defence expenditure baseline will be at least 5% of the country's GDP from 2026 onwards.
- Possible measures could also cause a shift from leasing to car loans in order to not be subject to the regulation. However, compared to leasing, car loans are considerably more expensively priced because the credit risk for the financier is higher; consumer loans are also considerably higher in the Baltics than in Western-Europe which would lead to further unevenness between Member States.
- Large undertakings also have many possible ways to subvert the targets which would in turn make this regulation nothing other than an administrative burden. They could create new subsidiaries next to the parent company, which in the context of increased capital costs is rather simple. Vehicles can be written on the balance sheet of the new rental company, for which there are no requirements under the Regulation, and then the vehicles can be rented out to the parent company. Thus, the parent company operates a

fleet of vehicles while not being subject to the regulation. With differing targets between neighbouring Member States, they can register their vehicles in one and then operate them in another. Some large undertakings could be inclined to buy more used non-ZLEV vehicles which have already been registered in the EU instead of higher capital costs towards new ZLEV-s resulting in an older and less-clean fleet than without mandated targets.

- Large undertakings also use different business models when it comes to logistics. Some have their own fleets for their logistic operations while others outsource to smaller companies and thus might not be subject to the regulation. So, the undertakings operating their own fleets would be in an unequal competitive environment due to higher necessary capital investments and this would create market distortions. And this in turn would create another way for large undertakings to subvert the regulation by changing their logistics operations by outsourcing to smaller companies.
- Banks which offer leasing services could move their leasing business from the parent company to a smaller subsidiary company which would not fall under the regulation and thus not be subject to it. There would be fewer restrictions on it and this would increase their competitiveness in the market. Banks which do not do this would face unequal competition.
- The supply of the aftermarket for electric vehicles might also face problems. Aftermarket prices of EVs are already unpredictable due to rapid technological developments and thus the impossibility to safely assume the residual value of the vehicle in the future affects the buyer's decision. Increasing the supply of aftermarket EVs to the amounts set by the targets would mean that possible EV buyers could avoid the purchase of EVs due to fears that there will be a glut in the aftermarket in the future.
- EVs also face shortcomings with range, especially in winter conditions. This affects not only large undertakings' (and with leasing companies in scope also SMEs') day-to-day operations. In a purely business scenario, N1 EVs offer a shorter range between charging than a diesel N1 (difference is almost double already in ideal conditions). This means that businesses operating in areas with smaller population density will quite likely face a situation where multiple N1 EVs might be needed to carry out the same number of operations as could be done with a single diesel N1 in the same timeframe due to EVs needing time to charge. This obviously increases business costs and might not bring environmental benefits in total.
- Range issues of EVs also affect large undertakings' (and with leasing companies in scope also SMEs'/private citizens') ability to respond to crisis situations. In extreme weather conditions, disasters or war, power outages are a prevalent issue. Vital services, such as communications and other critical infrastructure repair services, must also function in the event of power outages. Rapid response and continuous (uninterrupted) operational capability are essential prerequisites, so these vehicles cannot be electric at least for the foreseeable future. For possible evacuation purposes, the range of EVs also poses a significant concern for private citizens.

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Further comments/questions:

- We understand that all large undertakings (private as well as state owned) would be included in this proposal. If large public companies would be outside of the scope, then this would create inequality solely on the basis of ownership, which is clearly not the aim.
- Why was only GDP per capita used to calculate the target? Why not GDP at purchasing power parity? A number of other variables mentioned throughout these written comments affect the actual possible targets for Member States. Our current calculations show that by 2030, large undertakings registrations of ZLEVs and EVs would need to increase at least 3-5 times for M1 and 8-13 times for N1 (dependent on basis year).
- Article 4, first paragraph – What exactly is the definition of financial support? If tax benefits are also meant there, the discussion should be brought to the Working Party on Tax Questions. Even if VAT deductions are not meant here, are all other tax advantages in the scope of this? The discussion in the Working Party of Tax Questions is not a formal requirement, but a substantive one, as there is an unanimity requirement in tax matters, which is not the case in transport/environmental matters.
  To our current reading, the provision would restrict the decision-making power of the Member State, including when granting incentives in tax policy; and restricts the possibility of granting State aid without substantial justification (including from the MS budget).

Discussions on the regulation should go hand in hand with impact assessments, including an analysis of the existence of supporting infrastructure in different EU countries (not only public chargers but also chargers at businesses and, in case private citizens are part of the scope through leasing companies, also at apartment buildings), taking into account the population density of countries (the starting points are very different today), the economic impact and profitability of investments for companies, the market situation (including current uptake of EV-s and vehicle financing differences) and the existence and security of supply chains and possible (new) strategic dependencies.

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