

INFORSE-Europe Comments to EU Consultation on Reduced VAT Rates

May 12, 2008

International Network for Sustainable Energy (INFORSE) – Europe is a network of 72 European NGOs working for energy efficiency and renewable energy. In the following is the network's response to the EU consultation paper "Review of existing legislation on VAT reduced rates". Only questions to where INFORSE-Europe has an opinion are answered. Read more about INFORSE-Europe at www.inforse.org/europe.

Question 10) Distortions of sectors due to application of reduced VAT rates?

Answer:

In a number of countries provision of fossil fuel based energy have enjoyed reduced VAT rates, including reduced VAT rates for gas, electricity, district heating, and in some cases even mineral oil. Often a higher VAT rate has been applied to energy efficiency installations, renewable energy installation, and biomass fuels such as firewood and wood pellets. This has given a distortion in favour of fossil fuels and against renewable energy and energy efficiency. This generally corresponds with lower interest for renewable energy and energy efficiency in the countries with these reduced rates (EL, FR, IE, IT, LV, LU, HU, PT, UK), compared with many of the other EU countries.

Question 11) Comments to proposed deletions, need for a modification of the list of categories of goods and products to which reduced rates may be applied in the Member States (Annex III to the VAT Directive)

Answer:

INFORSE-Europe supports the deletion of reduced rates for gas, electricity and district heating, as mentioned in Annex 2 to the consultation paper. It is important that all fossil fuels are also subject to full VAT rates, not to set district heating in a competitive disadvantage, as it is usually a more environmentally benign form of heating than fossil fuels.

INFORSE-Europe is deeply concerned about the proposal to include in Annex III (products with possible reduced VAT rate, annex to the VAT directive) heat energy (gas, electricity, coal, mineral oil, etc.), LPG and "gas cylinders" (also a form of LPG). This will in general favor higher energy consumption over energy conservation. It will create an uneven playing field for energy efficiency and renewable energy goods and services, unless at least similar VAT reductions are applied for these goods and services.

INFORSE-Europe is against the proposal to reduce VAT rates for tolls on road bridges, as it is an incentive for increased car use and against the more environmentally benign railway transport

INFORSE-Europe is against the proposal to apply VAT on international transport of passengers for the most environmentally benign forms of transport: railways and buses, as it will threaten the competitiveness of these forms of transport.

INFORSE-Europe finds that waste-water treatment should not be exempted from VAT as it will give a competitive disadvantage for the more environmentally benign measures: efficient water use, local water recycling, and local water treatment (reed-beds, evaporation systems, etc.). The local solutions are generally using less energy and thereby also contributing less to global warming and other environmental problems.

Within waste treatment, INFORSE-Europe proposes that only re-use and re-cycling is exempted from VAT reductions as these are the most benign forms of waste treatment.

Question 12: Relevant arguments either in favor or against reduced VAT rates to environmentally friendly products, energy efficient products (such as computers, cars, white goods consuming substantially less energy than other similar goods) or energy saving goods (such as solar panels, specific IT equipment)? Which – necessary – criteria to differentiate products/services would you recommend? What kind of goods/services should be eligible for reduced rates in these cases?

Answer: Reduced rates for environmentally benign and energy efficiency products can be a valuable driver for increased use of them. It is worthwhile to distinguish between products that directly reduce fossil fuel and electricity consumption (insulation materials and their installation, equipment for regulation of energy consumption to reduce the consumption, solar heating, solar PV, etc.) and equipment that use less energy than alternative products with the same function (efficient appliances etc.).

For INFORSE-Europe it is important that products and services that reduce consumption of fossil fuels and electricity are not charged a higher VAT rate than the energy they replace, to at least create a level playing field for energy efficiency compared with energy consumption.

INFORSE-Europe is also in favor of further reduced VAT rates for products and services that reduce consumption of fossil fuels and electricity, compared with VAT on fossil fuels and electricity.

INFORSE-Europe would welcome reduced rates for energy efficient appliances and other energy efficient products. It is, however, important that reductions are linked to progressive schemes because energy efficiency is developing. As an example: a refrigerator that was among the most efficient models in 1995 is today less efficient than most products on the market. One proposal is to link a reduced VAT rates with mandatory energy efficiency labeling that will be updated regularly with the coming SAVE directive. Reduced VAT should rates could then be applied to:

- A-labeled products,
- to A+ labeled products if this category is maintained, and
- for specific products to A-labeled and B-labeled models, if too few A-labeled products are available for a specific product group.

INFORSE-Europe is, however, not in favor of reduced rates for energy efficient cars as these are in any case less efficient than public transport.

Question 13: Opinion on the reduced rate currently allowed for electricity and natural gas? (distortions of competition with other energy products?)

Answer: INFORSE-Europe is strongly against reduced rates for electricity and natural gas, and is of the opinion that it creates distortion against energy efficiency and renewable energy, in particular against local renewable energy production such as utilization of solar energy.

Question 14: View on the removal of reduced rates on some energy products?

Answer:

INFORSE-Europe welcomes the removal of VAT reductions for electricity and natural gas, as well as district heating, stated in annex 2. It is, however, a necessity that district heating is not subject to higher VAT than other, less environmental forms for energy for heating.

INFORSE-Europe is deeply concerned about the proposal to include in Annex III (products with possible VAT reduction) heat energy (gas, electricity, coal, mineral oil, etc.), LPG and “gas cylinders” (also a form of LPG). This will in general favor higher energy consumption over energy conservation, and it will create an uneven playing field for energy efficiency and renewable energy goods and services, unless at least similar VAT reductions are applied for those.

Question 15: Should some reduced rates currently in force be abolished where they concern environmentally damaging products.

Answer: INFORSE-Europe finds that reduced VAT rates should not be applied to products with high environmental impacts. As mentioned above this must include fossil fuels for heating as well as electricity.

Question 16) Would you recommend adding or deleting any other item to or from the list of goods and services eligible for a reduced VAT rate under EU VAT legislation? Why?

Answer:

INFORSE-Europe is against the proposal to reduce VAT rates for tolls on road bridges (as mentioned above) as it is an incentive for increased car use and against the more environmentally benign railway transport

INFORSE-Europe is against the VAT reduction on waste management except for re-use and re-cycling, as mentioned above. The reason is that is an incentive for inaction in the fields of re-use-re-cycling and waste minimization.

INFORSE-Europe is against to apply VAT on international transport of passengers with the most environmentally benign forms of transport: railways and buses (as mentioned above).

INFORSE-Europe finds that waste-water treatment should not be exempted from VAT (mentioned above) as it will give a competitive disadvantage for the more environmentally benign measures of efficient water use, local water recycling, and local water treatment (reed-beds, evaporation systems, etc.). The local solutions are generally using less energy and thereby also contributing less to global warming etc.

Question 17: (targeted direct aids to final consumers with low revenue vs. reduced VAT)

In general social problems should be solved with social programs rather than with reduced VAT rates. Regarding energy supply it is particular important to apply this when the social objectives of affordable basic costs are going against environmental objectives of minimizing energy consumption. Programs combining assistance to the most vulnerable with help to reduce energy consumption with energy efficiency is the best way to address the problem, leading to the longest lasting solutions.