



Press
NEWS RELEASE
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Stop perverse VAT incentive against renewable energy sources

**Reduced VAT rates should also be applicable to renewables,
not only to gas and electricity consumption.**

Brussels, 12 November 2007: The European Renewable Energy Council welcomes the proposal of the French and British governments, to allow Member States to apply reduced value added tax (VAT) rates on energy efficient products, a proposal to be discussed in tomorrow's ECOFIN meeting. This is fully in line with the EU energy and climate policies. For exactly the same reasons, reduced VAT rates should be applicable to renewable energies as well.

Tomorrow, European Ministers of Economic and Financial Affairs (ECOFIN Council) start discussing the update of the EU VAT Directive. According to this legislation, Member States are allowed to apply reduced VAT rates only to certain products or services mentioned in a specific list. Tomorrow's ECOFIN meeting will open the process towards the next update of this list.

Within the energy sector, the list currently allows reduced VAT rates to the consumption of electricity, gas and of district heat, and many Member States use this possibility. However, the current VAT Directive does not allow Member States to apply reduced VAT rates to products and services related to energy efficiency or renewable energies. During the last few years, some Member States considered the introduction of a reduced VAT for renewables, but were prevented to do so by the EU VAT Directive.

Oliver Schäfer, Policy Director of the European Renewable Energy Council (EREC) notes: "This situation creates a perverse incentive in favour of energy consumption, which conflicts with the goals of the EU in terms of energy and environmental policy. It is time to apply reduced VAT rates both to renewables and to energy efficiency products, thus creating a level playing field at least in the area of indirect taxation".

Of course, a similar effect could be achieved by applying a full VAT rate to all types of energy consumption. However, this may not be acceptable for social policy

reasons. Indeed the original rationale for VAT reductions on energy consumption was to lower the burden of energy expenditures in poor households. Under this restriction, allowing Member States to apply reduced VAT rates also on renewables and energy efficiency products is absolutely necessary.

More than 40% of the EU's energy consumption occurs in buildings. A large share of these buildings is owned by private households, for which the VAT constitutes a full cost. The use of renewables always implies upfront investment costs that are later balanced by lower running energy costs. However, due to the EU VAT Directive, the initial investment is subject to a full VAT rate, whereas the financial benefit perceived by the private investor is strongly reduced, due to the reduced VAT rate on energy consumption. In many cases, the public financial incentives for the use of renewables are not even high enough to outweigh the VAT.

Therefore, EREC fully supports the proposal of France and the UK to include energy efficiency products in the list so that they may enjoy reduced VAT rates. However, to be in line with the commitments of the EU the same should apply to products and services related to renewable energies.

EREC, the European Renewable Energy Council, is the umbrella organisation of the major European renewable energy industry, trade and research associations active in the field of photovoltaics, small hydropower, solar thermal, bioenergy, ocean & marine, geothermal, wind energy and biofuels. It represents an industry with an annual turnover of more than 30 billion € and more than 350.000 employees.

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