Brussels, 09 May 2008

Subject: Consultation paper – Review of existing legislation on VAT reduced rate

Eurima views on the European Commission’s consultation paper on VAT reduced rate

1. Eurima calls for a lower VAT rate for a cost-effective energy refurbishment of our buildings

   • Eurima, the European Association of Insulation Manufacturers, welcomes the launch by the European Commission of a consultation in conjunction with its review of existing legislation on reduced VAT rates.

   • Within the debate on climate change and economic growth, the role of the building sector is crucial. Buildings consume 40% of the EU’s total energy yet this energy use could be cut in half through simple measures such as wall and roof insulation. A study released in 2006\(^1\) showed that, with a price of barrel of oil at $70, this would save the EU €270 billion a year in energy cost (today the price of a barrel of oil is around $120...). This would also reduce CO2 emissions by 460 million tonnes annually and create up to an estimated 530,000 jobs. This potential is however not being fully realized. To attain these goals the traditional regulatory measures such as building codes should be complemented by a broad range of market-based instruments, among which reduced VAT rates, which will address the market failures in the building sector and give households incentives to save energy in the most cost-effective way.

   • Eurima believes that a reduced VAT rate should apply not only on energy efficiency products but also on the total cost of renovations and new build that comply with ‘stretch targets’, in order to encourage the building chain and the EU’s citizens to adopt the highest level of energy efficiency.

   • Eurima calls on the EU to allow for a reduction in the level of VAT on energy-saving products, materials and building processes related to implementing and upgrading thermal insulation and energy efficiency measures. Eurima proposes to link this reduction in VAT to the Energy Performance Certificates as imposed by the EPBD, and that the reduced VAT rate on labour-intensive services shall apply if the work aims to achieve the efficiency upgrades proposed by these Certificates. This will re-enforce the effectiveness of the Certificates and increase the cost-effectiveness of the refurbishment activities.

2. The current fiscal regime creates perverse incentives

   • The current fiscal policy creates perverse incentives to the detriment of the consumer and the environment. The current VAT regime encourages end-users to use energy inefficiently by applying a 5% VAT rate on energy supplies, while at the same time discouraging them from applying solutions, such as insulation, which would rationalise the use of energy and which are usually covered by a significantly higher VAT rate. In several EU countries over 50% of buildings are rented. In these cases neither the tenants (as they do not own the houses) nor

\(^1\) Sensitivity Analysis of Cost Effective Climate Protection in the EU Building Stock, Ecofys, 6 June 2006
the landlords (as they do not pay the energy bills) have incentives to invest in energy-efficiency measures such as insulation. A reduced VAT rate on energy efficiency measures compared to the full VAT rate on energy could reduce these disincentives.

3. A permanent solution is needed to promote energy efficiency

- The Directive 2006/18/EC only offers a temporary solution to a specific list of labour-intensive services in a restricted number of Member States. A recent study commissioned by the European Commission demonstrates that permanently reducing VAT rates could eventually lead to providers passing on the reduction in the final price to the consumer as well as increasing productivity and employment in labour-intensive services.

4. A reduced VAT rate should apply to installation costs, not just to energy efficient products

- Many energy efficient products such as insulation cost very little compared to the cost of their installation. Applying a reduced VAT rate to the product along will therefore not have a sufficient impact on the energy efficiency renovation of buildings across the EU. As the cost of the works is often higher than the products (e.g. double glazing, high efficiency boilers, insulation), a reduced VAT rate on energy efficiency products and labour-intensive services will have the combined effect of promoting local employment (e.g. more builders, window and insulation manufacturing), helping to achieve EU climate change and energy security goals, and stimulating the market for energy efficient products and therefore sales.

5. Eligibility for a reduced rate on labour-intensive services should be linked to the Energy Performance Certificate

- A permanent VAT reduction on labour-intensive services should apply on condition that on completion of the works, the building achieves a pre-determined level of energy performance prescribed by the Energy Performance Certificate (e.g. A for new build and A and B for renovation). This would ensure that the impact of the reduced rate of VAT on governmental revenue can achieve optimal societal effect, whilst helping to meet the binding energy saving objectives of the Member States by 2020.

- This would also advantage low-income families, who would like to reduce their energy bill by installing energy-saving products and materials themselves, as well as decrease the size of the market for undeclared activities by shifting activities from the “informal” or “underground” economy towards the “formal” one.

6. Conclusions

- By adopting a permanent reduced VAT rate on both energy efficient products and related works to install these products, and linking eligibility to the Energy Performance Certificate, the European Union will facilitate the achievement of our energy saving objectives whilst boosting our economy. This is in line with the recommendations and objectives adopted by the European Commission, the Council of the EU and the European Parliament in the area of Energy Efficiency.

- A reduced VAT rate should provide a flexible and cost-effective means for reaching policy objectives. With regards to greenhouse gases, a study by McKinsey showed that the lowest

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2. Study on reduced VAT applied to goods and services in the Member States of the European Union, Copenhagen Economics, 21 June 2007
cost of abating 1t of CO2 is achieved through wall and roof insulation (in fact this cost is negative, i.e. it leads to savings also in financial terms). It is now the time for the EU to develop financial incentives which support the most cost-effective way to meet our climate change goals. Therefore, Eurima agree with the European Commission that a closer link should be established between the EU framework on VAT and the EU goals on environment and climate change, while promoting the objectives of a transparent, and effective fiscal policy among EU Member States.

- In light of the upcoming revision of the VAT Directive, Eurima calls on the European Commission to propose a reduced rate of VAT for energy-saving products, materials and labour-intensive services in conjunction with the Energy Performance Certificate.

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Eurima, is the European Association of Insulation Manufacturers formed in 1959 and represents the interest of all major mineral wool insulation producers throughout Europe. Europe members employ over 20,000 people across Europe with the installation of insulation products accounting for an estimated 300,000 man-years, current corporate membership includes: Armstrong, Flumroc, Glava, Izocam, Knauf Insulation, OWA, Paroc, Rockwool International, Sager, Saint-Gobain Isover, Schwenk Dämmtechnik and Ursa.