Reply of PU Europe
to the Consultation paper
"Review of existing legislation on VAT reduced rates"

General information	
• **You are included in one of the following groups:**	European Association
• **Name of your organisation/ entity/ company:**	PU Europe, Av. E. van Nieuwenhuyse 6, B-1160 Brussels (www.pu-europe.eu)
• **Country of domicile:**	Belgium
• **Registration number (ID):**	27993486325-38
• **Brief description of your activity or your sector:**	Production of PUR / PIR thermal insulation products for use in buildings and technical installations
• **Do you agree to the publication of your personal data?**	Yes
• **Do you agree to have your response to the consultation published along with other responses?**	Yes

Q1 - Are there any concrete situations that you are aware of whereby the application of a reduced rate on certain goods and services by one or more Member States is effectively resulting in material distortion of competition within the Single Market? Please explain and, if possible, give an indication of the economic impact of the distortive effects.

We are not aware of any distortion of competition within the single Market due to reduced VAT rates applied to energy and housing.

Q3 - Which arguments (social, economic, legal, etc) do you wish to put forward in the context of the assessment of the reduced VAT rate for certain energy products?

Reduced VAT rates for energy products are mainly applied today to reduce exposure to fuel poverty. Whilst this is a very sensitive issue, VAT is not the right tool to address it:

- All consumers, and not only the fuel-poor, benefit from it.
- Products / services to reduce the energy demand of buildings are subject to a higher VAT rate than fuel consumption. This is counterproductive to achieving the EU's climate targets.
- Other, more targeted tools exist to address fuel poverty including reduced tariffs for a minimum number of kWh per household member.

More generally, PU Europe believes that subsidising consumption instead of savings represents a major obstacle to the wider up-take of energy efficiency measures. Governments should be encouraged to use energy efficiency measures as the principle tool to reduce fuel poverty.
This position is underpinned by a recent UK study[1]. Its findings suggest there are clear benefits from

[1] Cambridge Econometrics for Consumer Focus: Jobs, Growth and Warmer Homes - Evaluating the Economic Stimulus of Investing in Energy Efficiency Measures in Fuel Poor Homes (Oct 2012)

providing public incentives to improve energy efficiency in fuel poor households. It could create up to 71,000 jobs in the UK by 2015 and up to 130,000 jobs by 2027. It would also remove 87% of the 9.1 million households projected to be in fuel poverty in 2016 from that risk and reduce energy bills in all treated homes by over £200 a year.

PU Europe is aware of the fact that this switch in priorities is complex in practice and transitional measures, such as reduced tariffs for the first amount of kWh may be required.

Q5 - In your view, how can the reduced VAT rate for housing be best applied in order to take the resource efficiency element into account, and how should/can this be achieved with a minimum of increase in the administrative burden for businesses, in particular SME's, providing supplies of goods and services in the housing sector?

First of all, construction activities, and in particular renovation works, are very labour-intensive. Increasing renovation rates from about 1% today to about 3% can create up to 1.1 million new local jobs[2]. The Commission's impact assessment on the Energy Efficiency Directive[3] came up with about 2 million new jobs (400,000 net job creation). At the same time, increased energy efficient renovation activities can generate between €30 – 40 billion annual permanent net revenue gains to public finances in 2020[4]. Abolishing the possibility of applying reduced VAT rates would send a disastrous signal to this industry in times of a serious economic downturn in many countries.

PU Europe appreciates the Commission's intention, to link resource efficiency considerations to reduced VAT rates. In practice, this may however be extremely complex to achieve. Many renovation works combine different activities. Some reduce the resource consumption of the building, others may be related to simple repair works. Separating one from the other and defining exactly the activities that increase resource efficiency and those that do not would be difficult. The administrative burden would be disproportionate in particular for SMEs.
The European Union has put in place ambitious requirements for new buildings (must have nearly zero energy demand by 2021) in the Energy performance of buildings directive (EPBD). Energy efficiency requirements for the renovation of existing buildings are also covered by the EPBD (building elements, major renovations) and the Energy efficiency directive (national renovation strategies). The reduced VAT rates may not explicitly support resource efficiency, but they facilitate the application of the above directives by stimulating renovation activities. These are increasingly regulated by European rules on energy efficient buildings.

Brussels, 30th November 2012

[2] Building Performance Institute Europe: Europe's buildings under the microscope - A country-by-country review of the energy performance of buildings (2011)
[3] European Commission: SEC(2011) 779 final Impact Assessment accompanying the document Directive on energy efficiency and amending and subsequently repealing Directives 2004/8/EC and 2006/32/EC
[3] Copenhagen Economics for Renovate Europe: Multiple benefits of investing in energy efficient renovation of buildings - Impact on Public Finances (2012)