

WRITTEN QUESTION P-2571/04  
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to the Council

Subject: Reduced rate of value added tax on supplies of heat energy

Under the current system governing reduced VAT rates, as established by Directive 92/77/EEC<sup>1</sup>, Member States may apply one or two reduced rates to goods and services set out in a restrictive list (Annex H), in derogation from the principle that the normal rate is applicable (minimum rates of 15% for the normal rate and 5% for the reduced rates).

This arrangement was supposed to come to an end in 1997 with the introduction of a definitive VAT system. However, owing to the failure by the Heads of State and Government to reach a unanimous decision the structure based on normal and reduced rates of VAT remains in force, hampering the proper functioning of the internal market and creating, in addition to an array of complex rules, many instances of distortion of competition. The optional nature of the reduced-rate system, the lack of common definitions of the categories which make up Annex H, and the multitude of specific derogations granted to some Member States and denied to others (cf. 'parking' rates) make equal treatment for all Member States and all types of goods and services an impossibility.

The inequality in tax treatment created by the provision that a reduced rate of VAT can be applied to supplies of natural gas and electricity, but not to sales of heat energy and subscriptions to district heating networks which employ renewable energy sources, is compounded by a failure to encourage ecologically responsible behaviour likely to save natural resources.

However, since the publication of the Green Paper on combating climate change and energy independence (Towards an energy policy for the EU, 1995) and the White Paper on the development of renewable energy sources (Energy for the future: renewable energy sources, 1997), the European Commission has been calling on the Member States to increase the proportion of their energy supplies accounted for by renewable energies, something which a tax reform consistent with environmental considerations might make possible.

What can be done to put an end to this situation, marked by inconsistency and distortions of competition, which is hampering the use of renewable energies? On 23 July 2003, in its document COM(2003) 397 final, the Commission proposed the inclusion of district heating in Annex H. The Council can now take a decision to amend the list of goods and services in Annex H, pending the hopefully prompt introduction of uniform VAT rates.

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<sup>1</sup> OJ L 316, 31.10.1992, p. 1.