Press release

12 October 2004

European industry urges EU member states to avoid tax hurdles for Emission Trading.

On 14th October the VAT committee will meet in Brussels. On the agenda is an issue that is very important for the infant market of Emission Trading.

Representatives of the European Energy Traders, who will use and trade most of the EU Allowance met last week in Brussels and are urging the EU and the EU Member State representatives to avoid the development of different VAT regimes in Europe, which can lead to possible double taxation and prevents the creation of a level playing field. This again will create a distortion and prevents the creation of an efficient market.

National Governments, mostly with the best intentions, are developing/applying different VAT regimes for Emission Trading. Some apply place of supply (art. 9.1), some apply 9.2 (e) (charge where recipient belongs), while e.g. Belgium is arranging that no VAT needs to be paid; different interpretation of Art. 9. (2) (e) (financial exempt with no recovery of associated input tax). All these different regimes give a multitude of combinations when cross border trading in Europe will take place.

The European trading community recognises that VAT needs to be paid; and the industry in principle doesn’t mind which VAT regime is chosen, as long as it is one harmonised system. Different VAT systems are a big administrative hurdle for the development of an efficient and effective European market for emission trading. It must also be recognised that different VAT regimes do not create a real level playing field, because e.g. trading entities outside the EU have an advantage, because they can sell EU allowances without VAT (less cash needed for buyers) and have a much lower administrative burden. It is odd that non-EU based companies have an advantage over EU based companies when trading/selling EU allowances. If a choice must be made on which VAT regime, the trading industry opts for “place of supply” as was agreed in the new VAT Directive 77/388/EEC for Gas and Electricity.

EFET members, representing the majority of the active Emission Trading industry kindly ask swift action. It is known that tax matters are left to “subsidiarity” in the Member States. But it is also known that when there is unanimity among the country representatives, a harmonised VAT agreement can be reached in 12 months. (theoretically even in 6 months).

The energy trading industry has seen this happening with the new VAT Directive for Gas and Electricity trading, which needs to be implemented in all member states on 1/1/05.

Very good work has been done by DG Markets. The work of Mr. Bolkestein and his DG market specialists was highly appreciated.
The industry again gives its full support to DG markets to find a harmonised solution h.l. for VAT on Emission Trading. The European Industry requests a pragmatic, common sense, European approach and would encourage peer pressure on those countries which take a short-sighted approach by objecting to a harmonised European solution.

Overall, the proposed solution is VAT revenue neutral, but it makes a big difference for the industry and will make the market system more efficient and effective and thus is overall financially more positive for Europe.

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Editor note:
EFET is the European Federation of Energy Trading with 70 members from 18 European countries, representing the majority of companies, which presently are involved in Emission Trading.

For more information
EFET
contact person: Jan van Aken
secretariat@efet.org