



CECED's input to the European Commission's Green Paper on Market-Based Instruments for Environment and Energy Related Policy Purposes

CECED welcomes the Commission's initiative to assess in more detail the possible use of market-based instruments. If used in the correct way, they have a great potential to bring about significant changes in favour of the environment in a highly efficient manner. In the following submission, we will focus on a few questions raised by the European Commission's Green Paper that are relevant to home appliance manufacturers.

What are the areas and options for the further use of market-based instruments at EU or national level?

We limit our considerations to the tools that could be applied in the field of energy using products (EUP). Market based instruments, such as emission trading schemes, are of relevance for energy intensive industries and much less for light industries. Furthermore, due to the high level of international competition in the EUP area, any trading scheme could be taken into consideration only at a global, worldwide level.

For energy using products, market-based instruments are mainly a tool to "get the prices right" (taxation or incentives). We think that they can play a fundamental role in improving the consumer uptake of highly environmentally friendly technologies/goods.

In our sector, we have invested heavily over the past 10 years to improve the energy and water efficiency of our large appliances, such as refrigerators and washing machines. What prevents appliances from making a positive contribution to the EU's climate and energy efficiency goals is not the fact that lead technology does not exist, but the fact that the uptake of products by consumers is slow. The initial purchasing price of a product constitutes a considerable financial barrier for many consumers. For lead technology, the savings in water and electricity may not be enough to eventually compensate for the higher purchasing price of the appliance, or make the purchase appealing for the mass market.

The speed of lead technology diffusion represents the critical factor in any dynamic approach to eco-design and energy efficiency.



The market-based instruments which are very efficient in promoting the uptake of these appliances would be tax credits to consumers or manufacturers. The appliance industry would favour such measures at European level, but as taxation remains a largely national political prerogative, this may not be feasible in the short-term. As producer tax credits could be seen as state aid, we recommend that the European Commission revises the Community Guidelines for State Aid for Environmental Protection to specify the conditions for allowing producer tax credits and encourage Member States to pursue these policy options at national level.

Could market-based instruments be used in a way that promotes competitiveness, and does not impose an undue burden on consumers, in particular citizens with a low-income, but at the same time ensures revenue for public budgets?

As a general remark on market-based tools we would like to point out, that taxation should not only be seen as an instrument to “punish” polluters, but that reduced taxes can be a very effective tool in actually promoting environmentally friendly behaviour.

Although as a rule no action aiming at delivering a better diffusion of lead energy efficiency technology can be made at zero cost for governments, research and experience shows that, if correctly conceived, policies promoting the uptake of lead technology by consumers could be done without necessarily creating a significant deficit for public budgets.

From a purely financial perspective, diffusion of energy efficient products presents a relevant drawback: the public administration will lose VAT income from the sales of energy. The point is to see whether this loss is compensated by other incomes.

The equation is not as simple as it may appear from the consultation paper.

The same applies if taxes are used to disincentivise not so efficient technologies: if the pressure on the price is high and there is a real shift towards more efficient technologies VAT revenues from energy consumption will decrease and the government will not receive any additional income from the environmental tax on inefficient products. If there is no market transformation, there will be an additional income for the public administration, but the environmental goal would be missed.



Different policy options

In a study commissioned by CECED on “the cost-effectiveness of production tax credits in transforming the market for home appliances and harnessing manufacturers’ competitiveness¹” economists found that production tax credits would, in fact, be close to financially neutral for governments, whilst being beneficial for the consumer, the manufacturers and the environment. The tax credits would consist of a tax reduction to manufacturers for every additional highly efficient machine they produce and sell compared to the previous year. This system is currently being applied in the United States for home appliances.

In the European Union, it may be difficult to implement this in the short term because the Community Guidelines for State Aid for Environmental Protection do not foresee this specific case. However, we believe that this market-based instrument applied in the USA should be thoroughly analysed as it may prove to be an effective policy tool in the medium and long-term. It provides an incentive for manufacturers to increase the production of the most technologically advanced products, thereby increasing their competitiveness.

Tax incentives to consumers would also be an effective policy to increase the diffusion of environmentally friendly technology and is a policy option that can be applied under the existing European legislative framework. Currently such a scheme does exist in some Member States, for example in Italy. Consumers are given a tax reduction on his annual tax declaration of up to €200 if he buys a highly energy efficient refrigerator. This policy increases the sales of highly efficient appliances, therefore improving the uptake of lead technology.

Policies that should be avoided by all means are those that alter the consumers’ perception of the value of the goods. Such a policy measure would typically be reduced VAT rates for efficient energy using products. For producers this policy option would create problems, as it would make high quality products look cheaper than they are. This danger is particularly relevant if the reduced VAT rate is only given for a short period of

¹ THE COST-EFFECTIVENESS OF PRODUCTION TAX CREDITS IN TRANSFORMING THE MARKET FOR HOME APPLIANCES AND HARNESSING MANUFACTURERS’ COMPETITIVENESS

STUDY FOR CECED PREPARED BY BILL MEBANE* AND EMANUELE PICCINNO** OCTOBER 4, 2006

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time. As soon as the VAT reduction would no longer apply, producers would not be able to return to the original price level. This will harm the return on the investments done and reduce competitiveness, especially of the small and medium enterprises.

Financially reduced VAT rates are also less interesting for governments. They will lose out on VAT revenues when selling the appliances and be faced with a lower VAT income from electricity sales, only slightly moderated by possible increase of revenue taxes from producers and reduced cost for CO₂ emissions.

So, whereas reduced VAT rates may have a positive short-term effect on the environment, there are serious objections to this type of policy from a competitiveness and public budgets point of view.

Should the EU more actively pursue taxation to further Community policy purposes (in addition to fiscal objectives)? Is this the right response to current global challenges and the fiscal needs of national budgets?

Market transformation is a global challenge and needs to be seen in this context. The fiscal needs of national budgets are, in general, anti-cyclical. Effort should be made to assess all the positive and negative influences that a specific measure may trigger. Preference should be given to policies that respond to the following criteria:

- As little money as possible is spent for actions that would happen anyway (avoid the free riding effect).
- The public money is spent against a demonstrable positive result.
- Ideally, the measures should apply uniformly in all Member States.
- If financial aid is provided, governments should make sure that proper enforcement is in place.

What is, in the light of national experiences, the best way to advance the process of reforming environmentally harmful subsidies?

A form of environmentally-harmful subsidy which can and should absolutely be avoided is indirect state aid to goods that are not environmentally friendly.

Under the current state aid system, aid may be given to companies to set up factories taking mainly economic factors such as employment into consideration. Moreover, even though the production process may be assessed according to its environmental impact,



too little attention is given to the environmental performance of the goods that are actually produced.

In the same respect, European Regional Development Funds are often used by Member States to boost levels of employment without taking into account the environmental aspects of this increased level of output.

We therefore call upon the Commission to push for an increased focus on the quality of the industrial output that is being subsidised by public money.

Does the Community legal framework provide sufficient scope for Member States to use MBI to address waste management issues? Should the Commission facilitate the application of MBI in this area, e.g. through supporting exchanges of information?

CECED would urge the European Commission to be very careful on this matter. If market-based instruments are used for the reduction of waste, we encourage their use at European level, rather than at national level. Extensive use of market-based instruments in this area risks creating a range of different markets and may hamper the free movement of goods.

Enhancing the exchange of information is always good and should be supported.

The advantage of using specific systems, such as deposit-refund systems or tradable permits, needs to be carefully analysed taking into consideration mainly the life cycle of products. Something that may fit for drink containers, that have a life cycle of few months and a high frequency of purchase, would be unfit for goods such as the domestic appliances with an average life cycle of 10 to 15 years.

CECED represents the household appliance industry in Europe. Its member companies employ over 200,000 people, are mainly based in Europe, and have a turnover of about €40 billion. If upstream and downstream business is taken together, the sector employs over 500,000 people.

Direct Members are Arçelik, BSH Bosch und Siemens Hausgeräte, Candy Group, De'Longhi, Electrolux Holdings, Fagor, Gorenje, Liebherr, Indesit Company, Merloni Termosanitari, Miele, Philips, Saeco, SEB and Whirlpool Europe. CECED's member associations cover the following countries: Austria, Belgium, Czech Republic, Denmark, Estonia, France, Germany, Greece, Hungary, Italy, Latvia, Lithuania, Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Spain, Sweden, Switzerland, Turkey and the United Kingdom.