

EUROPEN COMMENTS ON
THE EUROPEAN COMMISSION CONSULTATION ON A
REVIEW OF EXISTING LEGISLATION ON REDUCED VAT RATES

It has been suggested that 'environmentally friendly' goods and energy-efficient and energy-saving goods be added to the list of goods and services to which Member States may apply reduced rates of VAT. In a joint letter to Commission President Barroso on the contribution of VAT to combating climate change, the British and French Heads of Government and State have also called upon the Commission to, "*examine other specific areas where economic instruments could have a role to play to further increase the use of green products by businesses and consumers, particularly in areas such as packaging*".

EUROPEN is the voice of industry for packaging and environment issues in Europe,¹ and is pleased to have an opportunity to present its views on this subject.

EUROPEN believes that any attempt to favour some types of packaging over others by applying a reduced rate of VAT would be disproportionate to any real environmental differences and would therefore distort competition:

- *Life-cycle assessments (LCAs) based on different assumptions will produce different results. This suggests that any fiscal discrimination enshrined in legislation would meet with constant legal and political challenges.*
 - *What will the criterion for 'environment-friendliness' be?* Overall environmental impact (in which case decisions have to be made on the relative weighting given to different parameters), resource-efficiency, energy-efficiency, carbon footprint? Attempts to devise a single-value Packaging Environmental Indicator (PEI) have failed.²

For some key parameters there are no universally valid values. For instance, the results of an assessment will be highly dependent on the source of electricity used to produce the packaging. It cannot be assumed that all packaging is produced from the same average mix of European or even national electricity production, or that a particular packaging production plant can be linked to a particular power plant.

Achievement or non-achievement of *an arbitrarily-decided recycling rate* would certainly be a sub-optimal definition of 'environment-friendliness', since this represents only one environmental impact among many. In any case, recycling rates for particular materials differ from place to place

¹ A list of our members is available on our website at <http://www.europen.be/index.php?action=onderdeel&onderdeel=2&titel=Our+Members>

² *Report from the Commission to the Council and the European Parliament on the implementation of Directive 94/62/EC on packaging and packaging waste and its impact on the environment, as well as on the functioning of the Internal Market, COM(2006) 767 final, 6.12.2006*

and it cannot be determined in advance where and to whom the product will be distributed and sold.

- LCA researchers have to decide on the *system boundaries* (e.g. whether to go back to the resource-efficiency or carbon footprint of energy production in the country or countries where the packaging or packaged product is made, and how far to include impacts in third countries which may be the source of some of the raw materials used).
- If complete data attributable to the packaging or product are not available, researchers may have to *'borrow' data from other countries* where conditions may be different, or they may have to use *out-of-date data* if more recent analysis is not available.
- ***Would a reduced VAT rate apply to the packaging or the packaged product?***
 - *Any marginal differences in the resource-efficiency of the packaging used are unlikely to be great enough to enable one packaged product to be classified as 'environmentally friendly' while a competing product is not*, since packaging typically accounts for no more than 8%-10% of the resources embedded in packaged goods used in the household³. What happens if the packaging is deemed 'environment-friendly' but the packaged product is not, or vice versa?
 - Packaging is a commodity business and there is intense competition between manufacturers. Market pressures ensure that packaging producers adopt a policy of continuous improvement, so *any assessment of relative environmental performance will be out of date as soon as it has been completed*.
 - *The overall environmental impact of a given type of packaging will depend partly on factors outside the control of an individual producer* – the recycling rate achieved, and the resource-efficiency of the various collection, sorting and reprocessing systems used in the country concerned. These factors will also change over time.
 - *The packaging that has the lowest environmental impact (however defined) may not be the most effective at protecting the product*. Differences in product wastage rates are likely to have a much greater environmental impact than differences in the 'environment-friendliness' of different packaging systems.

Thus, if the reduced VAT rate is to apply to the packaging itself, it would be not enough to draw up a list of types of container or wrapper deemed 'environmentally friendly'. Improving the 'environment-friendliness' of the consumer packaging may result in less protection for the product on its way to the retail outlet, unless there is a compensating increase in the transport packaging used. Any assessment of the packaging must therefore take account of the total packaging system, and would have to be done on a case-by-case basis.

 - *Products designed to minimise overall environmental burden might involve the use of more packaging*, for example individually-wrapped concentrated detergent pellets avoid the over-dosing often associated with traditional washing powders.
- ***Environmental impacts may depend much less on the properties of the packaging than on how and where the packaging or packaged product is used.***

³ *Environmental Impact of Products (EIPRO): Analysis of the life cycle environmental impacts related to the final consumption of the EU-25*, European Commission (JRC), May 2006, and various other sources

- The findings of LCAs comparing refillable and non-refillable beverage container systems have usually been inconclusive because the *environmental impacts depend on factors like transport distances between the producer and the point of consumption, the willingness of the consumer to return containers for refilling, the recycling rates for non-refillables and so on.*
- *90% of the carbon footprint of shampoos comes from the hot water consumed when the product is used* – but the amount of hot water used varies from one person to another.
- *If it is not compulsory for Member States to introduce any such reduced VAT rates, there could be an additional distortion if national VAT rates favour products or packaging types produced locally.*
- *In any case, it is questionable as to whether VAT reductions would be fully passed on to the consumer.*

EUROPEN would be pleased to discuss further with Commission officials any of the points raised in this paper.

May 2008