

Five steps to increase heat pump deployment in Europe

The crisis in the Middle East is sending gas and oil energy prices skyrocketing, and this is already leading to higher demand for heat pumps. The heat pump sector can scale up, provided stable growth is ensured by structural and long-term measures. There are already many trained installers as well as other workers in adjacent sectors who could shift to heat pumps.

Likewise, Europe's heat pump manufacturing capacity – which was hugely extended following the surge in demand in 2022 - is significantly underused. Factories could produce several times current market volumes. The key constraint is the conditions needed to unlock this extra capacity.

When demand for heat pumps dropped post-2022, it left companies with excess inventory. This means manufacturers are now reluctant to scale up production without strong and credible signals that demand will materialise in the long term, such as regulatory clarity and tax shifts from electricity.

These five measures can help to rapidly scale up heat pumps:

- 1) **Allow zero VAT:** Change the EU's rules to allow 0% VAT on heat pumps and then implement it nationally. For solar PV, this is already allowed at EU level and is implemented in several countries. Zero VAT should be coupled with other taxation and fiscal incentives to encourage heat pump uptake such as tax write offs.
- 2) **Reduce electricity cost:** Member States should reduce electricity bills, encouraging uptake of heat pumps. This could be done by:
 - Lowering tax on all electricity or just electricity used for heating.
 - Applying a lower VAT rate on electricity than on gas and/or heating oil.
 - Using state resources to fund grid investment to reduce the network charges for consumers.
- 3) **Remove administrative barriers:**
 - Do not make heat pump subsidies dependent on energy efficiency requirements for buildings.
 - Do not restrict heat pump subsidies to certain conditions, models or additional testing, which hampers the EU single market.
 - Remove the need for additional grid or planning permits wherever possible.
- 4) **Speed up fossil fuel phase-out:** Put in place heat pump targets and accelerate regulations to phase out fossil fuels for heating, particularly in new homes. This would give confidence to citizens, businesses and industry to invest in heat pumps in the long run.
- 5) **Make subsidy schemes work:** Ensure subsidy schemes are effective, funded for the long term and simple for consumers to use. Heat pump subsidies are most effective when they address cost effectiveness by giving a small, but certain long-term support and are easy for consumers to use. Schemes that risk becoming too expensive to maintain or are slow or cumbersome for consumers to navigate are ineffective. The negative changes to subsidy schemes in Austria, Poland, France, Italy, Czech Republic last year severely impacted heat pump uptake.

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