METHANOL INSTITUTE POSITION

COUNCIL DIRECTIVE 2003/96/EC RESTRUCTURING THE COMMUNITY FRAMEWORK FOR THE TAXATION OF ENERGY PRODUCTS AND ELECTRICITY

- Shifting from volumetric to energy content-based taxation is an important policy change, which will stimulate investment and corresponding offtake of low carbon and net carbon neutral fuels through a technology neutral approach. The Methanol Institute greatly welcomes the Commission's proposal.
- Introducing fiscal incentives to transition to low carbon and net carbon neutral fuels will make the ETD a key instrument in the drive of the European Union's energy transition of mobility.
- Member States should be encouraged to apply the minimum tax rates proposed by the Commission.
- Taxation of marine fuels should be phased-in over the course of 5 years to allow the fuel supply chain to adapt to the enhanced regulatory landscape.
- Income from taxation under the ETD should be applied to reduce cost of using low carbon and net carbon neutral fuels to consumers to spur development and investment in innovative technologies aimed at further reducing emissions from transport.

The Methanol Institute endorses the Commission's proposal for the revision of the Energy Taxation Directive (ETD). Restructuring taxation to be based on energy content and consumption, represents an effective method to decrease the relative tax burden for low carbon and net carbon neutral fuels. This will do so without increasing the minimum tax rate and corresponding burden on European taxpayers, while maintaining the principle of subsidiarity and proportionality in the European Union. By moving from volumetric excise taxation to an energy content basis, the Commission's proposal effectively provides pricing signals to encourage investment in energy-efficiency and reduced carbon intensity. Moreover, it attains these results in a technology neutral manner, allowing the market to decide which form of alternative energy carriers to use. However, as a key instrument to drive the carbon ambition of the bloc, the ETD should not only present a level playing field but also provide incentives to transition from polluting fossil sources, in conjunction with other Fit for 55 legislative proposals. To ensure effectiveness in reforming the legislative framework to reflect the ambition Green Deal, the Methanol Institute offers the following recommendations:

1. Provide fiscal incentives to transition to low carbon and net carbon neutral fuels

With target dates for ambitious efforts towards carbon reduction and increased integration of renewables into the European power network, it is important to apply energy taxation to facilitate the energy transition. The ranking system proposed by the Commission represents an important step towards considering environmental performance when determining taxation levels. However, considering the limited availability of sustainable alternative fuels in the market today, especially in the marine sector, further reforms are needed to send sufficient investment signals to secure supply of low carbon and net carbon neutral fuels. Thus, the ETD should provide Member States with the option to extend the proposed minimum tax rate for alternative fuels beyond the transitional period of 10 years. Furthermore, to ensure technology neutrality, the contribution of low-carbon and renewable fuels should be recognized in road mobility as well, extending the same tax exemption to fuels complying withthe sustainability criteria of Directive (EU) 2018/2001 in the road mobility segment.

2. Harmonization

The Commission has proposed the abolishment of optional tax schemes and exemptions in the design of Member states taxation systems. The Methanol Institute greatly welcomes the effort, as it is bound to protect the internal market from legal uncertainty for operators and border tourism for various energy products. To the same end and to protect the interests of taxpayers, Member States should be discouraged from applying higher rates than the minimums proposed by the Commission. Furthermore, for effective, harmonized implementation, the ETD fuel taxation categories should be based on carbon intensity as determined by Life-Cycle Assessment produced by verified bodies instead of focusing on feedstock and combustion values. In defining the basis for calculating of GHG emissions of fuels, the directive should refer to the sustainability threshold methodology imposed by Directive (EU) 2018/2001.

3. Ensure operational stability in maritime transport by applying a phase-in approach

While the Methanol Institute fully supports applying energy taxation to marine fuels for intra-EU voyages, it recommends a phase-in approach to allow the fuel supply chain to adapt to the renewed regulatory landscape. A 5-year phase-in of marine fuel taxation, on par with that of aviation, would provide adequate operational stability among vessel owners while coordinating the energy transition of their vessels and allow fuel suppliers to develop their supply and infrastructure in accordance with the foreseeable demand for fuels of reduced carbon intensity. Furthermore, it would serve to identify potential barriers to implementation. Reduced taxation should be granted to vessel owners attaining carbon intensity reduction ahead of the targeted dates.

4. Rebalancing the charge between different energy sources and energy consumers

The removal of indirect incentives for fossil fuels in correlation with increased uptake of low carbon and net carbon neutral fuels guarantees a constant tax revenue stream for Member States, to provide them with the means to carry the cost of energy transition. Member States should be empowered to employ energy taxation revenue towards reducing cost of using renewable and low-carbon fuels to consumers, to spur development and investment in innovative technologies aimed at further reducing emissions from transport.