METHANOL INSTITUTE

FIT FOR 55

FIT FOR 55 POSITION PAPER

The Methanol Institute's view on the restructuring of Europe's regulatory landscape for fuels

SINGAPORE - WASHINGTON - BRUSSELS - BEIJING - DEHLI

MI@METHANOL.ORG | WWW.METHANOL.ORG

INTRODUCTION

In December 2015, policymakers from 175 countries came together in Paris to negotiate a historic treaty that set up a global framework to avoid climate change and limit global warming to 1.5°C. The Paris Agreement is the first universal, legally binding global climate change agreement. Although the EU has taken its commitment seriously, cutting GHG emissions by 23% compared to 1990 levels by 2018, EU policymakers sought to move further, towards carbon neutrality, and to transform the EU into a sustainable and yet competitive economy. Announced by the European Commission in December 2019, the European Green Deal was introduced., committing the European Union to attain carbon neutrality by 2050. This undertaking is designed to reconcile the EU economy with the planet, placing climate policy at the heart of economic growth. Fundamentally, the plan involves reviewing every law and regulation to align them with climate goals.

The Fit for 55 package, proposed by the Commission on July 14th, 2021 aims to do precisely that. A suite of 13 legislative initiatives across various sectors intended to fundamentally overhaul the block's climate policy framework to deliver a GHG reduction of 55% by 2030 and climate neutrality by 2050. The various policy instruments orchestrated under Fit for 55, such as carbon pricing of emissions from transport, drastic alterations to fuel taxation, mandated deployment of fuel infrastructure, and targeted integration of renewables into European mobility, will shape the regulatory framework for fuel and energy for decades to come.

As a clean-burning fuel and chemical with a demonstrated path to carbon neutrality, methanol is poised to play a key role in Europe's energy transition. This document outlines how key Fit for 55 policies in the area of transportation may be amended to further enable the EU to meet its climate targets, underscoring the role of methanol in the energy transition. It offers the Methanol Institute's perspective and policy recommendations, facilitating the European Union's remarkable transformational change toward carbon neutrality.

The files covered in this document are:

- Renewable Energy Directive
- FuelEU Maritime and ETS Maritime
- Alternative Fuel Infrastructure Directive
- Energy Taxation Directive
- CO_2 Emission Standards for Cars and Vans

RENEWABLE ENERGY DIRECTIVE

Regarding:

1. Amending Directive (EU) 2018/2001 on the promotion of the use of energy from renewable sources and, as a consequence, Regulation (EU) 2018/1999 on the Governance of the Energy Union and Climate Action and Directive 98/70/EC relating to the quality of petrol and diesel fuels.

2. Delegated regulation on GHG accounting of renewable electricity for the production of Renewable Fuels of Non-Biological Origin (RFNBO).

Methanol Institute Position

- We fully endorse the increased climate ambition reflected by the 40% final energy consumption target, aligning the Renewable Energy Directive with other legislation focused towards achieving the CTP's 55% net reduction target.
- To ensure that the policy instrument's implementation is consistent with the conditions of the single market and displays coherence with regards to climate policies across different sectors, the Directive should take up *binding* national targets instead of *voluntary* contributions from member states.
- While the Methanol Institute wholly supports the introduction of a dedicated target for RFNBOs, we urge the Commission to consider a higher target of 5% and the adoption of a phase-in of the provision laid out in Article 4 of the Commission delegated regulation on GHG accounting of RFNBO's to ensure the realistic integration of those fuels in line with the target.
- In addition to the provision's clarifying the role of RFNBOs in the energy transition, RFNBOs should be counted equally towards the now 13% GHG reduction target, when used in transport applications. The targeted contribution should be 5%, fully recognizing the role of low carbon and renewable fuels in the energy transition of mobility.
- We have serious reservations about the practical implications associated with the proposed 50% RFNBO industry target and suggest an alternative approach; setting a quota for circular content of end products as part of a regulation concerning the Circular economy.

- The contribution of fuels produced from captured carbon emissions irrespective of carbon source should be acknowledged.
- The Directive should mutually promote electromobility and uptake of renewable fuels on an LCA basis.
- The Directive should enable higher biodiesel blends and permit increased use of conventional feedstocks as long as sustainability criteria are met.
- The Directive should promote the integration of Flex Fuel Vehicles, recognizing the plurality of means available to attain climate progress and facilitate the energy transition of mobility.

The Methanol Institute expresses its full support of significantly increasing the climate ambition as per the Climate Target Plan's 55% net reduction target presented under the Fit for 55 packages. As a widely available, large platform clean fuel and chemical, methanol is poised to play a key role in the energy transition of both sectors moving forward. Amending the Renewable Energy Directive to increase the instrument's climate ambition represents a pivotal action to streamline the Union's vision moving forward and provide investors with reliable signals upon which to base their actions. We offer the following policy recommendations, aimed at facilitating the directive's objectives and advance its implementation.

1. Harmonized implementation for fulfillment of climate ambition

Increasing the binding target for final energy consumption from renewable sources to the higher value of 40% represents a reasonable, yet ambitious way moving forward. Promoting a trajectory of doubling the use of renewable energy in the EU before 2030 sends a clear signal to national governments and industry of the EU's commitment to addressing climate change. However, as the key policy instrument to drive growth of the share of renewable energy in the European Union, it is important that the policies and measures outlined under the directive be implemented consistently across the EU if it is to deliver on the climate target. Thus, *the Directive should abandon national **voluntary** contributions and establish **binding** targets for Member states, providing adequate market certainty, predictability, and reliability*. Furthermore, to ensure consistency and avoid market fragmentation, the policy instruments chosen by member states must be harmonized to create predictable and stable market conditions to facilitate the energy transition. Rewarding the use of renewables in transport through homogenous policy intervention is poised to drive investment in renewable fuels, ensuring the necessary scale-up of their production. Finally, it is important that the Renewable Energy Directive and other legislation setting the regulatory levers for the EU to achieve its climate ambition be consistent with other regulations and standards. We encourage policymakers to recognize the need to weigh the environmental performance of energy carriers against the same criteria, lifecycle analysis, and align policies across the entire value chain.

2. Introduce sufficient and intelligible targets for Renewable Fuels of Non-Biological Origin (RFNBOs)

Renewable fuels of non-biological origin are poised to serve a key role in the energy transition of both transport and industry. The measures taken under the currently proposed amending directive are relevant and necessary to stimulate the uptake of RFNBOs across those sectors. However, the two mandates substantially differ in their set up. We encourage the adoption of a sub-target for RFNBOs but suggest the target to be introduced before 2030, to stimulate immediate investment. Furthermore, we recommend an increase of the 2.6% mandate in transport up to 5%. This would serve to fulfill the target for 80 GW installed electrolyzer capacity in 2030-40 described under the European Hydrogen Strategy. An introduction of an interim 2.6% target for the share of RFNBOs in transport by 2027 would serve to effectively spur the market ramp-up of RFNBOs. The RFNBO mandate in transport still offers flexibility to the obligated parties in the sense that they may choose between different feedstocks and processes for RFNBO production. Also, a value for the use of RFNBO's in the end market is created, allowing for the costs to be borne by the entire supply and production chain.

In the context of RFNBOs in industry, this is an entirely different situation. Limited selected industries are faced with a mandate that prescribes the most expensive technology (currently) available (renewable hydrogen production following the strict RED 2 production requirements) without creating value for the products in end markets. Use of other technologies and or circular feedstock (gasification of waste biomass or waste carbon) by the affected industries is therefore depreciated. Costs for the production of green hydrogen will not be limited, but will be transferred onto the targeted industries, including the methanol industry. This not only means a distortion of the level playing field of methanol producers inside and outside the EU, but also a distortion of the level playing field of methanol as a product versus alternative products (for example Maritime fuels) that do not see themselves faced with this significant cost-increase but operate in the same markets. Instead of a dedicated target for RFNBOs as feedstock for production of industrial products under RED, it should be incorporated into policy measures aimed at promoting circular products.

3. Ensure predictability and fairness in RFNBO production in the timely adoption of a delegated act

The scale-up and market uptake of RFNBOs mustn't face impeding restrictions at the same time it is being incentivized. *In the absence of provision for a more workable approach to applying the principle of additionality and temporal correlation, production of RFNBOs within the EU border is next to impossible. The Methanol Institute recommends to the Commission to follow the initially proposed approach, which was to introduce the principle of additionality in phases, tying accomplished share of renewable electricity in each time period to the requirement of proving additionality for RFNBO production*. This way, the responsibility for providing renewable electricity would accurately fall on the Member States, not producers of RFNBOs. *To encourage first movers and secure investment to effectively bootstrap the industry of RFNBO production into existence, RFNBO producers should be exempted from proving additionality until 2035*. Moreover, while maintaining the idea that additional renewable electricity consumption must be covered by additional renewable capacity, *the Methanol Institute recommends acceptance of guarantees of origin alongside power purchase agreements to prove renewable character of the electricity used for RFNBO production. Guarantees of origin allowing a time span of 1 month to correlate with electricity generation and fuel production represent a pragmatic and realistic approach, capable of accommodating the requirement of temporal correlation*. The 1-month interval is the lowest conceivable unit of time for aligning fuel and energy production. *Furthermore, a mechanism to account for RFNBO capacity to address large-scale curtailment of intermittently generated renewable energy to significantly improve the utilization of renewable energy assets and support the integration of renewables into the EU power network. This could well be established, simply by allowing operators of electrolysis to use surplus electricity for RFNBO production*

4. Apply the same provisions for calculating GHG savings of all energy carriers

The legislation should consider the unbalanced policies facing fuels produced from electricity on one hand and the direct use of electricity as a fuel on the other. This is not to challenge the concept of direct use of renewable electricity where most efficient, but to point out that the practical implementation of the additionality principal criteria as proposed by the Commission does not apply to direct electrification and thus presents an unlevel-playing field. It is absolutely clear that battery electric vehicles will contribute to the use of additional fossil energy in the absence of similar rules, due to fluctuations in renewable energy capacity and grid congestions. To mitigate this imbalance, which is not only highly discriminatory but also pernicious to market uptake of RFNBOs, the same fossil fuel comparator as set out in Annex V of the RED2 should apply when calculating GHG savings for RFNBOs and electricity directly used in transport applications. *We strongly recommend against applying different benchmarks for the calculation of GHG savings of renewable fuels and electricity*.

5. Acknowledge contribution of Carbon Capture and Utilization irrespective of carbon source

The Methanol Institute recommends that the delegated regulation referred to in Article 29a of the Commission's proposal, recognizes all sources of captured carbon feedstock for fuel production as contributing towards GHG reduction of transport. The capture and re-use of carbon dioxide emitted from industrial facilities to displace fossil fuel use clearly represents a net carbon reduction. Capturing carbon at the point of emissions enables competitiveness between advanced fuels, RFNBOs, and fossil fuels, facilitating the energy transition of mobility as well as the decarbonization of industries that will remain important to human societies for decades to come. Furthermore, the Directive should ensure that Member States all employ the same method of providing evidence of sustainability compliance of fuels on an LCA basis, through existing EU approved sustainability schemes (e.g. ISCC, REDCert). The harmonized verification of fuel sustainability and traceability when produced from biomass being processed with fossil fuels in a common process should be included under the delegated regulation and should be the authority of the EU certified voluntary schemes.

6. Recognize the broader role of alternative fuels in the energy transition of mobility

The Methanol Institute supports the Commission's proposal to allow higher blending of bio-based components in diesel to accelerate the energy transition of mobility. Biofuel integration represents a key development towards achieving the Directives targets, considering the high dependency on diesel across the European Union in modes of transport not compatible with direct electrification or other more sustainable alternatives. Thus, *the Methanol Institute upholds that these climate benefits can be attained through increasing the share of biodiesel blending from B7 to B20 or higher in accordance with EN 16709. In order to achieve relevant market penetration of higher biodiesel blends within the next 5 to 10 years, the use of higher shares of conventional feedstocks or Annex IX B feedstocks should be permitted, provided they meet the EU sustainability criteria*. Methanol is increasingly used as diesel substitute in shipping (e.g. inland waterways, fishing), road (e.g. trucks and buses, rail and non-road mobility (e.g. farming, construction). It also represents an important, practical hydrogen carrier for fuel cells and hydrogen combustion engines. To facilitate the integration of clean fuels into road mobility, incentives should be introduced for the deployment of Flex Fuel Vehicles, running on a blend of gasoline and alcohol, such as A20 (a blend of 15% methanol, 5% ethanol, and 80% petrol) and M85 (85% methanol and 15% petrol), to deliver immediate climate benefits utilizing existing infrastructure.

FUELEU MARITIME AND ETS MARITIME

Regarding:

1. The FuelEU Maritime Regulation and the extension of the EU ETS (Emissions Trading System) to mobility.

Methanol Institute Position

- Adopting a well-to-wake approach in measuring emissions from maritime transport under FuelEU maritime is pivotal to the development of true carbon neutrality. To ensure interoperability between other Fit for 55 proposals and regulations formed on the international level, the well-to-wake/LCA methodology imposed by FuelEU maritime should be reflected in the EU ETS and EU taxonomy for measuring emissions from maritime activities. The IMO should be encouraged to take up a well-to-wake approach as implemented under the FuelEU Maritime.
- The pooling mechanism introduced under FuelEU Maritime represents an important first-mover and extra-compliance benefit, serving as a critical incentive to facilitate the integration of carbon-neutral vessels in the short term.
- The ETS and FuelEU Maritime should expressly state that GHG accounting be based on CO_2eq, not solely on CO_2 levels – considering all major greenhouse gases.
- The legislation should apply a dual-term Global Warming Potential (GWP20-100). To better account for short-lived climate pollutants in marine transport, the GWP should reflect a shorter timeframe of 20 years. For GHG with a longer lifetime, a GWP of 100 years should be applied.
- The Methanol Institute expresses its general support for the Commission's proposal to extend the Emissions Trade system (ETS) to mobility, promoting a shift towards a cleaner future for Europe by increasing GHG reduction from covered sectors to 61% by 2030. Overall, supply-side mechanisms aimed at spurring the uptake of renewable fuels should be emphasized over instruments to make fossil fuels more expensive to avoid shifting the economic burden of the energy transition to general citizens.

- The ETS system should calculate the GHG performance of fuels based on a well-to-wake approach and apply a CO_2eq to reflect the complete environmental profile of fuels, in alignment with the provisions of FuelEU Maritime.
- The Methanol Institute recommends a phase-in approach regarding applying ETS to maritime transport within the European Union to allow the fuel supply chain to react to policy and locate potential policy bottlenecks to be amended as implementation unfolds.
- The Methanol Institute recommends the incremental increase of the FuelEU Maritime GHG reduction targets beyond 2030, accelerating at a quicker pace to direct investment towards alternative fuels with transitional pathways towards carbon neutrality. The final reduction target in 2050 should be 100% following the objective of the Climate Target Plan (CTP) and the European Green Deal (EGD).
- FuelEU Maritime should support the use of fuels sourced from biomass as long as they deliver climate benefits and do not cause a displacement effect on previous agricultural land management and practices.

The extension of the Emission Trade System (ETS) into mobility proposed under the set of legislative proposals collectively labeled the Fit for 55 packages is central to the drive towards carbon neutrality. As a carbon pricing mechanism, it is pivotal that the revision yields prices on carbon that prove sufficient to trigger a systemic shift towards renewable and low carbon fuels. Considering provisions of other instruments aimed at addressing the energy transition under the Fit for 55 packages, the price of carbon under ETS, in the case of road transport and building and shipping and industry, should be moderate and in line with the EU governance principle of proportionality. Furthermore, the ETS and FuelEU Maritime initiative should collectively aim to address the most significant challenge to the decarbonization of the maritime sector, which is the lack of clear vision and corresponding support required to ensure uptake of sustainable marine fuels. To facilitate increased supply and use of fuels in addition to the instruments already introduced under the Commission's proposals, the Methanol Institute offers the following recommendations:

1. Life Cycle Assessment (LCA) approach to be reflected in other policy instruments under Fit for 55

We strongly endorse adopting a Well-to-Wake accounting approach to measure maritime emissions under the FuelEU Maritime initiative, as it gives a complete picture of the environmental profile of fuels and avoids a shift of emissions to upstream production processes. However, to ensure consistency and significant enforcement challenges, it is essential that all instruments pertaining to measuring GHG emissions of fuels be based on the same methodology and principles.

The Emission Trade System should apply the same method in determining emissions from mobility. The methodology has already been produced under FuelEU Maritime with reference to the average GHG values of the Renewable Energy Directive. The EU Taxonomy measures only funnel emissions from maritime activities from 2026. The EU MRV, which will monitor ETS's extension to maritime transport, does not yet operate under the same LCA approach as the FuelEU Maritime. The instruments must be fully harmonized to reflect an intelligible market environment truly supportive of alternative fuel uptake. Furthermore, to better consider short-lived climate pollutants in maritime transport, such as methane, FuelEU Maritime should impose a dual term Global Warming Potential (GWP), with a 20-year timeframe (GWP20) for short-lived pollutants and GWP100 for GHG with a longer lifetime.

2. Phase-in mechanism to ensure a stable market environment for fuel suppliers and vessel owners

While the Methanol Institute fully supports the extension of ETS grounded on LCA and CO2eq to maritime mobility, we propose a phase-in approach to help overcome industry resistance to change and allows lessons learned in the early stages to be incorporated into the overall policy moving forward. Furthermore, the fuel supply development incentivized under the proposed legislation is limited today and will take several years to develop. Thus, we suggest a 5-year phase-in of ETS to marine mobility starting from 2023. Furthermore, and to the same end, the complexity of regulating extra EU voyages warrants a degree of caution. A holistic problem, climate change impacts the entire world and would better be fought through collective action. However, in the absence of effective leadership on behalf of the EU, it is unlikely that the ambition and climate action of the IMO would be sufficient. ETS with a phase-in would encourage and enable developments at the IMO level to materialize in lieu of inaction. Should the opportunity to impose a global fuel levy arise within the phase-in period, policymakers should be empowered to abandon the extension of ETS to maritime transport in favor of a more effective instrument with a more global encompassing scope.

3. Accelerate GHG reduction target in maritime transport beyond 2030

The transition of maritime transport towards renewable and low carbon fuels requires targeted investment across the value chain in fuel infrastructure, bunker procurement, vessel design, and operation. The carbon price resulting from the extension of ETS to maritime transport will by no means represent an investment signal strong enough to supply the sector with sufficient low carbon and net carbon-neutral fuel to carry out the energy transition, neither should it, as such would incur too high a social cost. The Methanol Institute commends the GHG intensity reduction target proposed by the Commission. However, we recommend a steeper expansion of targets after the initial phase-in period of 6% GHG reduction by 2030. Further, to provide a clear pathway towards carbon neutrality, the Commission's current proposal should be amended to recommend a trajectory closing at net carbon neutrality by 2050. To that end, the 2035 target should be increased to 25%, 70% in 2040, 90% in 2045, and the final reduction target in 2050 should be 100%, following the objective of the Climate Target Plan (CTP) and the European Green Deal (EGD).

4. Remove provision impeding synthetic fuels sourced from captured biogenic CO_2

The LCA methodology described in the FuelEU Maritime proposal should be amended to remove any regulatory barriers for fuels sourced from biomass as long as they deliver the climate benefits targeted under the legislation and do not cause a displacement effect on previous agricultural land management and practices. Fuels sourced from carbon dioxide, biological or non-biological, should be eligible under FuelEU Maritime in correlation with other EU policies about fuels and sustainability.

ALTERNATIVE FUEL INFRASTRUCTURE DIRECTIVE

Regarding:

1. Regulation of the european parliament and of the council on the deployment of alternative fuels infrastructure, and repealing Directive 2014/94/EU of the European Parliament and of the Council.

Methanol Institute Position

- The Alternative Fuel Infrastructure Regulation should be refined to reflect the plurality of solutions capable of delivering the climate benefits necessary to attain the Union's climate ambition. The Methanol Institute encourages technology neutral and fuel agnostic policymaking, to avoid creating artificial barriers for entry of renewable, low carbon, and net carbon neutral alternative fuels into the EU fuel mix.
- While existing infrastructure requires only minor adaptation to accommodate methanol and other renewable fuels, policy should still support deployment of such infrastructure, accelerating and ensuring access to fuels capable of delivering immediate climate benefits.
- The Methanol Institute proposes that the Alternative Fuel Infrastructure Regulation should:

  - contain targets for deployment of infrastructure for renewable fuels in maritime transport;
  - Include renewable fuels under the deployment plan for alternative fuels in inland-waterways; and
  - Add targets for deployment of infrastructure for renewable fuels in road transport.

The framework of measures for the deployment of infrastructure of alternative fuels within the European Union set up by the Alternative Fuel Infrastructure Regulation has the potential to stimulate the integration of renewable, low carbon, and net carbon neutral fuels into the fuel mix, addressing the significant environmental impact of transport. In the name of supporting the increased deployment of alternative fuel infrastructure, the Commission has chosen to grant preferential treatment to certain specific energy carriers and in doing so effectively selects winners from the outset. Instead of picking the means by which to attain progress, policymakers should encourage innovation and initiative by placing emphasis on the objective itself, which isto ensure access to energy carriers addressing the threat of climate change. The Alternative Fuel Infrastructure Regulation in its current format, has significant gaps, prioritizing some fuels over others creating artificial barriers for entry of alternative fuels into the market. While the Methanol Institute supports the spirit of the Regulation, it suggests it be refined to reflect the plurality of solutions capable of delivering the necessary climate benefits to attain the Union's climate ambition. To that end, the Methanol Institute proposes the following amendments:

1. Add targets for deployment of infrastructure for renewable fuels in maritime transport

Major trading ports around the continent need facilities to store and supply green fuels to make low carbon and carbon neutral vessels logistically viable. In accordance with the long-term objective of climate neutrality of the European Union, the Alternative Fuel Infrastructure Regulation must mandate the deployment of bunker and fuel supply infrastructure for fuels that enable a gradual transition towards carbon neutrality. As Article 11 establishes a clear mandate for LNG refueling points in maritime TEN-T ports and requires Member States to identify relevant ports through their national policy frameworks, so should the Regulation include an Article on infrastructure for renewable fuels such as methanol. As an easy-to-handle, liquid fuel compatible with most engine types, methanol is poised to occupy a prominent role in the energy transition of maritime transport. With regards to infrastructure, renewable liquid fuels require only minor, low-cost, modifications to existing bunkering infrastructure and fuel supply systems, such as storage tanks, pipelines, fuel pumps, and bunkering barges, unlike fuels which may require refrigeration and high-pressure storage. As large volumes of methanol intended for chemical applications are already stored in multiple ports, mandated deployment of fuel infrastructure would comprehensively facilitate methanol integration into maritime transport. Correspondingly a labeling system for compatibility of fuel infrastructure with alternative fuels should be put in place. In setting a target for deployment of infrastructure for renewable fuels in ports, the Commission would stimulate adaptation of existing infrastructure to the handling of fuels which may deliver immediate climate and local air quality benefits.

2. Include renewable fuels under the deployment plan for alternative fuels in inland

While preferential treatment is granted to Liquified Natural Gas (LNG) in maritime transport, shore-side electricity supply is favored for inland-waterways under AFIR. As Articles 9 and 10 of the Regulation set out provisions to ensure installation of inland-waterways vessels, so should similar provisions be established for the bunkering of renewable fuels. With adequate policy support, such fuels are bound to compliment direct electrification and accelerate the energy transition of inland waterway transport, while simultaneously addressing air quality issues in populated areas in which smaller vessels of inland waterways often operate. In fact, vessels can have a longer lifetime while being compliant by undergoing minor retrofitting to be fueled by methanol while electrification requires much more CAPEX for retrofits. Mandated deployment of methanol compatible infrastructure would thus accelerate the energy transition of inland-waterways, representing a cost-effective alternative to direct electrification in the maritime segment, capable of initiating a trajectory towards carbon neutrality. Finally, the Regulation should abandon the definition of certain energy carriers as "zero-emission" as their upstream emissions should be considered to the same extent as other fuels. The "zero-emission" category serves solely to create false impressions of climate progress and potentially shunt fuels such as renewable methanol capable of delivering significant climate benefits. The Methanol Institute recommends to that end and for the sake of consistency between other Fit for 55 legislative files, to remove references to "zero-emission" and instead refer to Advanced biofuels and Renewable fuels of non-biological origin, and the use of LCA guidelines.

3. Add targets for deployment of infrastructure for renewable fuels in road transport

The Regulation should include targets for refueling infrastructure of renewble fuels specifically aimed at heavy-duty vehicles and road transport vehicles. Methanol fuel cell technology systems or high blends of alcohol in dual fuel engines represent a realistic path to introduce low carbon and net carbon neutral solutions for the heavy-duty segment. In fact, AFIR's objective of promoting interoperability and accessibility for infrastructure may well be facilitated by methanol as a fuel for combustion engines, fuel cell cars, and battery EVs. Mandated deployment of refueling infrastructure would facilitate the market penetration of heavy-duty vehicles fueledwith sustainable alternative fuels and expand the energy transition of transport to the heavy-duty segment. Establishing dedicated fuel infrastructure would represent minimal investment for fuel suppliers as equipment is largely compatible with that of existing gasoline and diesel distribution, storage, and dispensing equipment.

ENERGY TAXATION DIRECTIVE

Regarding:

1. Council directive 2003/96/EC restructuring the community framework for the taxation of energy products and electricity.

Methanol Institute Position

- 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.

CO_2 EMISSION STANDARDS FOR CARS AND VANS

Regarding:

1. Amendment of the Regulation 2019/631 setting CO_2 emission standards for cars & vans.

Methanol Institute Position

- We support the EC's assessment that significant policy action is required to attain climate neutrality in the EU by 2050, but underscore that policy must be technology neutral while enabling the contributions of a wide range of approaches to that end.
- The Methanol Institute appeals to policymakers to recognize the necessary contributions of renewable, low carbon, and net carbon neutral fuels in the energy transition of all mobility segments. We support an alternative to the provisions of the proposed emission standards, found in the voluntary crediting scheme for renewable and low carbon fuels described in section 1 below.
- We recommend that all energy carriers be assessed on basis of their complete environmental profile on the principle that energy carriers are only as clean as their upstream feedstock supply.
- Policymakers should avoid elevating one technology over another for the sake of risk mitigation, consumer-choice, competitiveness, and innovation drive. Climate progress may well be attained via a wide range of technology solutions, rather than solely relying on electric powertrains.

The Methanol Institute agrees with European Commission's assessment that in order to achieve the European Green Deal's objective of achieving climate neutrality in the EU by 2050, significant policy action must be undertaken in the passenger vehicle segment. The contribution of renewable, low carbon and net carbon neutral fuels, as recognized under the revision of the Renewable Energy Directive, will be instrumental to attaining the climate progress necessary.

The proposed CO_2 emission standards for cars and vans represent a de-facto ban on new sales of cars equipped with internal combustion engines by 2035 and in doing so, eliminating the contribution of renewable and low carbon fuels towards attaining the bloc's climate objectives. The monumental challenge of addressing climate change requires the applications of all solutions capable of delivering true climate benefits. To achieve the EU climate targets, mobility must transition in a structured manner from fossil fuels and towards sustainable energy carriers. Road transport represents one of the largest contributors of GHG emissions. The internal combustion engine is fully capable of becoming climate-neutral, with emissions solely dependent on the environmental performance of the energy carrier it combusts. Banning the combustion engine, a technology which enables the use of renewable fuels through existing infrastructure, not only represents favoritism towards one solution competing in the market but is also highly counterproductive to reducing emissions. The CO_2 emission standards as proposed by the Commission would serve to eliminate affordable, low-carbon options for consumers and businesses across the bloc and leave older vehicles on the road until and toward 2050.

1. Practice technology-neutrality

The EC proposal presents the electric drivetrain as the sole solution to the challenge of transitioning towards sustainability mobility in the passenger vehicle segment. By offering no alternatives towards attaining climate progress, the proposal does nothing to prepare or lessen the effects of potential threats facing the massive roll-out of direct electrification across the bloc. Such efforts represent an undertaking that requires not only the complete replacement of the entire vehicle fleet and its infrastructure, but also mandates the use of solely one energy carrier which when examined on basis of LCA delivers only meager climate benefits in the near term. The Methanol Institute recommends that policymakers take steps to mitigate the risk of choosing but one energy carrier to carry out the energy transition of the cars and vans segment by allowing the internal combustion engine to persist and in doing so practice true technology neutrality.

Furthermore, policies should reflect a results-oriented approach, providing clarity and guidance in relations to clearly defined objectives. In the interest of investor certainty and innovation stimulation, MI appeals to the EU to practice technology and fuel neutrality by emphasizing policy outcomes rather than selecting specific routes to achieve said outcomes. It is fundamental to recognize the importance of all sustainable fuels in reducing emissions in transport. Enabling the wide-ranging emissions reduction technologies available today through policy would serve the purpose of reducing road transport sector emissions.

2. Assess the carbon footprint of a vehicles on basis of its entire life cycle

Emissions from all vehicles should be regulated on basis of environmental performance as determined by life-cycle assessment (LCA). The CO_2 emission standards proposed include the continued labelling of electric vehicles as clean, despite the well-known fact that EVs are only as clean as their power supply. Under the approach maintained in the Commission's proposal, only a limited part of the vehicle's lifecycle is factored into GHG calculations. Upstream emissions, associated with the provision of the power as well as the vehicle´s production is fundamentally ignored under the policy. The Methanol Institute appeals to policymakers to make decisionsconsidering the entire environmental performance of fuels and vehicles as determined by LCA.

3. Recognize the contribution of renewable and low carbon fuels by implementing a voluntary crediting system

In order to make its necessary contribution to achieving EU climate targets, mobility must transition as quickly as possible to sustainable energy carriers and solutions offering significant GHG reduction. The transport sector, which is one of the largest contributors to GHG emissions, would benefit from policies applying a multifaceted approach aimed at delivering significant emission reduction. For effective emission reduction at as low abatement cost as possible, the roll-out of e-mobility must be complimented with the contribution of renewable and low-carbon fuels in road transport.

The Methanol Institute recommends the introduction of a voluntary crediting system for renewable fuels, which has been developed on behalf of the German Ministry of Economics. We urge the European Parliament and the member states in the European Council to incorporate the crediting system for renewable fuels in the amended Regulation setting CO_2 emission standards for cars and vans. The crediting system would present a method by which to set clear CO_2 emission standards in the segment while simultaneously recognizing the contribution ofrenewable and low-carbon fuels to attain carbon reduction in an efficient and effective manner. At the same time, the system has been developed to represent an additional and voluntary climate-effective option for car manufacturers to comply with the CO_2 Emission Standards, supporting the uptake of renewable and low carbon fuels.

METHANOL INSTITUTE

THE METHANOL INSTITUTE (MI)

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Serves as the global trade association for the methanol industry representing the world's leading methanol producers, distributors and technology companies, the mission of the Methanol Institute (MI) is to serve and provide cost-effective value to its membership from our offices in Singapore, Washington, D.C., Brussels, Beijing and Delhi.

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