

## FuelsEurope's position paper on Review of the Energy Taxation Directive

**Brussels, 05 October 2020**

### Summary and key messages

- 1.1 A reform of fuel and energy taxation is supported as enabler for very low or zero taxation for low carbon fuels and energies and to ensure a level playing field for all energy sources used.
- 1.2 A need to transform the road transport volume-based excise taxation into a taxation base consisting of primarily, or wholly based on the emitted combustion CO<sub>2</sub>.
- 1.3 If the Commission desires to tax aviation and maritime fuels, coherence with road fuels and energy taxation should be ensured.
- 1.4 Heating fuels and energies taxation should be made coherent with transport fuel and energy taxation but with special emphasis related to regional specificities as well as social considerations.
- 1.5 The review is an opportunity to harmonise the way in which several clauses related to the use of fuels and energy in manufacturing processes are handled.

### 1.1 FuelsEurope supports aligning the taxation of energy products and electricity with EU energy and climate objectives

FuelsEurope supports the Green Deal's ambition for climate neutrality in 2050 and will work with the EU institutions, Member States, and stakeholders, to help create the essential enabling policy framework. The Green Deal is clearly work in progress and will require careful societal consultation and impact assessment. FuelsEurope's Vision 2050<sup>1</sup> shows that several key technologies could potentially be deployed across Europe to deliver low-carbon liquid fuels (including net-zero carbon liquid fuels) bringing benefits both to the climate and to the economy, and making a critical contribution to the EU's 2050 climate neutrality objective. Key regulatory measures are needed to help the development and deployment of these low-carbon liquid fuels, one of which relates to the taxation of fuels and energies.

FuelsEurope supports a reform of fuel and energy taxation which should enable very low or zero taxation for low-carbon fuels. Taxation can be an important tool to provide strong market signals for the development of low-carbon fuels. Currently all liquid fuels for a certain purpose or a specific sector are taxed at a similar level regardless of carbon intensity. Zero or very low tax for low-carbon liquid fuels would facilitate fuel pricing that is both socially acceptable, and able to contribute to a business case for investments.

FuelsEurope understands that taxation rates could be different for fuels and energies as function of their use as transport, heating or industrial energy source but is of the opinion that the taxation calculation base should be uniform for all their uses. In the heating sector, taxation rates could be lower based on social considerations.

<sup>1</sup> <https://www.fuelseurope.eu/vision-2050>

## 1.2 FuelsEurope supports a reform of the Energy Taxation Directive as a mean to support development and deployment of low carbon fuels

FuelsEurope supports a reform of the ETD as an important mean to provide additional support to the development and deployment of low-carbon fuels. As such, it helps to contribute to the energy and climate objectives of the EU. We are of the opinion that:

- The energy taxation should shift away from a volume-based taxation towards a primarily, or wholly combustion CO<sub>2</sub>-based taxation;
- The Energy Taxation Directive review should strive for an EU-harmonised approach and provide a long term visibility on the applied taxation rates;
- The taxation should concentrate on the CO<sub>2</sub> emissions and not on all the greenhouse gas components to try to keep the legislation simple and effective;
- Sustainability criteria should be based on the Renewables Energy Directive<sup>2</sup>. The energy taxation directive review will need to evaluate on how to adequately promote greenhouse gas emission reduction via several routes, including via alternative fuels. Within the list of indicated alternative fuels, we would like to see that all sustainable biofuels are considered in the energy taxation directive review and not as indicated in the inception impact assessment only the advanced biofuels;
- The framework must ensure that national tax systems reflect the above principles, and in particular that across the EU national tax levels of specific energy carriers follow the ratios between the minimum tax levels as set by the ETD.

## 1.3 FuelsEurope position on the review of the road transport taxation under the Energy Taxation Directive

- Road transport fuels are a crucial lead market for the timely development and scale-up of low-carbon technologies. Since this sector has already a well-developed excise taxation base, it is also a lead market to initiate the shift from an excise volume-based taxation to a primarily, or wholly combustion CO<sub>2</sub>-based taxation.
- The CO<sub>2</sub>-based taxation should be determined based on the combustion carbon intensity of the fuel emitted at the point of final consumption. The point of consumption is considered as the point where currently excise tax becomes due. This is at the moment products are removed from the EU excise warehouse system and are supplied to a non-exempt destination (such as a retail station), which is the point of supply to the market, or any point of obligation that the Member State selects as being representative for the final consumption
- Sustainable low-carbon fuels should be exempted from the combustion-CO<sub>2</sub> based taxation, creating as such the ability to deliver a contribution to a business case for investments.

## 1.4 FuelsEurope position on the review of the aviation taxation under the Energy Taxation Directive

- If the European Commission desires to introduce aviation fuel taxation, then FuelsEurope thinks that following elements should be taken into consideration:
  - The aviation fuel taxation should only be applied for all intra-EU flights with a review to include international aviation at a later stage
  - The aviation fuel taxation should be coherent with the taxation base of road transport fuel and energy taxation;

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<sup>2</sup> Directive (EU) 2018/2001 of 11 December 2018 on the promotion of the use of energy from renewable sources (recast)

- The mandatory exemption on taxation should be changed into a mandatory application. Exemptions should still be allowed but in exceptional cases and after formal approval by the Commission<sup>3</sup>.
- FuelsEurope is of the opinion that aviation ticket taxation based on CO<sub>2</sub> is not an adequate way to provide incentives for the development and deployment of the sustainable aviation fuels. Ticket based-taxation is not addressing the main players in the delivery or use of sustainable aviation fuels, is not necessarily proportional to the CO<sub>2</sub>-emissions and has a much bigger impact on low cost fares compared to higher cost fares.

### 1.5 FuelsEurope position on the review of the maritime fuel taxation under the Energy Taxation Directive

- If the European Commission desires to introduce maritime fuel taxation, then FuelsEurope thinks that following elements should be taken into consideration:
  - The maritime fuel taxation should be coherent with the taxation base of road transport fuel and energy;
  - The mandatory exemption of taxation of maritime fuels in Community waters should be changed into a mandatory application. Exemptions should still be allowed in exceptional cases and after formal approval by the Commission<sup>4</sup>;
  - Particular measures should be foreseen to avoid bunkering outside the EU as mean to circumvent EU marine fuel taxation. The risk for bunkering is much higher for maritime transport compared to the risk of tankering for aviation due the flexibility in navigation for maritime transport.

### 1.6 FuelsEurope position on the review of the taxation of heating energy sources under the Energy Taxation Directive

- If the European Commission desires to review the taxation on heating fuels and energies then FuelsEurope thinks that following elements should be taken into consideration:
  - The taxation on heating fuels and energies should be coherent with the taxation base of road transport fuel and energy;
  - Exemptions or use of lower taxation rates should be allowed when due to specific regional conditions there is a lack in the availability of alternative fuels/energies for heating purposes or for social considerations.

### 1.7 FuelsEurope position on the review of the taxation related to fuels and energy used in the manufacturing processes under the Energy Taxation Directive

- FuelsEurope welcomes the review of the ETD as an opportunity to harmonise the way in which several clauses are handled under the current ETD. They lead to distortion of competition among companies located in different Member States and contribute to the fragmentation of the internal market.
- FuelsEurope is of the opinion that in order to avoid double taxation, fuels and/or energies used in the manufacturing and in the logistics chain, should be exempted from combustion-CO<sub>2</sub> based taxation when used as energy source. Therefore we would like to maintain the provisions provided under article 2, article 21(3) and article 17 of the ETD as unchanged, with following recommendations:
  - Introduction of mandatory exemptions for both the produced and purchased energy under article 21 (3), without the possibility to tax those upon Member States decision;

<sup>3</sup> The Commission's approval of the exemption should also clear all issues related to state aid.

<sup>4</sup> Idem to footnote 5

- Maintaining the exemptions for the energy intensive businesses but considering the revision of the eligibility criteria (article 17). These exemptions should be mandatory, avoiding the possibility for taxation upon Member States decision.
- The own use privilege covers the production of all energy products defined in article 2 (1) of the ETD, irrespective of their uses.

**FuelsEurope, the voice of the European petroleum refining industry**

FuelsEurope represents with the EU institutions the interest of 40 companies operating refineries in the EU. Members account for almost 100% of EU petroleum refining capacity and more than 75% of EU motor fuel retail sales.

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