AD-HOC TAXATION WORKING GROUP ON ETD
14 March 2024 – 15.00-16.00
Online

Summary Records

1. **Welcome and agenda of the meeting**

The Chair welcomed members and noted that the meeting is dedicated to discuss the state of play and next steps regarding the Energy Taxation Directive.

2. **Update on the state of play**

The Secretariat gave an update on the state of play and reiterated the importance that members reach out to their national administrations.

It was recapped that the Belgian Presidency proposed a compromise text with the aim of finalizing the proposal before end of June. The compromise was circulated **to members via ECSA C-13483.**

The main change related to shipping compared to the original 2021 EC Proposal are the following:

- a 5-year derogation (from 1 January 2023 to 31 December 2027) is granted for category 1 fuels (i.e. anything that is not category 2 and 3 fuels) and 5-year transition period for a tax rate of EUR 0.52/Gj instead of the directly applicable EUR 0.9/Gj.
- a 10-year derogation (from 1 January 2023 to 31 December 2032) is granted for category 2 and 3 fuels (i.e. category 2: motor fuels, low-carbon fuels and sustainable biofuels and biogas other than food and feed crop biofuels and biogas; category 3: renewable fuels of non-biological origin, advanced sustainable biofuels, bioliquids and biogas);
- a 40-year derogation (from 1 January 2023 to 31 December 2062) for tax exemption can be granted in case of the following:
    - within a Member State, for services normally provided for remuneration for the carriage of passengers or goods by regular passengers and ferry services by sea between:
        - ports situated on the mainland and on one or more of the islands of one and the same Member State
        - ports situated on the islands of one and the same Member State.
    - Island Member States (Cyprus, Ireland, Malta), for services normally provided for remuneration for the carriage of passengers or goods by regular passengers and ferry services by sea.

It was highlighted that there is a chance that the ETD Proposal will be advanced along the compromise text, which is NOT in line with the ECSA position. Therefore, currently the course of action supporting the ECSA position would be to stop the revision along this compromise text.

Members were informed that on 13 March there was a preliminary discussion of national administrations at the Working Party meeting. It was added that written comments are expected from national administrations by 15 March 2024. Based on the discussions held and the written comments the next meeting of **26 March will be prepared.** The 26 March meeting is **EU Council high level meeting, where the Presidency will ask Member States delegations if they wish to continue with the review of the ETD or not.** If the review is decided to be continued, the compromise text will be proposed for discussion/approval at the next ECOFIN meeting in June.

It was mentioned that many Member States are unhappy about the exemptions currently in the text and that there is no consensus yet in the Council. They added that the reason behind the 26 March meeting is the BE presidency not being keen on spending many resources if there is a clear indication from Member States that they are not willing to go forward with this dossier.

3. Tour de table on national developments regarding the ETD

The Chair asked members to inform the TWG on the following:
- If ECSA members reached out to their national administrations
- What is the national administration's position regarding the tax exemption on maritime fuel
- Whether the national administration will or will not object to continuing the review of the ETD along the current compromise text.

The following were noted during the tour de table:
- Some members (Cyprus, Malta and Greece – and added Portugal) raised that their national administration is supportive of keeping the exemption for shipping. However, it was also noted that their national administrations are also under political pressure, hence the compromise moving from the exemption towards the connectivity proposals.
- Some members (Germany, Denmark and Spain) stated that their governments are supporting the removal of the exemption and expectedly would support to continue the work on the ETD.
- Some members (Finland, the Netherlands, France) stated that it is unclear at this stage what position their national administrations will take.
- Some members (Italy, Sweden, Belgium, Ireland, Poland and France) are in contact or currently reaching out to their own administration and will report back to the Secretariat when they have updates.
- KVNR noted that the Dutch government commissioned a study which concludes that for short sea shipping the ETD will result in cost increase whereas for deep sea shipping there is a high risk of carbon and tax leakage due to bunkering outside the EU. Therefore, an international taxation on fuels would be more efficient.
- CLIA reminded that one argument in favour of postponing the ETD is that to date the Commission has not conducted an impact assessment on shipping.

4. Next steps

It was agreed that members continue to reach out to their national administrations and will report any developments at national level to the Secretariat. The ECSA position and some above mentioned arguments could give further ammunition to the national discussions. For the ease of members, the Secretariat lists these arguments in Annex 1.

In the meantime, the Secretariat will share with the members the above mentioned CE Delft study.

Annex 1

Why the current (compromise) proposal of the review of the Energy Taxation Directive is not fit for purpose?

- Although the current compromise proposal is significantly different from the initial European Commission Proposal, the arguments for the exemption for fuel for navigation under article 14.1.c remain valid, given the unchanged international legal context and need for global competitiveness of EU shipping.
- Removing the current tax exemption for fuel is not a consistent way forward. We reiterate the importance for the Directive to follow a technology neutral approach which should provide equal treatment of energy supplies to the shipping industry.
- Bunkering outside Europe remains a high risk leading to decreased fiscal income and no significant improvement in environmental efficiency. This is underlined by the CE Delft study on the Phasing-out of excise tax exemption for bunker fuels. This study is commissioned on request of the Dutch government.
- The Commission proposal has to be accompanied by an impact assessment, which has not been done for maritime fuels. The Commission conducted an impact assessment on the exemption for aviation fuels but did not carry out the same for the shipping sector. In light of the strategic importance of the shipping industry for the EU, before deciding on the removal of the tax exemption for shipping, it is key to conduct a proper impact assessment.
- CE Delft study on the Phasing-out of excise tax exemption for bunker fuels. CE Delft was commissioned by the Dutch Ministry of Finance (*Ministerie van Financiën*) to conduct a quick scan of the effects of reducing fossil subsidies for shipping and aviation. This study examined two options for abolishing the tax exemption, one for fuels refuelled in the Netherlands and one an EU-wide abolition. The main conclusions for shipping are:
    - Maritime shipping:
        - **Ships will bunker fuel elsewhere in the world as much as possible (low excise revenues in the Netherlands).**
        - **Transport flows will hardly change and effects on greenhouse gas reductions are small.**
    - Inland and coastal shipping:
        - A national abolition will involve bunker tourism (outside the Netherlands). Excise revenue will be around €185 million in 2030.
        - If the phasing out of the exemption is carried out in a European context, excise tax revenues in the Netherlands will rise to €670 million in 2030.
        - The increase in the cost of inland shipping will lead to a limited model shift to rail and road transport.

- The Directive should also provide for a taxation exemption for all energy carriers in order to close the cost gap between traditional marine fuels and alternative fuels and electricity. The revised text should aim at closing the gap which hampers investments in and the uptake of cleaner technologies and fuels.