



Case Study Report – Exemptions for denatured alcohol

Evaluation of Council Directive 92/83/EEC

RAMBOLL



1. Introduction

Under Article 27.1 (a) and (b) of Directive 82/93/EEC denatured alcohol is exempted from the application of excise duties.

In Article 27.1 (a), the Directive lays down that “*alcohol which has been completely denatured in accordance with the requirements of any Member State*” which have been notified under the procedure in Article 27.3 and 27.4 shall be exempted from the application of excise duties.¹

Article 27.1 (b) stipulates that alcohol that is “*denatured in accordance with the requirements of any Member State and used for the manufacture of any product not for human consumption*” shall equally be exempted.²

The evaluation of the Directive aimed to verify whether the application of the provisions providing exemptions for denatured alcohol from excise duty creates any problems for economic operators (e.g. legal certainty, clarity and an equal level playing field) as well as for Member States (e.g. through opening possibilities for abuse and/or fraud).

The results of a survey to economic operators and a questionnaire to Member States clearly showed that there are significant issues with the exemptions impacting the free movement of goods and fair competition between economic operators. These issues have been further examined in the present case study, identifying the impact for economic operators and the origin of the issues, as well as indicating potential solutions.

2. Context and purpose of the case study

The analysis of the first data collected showed that the problems with these two articles on the exemption of denatured alcohol are based on differing interpretations by the Member States.

It does not seem to be clear whether a Member State can only grant exemptions under Article 27.1 (a) based on the denaturing methods it has communicated itself to the Commission and that were approved under the procedure described in Article 27.3 or if economic operators can use any method, declared by any Member State and that are approved under the abovementioned procedure. Some Member States only recognise their own methods, some have switched to using the so-called “Eurodenaturant”³ while others also recognise the methods of other Member States.

Similarly, there is no coherent approach to the exemption of products containing denatured alcohol according to Article 27.1 (b). Most Member States have in national legislation laid down a number of denaturants, often linked to specific purposes. Whether further methods can be used, the process to receive an authorisation for a different denaturant and the monitoring of denaturing processes varies between the Member States.

There are furthermore differing conditions within the Member States depending on whether alcohol was denatured in the country itself, in another Member State or whether it was imported from outside the EU.

¹ Article 27.1 (a) of Directive 92/83/EEC

² Article 27.1 (b) of Directive 92/83/EEC

³ Point I of Annex to Commission implementing Regulation (EU) No 162/2013, “Denaturing procedure employed in all Member States” : 3 litres of isopropyl alcohol (IPA), 3 litres of methyl ethyl ketone (MEK) and of 1 gram of denatonium benzoate per hectolitre of absolute alcohol

It was assumed that the variation between the Member States in recognising denaturing methods also distorts the functioning of the internal market by influencing business decisions and competition between economic operators. The purpose of this case study was to identify such consequences, describe their source and suggest potential remedies.

The case study set out to assess the consequences of the variations in recognised methods for supervision of production and movements of denatured alcohol. Indications on costs of denaturing methods were collected. Finally, with respect to market distortions decisive factors which influence business decisions of economic operators were collected.

The intention was to contribute to answering the following questions⁴:

Question 1.2: To what extent are exemptions provided under Article 27.1 (a) and (b) for denatured alcohol being applied consistently across Member States?

- *How does the exemption of denatured alcohol according to Articles 27 (1)(a) and (b) differ between the Member States based on:*
 - *Denaturing method*
 - *Origin of the product applying for exemption (produced in the Member State, imported from another Member State, imported from third country)*
 - *Intended use of the product*
 - *Form of the product (in bulk or as finished product)*
- *What are the implications for supervision of production and movement?*

Question 3: To what extent is there scope for compliance cost and administrative burden reduction?

- *Do the differences in the exemption of denatured alcohol lead to increased administrative and compliance costs for:*
 - *Procedures of supervision of production of denatured alcohol in the Member States*
 - *Procedures of supervision of movements of denatured alcohol in the Member States*

Question 1.3a: How far do the major differences in the rules for applying the tax exemptions in Article 27 of Council Directive 92/83/EEC affect fair competition on the market of exempt alcohol across the EU?

- *Advantages/disadvantages for economic operators in terms of administrative requirements and economic costs*
- *Cost estimation of denaturing alcohol in various Member States*

Question 7: What measures should be taken to resolve identified issues and in particular those relating to exemptions of denatured alcohol?

In order to respond to these questions, the collection of information from Member States was extended to ensure that data on each country's recognised denaturing methods for the exemption under Article 27.1 (a) and (b) were available.

To better understand the consequences for economic operators, the costs they are facing and the impact the provisions can have on their business decisions, interviews

⁴ These questions are taken from the Evaluation Questions Matrix for the Evaluation of Directive 92/83/EEC

were conducted with producers and users of denatured alcohol. The companies that have participated in this consultation are listed in Section 8.

Finally, findings of a previous study conducted for DG TAXUD on the holding and movement of excise goods under duty suspension⁵ were used to understand Member States' requirements for handling denatured alcohol.

The case study did not look into potential and actual fraud with denatured alcohol. While it should always be kept in mind that the provisions to denature alcohol and to supervise its production are in place to limit risks of fraud, the focus of the case study was their impact on economic operators. When considering remedies and potential solutions the need to limit the burden on economic operators in order to ensure fair competition and a functioning internal market always has to be balanced against the need to reduce risks for fraud.

3. Applicable conditions for the exemption of denatured alcohol

Directive 92/83/EEC excludes from the scope of excise duty any alcohol that is not intended to be an alcoholic beverage. According to Article 27.1 alcohol that has been denatured shall and according to Article 27.2 alcohol that is tied to specific uses may be exempted from excise duties.

The two procedures which are interpreted differently among the Member States are:

1. Article 27.1 (a) together with Articles 27.3 and 27.4 creates a system of mutual recognition of denaturing procedures. Member States apply denaturing methods which have been notified to the Commission beforehand. Article 27.3 indicates the procedure following which denaturing methods can be noted.
2. Article 27.1 (b) lays down that also alcohol "*used for the manufacture of any product not for human consumption*" shall be exempted from excise duties.

This section presents the intention behind and the application of these two provisions, and highlights the disputed points.

3.1 Intention behind the exemption of denatured alcohol

Generally, the exemptions alleviate the economic and administrative burden for the industry. On the one hand they do not have to pay excise duty when using alcohol in their production which ensures that they remain competitive as there is no necessity for them to comply with requirements for potable alcohol. On the other hand, when exempt from excise duty, economic operators do not need to comply with the potentially burdensome procedures for holding and moving excise duty goods. This reduces administrative burden. The provisions also support defining the scope of excise duty at EU level and ensure that alcohol not intended to be consumed is exempted from excise duties.

These exemptions do however create a risk for abuse. They create incentives to circumvent paying excise duties by moving, holding or selling potable alcohol under the exemption. To prevent such fraud, the Directive demands that in order to be given the exemption, alcohol intended for industrial use must be rendered unfit for drinking. Typically this is achieved by the use of denaturing agents which give a distinctive colour, smell and taste to the product. Additionally, chemical analytical agents are used

⁵ DG TAXUD: Evaluation of current arrangements for the holding and moving of excise goods under excise duty suspension, Final report, prepared by Ramboll Management Consulting and Europe Economics

to mark these products and to allow authorities to more easily detect denatured alcohol in products.

Article 27.5 provides for measures to ensure that Member States have “*the means of combating evasion, avoidance or abuse which may arise in the field of exemptions*”.⁶ It lays down conditions under which Member States can reject to give exemption to a product which has been denatured using a specific method as foreseen under Article 27.1 (a) or (b). The provisions on denaturing methods are based on mutual recognition and a system for exchange of information regarding the various methods applied in the Member States. The Directive proposes the means to combat fraud of excise duty as it lays down a mechanism to notify when a denaturing procedure applied in one Member State is suspected to be related to fraudulent incidents. These provisions allow for Member States to protect their financial interests by ensuring that all excise duties can be collected.

The reason for the use of two different systems for granting exemptions is clarified in the explanatory memorandum of the Directive’s initial proposal. It notes that there should be a difference between alcohol for general use in industry, and alcohol used in perfumes, toiletries and cosmetics, as well as for external medical use. “*Member States demand much more noxious denaturants for alcohol for general industrial purposes*” than for those more specific products.⁷

This initial approach was based on the principle that instead of allowing exempt alcohol to be denatured on the basis of the least intrusive method (a lowest common denominator), the risk of fraud could be minimised by applying the most robust methods of denaturing possible in each circumstance. This allows Member States to impose stronger denaturing methods whenever possible, depending on the specificities of the use of the concerned product containing denatured alcohol. Furthermore, considerations of consumer protection are taken into account when denaturing methods are chosen. They should ensure that consumers can clearly distinguish a product not intended to be drunk and which might present a risk for their health.

3.2 Alcohol exempted under 27.1(a)

Regulation 162/2013⁸ lists the Member States’ denaturing formulations for complete denaturation notified as following the procedure of Article 27.3 of Directive 92/83/EEC. This regulation refers in its title to the “*mutual recognition for procedures for complete denaturing of alcohol*”. In theory, the system of mutual recognition allows for the exemption of denatured alcohol produced with a denaturing formulation of another Member State. In practice, the extent to which this is possible and the applying conditions vary between the Member States.

In a questionnaire, Member States’ tax authorities were asked to indicate which denaturing methods they recognised for the exemption under Articles 27.1 (a) and (b) and under which conditions.

3.2.1 Recognition of methods for complete denaturation

The table on the exemption under Article 27.1 (a) clearly shows that there is **no consistent approach**, neither among the Member States nor within one Member State for different situations. Furthermore, the interviews conducted in the course of the case

⁶ Council Directive 92/83/EEC of 19 October 1992 on the harmonization of the structures of excise duties on alcohol and alcoholic strength, Official Journal L 316/21, recital 26, p.22

⁷ Commission of the European Communities, Proposal for a Council Directive on the harmonization of the structures of excise duties on alcoholic beverages and on the alcohol contained in other products, COM(90) 432 final, 7 November 1990, p.12

⁸ Commission Implementing Regulation 162/2013 of 21 February 2013 amending the Annex to Regulation (EC) No 3199/93 on the mutual recognition of procedures for the complete denaturing of alcohol for the purpose of exemption from excise duty

study suggested that there are cases where the practice of customs authorities did not reflect the indications provided by the tax authorities.⁹

The table compares three different situations: when denatured alcohol is produced in the concerned Member State, when denatured alcohol is produced in a different Member State and then moved to the concerned country, and where denatured alcohol is imported from outside the EU.

For the **production on their own territory**, most Member States indicated to accept the method they had noted under Regulation 162/2013 and the “Eurodenaturant”, or solely the “Eurodenaturant” where there was no national method.

The “**Eurodenaturant**” was introduced with Regulation 162/2013 as a “denaturing procedure employed in all Member States”. The aim of proposing this method was to reduce the number of methods for complete denaturation. The preamble of the Regulation notes that “*the proliferation of denaturing procedures adds complexity to the denaturing system, weakens the ability for effective administration of the system, and offers more opportunities for fraud*”.

Following the introduction of the Eurodenaturant, nine Member States abolished their own denaturing methods. In addition, there are three Member States who still have their own denaturing method listed in Regulation 162/2013 but who indicated in the questionnaire to only recognise the Eurodenaturant for the purpose of complete denaturation.

Five Member States noted that they recognised any denaturing method notified under Regulation 162/2013 when alcohol is denatured in their country. Such a decision has the potential to create a competitive advantage for producers from these Member States. Here producers and users of denatured alcohol have the choice among a long list of possible methods to be used for complete denaturation, while in other Member States economic operators are limited to the Eurodenaturant and in some cases one more method. The consequences of this situation are discussed in Section 4.

The difference in the interpretation of the provisions for completely denatured alcohol becomes even more significant when comparing the **conditions for moving completely denatured alcohol from one Member State to another**. The question is whether any of the methods of Regulation 162/2013 can be used or only the one recognised by the Member State where the alcohol has been produced. In the questionnaire ten Member States specifically indicated that they would only recognise a method that is authorised by the Member State from which the denatured alcohol is coming.

This means that denatured alcohol from Member State A using the recognised method for complete denaturation of Member State B will not be recognised as a completely denatured alcohol in Member State C. Instead the alcohol could only be exempted based on Article 27.1 (b) and thus would have to be moved under duty suspension.

The German tax authorities summarised the situation applicable in their country but also in a number of other Member States as follows: *Complete denaturing depends on the Member State in which denaturation has taken place and whether the used denaturant has been authorised for this Member State under Regulation 3199/93 [now Regulation 162/2013]*.

A potentially disadvantageous situation for national producers is created where more flexible conditions apply to producers moving denatured alcohol from another Member

⁹ It should be taken into account that some authorities have responded to the questionnaire in more detail than others and that there is a possibility that mistakes in the reporting have been made. It has not been possible to verify each indication with the national legislation or through follow up with the authorities.

State. Producers in the Member State are limited to the national method or the use of the Eurodenaturant, while competitors from at least some other Member States selling their completely denatured alcohol in that country can choose among all the different formulations notified under the Regulation. The responses from Member States to the questionnaire suggest that this is the case in nine Member States.

Two Member States indicated that when denatured alcohol is produced in another Member State and then moved to their country, only their own national denaturing method or the Eurodenaturant can be used while the denaturing method of the country of production would not be recognised for complete denaturation.

When **denatured alcohol arrives from third countries** most Member States request the use of the denaturing methods that also apply to national producers. So most Member States follow a logic as described by the German tax authorities: *“For alcohol introduced from a third country which is to be completely denatured in one of the Member States, the same conditions apply with regards to the denaturants as for the producers from that Member State where the denatured alcohol will be released into free circulation.”* This is also laid down in the minutes of a meeting of the Committee on Excise Duty from in 2014. The minutes state *“in case of importation and clearance for free circulation it is the Member State of importation who has to monitor that the denaturing has been properly done in accordance with the rules of the Member State of importation. All other Member States are dependent on the decisions of the Member State of importation.”*¹⁰

However, seven Member States indicated in the questionnaire that operators from third countries can use any of the denaturing methods listed in the Regulation while in comparison national producers can only use the method listed by their country. In contrast, there are also two Member States where local producers have a bigger choice of methods for complete denaturation while the denaturing methods for alcohol from third countries are limited to the national formulation and/or the Eurodenaturant.

3.2.2 Requirements for supervision and movement of completely denatured alcohol

In principle, supervision of production of completely denatured alcohol follows the same requirements in all Member States. Denaturation takes place in tax warehouses, once denatured the alcohol can be released for free circulation. In practice, there are differences with regards to the extent customs authorities monitor the processes. Economic operators have reported that in some Member States a customs officer has to be present when denaturation takes place. In other Member States, producers only have to inform authorities. The amount of administrative documents to be completed and delays to be complied with vary between the Member States. Some producers also mentioned that customs authorities would examine denaturing agents before they can be introduced to the alcohol. Where each ingredient has to be verified in a laboratory, denaturation becomes a very time intensive process.

Regulation 3649/92 requires a simplified accompanying document (SAAD) to be used to accompany commercial intra-Community movements of completely denatured alcohol.¹¹ Almost all the Member States indicated that they moved completely denatured alcohol under a duty-paid procedure involving an SAAD.¹²

¹⁰ Committee on Excise Duty (2014): Interpretation and application of Commission Regulation (EU) No 162/2013 of 21 February amending the Annex to Regulation (EC) No 3199/93 (CED 846)

¹¹ Article 5 of Regulation 3649/92 of 17 December 1992 on a simplified accompanying document for the intra-Community movement of products subject to excise duty which have been released for consumption in the Member State of dispatch

¹² See DG TAXUD: Evaluation of current arrangements for the holding and moving of excise goods under excise duty suspension, Final report, prepared by Ramboll Management Consulting and Europe Economics

Where, however, a producer of denatured alcohol wants to use the formulation for complete denaturation of a different Member State to send denatured alcohol to that country in many Member States, it will not be possible to have the product recognised as a completely denatured alcohol. As many Member States only recognise the formulations authorised in the country of production, the producer will have to move the alcohol under the EMCS as if it was going to be exempted under Article 27.1 (b). In the end, the receiving Member State will decide on the exemption based on the origin of the denatured alcohol.

3.3 Alcohol exempted under 27.1(b)

It should be noted that in the initial proposal for the Directive¹³ the scope of Article 27.1 (b) was limited to “*other denatured alcohol for use in perfumes, toiletries and cosmetics or for external medical use*”¹⁴ and did not apply to the broad scope of “*any product not for human consumption*”. Furthermore, the same system applying today to Article 27.1 (a) was initially intended to also cover exemptions under Article 27.1 (b). The provisions for mutual recognition of denaturing methods and for notifying those which could be linked to excise duty abuse foreseen in Articles 27.3 to 27.5 were intended to cover both provisions for the exemption of denatured alcohol.

Today the interpretation of the term “not for human consumption” is disputed. In light of the uncertainty created by the wording of Article 27.1 (b), the Commission’s Indirect Tax Expert Group has issued an opinion on the interpretation of the term “*used for the manufacture of any product not for human consumption*”. It laid down that in order to be exempted from excise duty under this article, a product needs to be “*in its recognisable finished form, held out for sale in that recognisable finished form and must contain denatured alcohol which has been directly used in its manufacture*”.¹⁵

When asked how they interpreted the term, Member States differed in their understanding and weighing of the various aspects of the definition. For most Member States (18) the most obvious answer was to refer to the fact that the product cannot be intended to be drunk and/or eaten by a human. Other Member States also referred to the fact that the denatured alcohol would have to be used in the production of another product and that thus only a final product could be exempted (8 Member States). Two Member States specifically indicated that they did not consider the final form of the product to be decisive for the exemption. One of these noted that the denatured alcohol could be a component of another final product but sometimes the final product could also be the same alcohol when it is not intended for human consumption (e.g. alcohol which is used as heating fuel). The other one highlighted that in the translated version of the Directive it was not clear that the product had to be in its final form. Also alcohol moved in bulk could be subject to the exemption. One Member State also considered it to be a condition for exemption that the denatured alcohol contained a denaturant which could not easily be removed.

3.3.1 Product categories containing alcohol exempted under 27.1(b)

The types of products for which alcohol exempted according to Article 27.1 (b) is being used in the Member States clearly show that much more than just cosmetics and perfumes are covered. Further product categories which require specific denaturants that limit the impact on the quality of the product have been identified by the Member States.

¹³ Commission of the European Communities, Proposal for a COUNCIL DIRECTIVE on the harmonization of the structures of excise duties on alcoholic beverages and on the alcohol contained in other products, COM(90) 432 final, 7 November 1990

¹⁴ In the initial proposal all exemptions were combined in one Article 17. The exemption now found under Article 27.1(b) was then Article 17.1(c)

¹⁵ European Commission, Indirect Tax Expert Group (2014) Opinion 1/2014 – Interpretation of the term “used for the manufacture of any product not intended for human consumption” in Article 27 (1) (b) of Council Directive 92/83/EEC; TAXUD(2014)01009

For the study, Member States were asked to provide a list of the denaturing methods they recognised for exemption under Article 27.1 (b).

The provisions of Member States vary in the number and indicated purpose of denaturing methods. While some Member States have extremely long lists of denaturants which indicate specific purposes for each of them, others have shorter lists with denaturants that are not linked to a purpose. Member States listed the following uses of denaturing methods for alcohol to be exempted under Article 27.1 (b):

- Cosmetics and perfumes
- Air fresheners
- Printing inks
- Fuels, in particular bio ethanol
- Cleaning products and detergents
- Screen wash.

This list of potential uses is not complete. Many Member States indicated that their customs authorities could authorise denaturation with further methods where required for the quality of the final product. Furthermore, as described above, alcohol that would be recognised as completely denatured in one Member State could be produced and moved to that country or to another Member State under duty suspension to be exempted under Article 27.1 (b).

3.3.2 Requirements for supervision and movement of denatured alcohol to be exempted under Article 27.1 (b)

As the exemption under Article 27.1 (b) is linked to the use of the denatured alcohol in the final product, the alcohol remains excisable until it is used in the product. The denatured alcohol is moved under duty suspension. This requires the storing and production in a tax warehouse, movements to only take place between registered consignors and consignees and the use of the Excise Movement Control System (EMCS).

The requirements with regards to supervision of production of denatured alcohol to be exempted under Article 27.1 (b) vary between the Member States to a similar degree as described above for completely denatured alcohol. A particular case represents alcohol that is denatured with the ingredients of the final product. Cosmetic producers explained, for example, that they would denature alcohol by adding the fragrances which will define their perfume in the end. In this context the Commission noted in an opinion of 1/2014 that *"it is essential that a denaturing substance was intentionally added to the product at issue"*.¹⁶ The ITEG recommended that essential oils alone should not be a sufficient denaturant as they were too difficult to be recognised in laboratories.¹⁷ It should furthermore be considered that in those cases the product does not contain a chemical marker which would help customs laboratories to identify a fraudulent alcoholic beverage. At the same time, there are a number of formulations for the exemption under Article 27.1 (b) which do not contain a chemical marker.

As described above, the interpretation of Article 27.1 (b) varies with regards to the understanding about as of when a product can be exempted as a final product. The debate concerns specifically the movement of products which are as a substance in their final form (no further ingredients will be added) but which are not in the packaging in which it will be sold to the end user. In this regard, the Commission's

¹⁶ European Commission, Indirect Tax Expert Group (2014): Partially Denatured Alcohol under Article 27 (1) (b) of Council Directive 92/82/EEC – Cosmetics, perfumes and personal hygiene products; taxud.c2(2014)3274676

¹⁷ European Commission, Indirect Tax Expert Group (2014) Opinion 1/2014 – Interpretation of the term "used for the manufacture of any product not intended for human consumption" in Article 27 (1) (b) of Council Directive 92/83/EEC; TAXUD(2014)01009

Indirect Tax Expert Group notes in its opinion of 1/2014 that the recognisable finished form of a product is the form in which it will be held out for sale. Hence, movements of products in bulk should not receive an exemption under Article 27.1 (b) and should be moved under duty suspension. But as indicated above, this interpretation is not followed by all Member States.

4. Consequences for economic operators

The consequences of the ambiguity of Article 27 and the differing interpretations by the Member States have an impact on the internal market and the competition between economic operators. These are discussed in the following section.

The survey among economic operators and the interviews with producers and users of denatured alcohol have shown that overall the exemption of denatured alcohol does not cause significant problems. There was a general satisfaction with the current provisions, underlined by the concern that any changes could lead to reduced flexibility of authorities in accepting different denaturants. Most economic operators indicated that they had identified work arounds wherever the current system did not meet their needs. Difficulties were in particular encountered where established procedures would not apply, because of a changed request from a customer or the intention to move production to a different Member State.

The argument for the need for high flexibility with regards to denaturing methods, specifically for the exemption under Article 27.1 (b) was shared by almost all concerned stakeholders. They underlined that different products required very specific denaturing methods in order to guarantee the best product quality for the end user. The impact of denaturing methods on the final product should always be kept as small as possible.

This perspective is opposed by two factors. Firstly, for economic operators themselves it can be difficult to maintain an overview of the different denaturants accepted in the Member States and some of them would therefore prefer a limited number of accepted denaturants which are linked to less administrative burden and risk that methods are not recognised by customs authorities. Secondly, for Member State authorities, a high number of different denaturants increases needs for laboratory checks and can in the end increase the risk for fraud where denaturants differ in strength.

4.1 Impact on the internal market

When considering the impact of the conditions for denaturing alcohol on the internal market it should always be kept in mind that a main reason for the sometimes complex structures is the aim to reduce the risk for fraud. Differences in the perceived risk for fraud with denatured alcohol also explain the variations in the conditions to some extent. Overall, the questionnaire to Member States showed however that authorities are satisfied with the available means to limit fraud risks. Therefore the following section focusses on problems experienced by producers and users of denatured alcohol with the provisions for exemption under 27.1 (a) and (b).

4.1.1 Alcohol exempted under 27.1 (a)

In the context of problems concerning the complete denaturation of alcohol, most economic operators pointed towards unfair competition created by the current provisions. This will be discussed further below. There are however also clear impacts on the internal market more generally and the free movement of goods.

Figure 1 and Figure 2 below indicate that almost half of the producers and users of completely denatured alcohol responding to the survey were aware of situations where the applicable conditions regarding the granting of exemptions had an impact on their business decisions. The same share of respondents also indicated that they knew of

situations where intra-community movements had been hindered due to the varying applicable conditions for receiving an exemption.

Figure 1: Economic operators aware of situations in which business decisions were made due to the varying applicable conditions for granting exemptions to completely denatured alcohol. (N=18)

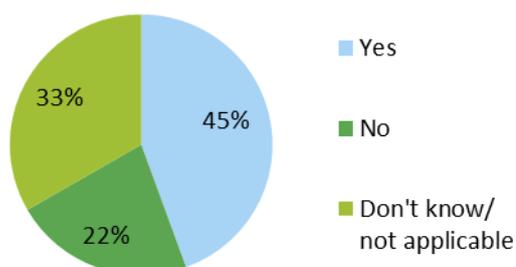
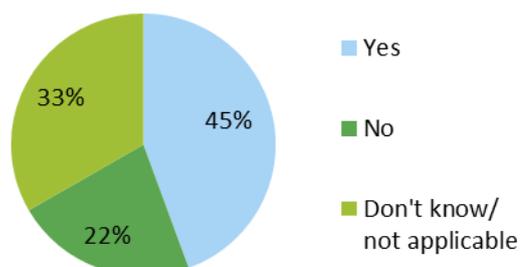


Figure 2: Economic operators aware of situations in which other operators were prevented or hindered from conducting intra-community transactions or movements due to the varying applicable conditions for granting exemptions to completely denatured alcohol. (N=18)



Source: Survey to economic operators, August-November 2015 – Figures include economic operators involved in the production, distribution and use of denatured alcohol exempted under Article 27.1 (a) as well as trade associations representing their views.

Producers of denatured alcohol explained that they were **limited in the trade with completely denatured alcohol** to other Member States. When not using the Eurodenaturant, producers would in many cases have to use the denaturing method of their own country. If they want to produce completely denatured alcohol with the formulation that is recognised in the Member State where their customers are, they can only do so by sending the denatured alcohol under duty suspension. This requires their customers to be a registered consignee.

Economic operators also indicated that in at least one Member State, it would not be possible to denature alcohol with a method other than the ones nationally authorised. Producers thus could not use the formulation for complete denaturation of another Member State even when the alcohol is moved under duty suspension.

The differing interpretation of Article 27.1 (a) with regards to the extent of mutual recognition creates **uncertainties for producers** who want to sell completely denatured alcohol to other Member States. As explained above, there is no consistent approach on which denaturing method should be used in that case.

While the introduction of the **Eurodenaturant** as a denaturant recognised in all Member States has the potential to solve at least some of these issues, economic operators generally expressed dissatisfaction with this option. They were concerned that the current formulation (3 litres of IPA, 3 litres of MEK and 1 gram of denatonium benzoate) had a too strong impact on the final product. It was also argued that the ingredients were difficult to obtain and that the high quantities required would also request greater storage capacities than most producers of denatured alcohol had available. Several producers of denatured alcohol argued for the reduction to a 1 litre, 1 litre and 1 gram combination which they argued would still ensure the same protection against fraud while reducing storage costs as well as costs of the denaturant itself. Others argued that they would always prefer their or other Member States' national methods.

4.1.2 Alcohol exempted under 27.1 (b)

The uncertainties of producers of denatured alcohol whether their products will be recognised for exemption in another Member States are even more important when the

alcohol is to be exempted under Article 27.1 (b). The magnitude of denaturants also creates issues for customs authorities who have difficulties recognising whether a product has been denatured and where it comes from. For economic operators this can mean that a product is blocked for laboratory tests with customs authorities for several weeks.

While **customs authorities** might be willing to support national producers by giving them the necessary flexibility in the use of denaturants, they also have to consider what is described in Regulation 162/2013¹⁸: “the proliferation of denaturing procedures adds complexity to the denaturing system, weakens the ability for effective administration of the system, and offers more opportunities for fraud”. Where Member States stick to a limited list of denaturants their custom laboratories have an easier approach to testing products. Identifying the employed denaturant becomes particularly difficult when there is a number of possibilities.

Compared to the figures presented for completely denatured alcohol, there are less economic operators that are aware of situations in which the differences in the applicable conditions for exemption under Article 27.1 (b) had an impact on business decisions or hindered trade.

Figure 3: Economic operators aware of situations in which business decisions were made due to the varying applicable conditions for granting exemptions to products containing alcohol denatured in accordance with Article 27 (1) (b). (N=41)

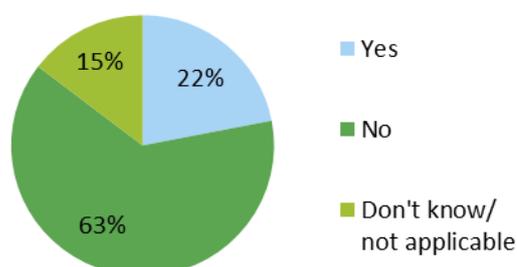
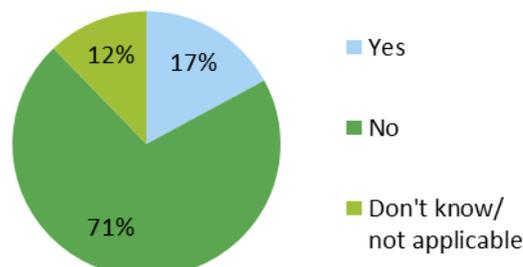


Figure 4: Economic operators aware of situations in which other operators were prevented or hindered from conducting intra-community transactions or movements due to the varying applicable conditions for granting exemptions to products containing alcohol denatured in accordance with Article 27 (1) (b). (N=41)



Source: Survey to economic operators, August-November 2015 – Figures include economic operators involved in the production, distribution and use of denatured alcohol exempted under Article 27.1 (b) as well as trade associations representing their views.

It should however be noted that primarily producers of cosmetic products responded to this question of the survey. The interviews conducted in the context of the case study clearly showed that overall the cosmetic sector is very satisfied with the current provisions and are rather concerned about the introduction of changes, while other users and specifically producers of denatured alcohol encountered more problems with the provisions.

Typically, the end user of the denatured alcohol will decide which denaturing method is best for the final product. They will then ensure with their customs authorities that this method can be used and find a producer in or outside their country. A producer from another Member State might not be able to use the requested denaturant.

Depending on the Member State, a **request for an authorisation to use a specific denaturing method** for exemption under Article 27.1 (b) can take up to four months

¹⁸ Commission Implementing Regulation 162/2013 of 21 February 2013 amending the Annex to Regulation (EC) No 3199/93 on the mutual recognition of procedures for the complete denaturing of alcohol for the purpose of exemption from excise duty

and is linked to administrative requirements and laboratory tests. In at least one Member State authorities do not recognise any other method than those already authorised in their national legislation. There, users of denatured alcohol noted that they would use formulations of completely denatured alcohol of other Member States rather than the formulations for exemption under Article 27.1(b) of their own country.

The decision of authorities whether they accept a specific denaturing method can decide on the production place for some economic operators. In particular larger companies, operating across the EU indicated that they would always **consider moving their production to a different Member State** if the authorities did not accept the desired denaturing method.

In the end, the uncertainty about recognition of a denaturing method will always represent a **financial risk** for the economic operator. If in the end it turns out that the alcohol cannot be exempted, excise duty becomes due. One interviewed producer described a situation where a commitment had already been made with a customer for the use of a specific denaturant. The authorities decided to not authorise the specific formulation but the producer was already contractually bound, so had to produce the alcohol without an exemption.

As a general comment, several producers noted that it was difficult to know which rules applied in other Member States for the exemption under Article 27.1 (b). Information and the national legislation are rarely available in English and often difficult to access. Linked to the differing interpretation of the Directive, the economic operators are faced with uncertainty.

4.2 Impact on competition between economic operators

There are a number of circumstances where producers and users of one Member State are in a more advantageous situation than those in other Member States. These situations are described in this section, also considering price differences between the various denaturing methods.

4.2.1 Alcohol exempted under Article 27.1 (a)

The impacts on competition are linked to the differences in the recognition of denaturing methods. In the following situations, economic operators from one group of Member States interpreting the provisions in one way have an advantage over producers from another group of Member States which understand the provisions differently:

- A user of denatured alcohol wanting to use the formulation for complete denaturation of the Member State in which the production of the final product takes place, will in a majority of Member States be limited to buy the denatured alcohol from producers in the own country. Denatured alcohol from other Member States will in many Member States only be exempted if a method of complete denaturation of the country of production has been used.
- Producers and users of completely denatured alcohol from Member States which accept any of the formulations listed in Regulation 162/2013 have an advantage over producers and users of completely denatured alcohol from Member States which limit the choice to their own method and the Eurodenaturant. In these Member States, also producers of completely denatured alcohol intending to send their products to another Member State have this advantage.
- Considering the limitations and the criticism of the Eurodenaturant indicated above (see 4.1.1), producers and users of completely denatured alcohol from Member States that accept more than only the Eurodenaturant for complete denaturation have an advantage over producers and users from Member States where only the Eurodenaturant is used. Member State authorities have understood this disadvantage for their producers, as is shown by the French

request to expand its formulations in Regulation 162/2013 to include the German and the Hungarian method.¹⁹

- Local producers of completely denatured alcohol have an advantage over producers from other Member States when these can only send alcohol denatured with the national complete denaturing formulation under duty suspension. Not all local producers, especially small ones will be a registered consignee. Thus the number of potential customers is limited.
- In seven Member States, alcohol that comes from third countries can receive an exemption as completely denatured alcohol with any of the methods of Regulation 162/2013, while the national producers can only use the Member State's method and the Eurodenaturant.

In addition, a producer of denatured alcohol suggested that there were a number of Member States which nationally recognised other denaturing methods than those listed in Regulation 162/2013 for complete denaturation. These Member States would give the advantages of excise exemption and simplified movement of completely denatured alcohol to products not denatured according to Regulation 162/2013. This has an impact on competition where producers from other Member States are not able to receive the same exemptions for that method when moving denatured alcohol to the country as the methods do not fall under mutual recognition. The producers then have to send the denatured alcohol under duty suspension to the concerned Member State. The producers there might not be able to receive the product however, as at national level the product is considered a completely denatured alcohol for which it is not necessary to be a registered consignee.

In the interviews economic operators underlined that **price** was not the main factor for choosing a denaturant. More important is to find a denaturant that matches quality requirements. This is however, mainly relevant for exemption under 27.1 (b), since there the choice of denaturants is much bigger than for complete denaturation.

Overall, the methods listed in Regulation 162/2013 are rather similar in price, with the one of the Hungarian methods²⁰ estimated by several economic operators to be the cheapest costing about EUR 2 per hl. As indicated above, many interviewees were concerned about the high costs of Eurodenaturant. Due to its comparably higher amount of ingredients, the price for denaturing one hl of alcohol with the Eurodenaturant was reported to amount to up to EUR 8, depending on fluctuations of prices of its ingredients.

In addition to the costs of the Eurodenaturant are increased due to the need for higher storage and transport capacities.

4.2.2 Alcohol exempted under Article 27.1 (b)

Advantages of economic operators coming from one Member States over those coming from another can also be identified with regards to receiving an exemption of denatured alcohol under Article 27.1(b). While most Member States have an open ended list, thus it should be possible to have methods of one Member State also authorised by another, there is at least one Member State where the list for exemption under Article 27.1(b) is not open. Only the methods published in that list can be used

¹⁹ Committee on Excise Duty (2014): Minutes of the meeting held on 12/06/2014. Alcohol taxation: vote – notification under Article 43 and 44 of Council Directive 2008/118/EC by France to use the national formulations of DE and HU (B) for completely denatured alcohol provided for in Annex of Commission Regulation 162/2013. CED Nr 848

²⁰ Method (b) 1% by weight of methyl ethyl ketone (MEK), and 0.001% by weight of denatonium benzoate

by local and EU producers. This limits the possibilities of users of denatured alcohol in that Member State, which will not be able to use denatured alcohol applicable for all the specific products that can be produced in other Member States.

Multinational companies clearly have an advantage over smaller producers and users of denatured alcohol. They clearly indicated that they would move their production to a different Member State in order to receive an authorisation for a specific denaturant.

Again, users of denatured alcohol underlined that **price** was not the most important criteria for them and that they primarily considered the technical requirements of their product. However, with an important amount of choices between different denaturants, producers underlined that costs were the second factor considered by their customers, noting that these would always choose the cheaper denaturant if quality remained equal.

The differences in costs are more significant for denaturing according to Article 27.1 (b) than the costs for complete denaturation. They were indicated to vary between EUR 0.8 and EUR 7 per hectolitre. This important price difference is also linked to the varying complexity of denaturants and the differing requirements in terms of quality.

One of the producers suggested that for end users, the costs of denaturants represented up to 9% of the selling costs of the final product. Thus the costs of the denaturant were tangible for the final user. They could however vary to an important extent considering the differences of price of final products (e.g. comparing a perfume with a product like screen wash).

5. Further issues

Beyond the interpretation of Articles 27.1 (a) and (b) there are further issues linked to the exemption of denatured alcohol which will be discussed in this section.

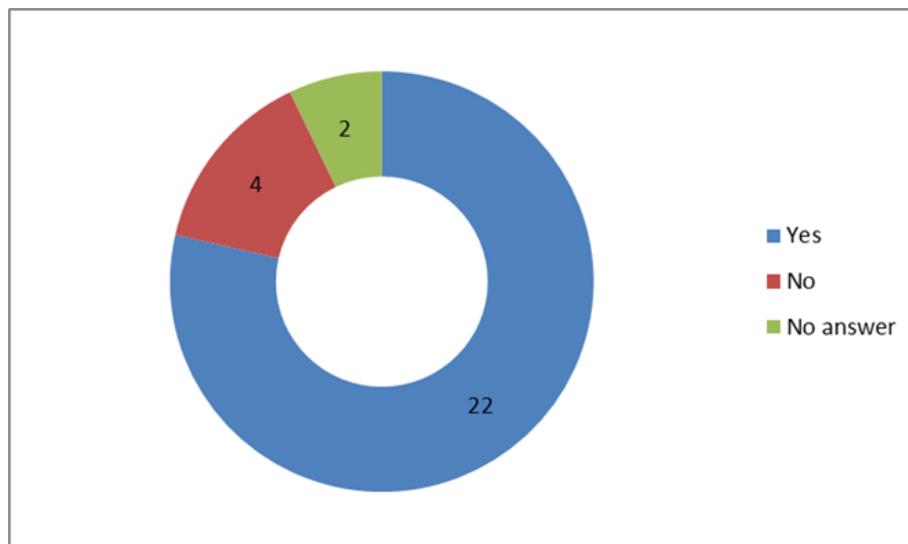
5.1 Exemption of alcohol used in cleaning processes

A question which is widely discussed among the Member States and of high concern for some users of denatured alcohol is whether alcohol which is used by users of denatured alcohol in the process of their production to clean machinery and equipment can be exempted from excise duty.

While this alcohol is denatured and not being used for human consumption there might be a risk for misuse when allowing such an exemption across factories where there is limited surveillance.

For economic operators such an exemption could represent an important amount of costs. One of the interviewed producers of cosmetics reported that several tons of denatured alcohol were used for cleaning during the production processes. Users of denatured alcohol would opt for this approach in order to reduce storing space for their products.

Figure 5: Should alcohol used in the production chain, in particular for cleaning be exempted from excise duty? (N=28)



Source: Questionnaire to Member States

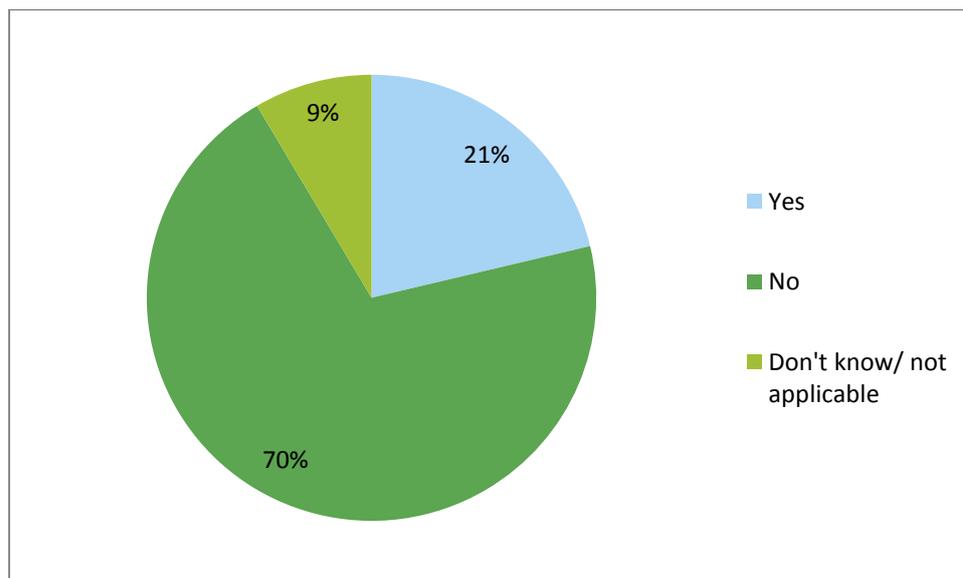
A strong majority of the responding Member States agreed that alcohol used in the production chain, in particular for cleaning should be exempted from excise duty. The supporting Member States referred to the fact that only alcohol which is intended to be consumed by humans should be subject to excise duty. Several Member States brought up the European Court of Justice's decision in C-306/15 where it was stated that denatured alcohol used for cleaning and disinfection of material and premises serving for the production of medication should be exempted. However, Member States did not agree whether the alcohol used for cleaning purposes would need to be denatured or not. Some argued that there was a risk for fraud if the alcohol was not denatured; others suggested that there could be circumstances where undenatured alcohol would be necessary for cleaning.

Considering this strong support from both economic operators and Member States, the exemption of denatured alcohol when used in the production chain for cleaning purposes should be further looked into while taking into account any risks for fraud in this context.

5.2 CN codes of denatured alcohol

Several economic operators and Member States reported difficulties with regards to the classification of denatured alcohol in the Combined Nomenclature for customs purposes (CN). There is a CN code specifically for denatured alcohol, namely 2207 2000. However, for some of the products which include denatured alcohol further CN codes exist. It is not always clear when which classification should be used.

Figure 6: Have you encountered problems with regards to the way denatured alcohol can be classified in the CN code system? (N=47)



Source: Survey to economic operators, August-November 2015.

While most economic operators and trade associations of the denatured alcohol sector reported that they did not experience any problems with regards to the way denatured alcohol can be classified in the CN code system, 21% of the respondents reported having encountered difficulties. Specifically economic operators producing denatured alcohol, printing inks, paints and other solvents, and biofuels reported issues with the classification of denatured alcohol in the CN code system. More than 50% of respondents from each of these sectors reported that they had encountered difficulties.

Users of denatured alcohol indicated that in some Member States it was possible to have alcohol exempted from tax supervision by using one of the CN codes 3814 (organic composite solvents and thinners; prepared paint or varnish removers), 3820 (anti-freezing preparations and prepared de-icing fluids) and 3824 (prepared binders for foundry moulds or cores; chemical products and preparations of the chemical or allied industries).

Having a product recognised as something else than denatured alcohol brings the clear advantage of less administrative requirements or supervision. At the same time, this raised the concern of some Member States and economic operators that the limited supervision could lead to an increased risk for fraud.

Since this concern was not one of the main questions to be answered in the context of the case study, solutions have not been further assessed. It is suggested however, to further look into potential solutions to the issue in order to ensure consistent understanding of the definition of denatured alcohol and the other CN codes to ensure fair treatment between economic operators and limit risks for fraud.

6. Legislative source of the problems and potential remedies

To ensure better functioning of the internal market and more equal competition between economic operators, this chapter presents a number of solutions. A differentiation is made between the provisions of exemption under Article 27.1 (a) and (b).

When looking to resolve the described issues with the two Articles of the Directive, there is a clear need to balance between harmonising the understanding of the Articles to reduce the effects of the differing interpretation, maintaining flexibility for producers and users of denatured alcohol to have denaturants that match their products and to ensure that customs authorities can implement sufficient control to limit the risk for abuse of the exemptions.

There is a clear need to set conditions which allow monitoring of production and movement of denatured alcohol across the EU at a common standard. However, the consultation of economic operators but most importantly of Member States' tax and customs authorities showed that the current standards were considered to be sufficient. As the main problems were described to impact the internal market and competition between economic operators, there is no manifest need to raise standards with the aim of fraud prevention. Nevertheless, the current possibilities for monitoring and control should be maintained in order to avoid a simple shift of the problem instead of presenting an actual solution.

Member States highlighted the need for clear rules on the exemption of denatured alcohol. One Member State noted for example that the "definition of rules at this [EU] level is of utmost necessity, otherwise each Member State will have its own system, according to its national interests, and that will only complicate matters." Another Member State remarked that "a common system established at EU-level will help the functioning of the common market and facilitate equal treatment. However, any rules must be detailed and clear enough to ensure they are interpreted the same way in all Member States."

The findings of the case study show that the original intention of the provisions for exemption of denatured alcohol and in particular the differentiation between the exemption under Article 27.1 (a) and 27.1 (b) is no longer met under the current interpretation. Initially Article 27.1 (b) was intended to allow for a difference between alcohol for general industrial purposes and alcohol used for perfumes and cosmetics which required denaturants to be less noxious. Today, denaturing methods of Article 27.1 (b) are used for products other than cosmetics which also require less invasive denaturation. Under this consideration the intention of the Directive is still followed. There is however a number of products for which denaturants of both types are being used depending on the Member State or differing from one producer to another. For example, the German method notified for complete denaturation is used by a number of screen wash producers while others argue that any method of Directive 162/2013 would be too invasive for a product like screen wash.

In Member States which do not recognise all denaturing methods of Directive 162/2013 an alcohol denatured with one of these formulas is easily treated as if a method for exemption under Article 27.1 (b) was used. The differentiation between 27/1 (a) and (b) hence depends to a larger extent on the place of production and the national understanding of mutual harmonisation of methods for complete denaturation rather than the intended use of the denatured alcohol and the requirements in terms of quality of the denaturant.

Consequently, the current system cannot be described as one where the most robust denaturing method possible is applied. Economic operators are able to choose whether they use a method of Article 27.1 (a) or (b) independent of the type of product they are producing. While moving a product as a completely denatured alcohol brings some advantages in form of lower administrative burden it is not always possible to use such a method where another Member State does not understand the Directive to request for such recognition. In the end, there are no real incentives to use a stronger denaturing method.

6.1.1 Responses to issues with Article 27.1 (a)

The main concern about Article 27.1 (a) are the differences in interpretation of what encompasses “mutual recognition” which leads to unfair competition between economic operators and can hinder movements of denatured alcohol between the Member States.

Only use the Eurodenaturant for complete denaturation

A solution to differences in accepting other Member States’ methods for complete denaturation would be to limit exemptions under 27.1 (a) to the use of the Eurodenaturant. The same conditions would apply to economic operators across the EU and for complete denaturation a method would be used which is considered to ensure high protection against fraudulent activities to render denatured alcohol drinkable again.

While the sole use of the Eurodenaturant might have been the intention when it was introduced, Regulation 162/2013 does not clearly indicate this to be the purpose. The preamble of the Regulation notes that some Member States “expressed the wish to maintain them [their national methods] for a transitional period or for a non-specified period of time due to specific technical requirements”²¹ but does not propose a clear deadline as of which no other methods than the Eurodenaturant shall be recognised. Both Member States²² and economic operators (in the context of the survey and the interviews) have clearly indicated that for them it would be difficult to agree on only using the Eurodenaturant. Since the legislator has not given a clear instruction that singling down the number of method for complete denaturation was the intention it will be difficult to implement this solution.

Furthermore, findings of the study do not suggest that there should only be one denaturing method, neither to prevent fraud, nor to ensure fair competition between economic operators. Competition issues could also be solved by ensuring a common understanding of mutual recognition under Article 27.1 (a). Furthermore, there are the clear concerns of economic operators about the Eurodenaturant formulation. Several operators noted that for quality and cost purposes they could only work with a formulation with less IPA and MEK (a 1 litre, 1 litre and 1 gram denatonium benzoate). However even with this formulation not all economic operators would be satisfied. Therefore, a solution of ensuring a common understanding of mutual recognition might be the more appropriate approach.

Ensuring a common understanding of mutual recognition

From the Directive and the connected legislation it is not clear whether the intention when introducing mutual recognition of denaturing methods was to request Member States to accept any other denaturing method or accept a denaturing method when it is used by a producer from the Member State which notified the specific method. Considering however the opinion of the Commission in the Committee of Excise Duty on allowing France to use Germany’s or Hungary’s denaturing method²³, it seems as if the Commission rather followed the second interpretation. While suggesting recognition of any denaturing method from any Member State would eliminate most issues of unfair competition between the operators of different Member States, also the other option would represent at least a partial solution when consistently applied across the Member

²¹ Implementing Regulation 162/2013 of 21 February 2013 amending the Annex to Regulation (EC) No 3199/93 on the mutual recognition of procedures for the complete denaturing of alcohol for the purposes of exemption from excise duty; Preamble – Indent (6)

²² See for example Committee on Excise Duty (2014): Interpretation and Application of Commission Regulation (EU) No 162/2013 of February 2013 amending the Annex to Regulation (EC) No 3199/93 (CED 846)

²³ Committee on Excise Duty (2014): Alcohol Taxation: Vote – Notification under Article 43 and 44 of Council Directive 2008/118/EC by France to use the national formulations of DE and HU (B) for Completely Denatured Alcohol (CDA) provided for in Annex of Commission Regulation (EU) 162/2013. Procedure under Article 27 (3) and (4) of Council Directive 92/83/EEC

States. In the second scenario economic operators in Member States where there is more than just the Eurodenaturant recognised for complete denaturation would have an advantage over others. This could however be reduced by making the Eurodenaturant formulation more practicable as explained above or by allowing Member States to add a formulation to Regulation 162/2013.

The suggested changes could either be implemented through a change in the Directive or by a recommendation of the Commission explaining their understanding of mutual recognition. The latter seems to be insufficient considering the current uncertainties. The recommendation issued with regards to denaturants in the cosmetic sector is not being followed by a number of producers arguing that the suggested methods did not apply to their products. A clearer guidance by actually changing the wording of the Directive might be more appropriate.

In the context of the implementation of one of these changes, it would also be necessary to adapt the understanding for alcohol imported from third countries accordingly.

6.1.2 Responses to issues with Article 27.1 (b)

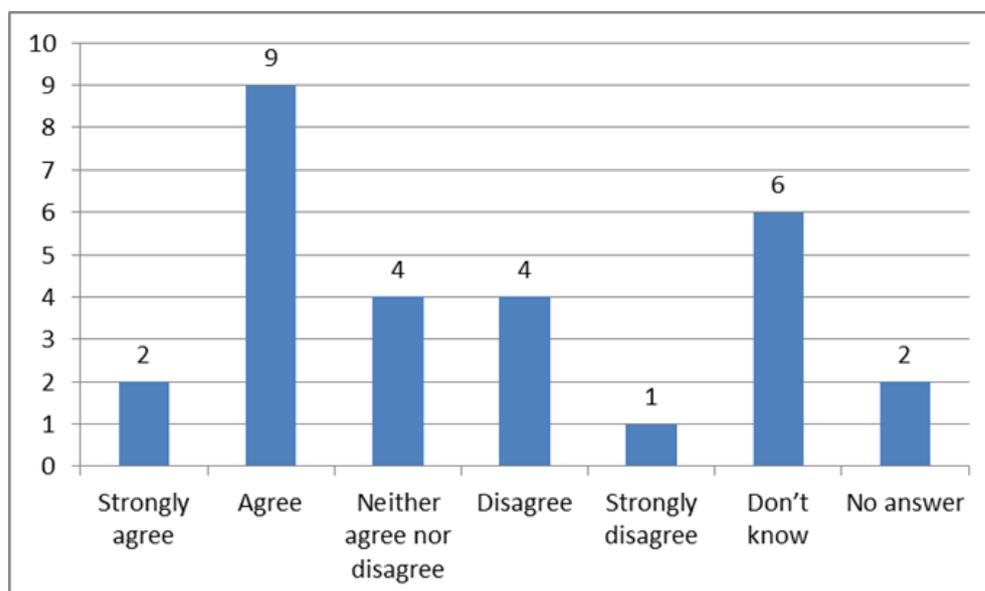
To solve the issues linked to the exemption under Article 27.1 (b), the differentiation to products to be exempted under Article 27.1 (a) should be made clearer. In addition the understanding of requirements for exemption should be harmonised (i.e. exemption of final products).

Linking denaturing methods to intended use

A way to create clearer boundaries for the exemption under Article 27.1 (b) would be to link denaturing methods to the intended use of a product. This system is currently used in the USA and to a certain degree in some of the Member States. The system could follow what has been done so far in the cosmetic sector where the Commission issued a recommendation on methods to be used.

In the context of the evaluation, Member States were asked whether linking denaturing methods to intended use could solve the current issues. While eleven Member States (strongly) agreed, five (strongly) disagreed.

Figure 7: Linking denaturing methods to the intended use of a product (as done in the US) presents a solution to the encountered problems. (N=28)



Source: Questionnaire to Member States

The eleven Member States which agree that the US system would be a solution for the current problems argued that it would allow for a uniform application of exemptions in all Member States. The authorities saw further more specific advantages:

- Reduction of administrative burden by harmonising testing methods of laboratories
- Reduction of unfair competition between economic operators
- It would ensure that the exemption is only granted when the denatured alcohol has been incorporated into the final product
- Better control and monitoring.

Member States reporting that they did not see the link to intended use as a solution of the current problems noted that there was a risk to create more complex administrative requirements and to increase the risk of fraud. On the other hand two Member States were concerned that the US approach would be too inflexible and not respond to the needs of every particular product.

Identifying denaturing methods for the numerous different applications of denatured alcohol will certainly represent an important administrative task. The denaturants would need to respond to the needs of the producers and their products in terms of quality, price and availability of ingredients. That this is not an easy process has been shown by the recommendation for denaturants for the cosmetics sector where several producers underlined that they would not use the suggested formulations as they did not match their products. Users of denatured alcohol further underlined that changing a denaturant would request significant research and testing, and therefore underlined the need for a sufficiently long transition period.

Linking denaturing methods to intended use could best be done through further recommendations. Such an approach would allow Member States to accept further denaturants where the economic operators in their country have specific needs. However, a recommendation will always be linked to the risk that it is not followed at all and thus will not change the current situation.

Reformulating Article 27.1 (b)

By changing the wording of Article 27.1 (b) the distinction to the use of completely denatured alcohol could be made clearer, avoiding the current inconsistent use of the two categories and the conditions for granting the exemption could be rendered unambiguous.

The agreed understanding of the term “used for the manufacture of any product not intended for human consumption” as referring to a product in its final form which was laid down by the Indirect Tax Expert Group²⁴ could be introduced into the Directive itself. It could even state how movements in bulk should be handled to avoid any future disputes.

An amendment of Article 27.1 (b) could also reiterate the purpose of this specific exemption in order to underline the distinction of completely denatured alcohol. In this context it would also be possible to list uses of denatured alcohol for this exemption, specifically defining the concerned products.

This solution could reduce some of the current uncertainties while avoiding a limitation of denaturing methods and restricting producers’ and users’ flexibility. It would furthermore not require research and investments in finding denaturing methods that

²⁴ European Commission, Indirect Tax Expert Group (2014) Opinion 1/2014 – Interpretation of the term “used for the manufacture of any product not intended for human consumption” in Article 27 (1) (b) of Council Directive 92/83/EEC; TAXUD(2014)01009

match all producers from one sector. To limit potential fraud, it should be underlined that the denatured alcohol should be produced and held in tax warehouses and that Member States can wherever they consider a denaturing method to be linked to a case of fraud request another Member State to withdraw this method (see Article 27.5 of the Directive).

7. Main findings and conclusions

The case study has identified significant issues with regards to the Article 27.1 (a) and (b) for the exemption of denatured alcohol. There are a number of uncertainties with regards to the understanding of the term mutual recognition of methods for complete denaturation which lead to competitive advantages of producers of some Member States over others and which can also hinder movements of alcohol between the countries. The Eurodenaturant was strongly criticised by consulted economic operators for its costs and impact on the final product.

With regards to the exemption under Article 27.1 (b) there is an endless list of potential denaturing methods which create uncertainty for producers whether another Member State will accept their denaturing method. While differences in costs for denaturing methods can be important, more relevant are the different impacts on the final product.

The identified issues influence business decisions such as the preference to buy denatured alcohol locally or to move production to a Member State that authorises a specific denaturing method.

Possible responses to these issues regard changes in the Directive to the two Articles or recommendations to be issued by the Commission on the interpretation and intention of the provisions for exemption of denatured alcohol. These solutions could suggest a limitation to only use the Eurodenaturant for complete denaturation or specifying the degree of mutual recognition of the formulations for complete denaturation. The methods for exemption under Article 27.1 (b) could be linked to the use of the denatured alcohol. At least the interpretation of the term "not for human consumption" should be laid down.

8. Sources

Desk Research:

- DG TAXUD: Evaluation of current arrangements for the holding and moving of excise goods under excise duty suspension, Final report, prepared by Ramboll Management Consulting and Europe Economics
- Survey to Member States
- Survey to Economic operators
- Regulation 162/2013 on mutual recognition of procedures for denaturing alcohol

Interviewees:

- Bertrand Pierquin, Vandeputte, Belgium
- Cecile Gonzalez, Matthias Vey and Jean-François Goursot, IFRA
- Daniele Domenicali, Caviro Distillery srl, Italy
- Ernst van der Linden, Cristalco, France
- Eszter Szauder, Gyor Distillery, Hungary
- Katarzyna Knapkiewicz-Dubińska, COLEP, Poland
- Isabelle Orquevaux Hary, L’Oreal, France
- Jean-Patrick Holvoet, Sentialco, Belgium
- Luciano Pizzato, Reckitt, UK
- Ludz Wilkening, Kraul & Wilkening u. Stelling GmbH, Germany
- Piet Vanhaverbeke, Stockmeier Chemie, Belgium
- Roberto Paganelli, Ecolab, Italy