

NET-ZERO INDUSTRY ACT (NZIA)

Methanol Institute (MI) Position

- MI supports the ambition behind the Net-Zero Industry Act and recognizes its significance to enhance the competitiveness and growth of EU industry while simultaneously delivering pivotal climate progress.
- MI suggests transitioning away from an approach which selects economic winners by prescribing which technologies are to attain policy support, and instead introduce an emphasis on achieving policy outcomes by supporting all technologies that contribute to climate change mitigation. Jeopardizing net-zero innovation for short-term progress in net-zero manufacturing represents a risky approach with possibly devastating effects. We advocate for an inclusive technology-neutral approach to the energy transition, promoting all green technologies.
- MI calls on policymakers to recognize the immediate need to deploy supply-side support mechanisms to drive the integration of low-carbon and net-carbon neutral fuels into EU mobility.
- MI appeals to the European Commission, the Council, and the European Parliament to alter the NZIA to reflect coherency with other policy mechanisms aimed at supporting low-carbon fuels, recycled carbon fuels, advanced biofuels, and renewable fuels of non-biological origin (RNFBO) by guaranteeing policy support for feedstocks and production technologies associated with their integration, including carbon capture and *utilization*. A definition coherent with existing legal frameworks for what constitutes sustainable fuels is further required to ensure clarity and consistency.

Introduction

The progression towards net-carbon neutral value chains instituted by the Paris Agreement and the EU Climate Target plan represents a monumental challenge. Government plays the key role of steering investment to the deployment of technologies which enable society to power the energy transition. The enormous undertaking of shifting to renewable energy feedstocks will encompass growth pains, and through policy instruments like the Net-Zero Industry Act, policymakers may bridge inevitable but temporary cost-gaps to create space for commercial scale-up and corresponding growth. The same challenge represents an opportunity of equal size, to ensure a more resilient, effective, and competitive industry in the EU.



As a versatile, clean fuel and a chemical building block capable of delivering immediate climate benefits via multiple pathways to net-carbon neutral production, methanol is set to play a key role in the energy transition. With more than 80 renewable methanol projects under development, renewable methanol capacity is expected to ramp-up in the coming years, addressing sustainability challenges across hard-to-abate mobility segments like shipping and aviation, and to everyday items produced in the chemical sector. This anticipated production ramp-up and market penetration in Europe is contingent upon policies which recognize the needs of actors across the value chain for a coherent, predictable, and outcome-based regulatory framework. While the Methanol Institute commends the European Commission on delivering a proposal that recognizes the importance of growth through innovation while promoting the competitiveness of European Industry, we suggest the following changes aimed at strengthening the Union's net-zero technology products manufacturing ecosystem:

1. Adopt a goal-based approach in favor of selecting technologies from the outset

The Net-Zero Industry Act proposal strives to fast-track critical energy infrastructure and clean technologies by specifically listing which technologies constitute strategic net-zero technologies and thus will benefit from funding schemes. The Methanol Institute upholds that a goal-oriented approach emphasizing desired policy outcomes rather than specifying the route to get there from the outset (which involves cherry-picking selected economic winners in a free-market arrangement), represents a more effective and fair approach to policymaking in general. Persisting with a static list of technologies will only stifle innovation and investment in sectors not mentioned or envisioned. This is bound to drive capital away from sectors that could well have delivered significant GHG benefits, while risking championing sectors where progress may become meager. In the same vein, efficiency and circular economy-based initiatives resulting in low carbon and net-carbon neutral solutions would clearly be disincentivized, simply as they aren't on the list. We welcome the rapporteur's approach to remove Annex 2 of the initial proposal and instead refer to the Strategic Energy Technology Plan. We believe this approach will produce a coherent framework which is consistent across existing legal instruments allowing any technology capable of addressing the challenge of decarbonizing the Union's industry and delivering GHG reductions in both the near-term and long-term.



2. Recognize the role of carbon capture and utilization in the energy transition

While the Net-Zero Industry Act does list Carbon Capture and Sequestration (CCS) as a strategic net-zero technology – and even includes a target for CCS – it fails to similarly incentivize Carbon Capture and Utilization (CCU) technologies. Even in a net-zero scenario, carbon will still be needed in our daily lives to produce fuels and chemicals. CCU technologies are pivotal for the production scale-up of several alternative fuels providing a value proposition for reusing captured carbon which is a crucial feedstock to produce these fuels, including eMethanol, sourced from captured carbon and green hydrogen generated by electrolysis. In other legislative files, such as the Renewable Energy Directive (RED) and the FuelEU Maritime Regulation, the European Commission has deployed specific policy levers to drive demand of these fuels, creating a significant disconnect if the supply-side support initialized under NZIA fails to include CCU technology. For the sake of coherency and clarity we call on policymakers to address this fact and add carbon capture and utilization under the category of highest priority (if such listing is maintained).

3. Give priority to technologies that produce circular chemicals and large platform energy carriers

Whilst MI supports a transition away from the approach of prescribing technologies, in a scenario where listing the prioritized technologies is considered necessary, it is pivotal that low-carbon and net-carbon neutral fuel production be mentioned specifically as strategic net-zero technologies. These same technologies are required to produce circular, sustainable, primary chemicals. The energy transition of mobility and industry is unattainable in the absence of a massive scale-up of technologies which support the integration of such primary chemicals. Particularly important in that context are hydrogen and hydrogen derivatives with significant potential to reduce GHG intensity of both existing value chains such as chemical production and hard-to-abate sectors, such as aviation and maritime. As supply remains limited and upstream inputs expensive, these same energy carriers must enjoy policy support to drive their commercial integration. This is well known by other global regions as recently illustrated by the US Inflation Reduction Act. Without meaningful action at the EU level, there is a profound possibility that production of low-carbon and net-carbon neutral fuels and chemicals will shift to regions with strong subsidy regimes. Technology solutions and industrial processes such as fermentation, gasification, pyrolysis, electrolysis, carbon capture and utilization, syngas conversion, etc. should thus belong amongst the highest-priority category and enjoy policy support as such. In support of the same objective, we suggest to include a clear definition of what constitutes sustainable fuels which is coherent with existing legal frameworks. MI suggests the definition be amended to reflect the provisions of the Renewable Energy Directive.



In addition, the NZIA as presented places considerable stock on addressing capital expenditure (CAPEX) to facilitate clean-tech deployment but in turn, neglects the challenging aspect of operational expenses (OPEX). For alternative fuel production to benefit from the proposal – and the NZIA to serve its objective of truly deploying clean technologies – the funding envisioned under NZIA must be streamlined to address both CAPEX and OPEX expenses and in doing so drive investment clarity. Therefore, we continue to support a technology neutral approach, rather than a list of supported technologies, as the only realistic way forward.

4. Allocate additional funding beyond state-aid for improved effectiveness

Despite its purpose of driving change in EU industry, funding access, amounts, conditions, and timelines remain fundamentally unclear. While broad technology deployment targets are helpful, this does little in the way of presenting developers and investors with meaningful tools to drive projects toward fruition. The vast resources found in the Recovery and Resilience Fund should be leveraged to deliver the cash support necessary to reduce import substitution risks increasing the overall costs of the energy transition. Coupling the fixed premiums envisioned under the Hydrogen Bank with tax credits on per/l of low-carbon and net-carbon neutral fuel supplied to market introduced under NZIA would serve to improve the legislation effectiveness. We recommend that policymakers streamline and coordinate how market actors gain access to funding mechanisms, and that funding be allocated in a workable manner consistent with other policy instruments.

Conclusion

While NZIA proposal constitutes an important piece of legislation to combat the diminishing competitiveness of EU industry in a globalized economy, it comes with important shortfalls. To rectify the prescriptive policymaking introduced by the act, its minimal focus on fuels and mobility, and lack of credible financial support to truly drive the energy transition, the Methanol Institute proposes the adoption of a goal-based strategy coupled with significant supply-side funding schemes which includes all pivotal components capable of delivering GHG reductions.



THE METHANOL INSTITUTE (MI)

FOUNDED IN 1989

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