A Clear Path to a Net Zero Europe

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Position Paper on the EU's 2040 Climate Target and the EU Strategic Agenda 2024-2029

On February 6, 2024, the European Commission (**EC**) released its communication on the 2040 EU Climate Target (the **Communication**). The EC is putting forward a target of 90% GHG emissions reduction for 2040. Having done so, the EC is setting the European Union (**EU**) on the right path for the climate and energy transition.

However, this target alone will not suffice, it must be matched by bold regulatory and fiscal policies. To reach its climate and energy targets, the upcoming EU Strategic Agenda 2024-2029 should support competitiveness of clean energy projects, provide regulatory predictability, and ensure that all sectors of the European economy are on the path of the energy transition.

As a leading technology provider in low-carbon fuels and circular chemicals, Enerkem presents the following comments and recommendations for the EU Strategic Agenda 2024-2029.

About Enerkem

Founded in 2000, Enerkem develops and commercializes its advanced chemical recycling technology enabling the production of low-carbon fuels including advanced biofuels, renewable fuels of non-biological origin (RFNBO) and recycled carbon fuels from waste (e.g. municipal solid waste).

Its gasification technology helps diversify energy sources and offers a sustainable alternative to landfilling and incineration.

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Ambitious Targets, Bold Actions

In 2022, total net GHG emissions in the EU were 32.5% lower than in 1990. The *European Climate Law* has set a binding target of net zero emissions by 2050. This target is complemented by an intermediate target of reducing emissions by 55% in 2030.

By aligning the 2040 Climate Targets with the advice from the European Scientific Advisory Board on Climate Change and Paris Agreement commitments, the EC is setting the EU on the right course of action. Enerkem welcomes this target, which sends a clear signal that decisive climate action is needed to put the 2050 goal of carbon neutrality within reach.

Crucially, the Communication is the beginning of a critical conversation on the future of European energy policy. The EC rightly notes that the Green Deal must also be an industrial decarbonization deal. **This must encompass an ambitious review of existing regulations and bold new policies to significantly reduce GHG emissions in the industry.** This review should aim to identify regulatory barriers to innovation and the deployment of clean technologies. Following this review, necessary revisions to existing regulations should be made to accelerate the transition towards sustainable energy, such as a sub-mandate for advanced biofuels under the *ReFuelEU Aviation* and *FuelEU Maritime* regulations.

Closing the Sustainable-Fossil Price Gap

The technical limitations of electricity in certain transport modes or in off-grid heating create a challenging path towards decarbonization. For example, the maritime and aviation sectors, each responsible for about 3% of total emissions in the EU, need decisive action to reduce their GHG emissions in line with the Paris Agreement.

In the Communication, the EC underlines that maritime and air transport emissions will decline due to the *Fit for 55* measures, which support the uptake in sustainable fuels (i.e. renewable and low-carbon fuels). These measures, such as *ReFuelEU Aviation*, *FuelEU Maritime* and the revised *EU Emissions Trading System* and *Renewable Energy Directive*, are a critical step towards the creation of a strong market demand for sustainable fuels within the EU.

However, the price gap between sustainable and fossil fuels remains a key barrier in the energy transition. The Communication points to the cost of sustainable fuels as a "key factor for the competitiveness of transport operators, in particular in the maritime and aviation sectors".

To improve the industrial competitiveness of sustainable fuels and build resilient supply chains within the EU, decisive fiscal actions are needed. In a report, the Institute for Climate Economics (**I4CE**) recently pointed to a shortfall of 407 billion euros in climate investment to reach the 2030 EU targets, notably in the transport sector. According to the I4CE, investment in the energy, transport, and building sectors must double for the EU to hit its 2030 targets.

If reaching the 2030 requires doubling current investment in the energy transition, the EC's 2040 Climate Target will inevitably require an even greater financial push. **As such, the EU should provide additional fiscal support for sustainable solutions through the Strategic Technologies for Europe Platform.**

Leveraging Circular Chemicals in the Energy Transition

The climate and energy transition encompasses all sectors of the European economy. The cornerstone of European energy policy, the *Renewable Energy Directive*, is setting the Union's sector specific targets for renewable energy and emissions reduction, and creates favourable market conditions for the emergence of sustainable solutions. However, despite being responsible for over 3% of the Union's GHG emissions, the circular chemical sector lacks clear targets and incentives in the EU, notably in the *Renewable Energy Directive*.

Similar to transportation fuels, the price gap between *circular* and *fossil* chemicals remains the primary obstacle to the developments of a low-emitting European chemical supply chain. For an investment decision to be made in a sustainable chemical industrial project, clear policy signals are necessary. Presently, European regulation does not grant any sort of premium for choosing a circular chemical over a fossil one. **Enerkem underlines the importance of fostering strong policy support for circular chemicals and setting specific targets for the chemical sector.**

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Stable Regulation to Bolster Investment

Given the capital-intensive nature of sustainable fuels projects, long-term regulatory predictability is even more important. A recent report of the European Court of Auditors (**ECA**) held that "the EU biofuels policy lacked stability", that "biofuels legislation and priorities have changed frequently, meaning the sector lacks a long-term perspective", and concluded, among other things, that "all these changes and uncertainties may impact investors' decisions".

Enerkem agrees with the ECA's policy recommendation that the Commission should "provide more policy stability by preparing a long-term strategic approach" for sustainable biofuels. A clear roadmap for the uptake of sustainable fuels would provide project developers and investors with greater stability and certainty over long-term investment.

How Enerkem Will Play Its Role

Enerkem's technology is currently at the heart of several major industrial ventures contributing to the energy transition of the hard-to-abate sectors. In Tarragona, Spain, this technology is at the heart of the Repsol's Ecoplanta project which will produce biomethanol and circular methanol from non-recyclable waste. This project has been selected by the European Commission Innovation Fund (€106M) for its contribution to the fight against climate change.

Enerkem is collaborating with Dimeta, a joint venture between two of the largest off-grid energy suppliers, for the development of two large-scale projects that will convert waste into renewable and recycled carbon dimethyl ether (DME). DME is a clean-burning fuel that can support decarbonization of the off-grid energy sector, including heating, cooking, transport and industrial applications.

Headquartered in Montreal (QC), Canada, Enerkem built the first commercial-scale demonstration plant producing advanced bio-methanol and circular methanol from non-recyclable waste in Alberta, Canada. Enerkem's solution tackles both challenges of waste management and dependency on fossil fuel products while contributing to the development of a circular economy for a sustainable, net-zero-carbon future.

Recommendations for the EU Strategic Agenda 2024-2029

- Closing the price gap between fossil and sustainable requires significant investments. To reach its energy and climate targets, the EU should **provide targeted fiscal support for sustainable fuels and circular chemicals**.
- Regulatory uncertainty can become a make-or-break factor in large scale industrial projects. To provide predictability, **adopt a clear long-term roadmap for the uptake of sustainable fuels and circular chemicals in the EU**.
- Ensure that every sector of the economy contributes to the transition to sustainable energy. Specifically, **integrate the chemical industry into the *Renewable Energy Directive*** by establishing specific targets for reducing its carbon emissions and providing incentives to achieve these goals.

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