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Fertilizers Europe's position on the creation of the Hydrogen Bank

Fertilizers Europe welcomes the announcement of a dedicated Hydrogen Bank. However, an absence of a guaranteed support (for instance, compared to the US IRA which directly subsidize production of green and blue hydrogen giving a high degree of certainty and a real push to investors) and the overall level of provision, risks not being sufficient to guarantee European industry's transformation at scale.

Fertilizers Europe believes that, for a more effective European leg of the Hydrogen Bank, the following elements should be taken into consideration:

→ **Sector specific auctions are required to create a level playing field.**

Being a crucial precursor to fertilizers, green and low-carbon ammonia are vital products for strategic European food security, but also as a hydrogen carrier and a zero-carbon fuel that will play a role in the decarbonisation of hard to abate industries and the shipping sector. **Due to different cost structures and the availability of different sectors to purchase renewable hydrogen, specific auctions per end-use of strategic sectors (such as ammonia and fertilizers) should be envisaged to create competition on a level-playing field.** The difference between RFNBO-Hydrogen price and production cost is larger in certain sectors (e.g., ammonia) than in others, due to CO₂ abatement potential and ETS cost savings. This could be particularly important in the early market phases when access to renewable and low-carbon hydrogen is still limited. There is no level playing field if all sectors are competing in one auction.

→ **Hydrogen Bank auctions require prioritisation for RED targeted sectors and prioritised support for large scale projects.**

a) The RED III directive mandates that RFNBOs must account for at least 42% of hydrogen used in the industrial sector by 2030, and at least 60% by 2035. These targets are very strict, and it will require a considerable scale up in availability of RFNBO production to achieve.

The Fertilizer industry is one of the leading producers and users of hydrogen in Europe (40%) and will be most impacted by the very ambitious RFNBO industry target. RFNBO-H₂ production is still in its early phases of development and available volumes will be very limited, at least on the short to medium term. The best use of RNFBO-H₂ is in sectors that will be subject to RFNBO industry targets and that have limited alternatives to decarbonise. Therefore, sectors subject to these targets should be prioritized and off-taker restrictions need to be adjusted to reflect this. We think an off-taker agreement with a priority sector should be required.

b) Fertilizers Europe recommends setting the minimum electrolyzers requirement to 20 MW. In this way funding can be focused on sufficiently large-scale projects which carry higher economic risk but will help to realise the massive scale-up in renewable hydrogen production required to reach EU climate targets.

→ **Specific, separate calls for low-carbon Hydrogen are needed.**

Low-carbon hydrogen is an effective way to decarbonise when renewable electricity is unavailable and not price competitive. Not providing support for low-carbon hydrogen's production means neglecting its potential for decarbonising European industry and appeasing disparities among Member States.

However, different types of hydrogen should not be mixed in the same auction, low-carbon hydrogen will need a dedicated auction itself since production costs can differ greatly.

→ Regional auctions

A balance must be struck between market competitiveness, attracting cost efficient investments, and geographical enablers, providing the opportunity for all Member States to develop their hydrogen economy despite varying access to renewables. Regional bidding zones, at sufficiently large scale to ensure true competition, are one of the tools to enable a fair transition for all parts of Europe and should be considered to help Companies across the MS to access funding and to decarbonize.

→ The Innovation Fund should work with other funding streams and allow cumulation and indexation.

a) Cumulation with State Aid and other EU funding mechanisms should be allowed. The cost of decarbonisation will be significant and different funding streams should be permitted to accumulate. Allowing cumulation of support would lead to higher participation in the auction and better neutralisation of national funding. Rules for cumulation with state aid and other EU funding programs should be developed to avoid distorted competition. If a project receiving state aid or other EU funding is excluded from the auction this penalises early movers and creates a disparity between projects where their funding gap is completely covered by the Hydrogen Bank and those where state aid or other EU funding only partially covers the funding gap.

b) The support granted should be indexed with inflation. This will ensure that climate neutral hydrogen production remains competitively priced, and the goals of decarbonisation can be realised.

→ Additional recommendations

a) Project realisation periods should be increased to 4.5 years, as the permitting process can vary widely across different member states. A realisation period of at least 4.5 years allows projects to complete the permitting process and construction before the entry into operations deadline.

b) The support period should be increased to 15 years. We believe that 10 years should be the minimum length of subsidy time, but an extension to 15 years would allow for greater stability for business.

Contacts:

JASMINE BARAHMAN

Climate Policy Manager

jasmine.barahman@fertilizerseurope.com

HANNAH TODD

Green Ammonia Officer

hannah.todd@fertilizerseurope.com

About Fertilizers Europe

Fertilizers Europe represents the interests of the majority of mineral fertilizer manufacturers in the European Union. The association's membership comprises sixteen fertilizer manufacturers from countries across the Union and nine national fertilizer associations. The association communicates with a wide variety of stakeholders, institutions, European and national policymakers and members of the general public who seek information on fertilizer products and application technology, and topics relating to today's agricultural, environmental and economic challenges.