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ERCST COMMENTARY

European Hydrogen Bank: A Game Changer?

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General Overview

In the State of the Union address in September 2022, the European Commission President Ursula von der Leyen made a commitment to establish a "European Hydrogen Bank".

The official Communication was published in March 2023 and the objectives of the EU Hydrogen Bank were made clear. The Bank aims to support the creation of a robust domestic market for hydrogen within the EU and stimulating international imports. The Bank emphasizes the need of transparency and coordination by assessing demand, infrastructure requirements, hydrogen distribution, and cost data. Additionally, the aim is to streamline existing financial instruments by coordinating and blending them with new public and private funding, both within the EU and internationally, with a focus on providing guarantees.

On 23 November 2023, the first EU-wide pilot auction was launched with a budget of €800 million coming from emissions trading revenues, channelled through the Innovation Fund. It kickstarted the process of establishing market prices, fostering market development, mitigating project risks, and streamlining administrative processes.

Key takeaways from the discussion

- The creation of the Hydrogen Bank presents a timely opportunity to support the uptake of the EU hydrogen market. It can stimulate investment in hydrogen projects and expediting their implementation. Although the Bank alone may not achieve the ambitious goal of delivering 10 million tonnes of hydrogen, its Auctions-as-a-Service mechanism can enhance the adoption of projects.

- The first Hydrogen Bank's auction represented a test for the EU Commission because this is the first time that EU funding is allocated by auction, representing a new approach to resource distribution.

- Given the potential of hydrogen in decarbonizing industrial sectors such as steel and fertilizers, strengthening the connection between industrial demand and hydrogen production is essential. The decarbonization pathway of these industries necessitates large quantities of hydrogen. Therefore, a more competitive market ensuring an adequate supply of hydrogen is crucial to enable them to maintain production within the EU and remain competitive.

- There is political willingness to support the hydrogen economy, as well as willingness from the industry to buy hydrogen and green hydrogen. However, the cost of hydrogen remains very high, and no project will succeed without realistic subsidies.

Propositions from the stakeholders

- **Inclusion of grey hydrogen in the Hydrogen Bank bids**: considering the substantial volumes of hydrogen needed to achieve the 2030 targets, the incorporation of grey hydrogen will be beneficial in meeting demand. The Hydrogen Bank has been awaiting the delegated act on low carbon, for a clear definition of ‘low carbon hydrogen’. However, this definition is not expected until the end of 2025.
- **Sectorial approach**: given that EU industries begin from different starting points and must comply with various directives, particularly the RED III directive and RNFBO targets, implementing sector-specific bids will provide the opportunity for various projects in different sectors to win, competing with similar projects.
- **Promotion regional balance within the European Union**: Member States have different capacities to provide state aid. This can lead to higher fragmentation in the EU. The Innovation Fund's mandate offers an opportunity to rectify this issue by incorporating provisions for regional balance. The inclusion of such measures in the second auction can ensure that all regions have equitable access to support and opportunities for growth. This approach not only fosters cohesion but also strengthens the overall resilience and competitiveness of the European Union.

ERCST considerations

- The debate on "Hydrogen Bank as a game changer" between the EU Commission and the panellists shed light on numerous relevant aspects and occurred at the right time. Indeed, the EU Commission, after the first auction test, which was by definition limited, wishes to improve the mechanism for the next auctions, particularly for the second one at the end of 2024.
- All stakeholders are aware that without a new financial support mechanism for renewable hydrogen demand, very few projects will be operational in 2030. The causes are multiple: limited supply of renewable hydrogen (particularly in certain regions), no consideration of decarbonized alternatives such as low-carbon hydrogen, renewable hydrogen price well above expectations, lack of transport infrastructure, rising investment/financial costs, absence of a market for decarbonized products.
- The EU Commission’s initiative on the Hydrogen Bank comes at the right time, but its success hinges on whether it can effectively boost demand from hard-to-abate industry sectors in the next auctions. These sectors are the major potential consumers of renewable/low carbon hydrogen in terms of quantity and environmental impact. This boost is crucial for allowing the market to achieve an effective critical mass.

Way Forward

- The EU Commission is working on the "Lessons Learned". The level of competition will be analysed, as well as how the sectors were represented, bids received, and other factors.
- A stakeholders' consultation will soon be published to gather input from key market players.
- The second Hydrogen Bank auction round will be launched at the end of the year, as announced by the EU Commission President Ursula von der Leyen on November 20th, 2023. The EU Commission is currently working on defining this second auction. Overall, the aim is to maintain a certain level of consistency with the initial auction while taking into account the market response and the lessons learned from the first auction.