

Bellona Europa Feedback to Public consultation on the revised Climate, Energy and Environmental Aid Guidelines (CEEAG)

Bellona Europa welcomes the efforts by the European Commission to update the *Guidelines on State aid for environmental protection and energy (EEAG)* – as outlined in the European Green Deal. We also welcome the invitation to provide views and recommendations on the published proposal.

The published proposal of the *Guidelines on State aid for climate, **environmental** protection and energy (CEEAG)* clearly, through changes both in name and definition of environmental protection, makes clear climate change mitigation's inclusion and is an important step on the path to delivering on the ambitions set in the European Green Deal.

The proposed CEEAG extends the scope to new areas and has an increased focus on technology neutrality, in line with the EU Sustainable Finance Taxonomy. This is an important step to ensure harmonization across EU legislation when it comes to determining what economic activity and investments are sustainable and contributing to climate neutrality by 2050. While technology neutrality is important, it can only serve the purpose of delivering the most cost-effective solutions for climate change mitigation if accompanied by sustainability criteria and safeguards, for example as provided by the Technical Screening Criteria in the EU Sustainable Finance Taxonomy. In reviewing the proposal for the revised CEEAG we note that consistent reference to the EU Sustainable Finance Taxonomy is lacking. On key proposed aid categories in the proposal we do not currently find sufficient sustainability criteria or safeguards to ensure the climate impact of the aid in question. We therefore present you with the below recommendations of necessary changes to ensure that funding through state aid in fact contribute to real climate change mitigation where most needed– without undue distortions to competition in the market. **As a general remark, we recommend that the EU Sustainable Finance Taxonomy Technical Screening Criteria are incorporated into the proposal and used to determine to what extent investments are sustainable and can be eligible for state aid under the CEEAG.** This will ensure that state aid, as set out in point 108, does not “*unduly distort competition where it displaces investments into cleaner alternatives that are already available on the market, or where it locks in certain technologies, hampering the wider development of a market for and the use of cleaner solution*”.

1. Undefined decarbonized gases and fuels cause of distortive effects on market competition

As highlighted by Bellona Europa in our 2021 briefing “Undefined ‘decarbonized’ gas has no role on path to net-zero by 2050”¹, we are seeing an increased reliance on decarbonized fuels, gas in particular, to decarbonize our economy.

While low-carbon intensity gases and fuels can contribute on the path to net-zero by 2050, the terminology used when referring to them is confusing. Currently, there is no common definition to determine when in fact a gas or fuel is renewable or low-carbon. This has also been pointed out by the ICCT briefing “Gas definitions for the European Union”², where it is stated that terms such as “low-carbon”, “decarbonized”, “green” and “renewable” gases are being used interchangeably by stakeholders without specifying their climate impact. These categories encompass a variety of gases and fuels which all have different climate impacts

¹ [Briefing: Defining Low Carbon and Renewable Gas - Bellona.org](https://www.bellona.org/publications/briefing-defining-low-carbon-and-renewable-gas)

² [icct - gas definitions for the european union.pdf \(europa.eu\)](https://www.icct.eu/publications/icct-gas-definitions-for-the-european-union.pdf)

and can come both from renewable and fossil sources.

While often times referred to as “renewable” and “low-carbon” gases across EU legislation, there is no reference to a clear legal definition of these terms or which gases and fuels are encompassed by the specific terms. While we therefore appreciate the inclusion of a definition of “renewable gaseous transport fuels of non-biological origin” under section 2.4 (63) of the CEEAG, there is a lack of definition of a remainder of terms used to describe so-called decarbonized fuels and gases throughout the document³.

The purpose of any “renewable” or “low-carbon” fuel or gas is to significantly reduce emissions compared to the fossils they are replacing. But without a clear definition and common language, we risk further investment and development of infrastructure which is in reality not used for this purpose – all under the guise of sustainability and emission reduction. Before they are recognised as tools for mitigating climate change, their definitions and GHG calculation methodologies should be set and standardised in order to determine whether they actually can contribute to that goal.

In the context of the CEEAG and limiting undue distortive effects on competition resulting from state aid, the lack of definitions could lead to disproportionate competitive advantages for fuels or gases with no climate change mitigation impact at the expense of fuels or gases with actual climate change mitigation impact. Investments in the gases and fuels with no climate change mitigation impact included in the terms for “decarbonized” gas and fuels would in fact, as stated under point 108 of the CEEAG, *“unduly distort competition where it displaces investments into cleaner alternatives that are already available on the market, or where it locks in certain technologies, hampering the wider development of a market for and the use of cleaner solution”*. Point 108 also sets out that it must be ensure that aid measures do not stimulate or prolong the consumption of fossil-based fuels and energy hampering the development of cleaner alternatives and reducing the overall environmental benefit of the investment. To ensure this is not the case when it comes to “renewable” and “low-carbon” gases and fuels, **it is therefore our recommendation that a definition as well as a robust and transparent accounting is included in the CEEAG – and indeed across EU legislation.**

This is particularly important in the CEEAG as we clearly see in points 339 (and related points throughout the document) that investments in fossil infrastructure can be justified through future potential eligibility, or as described “fit for use”, with “hydrogen, and renewable gases or fuels of non-biological origin”. This point is further elaborated in recommendations below.

To address this issue and provide a clear methodology for assessing the climate impacts of these different fuels and gases, a coherent and consistent terminology and definition is needed in the CEEAG. The definition and accounting must take into account 3 main factors:

³ For specific reference see section 2.4 (35v), points: 75, 108, 110, 326, 348 and 339 – to mention but a few examples though more exist throughout the document.

1. The carbon intensity of the energy input
2. The carbon input, if there is any, and its origin
3. The upstream emissions of the feedstock used to produce the gas/fuel

2. “Fit for use”: Loophole for unabated natural gas infrastructure investments with distortive effects on competition

Category 4.9 “Aid for energy infrastructure” provides unabated natural gas with disproportionate competitive advantages at the direct disadvantage of available cleaner alternatives.

Point 339c) opens up for investments into unabated natural gas infrastructure under the CEEAG. Unabated natural gas infrastructure investments not eligible with future use of “hydrogen, and renewable gases or fuels of non-biological origin” must justify its eligibility for state aid by explaining not only how the investment in question does not lead to a lock-in effect, but also how the investment contribute to the climate targets of 2030 and 2050. Any unabated natural gas infrastructure investment which can in fact be eligible for use with “hydrogen, and renewable gases or fuels of non-biological origin” are exempt these requirements. However, any infrastructure that is suitable for hydrogen and synthetic RFNBOs is also suitable for fossil gas.

The paragraph assumes that so-called “fit for use” infrastructure automatically results in a positive competitive effect. It fails to recognize that such investments prolong the usage of unabated fossil-based fuels, as **eligibility for use does not equal requirement for use**. The text as currently written does not ensure a timely shift away from unabated natural gas, and indeed does not ensure that a shift towards the lower-carbon intensive gases will ever take place. In fact, [we have real examples](#) of what effects such “eligibility” for use contra “requirement” for use has had in the past. For more than a decade, every fossil gas and new coal power plant in Europe was built to be “CCS ready”. In reality this meant very little, with no tangible modification to the design or planning of the plant. Being CCS ready provided zero additional mandate to reduce emissions or deploy CCS. In the same way, “fit for use” with hydrogen and undefined “renewable gases or fuels of non-biological origin” will enable investments for fossil natural gas infrastructure.

Any aid used for unabated natural gas infrastructure, could in the counterfactual scenario have been spent on clean, low-emission alternatives. As outlined by an Artelys 2020 study⁴, we no longer need investments into natural gas infrastructure. Not only would the current text lead to aid prolonging the use of unabated natural gas, it would hinder the development of low-carbon alternatives and thus have a distortive effect on market competition in favour of unabated natural gas.

It is therefore our strong recommendation that the current text referring to “fit for use” with “hydrogen, and renewable gases or fuels of non-biological origin” is amended to

⁴ [An updated analysis on gas supply security in the EU energy transition \(artelys.com\)](#)

subject any investment into natural gas infrastructure to two of the three criteria outlined in point 339c): 1) state why the project does not create a lock-in effect for the use of fossil-gas, and 2) how the investment contributes to achieving the Union's 2030 and 2050 climate target.

3. ***Current proposal includes exemptions for sustainability criteria contributing to lock-in effects***

Unabated fossil fuels should be excluded from receiving state aid, whenever a market-ready alternative exist, and always be subject to the assessment under the two points outlined in recommendation 2. Allowing the provision of state aid to unabated fossil gas technologies will inevitably result in giving competitive advantages to a technology responsible for locking in GHG emissions for decades to come.

According to the current draft, state aid can be used to support the installation of gas-fired heaters in building in case they are substituting a previously installed oil- or coal-fired equipment (134). **Non-fossil based alternatives (such as heat pumps) exist on the market and can be widely deployed, therefore state aid should not be given to the deployment of gas-fired solution which would lock in fossil fuel for the upcoming decades.**

Similarly, the current draft allows the provision of state aid for the acquisition of CNG and LNG vehicles if the Member State commits to ensure that those vehicles would be operated using blending of biogas or renewable gaseous transport fuels of nonbiological origin (minimum 20%). **However, wherever more sustainable alternative exist (e.g. electric vehicles), natural gas vehicles should be excluded from receiving state aid, regardless of the blending requirements.**

4. ***Continued inclusion of aid for CCS: Important recognition with positive market effects boosting competition, but multiple transport modalities still missing***

It is encouraging to see the continued inclusion of CCS under category 4.1 "Aid for the reduction and removal of greenhouse gas emissions including through support for renewable energy".

With the proposal, the European Commission shows acknowledgement of the fact that nearly all EU net-zero by 2050 scenarios rely on large-scale carbon dioxide capture and storage. In particular, capturing and storing CO₂ emitted by harder-to-abate industrial processes is an important step for rapid climate change mitigation. Today there are several dozen carbon capture and storage of project in various stages of development in Europe – but the problem remains: how to ensure large-scale deployment? State aid is an important tool to alleviate and overcome barriers for large-scale deployment resulting from market failures currently present. The CEEAG, on this point, is also in line with the EU Sustainable Finance Taxonomy, as well as the newly proposed revision of the EU ETS.

Where it is not in line with the EU Sustainable Finance Taxonomy and the proposed revision of the EU ETS, however, is on the point of transport modalities. The definition used for

carbon dioxide infrastructure eligible, under section 2.4 point (35) d), the CEEAG currently does not include multiple transport modalities, only pipelines.

As outlined by Bellona Europa over the course of our campaign focusing on the TEN-E Regulation revision (#TenETuesday) we have interviewed several industrial facilities looking and eager to invest in CCS. While the availability of storage for captured CO₂ is a prerequisite and something the CEEAG covers today, the accessibility to such storage facilities is also vital, and not optimized when only pipelines are eligible - as per the current CEEAG proposal. Industrial facilities located in countries where storage facilities are not available, will have to transport their CO₂ to countries that do have available storage facilities. Although vital, pipelines are not always the most cost-effective option, if even an option at all. To incentivize further project development and actual deployment, support for CO₂ transport via modalities such as ship, rail, truck and barge should be included in the CEEAG proposal. To learn more about our ongoing campaign and the “faces behind the policy” go to our dedicated [website](#).

It is therefore our recommendation that the current proposal for the CEEAG is amended to ensure eligibility of multiple modalities for CO₂ transport, also ship, barge, truck and rail, as opposed to today’s proposal which only covers CO₂ transport via pipeline.

5. *Additional safeguards needed: CCU cannot be included as “decarbonization technology” on equal footing with CCS*

While the continued eligibility of CCS is fully supported by Bellona Europa, we are concerned that CCU is included as a “decarbonisation technology” on equal footing to CCS. As opposed to the included definition for carbon capture and storage (CCS) set out in section 2.4 point (13), point (14) defining Carbon Capture and Use (CCU) does not include any safeguards ensuring its climate change mitigation impact.

The use of fossil CO₂ does not have significant emission abatement potential. From a climate perspective, the extent to which a CCU product can contribute towards climate change mitigation depends on several factors. Notably the life cycle of the product and whether and when the captured CO₂ is released into the atmosphere (e.g., CCU fuels are combusted and release the CO₂ into the atmosphere upon their use). It should be noted that CO₂ is inert and the use of CO₂ is resource intensive, requiring significant clean energy to produce a fuel using or reactive mineral input to bind the CO₂ and form a solid material. The current CEEAG proposal does not require a clear lifecycle analysis to determine in what circumstances CCU can in fact contribute to climate change mitigation.

In fact, CCU and CCS is treated on equal footing, this despite a 2017 study from the Energy & Environmental Science Journal finding that [“...analysis shows CCU to be an inferior mitigation option compared to a system with CCS producing the same fuel without CO₂ utilization”](#). While CCU *can* play a role on the path to net-zero by 2050, this depends on a range of factors currently not included as part of the CEEAG proposals. For details on such

specification, Bellona Europa has put together [this presentation](#) – we would also be happy to contribute to the further process with input should it be of interest.

The current CEEAG proposal is also not in line with the EU Sustainable Finance Taxonomy – where CCU’s eligibility as a sustainable investment has yet to be determined – or the most recent proposal of a revised EU ETS. The latter setting out that the innovation fund will only support CCU when it is done in “a way that contributes to mitigating climate change”⁵

State Aid should not contribute to a shift of funds towards unsustainable projects. Support offered to CCU projects without ensured storage, as opposed to CCS projects, is an opportunity cost we cannot afford on the path net-zero by 2050. It would not only hamper the climate change mitigation effect of the state aid in question, it would threaten to increase the concentration levels of CO₂ in the atmosphere under the guise of sustainability and environmental protection. Including CCU without the proper safeguards risks distortive competitive effects resulting in a perverse incentive favouring usage over storage – increasing market barriers today facing large-scale deployment of CCS, resulting from market failures prevalent in the market. If unaddressed, a new market for CO₂ usage without ensured storage is created at the expense of CCS – the latter contributing to actual climate change mitigation.

It is therefore our strong recommendation that safeguards ensuring that investment into CCU of fossil CO₂ can only be eligible as state aid if the CO₂’s permanent storage following usage is ensured. This can be done either through specification in the definition of CCU under section 2.4 point (14) – or specification throughout the document⁶.

⁵ See recital 30 and specification throughout text in proposal published as part of fit for 55 package now up for consultation: [Climate change – updating the EU emissions trading system \(ETS\) \(europa.eu\)](#).

⁶ For specific examples see point 75, 110, 326 and 348.