

## **Recommendations to the European Commission on the “Guidelines on State Aid for Climate, Environmental protection and Energy 2022” (CEEAG)**

We have a strong ambition to contribute to the green transition, hence also welcome the possibility to provide recommendations to the European Commission guidelines. We welcome the extended guidelines, which enable support in new areas and technologies that contribute to achieving the targets set by the European Green Deal.

Overall, the proposal provides space for the relevant greenhouse gas reduction measures, however, we would recommend the consideration of the following amendments in the guidelines to ensure a more flexible, gradual and consistent regulatory environment to support the green transition. The new guidelines should support all activities with the potential to contribute to the climate transition in harmony with the principle of technology neutrality, and should also take into consideration the gap to reach targets and other specificities of different regions.

### **Proposed amendments in CEEAG for consideration:**

#### **Section 2.4 Definition of carbon capture and storage and energy infrastructure to be clarified**

**(13) and (14)** The definitions of carbon capture and storage and usage should address all relevant sources of CO<sub>2</sub> including biogenic, fossil CO<sub>2</sub> and non-fossil CO<sub>2</sub> from industrial processes, not only power plants and waste-to-energy plants. The current proposal is not explicit whether the proposed definitions would cover non-fossil CO<sub>2</sub> from industrial processes, such as biofuel production.

**(35 d)** Furthermore, the draft CEEAG excludes the upstream pipeline network from its definition of energy infrastructure for carbon-dioxide. It is not clear in this context what is meant by the “upstream pipeline network” or why this is specifically excluded from the scope, in particular when infrastructure associated with the geological storage facility has been included. We therefore recommend the removal of the exclusion of the “upstream pipeline network”.

Furthermore, the definition of CO<sub>2</sub> transport infrastructure should cover all the possible CO<sub>2</sub> transport modalities not only CO<sub>2</sub> transport by pipeline in order for other transport modes such as ship, rail and truck to be eligible for state funding. This would ensure coherence with the delegated act on climate mitigation and adaptation activities under the Sustainable Finance Taxonomy, as all modes of CO<sub>2</sub> transport are covered in the final version of the delegated act as well as the Commission proposal amending the EU ETS (COM(2021) 551 final).

#### **Section 3.3. Legal uncertainty to be avoided regarding the references to Taxonomy**

**(69)** We are concerned about the premature use of the “Do no significant harm principle” (DNSH) when assessing the negative effects on competition and trade of state aid. The objective of the Taxonomy Regulation is to classify private investments and financial products, and it does not fully cover the energy sector. Moreover, given the fact that the Taxonomy is still under development and the delegated acts on four remaining environmental objectives are still pending, legal uncertainty arises for Member States when designing their state aid schemes and deciding what might be considered an environmentally sustainable activity.

#### **Section 4.1. Aid for greenhouse gas emissions reductions to maintain a technology neutral approach**

We welcome that the guidelines aim to take a technology neutral approach considering the reduction of greenhouse gas emissions.

**(74)** We welcome the support of energy storage, and call for ensuring the principle of technology neutrality in this area as well (i.e. battery, gaseous or even mechanical storage should be supported).

**(82)** It should be confirmed whether state aid would be eligible for renewable energy production in the form of grouping different technologies at a power plant for the purpose of scheduling power generation. In our view this would be more efficient than supporting weather-dependent power generators, which then would require other measures to ensure system-level functionality.

**(94)** The draft guidance interprets the supplier obligation schemes as an instrument to allocate aid, however, supplier obligations usually do not fall under state aid definition. We do not agree with this approach, as (1) buyout or penalty price is not state aid and is therefore not part of the scope of these guidelines, and (2) the production of most of the available low-carbon products, in addition to requiring significant investments and ongoing support, also involves significant technological risks. Incentives should also take this risk into account. In our view, it should be left to the Member State to decide what conditions it sets for buyout and penalty price in light of local circumstances.

**(103)** We welcome the possibility of granting aid for decarbonisation via a variety of forms, in particular carbon contracts for difference (CCfDs). Considering the upcoming provisions of the “Fit for 55” package, aid which covers costs linked to operation rather than investment will become more and more important, and could result in more environmentally friendly operating decisions.

**(110)** We also welcome that investments in natural gas could be seen as having positive environmental effects, as long as Member States explain how the investment contributes to achieving the Union’s 2030 climate target and 2050 climate neutrality target. In our view, the guidelines must take into account that the biggest challenge at present in the EU is to replace coal-fired power generation, for which natural gas offers the most economical solution. Without natural gas as a transition fuel, the chances of meeting the 2030 targets will decrease and the costs of the transition will increase. In addition, natural gas can provide the basis for the development of many necessary low-carbon technologies and their supply chains, and the gradual expansion of low-carbon and renewable hydrogen and other gases can be based on gas infrastructure.

We welcome the inclusion of carbon capture as an important technology to reduce GHG emissions, and would like to stress the importance that both pre- and post-combustion carbon capture should be eligible for aid.

#### **Section 4.3. Aid for clean mobility to take into account low-carbon liquid fuels and hydrogen with CCUS, beyond electricity**

**(167-170) (173-175)** In our view, support for clean mobility should take a more technology-neutral approach to low and zero emission vehicles and related charging infrastructure. A consideration based on full life-cycle thinking would require that not only electric vehicles but also low-carbon liquid fuel vehicles receive the necessary support.

While electrification of the road transport sector is an important tool for climate neutrality, low-carbon liquid fuels play a critical role in the energy transition and achieving carbon neutrality in all modes of transport. Therefore, in addition to electrification and hydrogen technologies, low-carbon liquid fuels will remain essential after 2050, and we recommend their explicit entitlement to state aid.

**(161) (162) (185)** We do not agree with the suggestion that support for CNG / LNG charging infrastructure would have a lock-in effect, as fossil gases can be replaced by renewables, similarly to electricity. There are examples of very promising R&D projects for the development of sustainable biofuels and e-fuels as well as gaseous hydrocarbons such as liquefied natural gas (LNG) and compressed natural gas (CNG) that have superior sustainability credentials both in terms of reducing GHG emissions and their impact on land use and ecosystems. We invite the European Commission to reconsider this limitation given the contribution that all the low-carbon liquid fuels can give to the climate transition in the transport sector.

**(186)** One of the main building blocks of EU decarbonisation is the increasing use of hydrogen, including in transport. However, the hydrogen strategy published by the Commission also states that it is currently a much more economical solution to reduce carbon intensity if CCUS is linked to hydrogen production. In addition, this solution is even more effective. We do not agree that the lock-in effect would be greater for any hydrogen charging infrastructure than for the construction of an electric charging network.

#### **Section 4.3. Aid for clean mobility to take into account issues regarding electricity distribution as well as undue effects on competition**

State aid rules should take time factors and related additional costs into account. It depends on both the DSO and the network whether there is enough distribution infrastructure to get the electricity to the EV charging point. We observe that administration on the DSO side is slow; providing 100 kW of power through grid development takes an average of 1.5 years. It would be important for the state aid guidelines to consider the additional cost and lengthiness of such procedures. The slowness of tendering depends on the sub-institutions, public utility managers.

Secondly, the payback time of EV charging installations is significantly worsened by the fact that charging points have to pay peak capacity fees while the peak is actually rarely taken advantage of. State aid rules should take these additional costs into account, and in the legislative framework, DSOs should be required to apply dynamic performance tariffs (or to install plenty of energy storage).

Finally, in certain Member States like Slovakia, fuel suppliers renting the motorway service area are not allowed to install EV charging points. Instead, the state issues tenders, whose winner (usually the electricity provider) will install the charging points at petrol stations. This practice has an undue negative effect on competitiveness and trade. Petrol stations are already located based on driving patterns, therefore this infrastructure can be a key element to create an efficient EV charging network. All actors should be allowed to install such infrastructure to enable the needed proliferation of charging points along TEN-E and NEXT-E corridors.

#### **Section 4.4. Aid for advancing the circular economy to support all operations that avoid the disposal of waste or other products**

Firstly, we welcome that aid may be granted for investments for the reduction, prevention, preparing for re-use, preparing for recycling and recycling of waste as well as other products, materials or substances, which would otherwise be disposed of, or be treated based on a treatment operation that is situated lower in the priority order of the waste hierarchy. However, we believe that beyond reuse and recycling, all technologies, including waste-to-energy technologies should be supported that provide a solution for waste streams and other products, materials or substances, which would otherwise end up in landfills.

The EU waste directives set out to recycle 65% of municipal solid waste, and maximise municipal waste in landfills in 10% by 2035. In Central and Eastern European countries, from a waste management perspective, the development and support of waste-to-energy facilities is necessary beyond recycling to achieve these targets. In the case of Hungary, where MOL Group is headquartered, in 2019, 51% of municipal solid waste was landfilled, 36% recycled, and 13% incinerated. Even when achieving the 65% recycling target and the maximum 10% landfilling target by 2035, the remaining 25% of waste generated will still need to be treated in other facilities. This highlights the need for approximately 1.2 Mt additional energy recovery capacity in Hungary (more than double the amount of the current ~500 kt), without jeopardising recycling rates. Similarly, in other countries in the region where MOL Group operates, like Slovakia, Croatia and Romania, landfilling rates are still much higher than the European average (52%, 59%, 76%, respectively), and recycling is low (38%, 30%, 12%), justifying the need for additional energy recovery capacity to reach the targets.

Secondly, we also welcome that beyond waste, the guidelines also foresee support for the reduction, prevention, preparing for re-use, preparing for recycling and recycling of other products, materials or substances. However, we believe that these definitions need to be clarified better in footnote 81. According to our interpretation, such materials include, for example, RDF (Refuse Derived Fuel), which is the residual waste obtained after the sorting of mixed municipal waste and separate waste collection. In some EU countries, RDF has a product status, although it has not gone through recycling operation. While at present this product is mostly utilized as a fuel in power plants or cement plants, thanks to innovative technologies, it can be recycled back into chemicals and plastics through chemical recycling. In our opinion, it is therefore necessary to support such recycling activities that clearly replace treatment operations that are situated lower in the priority order of the waste hierarchy.

#### **Section 4.9. Aid for energy infrastructure to include aid for repurposed pipelines and refinery infrastructure**

**(334)** We acknowledge that the guidelines foresee aid for gas and electricity infrastructure. Along with construction and upgrade of infrastructure, the repurposing, conversion or retrofitting of existing gas transmission and distribution networks (including upstream pipelines, product pipelines, unused TSO/DSO pipelines) should also be eligible for state aid. Pipeline repurposing can be beneficial also for the faster and more cost-efficient realisation of CCS projects as well as the creation of the market for hydrogen and renewable gases. In addition, repurposing is also an environmentally friendlier option than new construction, as long as the pipeline is properly inspected before repurposing and continuous monitoring is in place, and as long as such investment makes the networks ready for adding renewable and low carbon gases, such as hydrogen, biomethane and synthesis gas, into the system and allows to substitute solid fossil fuels installations.

Moreover, the text and definitions do not clearly include the refining industry infrastructures. The flexibility and resilience of the refining industry infrastructures, including those for the distribution of products, will allow the transformation to occur at a comparatively low cost and with immediate benefits in terms of CO<sub>2</sub> reduction. In particular, they will allow the industry to process a variety of feedstocks and deliver a range of products. For instance, new low-emission hydrocarbon fuels will serve as building blocks for chemicals, lubricants, waxes and bitumen, which are needed to ensure the competitiveness of the European economy.