

## **The position of the Hungarian authorities regarding the Commission's draft guidelines on State aid for climate, environmental protection and energy 2022 (CEEAG)**

### **Section 2.1 (Scope of application)**

The CEEAG draft's Hungarian version contains a minor translation error. In paragraph 12(d), the English version states that the CEEAG will not apply to "state aid for atomic energy". In the Hungarian version, it says "*az atomenergiára nyújtott állami támogatás előleg*", which translates as "state aid *advance payment* for atomic energy". The last word, *előleg* (advance payment) should be removed from the Hungarian version when the CEEAG is adopted.

### **Section 2.4 (Definitions)**

Paragraph (18) item (35) of the draft defines energy infrastructure. Concerning carbon dioxide infrastructure, the definition is limited to pipelines. The Hungarian authorities would welcome the extension of the energy infrastructure definition to all methods of transportation of carbon dioxide (e.g. water transportation, land, air etc.) and not just of pipelines. Extending the definition to all possible CO<sub>2</sub> transport infrastructure is key to ensure that future carbon capture and storage (CCS) projects can be carried out as widely as possible, in the most cost-effective way and without being constrained by the location of a fixed pipeline system.

### **Section 3.3 (Weighing the positive effects of the aid against the negative effects on competition and trade)**

Paragraph (71) of the draft practically excludes the eligibility of new natural gas installations for aid. The Hungarian authorities do not agree with the introduction of this exclusion before 2030. This is because transition solely based on renewables is neither technically nor economically feasible.

The replacement of coal and lignite fired plants will require heavy investment and possibly state aid. If only long-term climate goals are taken into account, transition will be more difficult, and if gas plants cannot receive aid, coal-based plants will possibly have to be operated longer.

For this reason, new gas plants should remain eligible for aid until 2030 (or the balancing test should allow the Commission to authorise aid to them if the counterfactual is the continued operation of coal-based plants with heavy implications for the environment) to ensure a smoother and feasible transition. In a nutshell, if natural gas fired plants are excluded, the 2030 objectives will be in jeopardy, and the overall costs of transition will grow.

### **Section 4.1 (Aid for the reduction and removal of greenhouse gas emissions including through support for renewable energy):**

A general comment is that according to the new draft CEEAG, there will no longer be a separate aid category for existing biomass plants after plant depreciation, which exists in the currently effective guidelines. The Hungarian authorities would like to make sure that Section 4.1 of the CEEAG covers this category, including the possibility to grant aid to depreciated renewable plants under the CEEAG.

Regarding paragraph 74, the Hungarian authorities welcome that the possibility of aiding storage is specified in the draft. We would like to recommend that the rules should specifically state that in principle aid to any storage technology is allowed (battery, gaseous or mechanical).

In connection with paragraph 82, we would like to suggest that the Commission should allow the granting of aid to help the combination of multiple technologies in a single plant to help a renewable plant keep the designated schedule of production.

Regarding paragraph 83, the Hungarian authorities agree that technology specific or not completely technology neutral tenders should be allowed for renewables for diversification reasons, but not only in the interest of network stability, but also for other (e.g. market) reasons that the Commission finds acceptable in the context of a notification.

According to paragraph 92, aid for renewables without a tender will only be possible under 400 kW capacity. The same limit under the current rules in the EEAG is higher, 1 MW. The Hungarian authorities see no reason to lower this limit; this will create an administrative burden in granting aid for relatively small plants.

Paragraph 98 will require Member States to estimate the emissions avoided for each aided project or activity. In the case of renewable aid, we see this as an unnecessary administrative burden, especially for existing aid schemes that will have to be updated to comply with the new CEEAG.

#### **Section 4.2 (Aid for the improvement of the energy and environmental performance of buildings):**

Paragraph 119 limits the scope of beneficiary ESCO companies to SMEs and small mid-caps. Hungary proposes the extension of the scope of large enterprises to incentivise ESCO schemes.

Paragraph 134 describes very vaguely the Commission's approach of the possibility of aiding natural gas-fired equipment. However, the Hungarian authorities believe that a more specific description of the Commission's approach is needed (possibly with examples and detailed descriptions of cases when the positive effects of aiding of natural gas outweighs negative effects), because this very general description of the conditions makes the planning of measures very difficult.

#### **Section 4.3 (Aid for clean mobility):**

Regarding paragraphs 161, 162 and 185, the Hungarian authorities do not agree with the possibility of a lock-in effect in the case of CNG/LNG charging infrastructure as fossil gases can be replaced by renewable gases gradually, similarly to the way the ratio of renewable and low emission electricity can gradually increase. The 20% blending requirement should only be required subject to the availability of biogas and renewable gaseous fuels.

Regarding clean mobility aid, paragraphs 167 to 170 and 173 to 175, the Hungarian authorities would like a more technologically neutral approach. In addition to electric vehicles, vehicles operating with liquid fuels of low CO<sub>2</sub> emission should also be allowed to be granted aid. While electrification of the road transport sector is an important tool for climate neutrality, low-carbon liquid fuels will play a critical role in the energy transition and in achieving carbon neutrality in all modes of transport.

Regarding paragraphs 178-179 and 182, in addition to renewable hydrogen, Hungary recommends the inclusion of decarbonised or low-emission hydrogen. In the next 10 years, there will not be enough renewable hydrogen available to decarbonise transport. Moreover, the Commission's hydrogen strategy also recognizes that low-emission hydrogen will play a key role in transforming the transport sector in the short to medium term.

Regarding paragraph 186, the Hungarian authorities would like to note that one of the main building blocks of EU decarbonisation is the increasing use of hydrogen, including in transport. The hydrogen strategy adopted 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. The Hungarian authorities disagree that any hydrogen charging infrastructure would create a larger lock-in effect than the development of electric charging networks.

#### **Section 4.4 (Aid for resource efficiency and for supporting the transition towards a circular economy):**

A number of paragraphs (e.g. 192, 203, 204, 205, 209, 216 or 221) in this Section mention other “substances” and “materials” in addition to waste. However, the definition of waste as referenced by the CEEAG draft should cover any other substance or material. According to Article 3(1) of the Waste Directive (Directive 2008/98/EC), waste means “any substance or object which the holder discards or intends or is required to discard.”

The Hungarian authorities propose the specific inclusion of RDF (refuse driven fuel) among the other substances and materials for which this aid under this Section 4.4 is possible because currently this category is used as fuel but with innovative solutions material recovery and chemical recycling are also possible to process RDF into chemicals and plastic. For this reason, it is reasonable to allow Section 4.4 aid for RDF.

The Hungarian authorities welcome the possibility of aid for investment in waste reduction, prevention, preparation for re-use and recycling for waste that would otherwise be disposed of or treated at a lower level in the waste hierarchy. However, the Hungarian authorities request the Commission to allow aid for all technologies, including energy recovery, that provide a solution for waste streams that would otherwise be disposed of in landfills.

The objective set by the European Union for 2035 is to maximize landfill by 10% while recycling at least 65% of municipal waste. If the minimum recycling target of 65% and the maximum landfill target of 10% are met, the remaining 25% of municipal waste will still have to be treated in other facilities. Without the development of energy recovery capacities, the 2030 and 2035 waste targets in the Central and Eastern European region will not be met realistically.

#### **Section 4.6 (Aid for the remediation of contaminated sites, for the rehabilitation of natural habitats and ecosystems and for biodiversity and nature-based solutions):**

Paragraph 258 requires Member States to decrease the amount of aid by the increase in value. The Hungarian authorities propose that the Commission should publish guidance for calculating land and property value to allow the uniform application of this rule.

#### **Section 4.9 (Aid for energy infrastructure)**

Hungary welcomes the fact that the proposed text allows aid for gas and electricity infrastructure. However, Hungary notes that the text does not include refinery infrastructures, whose flexibility and resilience allow for a transformation with relatively low costs and immediate benefits of carbon dioxide emission reduction. Refinery infrastructure aid would allow the refinery and chemical industries to develop a variety of alternative raw materials to produce sustainable and innovative products. Alternative low-emission hydrocarbons will be the building blocks of chemicals, lubricants, waxes and bitumen, which will be useful for the EU's competitiveness.