

Fertilizers Europe's background document to the Public Consultation for the Revision of the Guidelines on State aid for Environmental protection and Energy 2014-2020 (EEAG)

This document provides a background for the responses of Fertilizers Europe to the Public Consultation for the Revision of the Guidelines on State aid for Environmental protection and Energy 2014-2020 (EEAG).

The EU fertilizer sector has a key role in the European society as provider of crop nutrients for EU agriculture. Furthermore, it is one of the biggest hydrogen producer/user through the production of ammonia with the latter also having significant potential as a non-emitting energy carrier. The sector has shown a commitment to reducing its emissions over the past decades and has been successful. However, to enable the transition to a climate-neutral economy by 2050, the development and adoption of new technologies/ methodologies (e.g., the use of 'green' or 'blue' hydrogen for ammonia production) presents the best way forward. It will be important for this transition to occur in such a way as to keep the industry competitive against the risk of high opex compared to conventional manufacturing processes and carbon leakage.

Barriers to switching to green hydrogen relevant to the EEAG consultation

- Green hydrogen is currently, as well as in the near future, not price competitive with grey hydrogen: the transition in the near future will require production of green hydrogen ourselves (or in partnership), at our own production sites or very nearby. The production of green hydrogen is considerably more expensive than grey hydrogen and its production is responsible for a significant share of our total production cost. Because fertilizers are an international commodity, it is very hard to recover these additional costs by passing them on to our customers. This effectively means that, without some form of external support or market intervention, we are far away from a positive investment decision in green hydrogen production. **The two most important contributors to the cost of green hydrogen are the electricity price and the electrolyser capex.**

Actions to address the barriers relevant to the EEAG consultation

- Ensure an international level playing field: Fertilizers Europe calls for a level playing field between EU producers who are subject to EU ETS carbon costs and non-EU producers who are not. It supports a Carbon Border Adjustment Mechanism model, which would be based on continuation of the present principle of EU ETS, including free allowances. The adjustment should be based on the difference between the product benchmark set in EU ETS and the carbon intensity of imported products, thus giving foreign exporters an incentive to improve their production. Planned carbon border adjustment mechanism needs to include equivalent measures to ensure competitiveness of EU-based exporters.
- Provide capex and opex support for green hydrogen production: potential hydrogen support instruments like carbon contracts for difference are essential to help close the levelized cost gap between grey and green hydrogen production. Any limitations regarding the nature of the renewable electricity that can be used should be kept to a minimum.
- As CO2 prices are expected to increase steeply, it is key that there will be effective and proportionate compensation of CO2 costs in power prices. We therefore urge the

Commission to add the fertilizer sector to the list of sectors entitled to receive state aid for indirect ETS cost. This is necessary in order to fully engage in electrification and thereby in the quickest possible decarbonization.