Omnibus proposal: Simplifying certification and reducing bureaucracy of hydrogen and eFuels production

Introduction

The hydrogen and eFuel markets are lagging behind expectations. The European Hydrogen Strategy set a target of 6 GW installed electrolysis capacity by 2024, while REPowerEU aims for 10 million tons of green hydrogen produced in the EU and another 10 million tons imported by 2030. In reality, the European Union Agency for the Cooperation of Energy Regulators (ACER) expects only about 2 GW by 2026. Commissioner Dan Jørgensen recently stated he foresees just 3–6 million tons of renewable hydrogen by 2030. The EU is falling short; funding cannot make up for regulatory shortcomings. Even successful bidders in the HydrogenBank auctions often fail to meet criteria. According to Argus Media, €614 million of awarded funding will not be claimed. Achieving the targets requires a different approach to complexity, bureaucracy, and permitting.

The European Court of Auditors identifies restrictive production rules as the main obstacle, raising costs by 20–30%. A study by the University of Duisburg-Essen shows that electricity criteria could reduce European electrolysis capacity in 2035 by 33% (29.85 GW instead of 44.52 GW). The authors conclude: "RED constraints lead to higher system costs and dampen the expansion of electrolysis capacity in the EU." The EU is now responding. With the Omnibus Proposals, it seeks to simplify rules, cut administrative costs, and accelerate the production of green hydrogen and its derivatives by revising the Renewable Energy Directive (Directive EU/2018/2001, revised as Directive EU/2023/2413). Similar omnibuses exist for delegated acts, for instance, in the case of taxonomy regulation.

Simplify criteria on electricity supply

The production rules for green hydrogen and eFuels (RFNBOs) are part of the Renewable Energy Directive (RED), which is a complex, bureaucratic masterpiece: In two delegated acts, appropriate electricity sources as well as a methodology to calculate the carbon footprint of RFNBOs are described. Why are the production criteria too restrictive, complex, and bureaucratic?

For grid-connected facilities to produce RFNBOs, only additional renewable electricity generation is allowed, which comes from renewable energy plants that are not older than 36 months when the RFNBO production starts (Art. 3, Commission Delegated Regulation (EU) 2023/1184). This decreases the possible electricity sources and increases the costs, while also relying on lengthy permitting procedures to meet the time requirement. Further, each Power Purchase Agreement must be documented and verified. This should be avoided in the beginning. This doesn´t change the substance of the criteria, hence ensuring the roll-out of renewable energy capacity. At the same time, the burden through permitting is reduced and investment can be de-risked substantially – especially in the early stage of the market for first project developers. **Our suggestion is to simplify this through extending the already existing grandfathering and the transitional period for additionality until 2035.**

In addition, producers must verify the renewable energy they use via a temporal correlation (monthly until 2030 and then hourly; Article 4). Studies have analysed the impact of these regulatory burdens: The University of Cologne and Harvard have calculated that the switch from monthly to hourly correlation will increase hydrogen costs by a quarter. This overly strict criterion should be suspended since it has a significant impact on hydrogen cost but has only a limited effect on GHG reduction. **Our suggestion is therefore to simplify this by removing the change to the hourly correlation in 2030 and keep a monthly temporal correlation.**

In both cases, the substance of the delegated act remains untouched. Only timeframes and red tape would be changed or removed. But the reduction of burden has a large impact on green hydrogen cost and project financing. For investors and projects that can contribute to achieving the 2030 hydrogen targets, this ease of bureaucracy will help to kick off investments. With a view to the large gap between targets and the market reality, **we want to propose a full exemption of electricity production criteria until 6GW of electrolysis capacity is built in Europe**. For projects being built during that period, we would also advocate for allowing a free allocation of eFuels in refineries. Currently, a mass-based allocation is used. That leads to low shares of desired products like synthetic aviation fuels and increases the complexity of production processes that are still in an early market phase.

Simplify criteria on CO_2 sources and import restrictions

When it comes to potential CO_2 sources, an ingredient to produce eFuels, the delegated acts are restrictive and, in some regards, unworkable. Industrial point sources are allowed until 2041 and need to be in an effective carbon pricing system like the EU-ETS (Commission Delegated Regulation (EU) 2023/1185; Annex A, 10 (a)). However, an ETS-comparable system does not exist outside of the Europe. **For that reason, all eFuels projects with an industrial point source outside of Europe would not be eligible in the RED framework – leading effectively to a ban on imports**. The restriction on carbon sources significantly increases the insecurity of investment. Currently, a huge run on biogenic carbon sources is taking place and is increasing project costs. Investments in third countries are halted as it is unclear if imports are possible. The EU is a net energy importer, currently mostly oil and gas, and needs to shift to importing green energy carriers. Import barriers like the 'effective carbon pricing' criteria are not in the interest of the EU´s ambition to green its energy consumption. **We propose that the Commission should develop options for third countries without carbon pricing to export e-fuels to Europe (e.g. via CBAM).**

As a first step, this criterion needs to be removed as a measure to cut red tape that holds back investment. DG ENER, in a second and content-focused step, needs to develop a method to ensure that energy imports do not lead to carbon leakage. Secondly, investments in renewable fuel production have been made for decades. Criteria on prohibiting an essential part of the production process – the carbon source – as of 2041, also true for existing projects, does not reflect the technical reality of project planning and financing. At the same time, the EU-ETS guarantees that industrial CO_2 combustion – where possible – will be phased out due to full removal of new ETS certificates combined with an increasing price. In addition, negative emissions, meaning carbon removals, will be part of the upcoming ETS review. Therefore, it will be possible to offset remaining emissions via CCS or trading of negative emission certificates achieved with carbon-capturing technologies. Thirdly, the Commission is not differentiating between avoidable and unavoidable industrial CO_2 emissions. In the future, some processes in the cement, clinker, steel, and chemical industries will emit CO_2, which is not related to the energy source. These impossible-to-abate emissions are 130 million t of CO_2, according to the impact assessment of EU climate targets 2040. 36 billion liters of eFuels could be produced if these economically affordable CO_2 sources were available according to a new study by Frontier Economics.

To enable first mover projects that rely on industrial CO_2 from heavy industry, hence avoiding combustion of additional CO_2 and leading to immediate improvement of the EU´s emission balance, the criteria are not feasible. On a political level, a more differentiated view of the origin of carbon has to be made. Enabling sustainable carbon circles is a political priority, reflected also in the Climate Targets and the Industrial Carbon Management Strategy. Since this will be done in the ETS revision and other upcoming carbon legislation, **we recommend suspending the 2041 deadline to support first movers and to reflect the political decision still to be made on carbon sources in the actual CO2 legislation, such as the ETS.**

Provide Investment Security

Lastly, to protect existing projects, **a grandfathering for regulatory changes would be necessary for projects**. When projects have reached ‘final investment decision’ or - as regulated by the US Inflation Reduction Act - initial investments have been made, the regulations should apply at this point for the entire duration of the project. Such a procedure would guarantee that RFNBOs are always produced even if the definition or production rules change in the future. That would reduce project risks significantly and make many projects bankable immediately.

An **omnibus proposal** to reduce the bureaucracy of hydrogen and eFuels production **would help** to **scale green hydrogen** and **hydrogen-derived products** to close the gap between targets and market capacity. Especially in the early stage of the market, the above-described **overregulation should be reduced**.

About the eFuel Alliance

The eFuel Alliance is a stakeholder initiative committed to promoting the political and social acceptance of eFuels and to securing their regulatory approval. We represent more than 160 companies, associations and consumer organizations along the value chain of eFuel production. We stand for fair competition and a level-playing field for all relevant emission reduction solutions. We are clearly committed to more climate protection and aim to win broader recognition of the significant contribution eFuels can make in the drive for sustainability and climate protection. Our goal is to facilitate the industrial production and widespread use of carbon neutral fuels made from renewable energy sources.