Creating Green Lead Markets

RHC Recommendations

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The European Union has made unprecedented commitments to scale up renewable hydrogen. Yet, existing despite EU and national level supportive measures and dedicated public funding crucial in this early market phase, one crucial piece is missing: **demand certainty**.

Demand will first come with the fast and ambitious national transposition of the legal targets for the consumption of renewable fuels of non-biological origin (RFNBO) in hard-to-electrify transport and most importantly industry. The latter target falls mid-stream in the value chain and will only be delivered if offtakers find buyers for their output. This is why these targets must be complemented with dedicated measures to stimulate the consumption of products made with renewable hydrogen and derivatives such as e.g. cars, buildings, white goods made with green steel, food made with green fertilisers) by the creation of so-called "**green lead markets".**

Green lead markets must be a cornerstone of the EU's Industrial policies. They are necessary to unlock investment upstream in the value chain, deliver true energy system integration and bring large shares of home-grown renewables across key sectors of the economy. Green lead markets are the bridge between supportive policies on the supply side and creating a competitive, more resilient, and decarbonised European industry.

Without lead markets, Europe risks nullifying its efforts and progress on renewable hydrogen supply. At times when the decarbonisation of hard-to-electrify sectors cannot kick-off soon enough, the European renewable hydrogen sector ramp-up is nowhere near where it should be, while other counties like China or India are building. Lead markets hold the power to turn ambition into impact.

Enabling policies: Three pillars to create Green Lead Markets:

- **A strong label for transparency to offtakers and their customers.** A credible EU-wide product label is needed to show the carbon footprint and the type of hydrogen used in end-use products. Not all hydrogen is made from renewables nor present the same benefits. These need to be clearly defined and distinguished to ensure investors' confidence and enable informed decisions by market players and offtakers. Without proper recognition of the benefits of renewable hydrogen (including lowest environmental, but also system integration and energy sovereignty), unfair competition with less sustainable alternatives will arise. Such a label also plays a crucial role in helping implement adopted legislation, notably the legal binding RFNBO targets in the revised Renewable Energy Directive (REDIII), ReFuelEU Aviation and FuelEU Maritime. This is why it must be aligned and coherent with the existing legal framework by implementation establishing a clear connection between Article 22a.2 of RED III and the RFNBO Delegated Act. Applying such a label at EU-level will be key to prevent fragmentation within the Single Market.

- **The right policies to create demand.** Set a clear preference for RFNBO-made products across various policy instruments to tilt choices in favour of more sustainable products including by:
    - **Procurement rules** with quotas/obligations and/or criteria not only based on price criteria but also on environmental credentials and resilience/European preference to shield European industry from sometimes unfair global competition
    - **Taxation,** e.g. via tax breaks, for green products
    - **Common Agricultural Policy incentives/bonuses** for farmers using green fertilisers at least cost.
    - **Other instruments such as Carbon Contracts for Difference (CCfDs)** can bridge the cost gap until the EU ETS price reaches the level required to sustain fossil-free production.

  Ultimately, such enabling measures should help make green sustainable products cost-competitive with the more polluting alternatives to not drive prices up.

- **Guardrails to protect ambition.** RHC is concerned about the request from some industry players to make lead markets "technology neutral" or used as a substitute to binding RFNBO targets. Technology-neutral approaches may seriously risk diluting progress on decarbonisation objectives, potentially undermining the binding nature of REDIII and RFNBO targets, and introducing uncertainty for investors. It is essential for policymakers to maintain a clear distinction between fossil-based and renewable pathways in order to achieve all climate, resilience and competitiveness objectives at least cost for society.

Prioritise sectors for lead markets

The European Commission should focus on high-impact, cost-efficient sectors in priority: Those with low impact on end-product prices and where customer willingness to pay is there or growing, for example the following sectors would be a good star:

- Construction (buildings and infrastructure)
- Automotive (A car made with green steel would only cost 1% more)
- Defence (aviation, naval vessels)

Challenges and Solutions

Europe faces structural obstacles including:

- Persistently low ETS prices weaken the business case for truly clear technologies and products,
- High taxation (charges and levies) inflating the cost of electricity
- Slow permitting processes continue to block the electrification of industry and the ramp-up of renewable hydrogen production.
- Delays in hydrogen infrastructure deployment

Solutions exist. They require immediate attention to unlock access to affordable renewable electricity and accelerating the energy transition:

- **Carbon Contracts for Difference (CCfDs)** should be awarded based on CO_2 *displacement per euro spent*, prioritising sectors where public funding delivers the highest impact.
- Unlock access to **low cost of renewable electricity for end-consumers and industrial users by**:

    - **Lowering taxation and levies on renewable electricity** (including network charges) compared to fossil-based electricity, to make green power genuinely competitive.
    - For **on-site RFNBO producers procuring electricity from the grid**, designing **public support schemes that cover rising network costs** and prevent these from undermining investment signals
    - **Ensuring the implementation** of the Electricity Market Design (EMD) reform and the Renewable Energy Directive (RED III) to trigger full compliance with updated permitting procedures, apply the "overriding public interest" provision where appropriate, and allocate sufficient resources to local authorities to facilitate **efficient and streamlined permitting processes**, including for RH_2 projects.
    - **Investing massively in Europe's electricity grids**, both transmission and distribution, to enable direct and indirect electrification. This means modernising networks, expanding cross-border interconnections, increasing flexibility, and reducing curtailment and grid connection queues.
- **Roll out timely hydrogen infrastructure that are fit-for-purpose** (prioritising pure hydrogen) and properly sized (based on where the hydrogen demand is, rather than based solely on announced projects). This requires:
    - Ensuring stronger integrated planning between ENNOH and electricity actors, starting with ENTSO-e and the electricity players to better account for the electrification progress and needs.
    - Providing de-risking tools such as Member State guarantees in case of infrastructure deployment delays to ensure continued investments. Project developers should not bear the risk for delays outside their control.