




EU-wide auction for renewable hydrogen production under the EU Emissions Trading System Innovation Fund





Auctions for renewable hydrogen production will serve to kick-start the development of a European hydrogen market and contribute to meeting Europe's ambitious climate targets.

Hydrogen will play an important role in decarbonising European heavy industries and other hard-to-decarbonise sectors. In March 2023, the European Commission launched the European Hydrogen Bank to unlock private investments in hydrogen value chains within the EU and in non-EU countries, based on four pillars:

1

2

3

4

EU domestic
market
creation

International
imports
to the EU

Transparency
& coordination

Streamline
existing
financing
instruments



EU-WIDE RENEWABLE HYDROGEN PRODUCTION

The Innovation Fund, with its revenues from the EU's Emissions Trading System, will play an important role in kick-starting an internal EU hydrogen market by holding dedicated auctions.

From autumn 2023 onwards, the fund will run auctions to provide cost-efficient support to renewable hydrogen producers within the European Union and the

European Economic Area. Commission has allocated a total of EUR 800 million from the Innovation Fund budget to the 2023 hydrogen bank auction. The Commission aims to continue with renewable hydrogen auctions of the same or larger volumes depending on the strength of the project pipeline in the first pilot and the evolution of the carbon price, on which Innovation Fund resources depend..

AUCTION DESIGN

The EU-wide auctions have been designed as a domestic financing mechanism with five main objectives in mind:



Cost-efficient way of distributing financial support



Price discovery and market formation



De-risking projects and leveraging private capital into them



Reduced administrative burden



Speedy roll-out and simple implementation

In 2023, the first pilot auction will:

- allocate support for producing renewable hydrogen in form of a fixed premium over 10 years;
- let projects compete on subsidy price per kg of hydrogen;
- pay out subsidies after the installation starts operating;
- have a maximum price limit and the auction winners will be paid according to the prices they offered, rather than auction clearing price (cleared on a 'pay-as-bid' basis);
- terminate the contract if the project fails to start producing within a set time period, or if the production is significantly less than agreed.

STEP-BY-STEP PROCESS

A nine-step process on how the auction process will work, where (0) refers to the public consultation conducted in spring 2023.





AUCTIONS-AS-A-SERVICE FOR MEMBER STATES⁽¹⁾

Auctions at EU level aim to support the early use of innovative low-carbon solutions, starting with hydrogen production. This new mechanism presents a major innovation in terms of awarding support. In addition, the Commission will offer the Innovation Fund auctions to Member States as a platform to:

- help prevent the fragmentation of price signals at the early stages of the formation of the hydrogen market in Europe;
- provide support to more projects that can be awarded with Innovation Fund budget only;
- save administrative costs in developing and running 27 different auction schemes across Member States.

This would enable Member States to use their own resources for projects that will be based in their territory but rely on an EU-wide auction mechanism.

How is the overall supply curve of projects cleared?

1. The first section of the supply curve is awarded by the Innovation Fund budget, independently of where the projects come from.
2. Then, Member States can choose to award further projects, based on the ranking of the EU auction platform. Member States can do this until their own budget (committed on a voluntary basis) is spent⁽²⁾.

Member States would be awarding and executing payments for those additional projects. Support from Member States awarded through the EU auction is still subject to the notification obligation of the State aid (Member States contributions are State aid). The Commission will verify the compliance of this State aid with the State aid rules.

⁽¹⁾ European Union and European Economic Area.

⁽²⁾ Without prejudice to Articles 107 and 108 of the Treaty on the Functioning of the European Union.



Useful information and links

- ▶ To follow the development of the EU-wide hydrogen auctions and learn more about the Innovation Fund, visit the page on 'Competitive bidding' https://climate.ec.europa.eu/eu-action/funding-climate-action/innovation-fund/competitive-bidding_en.
- ▶ Are you a representative of a Member State or industry and want to organise a workshop with potential bidders (hydrogen producers) or other beneficiaries (hydrogen off-takers in industry and heavy-duty transport) to learn more about how to prepare an auction bid? Please get in touch by emailing clima-auctions@ec.europa.eu.
- ▶ To find out more on the overall European Hydrogen Bank initiative, please visit https://energy.ec.europa.eu/news/commission-outlines-european-hydrogen-bank-boost-renewable-hydrogen-2023-03-16_en.
- ▶ For updated information about the revision of the EU's Emissions Trading System, please visit the Commission website https://climate.ec.europa.eu/eu-action/eu-emissions-trading-system-eu-ets_en.

Directorate-General for Climate Action (CLIMA)

European Climate, Infrastructure and Environment Executive Agency (CINEA)



<https://cinea.ec.europa.eu>



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