International Association of Oil & Gas Producers

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EU Hydrogen Strategy Revision: time to correct course

The revised Hydrogen Strategy should recognise and enable every hydrogen production pathway that meets the 70% GHG threshold, regardless of the technology or energy source. A technology-neutral framework would allow all of them to count towards compliance and qualify for support. Coupled with real demand for low-carbon products, this will give industry more affordable ways to decarbonise and strengthen Europe's resilience and security of supply.

The 2020 Hydrogen Strategy set an overambitious target and bet primarily on renewable hydrogen, an approach later locked in by RFNBO-only targets. It had limited success. Six years on, the EU consumes 7–8 Mt of hydrogen a year, almost all of it unabated, and planned projects would not even cover the 3–4 Mt of renewable hydrogen that RED III requires by 2030, let alone the 10 Mt goal. The ongoing revision is the moment to correct course. A strategy built on the same assumptions could cost the EU further critical years, along with industrial capacity it may not win back. **We call for a technology-neutral, market-based, and simple framework that enables renewable and low-carbon hydrogen pathways to contribute to decarbonisation while maintaining robust GHG performance and safeguarding existing investments.**

Technology-neutral incentives are key for market development: The 2020 Strategy defines "clean" hydrogen as renewable hydrogen only, leaving other low-emission pathways with secondary status. That choice has channeled support into a single pathway, narrowing the technology base and raising costs.[1] Despite sizable investments, renewable hydrogen still costs around twice as much to produce as low-carbon hydrogen from natural gas with CCS, and four times as much as conventional hydrogen.[2] The revised Strategy should recognise and enable all forms of hydrogen that meet the 70% life-cycle emissions reduction threshold[3] set in EU law. That includes renewable hydrogen, hydrogen from natural gas with CCS, methane pyrolysis, nuclear and other low-carbon electricity, waste-based routes and natural hydrogen.

CCS-based hydrogen can deliver early volumes and pave the way for renewables: Low-carbon hydrogen is recognised in EU law but has no real place in the framework. Only RFNBO can be used for compliance, and almost all funding is reserved for it. This sidelines CCS-based hydrogen (blue hydrogen), even though its production costs could be two to three times lower than those of renewable hydrogen.[4] From retrofitted and new plants (e.g. autothermal reforming), it can provide large-scale baseload supply. Those early volumes would justify the networks, storage and industrial conversion that renewable hydrogen will later use, so it prepares the ground for a higher uptake of renewables while avoiding stranded assets or lock-in effects. As renewable shares grow, it continues to complement weather-dependent production and keep industrial supply reliable, within life-cycle GHG limits.

1 According to the *Hydrogen for Europe study* (2022 edition), the Technology Diversification pathway saves an estimated €650 billion in cumulative energy system costs (about €40 billion per year) compared with the Renewable Push pathway on the way to EU climate neutrality by 2050.
2 ACER, European hydrogen markets – 2025 Monitoring Report
3 Set in Directive (EU) 2018/2001, Art. 29a(1), for renewable fuels of non-biological origin, and applied to low-carbon hydrogen by Directive (EU) 2024/1788, Art. 2(11), against the same fossil-fuel comparator.
4 ACER, European hydrogen markets: 2025 Monitoring Report, December 2025. Production cost estimates, excluding CO_2 transport and storage.

Hydrogen can decarbonise hard-to-electrify industry at scale while enhancing resilience: Hydrogen's case does not rest on climate policy alone. For industries Europe cannot afford to lose, such as refining, steel, ammonia, shipping and aviation, hydrogen is one of the few scalable ways to cut emissions. It can also store energy and help integrate variable renewables, and a diversified supply base could strengthen Europe's energy security and strategic autonomy. The revised Strategy should therefore treat hydrogen as part of Europe's industrial resilience and security of supply. Rather than setting new volume targets, it should create the conditions for demand to develop where hydrogen is the best option, regardless of the form of production.

Keep what works, but widen compliance pathways instead of rigid technology-specific mandates: Under the current framework[5] the only compliance pathway is RFNBO hydrogen. The likely result is non-compliance[6], relocation of industry, or inaction, not decarbonisation. A single compliance route also ignores how much Europe's regions differ in renewable potential, grid carbon intensity, access to CO_2 storage and industrial structure. The revision should maintain incentives for renewable hydrogen deployment, but additional compliant low-carbon pathways would enable Member States and industries to choose the most affordable option to decarbonise while remaining competitive. This includes keeping the "refinery route[7]" as a long-term compliance option beyond 2030. Refineries are the EU's largest hydrogen consumers, with the infrastructure, offtake and know-how already in place; decarbonising existing refinery hydrogen provides one of the fastest and most certain ways to build volumes at scale, and anchors the supply chain other sectors will later use.

Create demand that absorbs the premium for low-carbon products: Supply-side support alone will not create a market. Low-carbon steel, ammonia, fertilisers, and fuels currently have no market that pays for their lower carbon intensity, so the cost premium stays with the producer or the first user. The Strategy should stimulate market-based mechanisms that value products by their life-cycle CO_2 performance, such as product carbon-intensity standards and non-price criteria, and spread costs across the value chain and towards final demand rather than placing them on a single link, least of all on energy-intensive users already exposed to global competition.

Prioritise cross-border infrastructure between supply and demand centres: Projects cannot reach final investment decision without a route to market, and networks will not be built without contracted volumes. The Strategy should support the gradual development of regional and cross-border infrastructure connecting competitive supply regions and import points with demand clusters, in line with credible market uptake, production and demand development. Infrastructure planning should avoid premature or oversized investments and ensure that infrastructure develops in step with demonstrated market needs. Planning and permitting for mature infrastructure projects supported by credible supply and demand perspectives, and for the CO_2 transport and storage networks that low-carbon hydrogen depends on, should be fast-tracked. Wherever possible, existing oil and gas assets should be repurposed.[8] Cost-recovery mechanisms (e.g. Intertemporal Cost Allocation Mechanism) should also avoid placing the disproportionate upfront cost of infrastructure on first movers or individual offtakers. Where appropriate, infrastructure costs should be recovered progressively over the lifetime of the assets and across their expected user base, while avoiding undue cross-subsidisation from electricity and gas consumers.

Funding and support exists but does not trigger sufficient investment: Public funding is available but fragmented, complex and poorly matched to where demand actually is. Weak non-price criteria let projects win support and then never materialise.[9] Outside the Innovation Fund and IPCEI, EU instruments are almost exclusively reserved for renewable hydrogen. The revision should ensure adequate access to funding for renewable and low-carbon hydrogen, while tailoring support to the objectives of each instrument, technology maturity and specific deployment needs; simplify and align rules across EU and national schemes; strengthen non-price criteria such as delivery capability, offtake maturity and system value; and complement grants with risk-reducing tools: contracts for difference, long-term offtake support and aggregator models that bridge the gap between producer and buyer contract lengths.

5 RED III requires 42% of hydrogen used in industry to be RFNBO by 2030, and at least 1% RFNBO in transport.

6 As of mid-2026, transport RFNBO targets were transposed in only a few Member States and the 42% industry target almost nowhere (only Italy and Romania have obligations in line with RED III; the Netherlands has set 4%). The Commission has infringement procedures open against all 27 Member States. Sources: ACER, European hydrogen markets – 2026 Monitoring Report (Nov 2026); Hydrogen Europe, Clean Hydrogen Monitor 2026 (Oct 2026).

7 The "refinery route" allows renewable hydrogen used in refineries to produce conventional and biogenic transport fuels to count towards the RED III transport targets and subtargets for renewable fuels of non-biological origin (RFNBOs).

8 According to the Re-Stream study (2021), reusing existing pipelines instead of building new ones can cut transport costs for both hydrogen and CO_2 by 53–82%, or about €1–2 million per km, in the cases studied.

9 Only 23% of the second Hydrogen Bank auction budget (€271m of €1.2bn) ended up in signed grants; 6 of 19 invited projects signed. ACER, *European hydrogen markets – 2026 Monitoring Report (13 Nov 2026), p. 42.*

A clear import strategy with trusted partners and suppliers: Domestic production and imports will both have an important role in meeting EU hydrogen demand at competitive cost. The Strategy should give imports a clear role, building on the Clean Trade and Investment Partnerships with trusted third countries able to supply affordable hydrogen and derivatives that achieve equivalence with EU standards. At the same time, the Strategy should recognise the strategic value of competitive European hydrogen production and value chains for industrial resilience, security of supply and the transformation of existing industrial assets.

The first Strategy established the foundations for renewable hydrogen deployment, but experience shows that a broader and more flexible framework is needed to accelerate the hydrogen market. The revision should enable every renewable and low-carbon-compliant pathway to contribute where it delivers the most value. That means access for every pathway above the 70% GHG-saving threshold and reward in line with the emissions it avoids, flexible compliance, real demand signals, connected infrastructure, funding that leads to investment decisions, and rules stable enough to give long-term visibility. This is the chance to get it right.

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