

Fortescue's Hydrogen Setbacks Signal Caution for UK Policy

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Fortescue's recent decision to scrap two flagship hydrogen-for-energy projects, including one that had reached Final Investment Decision, sends a clear warning to global policymakers. The cancellations in Gladstone, Australia, and Arizona, USA, are not mere isolated failures but reflect deeper economic truths about hydrogen's viability as an energy source.

The Arizona project, an 80 MW green hydrogen facility, aimed to anchor Fortescue's ambitions in the American market. However, building a water-intensive project in Arizona, a state with ongoing water constraints, raised environmental and logistical concerns from the outset. Shifts in anticipated US hydrogen policy, including uncertainty over tax credits and regulatory support under the Trump administration, exposed the project's fragile economics, leading to its collapse and \$150 million in pre-tax losses. In Australia, Fortescue's PEM50 plant in Gladstone, partially operational with \$40 million in government grants, proved uncompetitive against cheaper energy alternatives. The company may be required to return a portion of the grants, underscoring the financial risks of such ventures.

These cancellations are part of a broader trend. A Reuters analysis recently highlighted a string of abandoned or scaled-back green hydrogen projects by companies like BP, Shell, and Iberdrola, driven by soaring costs and market realities. Globally, hydrogen-for-energy initiatives are faltering, with projections suggesting the EU may fall far short of its 40-gigawatt electrolyser target by 2030, possibly reaching just 12 gigawatts. Challenges in storage, distribution, and demand uncertainty continue to hobble progress, even with generous subsidies.

In the UK, government departments continue to push hydrogen beyond its proven industrial feedstock role. The April 2025 shortlist of 27 UK hydrogen projects includes applications such as power generation and aviation fuels, which remain commercially unproven at scale. The July 2025 Hydrogen Update doubles down on support for transport and storage infrastructure, while the Hydrogen to Power Business Model, launched in late 2024, cements hydrogen's place in national energy planning.

Industry voices reinforce this direction. Hydrogen UK's CEO, Clare Jackson, has argued that hydrogen is vital for sectors where electricity falls short, warning that private investment depends on government-driven demand. ITM Power, a key electrolyser manufacturer, continues to secure contracts for transport and energy integration, while ventures like Hygen Energy's Bradford facility champion hydrogen-powered buses and heavy transport. Recent government funding announcements have also backed hydrogen for homes, transport, and aviation, far exceeding its traditional industrial applications.

Yet international evidence casts doubt on this approach. Economic advisory bodies in Germany and France have advised curtailing funding for hydrogen in transport, citing cost inefficiencies. France's Cour des comptes criticised the estimated €520 per ton of carbon avoided through hydrogen transport subsidies as significantly higher than alternative

electrification strategies. Both nations advocate redirecting resources to battery-electric vehicles and grid infrastructure, deeming hydrogen in transport inefficient and uneconomical.

Given Fortescue's failures and global trends, the UK's claim of an "evidence-led" strategy appears increasingly tenuous. Policymaking appears to be heavily influenced by lobbying from industry groups such as Hydrogen UK and the Hydrogen Advisory Council, risking billions in stranded assets. The Autumn 2025 strategy update is a pivotal moment. Continuing to back hydrogen for energy and transport, despite clear economic signals, could lead to significant waste.

Instead, the UK should focus public funds on hydrogen's proven strengths: industrial applications like ammonia production, refining, and steelmaking, where electrification is impractical. These sectors offer tangible decarbonisation benefits without the speculative risks of broader energy uses. If policymakers genuinely seek an evidence-based approach, they must heed Fortescue's lesson, pivot to industrial hydrogen, and avoid squandering resources on unviable projects.