



17 June 2022

Dear Commission Representative,

RE: SASOL'S COMMENTS ON THE DELEGATED ACT TO ARTICLE 27 OF DIRECTIVE 2018/2001

Sasol welcomes the opportunity to comment on the proposed Delegated Act to Article 27 (DA 27) of Directive 2018/2001, the European Union's Renewable Energy Directive (EU REDII). We applaud the EU's leadership role and ambitious climate targets embodied in the Fit for 55 policy package and believe that Sasol can play a significant role in providing low and zero carbon products to assist the EU in achieving these climate goals. A conducive policy environment is however required, and, in this regard, we are submitting comments on DA 27 focusing on the following criteria:

- Temporal correlation requirements;
- Geographical correlation requirements; and
- Additionality – Financial support for renewable energy (RE) installations.

The aim of this submission is to highlight our concerns and propose solutions that would strengthen the objectives enshrined within the RED II and create opportunities to increase bilateral trade and investment flows between South Africa and the EU.

Sasol is an international integrated chemicals and energy company that is proudly rooted in our South African heritage. The company is split into three core businesses, Energy, Chemicals and Sasol ecoFT, our new business focused on the development of sustainable fuel and chemical products. We are the owner and operator of the largest Fischer Tropsch (FT) installation in the world located in Secunda, South Africa, and the largest producer of grey hydrogen globally. Given the central role FT can play in the production of Sustainable Aviation Fuel (SAF) and other

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sustainable chemicals, Sasol is uniquely positioned to lead in the green hydrogen economy through repurposing our assets towards sustainable feedstocks. In addition, by leveraging our global footprint, we are also able to provide low and zero carbon products globally through partnerships and thus contribute to the achievement of the ambitious climate goals enshrined in the Paris Agreement. We already have a number of projects at various stages of development:

- **HyShiFT**, with Linde, ENERTRAG and HYD.RE.GEN encompassing 200MW of electrolysis capacity and 40MW of renewable energy to deliver ~50 000 tpa of e-kerosene for supply to the EU, starting in 2024/2025. This proof-of-concept project is the first step in the transition of Sasol's energy and carbon intensive FT facility in Secunda from predominantly coal-based to progressively integrating sustainable feedstocks to produce renewable fuels and chemicals. The project is expected to avoid up to half a million tonnes of CO₂ per annum;
- **Boegoebaai** (green hydrogen export-orientated development project), on the west coast of South Africa) is in the pre-feasibility stage, led by Sasol in conjunction with the South African government. This flagship project is expected to supply the EU with green hydrogen and derivative products, create new jobs, contribute to skills development and greatly assist in the upliftment of communities;
- **Sasolburg green hydrogen project** in South Africa is on track to produce the first commercial scale green hydrogen using repurposed electrolyzers by late 2023;
- **SkyFuelsH2 venture** with Uniper in Soleftea Sweden, aiming to produce SAF and green chemicals from forestry biomass, renewable energy and green hydrogen; and
- **Concrete Chemicals venture** with CEMEX and Enertrag in Rüdersdorf, Germany aiming to be the first carbon-neutral cement facility by 2030, producing SAF using renewable energy, biowaste, green hydrogen and unavoidable CO₂.

Our transition is inextricably linked to the South Africa's transition to a low carbon economy because a large portion of our assets reside in South Africa (contributing ~4% to the country's Gross Domestic Product and is the largest corporate taxpayer). South Africa is a developing economy experiencing high levels of poverty, inequality and unemployment. With a Gini coefficient of 0.63, South Africa is one of the most unequal societies in the world today,¹ and as we emerge out of the Covid -19 pandemic, poverty levels in the country have deepened and so has unemployment. It is

¹ The World Bank. 2021. South Africa Overview.

therefore imperative that just transition be carried out in phases and correctly timed so that the socio-economic situation is not worsened.

In parallel, funding and access to markets such as the EU is an integral part of South Africa's future growth with green hydrogen export using sustainable FT solutions being targeted for job creation and economic contribution. It is this latter point that is under threat because some of the regulatory criteria proposed under EU RED II and subsequent DAs are not supportive of a developing country context and the need for a just transition. If not amended and adopted as is, a barrier to enter the EU market will be certain to be the result.

The recent RePowerEU plan sets a target of 10 million tonnes of renewable hydrogen imports by 2030. Sasol has the potential to be an integral EU partner to achieve this target and further the Union's objectives to become one of the world champions in renewable hydrogen production and support competitive international hydrogen markets. We also support the newly established Global Gateway designed to facilitate global recovery and tackle climate change. In particular, we note that under the Global Gateway the EU seeks to *'work with partner countries that have the potential to develop their renewable hydrogen production and promote the creation of competitive markets to enable such hydrogen produced outside the EU to be traded internationally without export restrictions or price distortions'*.²

The myriad Sasol projects currently under development require a supportive policy and regulatory framework to secure final investment decisions. This is a necessary pre-condition in regions like the EU that are forerunners in developing the policy frameworks for renewable hydrogen, and it being a key consumption market will enable the growth of this nascent industry globally. In particular, it is crucial that the relevant DA's for Renewable Fuels of Non-Biological Origin (RFNBOs) enable investment flows into renewable hydrogen projects in Europe, as well as support the prospective import projects outside the EU. Particularly for the latter, the global applicability of criteria set out in the DA's need to be refined to take cognisance of the national circumstances of developing countries aiming to export to the EU. In many cases transitional dispensations with more flexible criteria are required for countries operating in a less mature regulatory regime.

² https://ec.europa.eu/info/strategy/priorities-2019-2024/stronger-europe-world/global-gateway_en

The following points provide context and recommendations to Sasol's major concerns:

1. Temporal correlation requirements

Issue: The proposed **temporal correlation** requires the production of RFNBOs to be reconciled hourly with RE electricity generation which could have the unintended consequence of precluding the business case for renewable hydrogen globally.

If enforced, Power Purchasing Agreements (PPA's) of significantly higher capacity would need to be contracted resulting in potentially prohibitively high capital costs for renewable energy assets and consequently green hydrogen. We are convinced that this is not the intended consequence of this provision and that a more viable alternative could be sought, such as a much longer phase in period than the envisaged 2027 timeline.

In addition, certain developing country regions, do not currently have established trading desks and sophisticated verification registries to provide the requisite information. National systems would need some time to adjust to these requirements. Therefore, more flexibility is required for developing countries outside of the EU.

Proposal: Offer additional flexibility that will extend the currently stated transitional phase of a one-month correlation to at least 2040. This will substantially improve the investment business case for renewable hydrogen production over the typical lifetime of a renewable energy asset.

Suggested wording: Replace all references to the *one-hour reconciliation period* with a *one-month reconciliation period* and increase the transition period in Article 7 to 2040 or remove it completely. The following wording proposed:

Article 4(2)(c)

*(i) during the same **one-month period** as the renewable electricity produced under the renewables power purchase agreement; or*

*(ii) from renewable electricity from a storage asset that is located behind the same network connection point as the electrolyser and that has been charged during the same **one-month period** in which the electricity under the renewables power purchase agreement has been produced,*

Article 7

Until 31 December 2039, by way of derogation from Article 4 (2) (c)(i) and Article 4 (2) (c)(ii), the renewable liquid and gaseous transport fuel of non-biological origin shall be produced during the same calendar month as the renewable electricity produced under the renewables power purchase agreement or from renewable electricity from a storage asset that is located behind the same network connection point as the electrolyser and that has been charged in during the same calendar month in which the electricity under the renewables power purchase agreement has been produced.

2. Geographical correlation requirements

Issue: The proposed **geographic correlation** requirements need to be defined for areas outside of the EU as well as be more flexible in nature taking local context into account. In South Africa for example, the concept of 'bidding zones' is not relevant and RE installations and offtake requirements are not necessarily in the same geographical areas i.e. could be located in different provinces and, in the future, even in neighbouring countries, for optimal capacity factors. These nuances must be taken into consideration to provide investment certainty and facilitate the growth of the import market in the EU.

Proposal: Specific provisions should be added for RFNBOs produced in non-Union member states and designated for import into the EU in consideration of the particularities of regional electricity markets.

Suggested wording: All references to criteria for geographic correlation to avoid grid congestion should have an additional clause stating non-Union members must demonstrate the same given their national circumstances. For example, Recital (12) could read:

*(12) In order to ensure that there is no electricity grid congestion between the electrolyser producing renewable hydrogen and the installation generating renewable electricity, **in the EU** both installations should be located in the same bidding zone or, in case they are located in neighbouring bidding zones, the electricity price in the bidding zone where the installation generating the renewable electricity is located should be equal or higher than in the bidding zone where the renewable liquid and gaseous transport fuel of non-biological origin is produced or the installation generating renewable electricity under the power purchase agreement should be located in an*

offshore bidding zone adjacent to the bidding zone where the electrolyser is located. **Non-Union countries should be allowed to confirm that there is no grid congestion in a manner that takes their regional electricity market into consideration.**

3. Additionality – Financial support

Issue: The requirement that deployment of new renewable electricity generation capacity should not receive financial support has to be more flexible for developing country contexts that may require subsidies for RE new build. In South Africa for example the energy market is not liberalised, and all RE installations above 100MW require approval by the Minister of Energy. To date, all large scale RE deployment has been achieved through the Renewable Energy Independent Power Producer Procurement Programme (REIPPPP), which provides pricing subsidies to successful bidders. This will continue to be one of the primary mechanisms for additional RE installation in South Africa for the foreseeable future.

Proposal: Extend the grandfathering clause that gives exemption to grid-connected installations with PPAs from 2027 to 2040 for non-European Union countries.

Suggested wording: Increase the transition period in Article 7 to 2040 or remove it completely. The following wording should be considered:

Article 7

Transitional phase

Article 4(2), points (a) and (b) shall apply from 1 January 2040.

We strongly encourage adoption of these proposals to unlock the potential for renewable hydrogen in non-Union countries and facilitate cross-border projects. Sasol is happy to avail ourselves at your earliest convenience should there be any queries regarding this submission.

Yours sincerely,



Shamini Harrington

Vice President: Climate Change