



POSITION PAPER

BOOSTING GREEN GROWTH

UPM calls for a Green Deal policy framework within Fit for 55 proposal that creates a long-term outlook for green growth investments and recognizes the opportunity to replace fossil consumption with renewable alternatives.

Climate change is real and urgent action is required to mitigate its consequences. Our collective response to the challenge requires a fit for purpose policy framework that enables green growth investments and a rapid reduction of fossil emissions.

This position paper describes key policy asks from UPM with illustrative examples on how UPM is supporting climate action with our existing product portfolio of wood-based products and by constantly innovating products to replace fossil raw materials.

UPM supports EU's ambition to become carbon neutral by 2050 and recognizes the need to set more ambitious targets already for 2030. As the path towards carbon neutrality requires major changes to current ways of operating, contribution by all parts of the society, and most importantly significant investments, UPM calls for a policy framework which enables and stimulates green investments. Regulatory environment must be sufficiently long-term and predictable to unleash the potential investments.

UPM calls for policies that recognize the pivotal role of renewable resources in replacing the use of fossil resources. Current and future wood-based innovations replace fossil materials in packaging, construction materials, fuels, chemicals, textiles and many more applications. Furthermore, the innovation opportunities of bio-based solutions are only at their naissance - significant opportunities exist in enabling further substitution of fossil materials as innovations are developed constantly. The use of sustainably sourced renewable materials and the substitution potential must be recognised coherently in EU policies. At the same time, sustainability of the use of renewables is key to ensuring stakeholder confidence, and long-term viability of operations. Sustainability concerns must be adequately and proportionately addressed.



Sustainable forestry contributes to EU's climate goals

Several of the Fit for 55 proposals are linked to forestry. In recent years, intensive policy debate has increased around sustainable forest management.

UPM is committed to **"Climate Positive Forestry"**, which focuses on increasing the biomass in the forests, forest area and their growth through economically, ecologically, and socially sustainable forest management. We ensure that our forests remain carbon sinks and thus support efforts to mitigate climate change. We grow more forest than we use.

UPM believes that **sustainable forest management** that takes into consideration the multiple aspects of sustainability is one of the key assets for the EU in reaching climate targets. Sustainable forest management provides increasingly healthy forests and reduces the more and more alarming risks endangering forest health, such as the impact of pests and forest fires. Sustainable forest management and **biodiversity in commercial forests** are continuously developed in close collaboration with researchers and other stakeholders. Furthermore, sustainable forest management increases the volume of wood and thus ensures long-term growth of the carbon sink in forests.

The challenge with regulating forest policies in the EU stems from the fact **that there is no "EU forest"**: all forest ecosystems are profoundly different and require location specific attention to managing the sustainability aspects of these forests. One size does not fit all, when it comes to forest policy. EU's goal to increase forest area by planting additional 3 billion trees is a very welcome initiative.

UPM Biodiversity programme

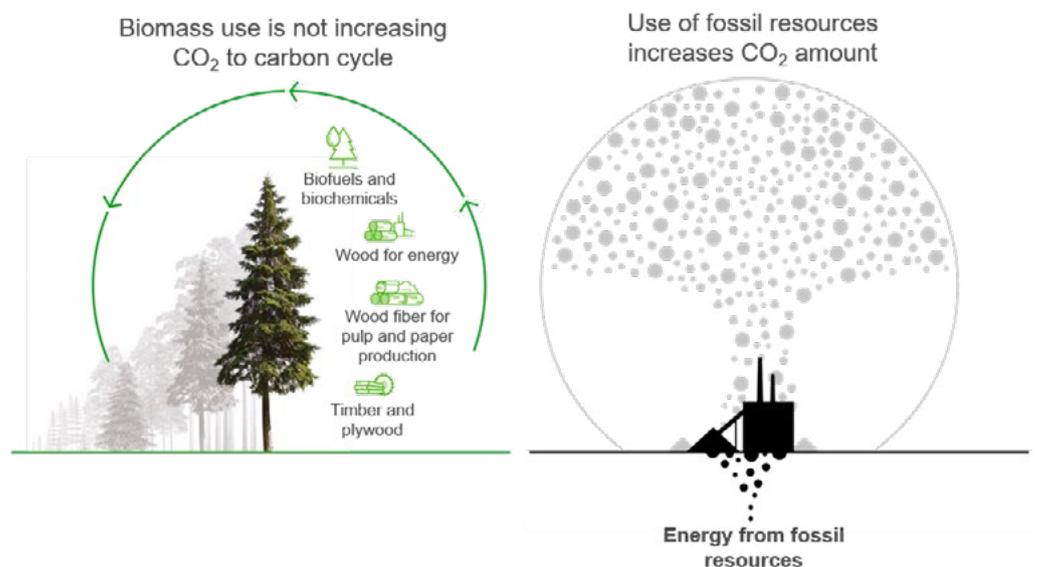
UPM was the first forest industry company in the world to offer a global biodiversity programme, which has been in place now for more than 20 years. In 2018, we committed to net positive impact for biodiversity in our own forests. Similarly, **100% of our own forests are certified**, proving that strict measures are in place to protect and promote biodiversity.

We have identified close to 39,000 protected, valuable habitats in our forests in Finland. We have several projects ongoing with different stakeholders to continuously improve biodiversity.

We promise that our forestry is climate-positive, which means that we always grow more forests than we harvest. Globally, we plant 50 million trees per year, which means 100 trees are planted every minute of every day.

**WE PLANT
50 MILLION
TREES
EVERY YEAR
THAT MAKES
100 NEW TREES
EVERY MINUTE**

Bioeconomy offers a sustainable alternative to fossil-based economy





Renewable Energy Directive

The revision of the Renewable Energy Directive is key to creating long-term stable regulatory framework for green growth investments. A stable and predictable sustainability approach to forest management must be ensured while respecting the fact that forest conditions vary between member states and thus the competence on detailed **forest management must remain national competence**.

Commission proposal to defer from the **risk-based approach on sustainability criteria** agreed in 2018 which is only now under implementation, is a prime example of policy change that creates concerns for industry. Policies that are under implementation should not be changed before evidence has been given that their goals do not reach given targets. The existing rules give sufficient room and opportunity for revision when needed.

UPM supports and applies the **cascading principle** in our operations. Many of our innovations are born from using residues or side-streams increasingly efficiently. It is paramount that all biomass resources are used as efficiently as possible. Nothing should go to waste. However, UPM does not support the Commission proposal to issue a delegated act on cascading use as cascade is a very location specific matter. The resource-effectiveness of using a certain raw material may vary greatly within 100 km radius. Therefore, such cascading rules, when necessary, should be implemented at local level.

Renewable Energy Directive supports further uptake of advanced biofuels and the emergence of Renewable Fuels of Non-Biological Origin

UPM is the largest producer of only-advanced biofuels in the EU at our Biorefinery in Lappeenranta Finland since 2015, with a 130 000 tons capacity of renewable diesel and naphtha. We support the modest increase of advanced biofuels as proposed by the Commission. UPM, however, believes that sustainable biofuels should play a more prominent role in decarbonising EU transport in the coming decades. Specifically, UPM calls for a stronger mandate for advanced biofuels within the REDIII, an advanced biofuels specific mandate within the ReFuel Aviation regulation, and most importantly, for a recognition of advanced biofuels & RFNBOs within the regulation for CO₂ standards for cars and vans.

Renewable Fuels of Non-Biological Origin are strongly emerging, but their uptake will nevertheless take considerable time. UPM recognises the importance of setting ambitious targets for RFNBOs but calls for flexibility and recognition of low-carbon hydrogen in their production. If the national grid is sufficiently low-carbon, additionality rules on the use of new renewable power should be eased.

Efficient use of wood - nothing goes to waste

- Fibres to **pulp and paper**
- Fibres to **biofibrils and biocomposites**
- Logs for **sawn goods and plywood**
- Lignin, cellulose and hemicellulose to **biochemicals**
- Extractives to **renewable diesel and naphtha or biochemicals**
- Bark and branches to **energy**





UPM replaces fossil fuels and chemicals by innovating wood-based drop-in alternatives to support both fuels and material industry to reduce emissions

UPM has invested significantly in both wood-based biofuels and wood-based biochemicals. **UPM Biofuels** Lappeenranta Biorefinery was the world's 1st commercial scale wood-based residue using biorefinery in the world with 179MEUR investment that started up in 2015. UPM is currently conducting studies to grow the biofuels business with a potential new 500 000 tons biorefinery with a potential investment cost of up to 1 billion EUR.

UPM Biochemicals is currently constructing worlds 1st wood-based biorefinery in Leuna, Germany with an investment cost of 550 MEUR. The biorefinery will produce 220 000 tonnes of wood-based biochemicals. The Leuna plant will convert wood into the next generation of biochemicals. Renewable glycols will go into bottles, packaging, textiles, cosmetics, and detergents. Lignin will be used in adhesives and bioplastics. Wood-based functional fillers will go into rubber tyres and thermoplastics. These biochemicals have a huge number of potential industrial and consumer applications.

UPM considers that the developing **hydrogen economy** can significantly contribute to EU's decarbonization. For the H2 goals to materialize, it is indispensable that regulation is technology-neutral and such that creates true incentives to invest. Low carbon hydrogen, when the national grid is sufficiently low carbon, should play an important part. Restrictive additionality requirements may hinder the development of hydrogen economy.

UPM is in an outstanding position to support EU's goals to materialize. As a major producer of CO₂ free electricity in the Nordics, with strong capabilities in the Nordic electricity markets, as a hydrogen user in our biomolecular businesses, and with access to biogenic CO₂ from our operations, we are exploring opportunities to support the hydrogen developments.

Land Use, Land Use Change and Forestry

Significant attention has been recently paid to the role of both forests and agriculture in reaching EU's climate targets. While debate is needed, UPM emphasizes that the **only way to reach climate targets is to reduce fossil raw materials rapidly**. The land use sector must not compensate for the emissions of other sectors.

However, forestry and the forest sector in general, can strongly contribute to reaching EU's climate targets. Active forest management together with afforestation provide significant opportunities for the forestry sector to ensure long-term carbon absorption capacity. **Well-managed forests provide growth of forest stock, foster biodiversity and ensure long-term growth of the carbon sink while increasing resilience towards climate change and risks like pests, insect damages and storms.**

OUR CLIMATE COMMITMENT

WE ACT THROUGH FORESTS

We are committed to climate-positive forestry and enhancing biodiversity.

WE ACT THROUGH EFFICIENCY AND EMISSIONS

Our target is to reduce our CO₂ emissions by 65%.

WE ACT THROUGH PRODUCTS

We innovate novel products, and our aim is to scientifically verify the climate impacts of all our products.





UPM strongly supports EU Commission proposal to plant **3 billion trees** within the EU. By afforestation we can increase carbon sinks, biodiversity and produce wood for forest industry to substitute fossil material-based products. UPM is committed to afforestation and has established over 200 000 ha of plantation in Uruguay to non-wooded degraded agricultural land. In addition, in Finland UPM is committed to afforest former non-wooded land having low biodiversity value. Forest must always be regenerated after harvesting. UPM contributes to reforestation by planting 50 million trees annually. It is important we support sustainable, climate-positive forests, where the aim is to increase the biomass in the forests and their growth through economically, ecologically, and socially sustainable forest management. As four new trees are planted for every harvested tree, the growth of forest is safeguarded. More forest and growth means increased carbon absorption and increased opportunity to replace fossil consumption through product substitution.

The LULUCF regulation should also put stronger emphasis on **product substitution**. Wood-based products store carbon and replace non-renewable fossil products. Such substitution within LULUCF should also cover new innovative products from wood. In addition, we are very critical of the merging of the forestry sector with the non-CO₂ emissions of the agricultural sector.

With its **Sustainable Carbon Cycles initiative**, the European Union has shown that decarbonisation must not only take place by reducing emissions, but that the materials sector must also be freed from fossil carbon and transferred to a sustainable future. UPM welcomes the proposed target that 20% of plastics should come from non-fossil sources by 2030. This, coupled with the opportunities of bioeconomy, means great innovation and economic growth potential for European companies: new growth sectors are emerging having a positive climate impact in removing and using carbon dioxide from the atmosphere through technologies and products.



Fit for purpose regulations to ensure competitiveness of the EU industry

European Union is leader in efforts to mitigate climate change. But leadership comes with responsibility to ensure competitiveness of EU industry as only prosperous industry can invest in green growth. Industry requires level playing field and sufficiently long-term regulatory certainty. This is not the case with some of the Fit for 55 proposals.

While UPM considers **ETS** as the main instrument to drive forward decarbonisation, the proposal to exclude installations with over 95% biomass utilisation from ETS is contradictory to the goals of using renewable biomass instead of fossil fuels. Furthermore, extension of transport and maritime sectors in to the ETS raise concern of increased logistics costs.

In maritime transport, global solutions should be preferred. **Competitiveness of those sectors and regions impacted by higher logistics costs must be recognised.**

New policies should not penalise early movers, those that have already taken action to reduce emissions. Policies targeting industry must consider the risk of **carbon leakage** and recognise global competition. Also, setting a cap on the use of electricity is contradictory to the goal of electrification and increased use of green hydrogen.

Fit for 55 proposal is creating complexity as most of the proposed directives' impact in some way industry. EU institutions in charge of finalising legislation must take note of the need to create policies that create holistic, easy-to-interpret and forward-looking policies. Enabling market-driven development is an important role for government actors. Consistency is essential, as industrial companies are investing for decades to come.

UPM looks forward to engaging with the EU institutions in discussions on the Fit for 55 proposal.

This position paper is publicly available at <https://www.upm.com/responsibility/people-and-society/views-and-positions/>
UPM's EU transparency register number: 861194311863-31

UPM is one of the largest forest industry companies in the world with 8.6 billion EUR turnover, 18 000 employees and global operations with headquarters in Finland. In addition to our leading position in e.g., paper, pulp, timber, labelstock and plywood, UPM is leading producer of advanced biofuels in the EU and investing currently 550 MEUR in wood-based biochemicals in Leuna, Germany.

As the industry leader in responsibility, we are committed to the UN Business Ambition for 1.5°C and the science-based targets to mitigate climate change. UPM is the only forest industry company in the world recognized as a UN Global Compact LEAD participant for our strong commitment to responsible business and has AAA on MSCI ESG rating, AAA on CDP's Climate/Forestry/Water and leadership position on DJSI's forestry sector.

UPM is the only forest industry company in the world recognized as a UN Global Compact LEAD participant for our strong commitment to responsible business.

