

REDIII IMPLEMENTATION IN NETHERLANDS

UPM appreciates the opportunity to provide input on the Netherlands' REDIII implementation. Proposal supports the continuous and stable development of markets for advanced biofuels in Europe and is an important step in achieving Netherlands' climate targets.

We would like to propose following considerations to ensure effective REDIII implementation that supports continuous development of renewable fuels:

1. What effect do you expect the amendment of the decree to have on your organisation?

The proposed amendments would support the continuous development of markets for advanced biofuels in Europe. This is a critical step towards developing a strong European, and indeed global industry for the production of sustainable biofuels. The current EU biofuels market environment is shaped by big differences in the market design and incentive mechanisms. Predictable market regulations with clear CO2 reduction pathways, based on transparent criteria are an important element in building a stable and reliable demand. This element of certainty is much needed for companies like us to inform our medium- to long-term business decisions. Should this decree be passed, the Netherlands will set a positive precedent for a market enabling RED III implementation in Europe, both regarding the systemic approach as well as the timeliness of the legislation. This would help confirm UPM commitment to the EU biofuels market and strengthen related business strategies.

2. It is proposed that there will be obligations up to and including 2030. Is that horizon long enough to make investments? Should the Netherlands also impose obligations after 2030?

Novel production facilities for advanced biofuels and other renewable fuel types typically require a multi-year development phase before final investment decisions. As most novel facilities will build on new, innovative technologies and processes, development and building costs are tendentially higher than for classical refineries. Such decisions are only taken with a clear, predictable business case in mind and consider multi-year payback horizons after start-up. A predictable market framework and stable demand projection remain instrumental for a sustainable investment case.

The timeframe covered by the current regulation proposal, and in fact the reference EU regulation, RED III, is not sufficient to trigger new and additional investments – especially if building on innovative technologies both for the production of biomass based fuel types as well as RFNBO. We would therefore encourage the Dutch government to actively encourage the swift development of a regulation which is perpetuating or succeeding the current biofuels market framework based on clear, and which is based on defensible eligibility criteria, long-term, quantitative reduction targets and fuel-type quotas beyond 2030. **A continuation of the EU led regulatory framework is advisable. The establishment of a robust system to ensure and enforce the validity of the sustainability performance of biofuels marketed in the EU would be an additional requirement.**

3. Will your company be able to cope with the proposed changes? Why or why not?

Yes, if with necessary adjustments are made to the framework.

While UPM acknowledges the potential of the Netherlands' implementation of RED III, the current proposal presents both opportunities and challenges.

- Ambitious Targets and Flexibility:
 - The termination of multipliers from 2026 and the shift to GHG reduction system makes the framework more transparent and **is highly supported**
 - Advanced biofuels benefit from a higher minimum mandate for road transport (8.76% GHG reduction) and an overall road sector target (22.6%) exceeding RED III's (14.5%). This is a remarkable endorsement for renewable transportation in Europe if transposed and gives positive signal for continuous development of advanced biofuels sector also in the road sector. **It is essential to maintain ambitious targets in road transport, both in overall mandate and in advanced biofuels minimum mandate**
 - Allowing credits to be carried over into future years enhances flexibility, but complicates market predictability and creates uncertainty of the needed actual volumes. **Rules for credits carry-over should be reconsidered to ensure predictability and transparency of the market**
- Separate Advanced Biofuels and RFNBO Sub-Target
 - The distinct sub-targets for advanced biofuels and RFNBOs acknowledge the need for market reliability and investment safety while at the same time enabling investments in innovation across all sectors. Separate sub-target for the advanced biofuels fosters investment security for fuel producers and suppliers to provide advanced biofuels to road transport. **Therefore the separate target for advanced biofuels in road sector is highly supported**
 - The refining route (intermediate hydrogen) remains open with correction factors to be defined in secondary legislation. This opens potential for RFNBO ticket generation in hubs like Rotterdam, supporting industrial alignment with climate targets. **The possibility to count intermediate hydrogen under RFNBO mandate is supported**
- Certification Standards and Sustainability Controls
 - Ensuring that sustainability certification standards are met across the market is critical, especially for advanced biofuel imports from third countries.
 - Recent experiences in some EU member states have shown inadequate sustainability controls under RED III, leading to the influx of wrongly certified advanced biodiesel. The lack of proper sanction mechanisms has caused market distortions, including price drops and insolvencies in the advanced biofuels sector.
 - To reassure investors and ensure market stability, **the Netherlands must advocate for stronger certification enforcement and penalties at the European level**. This will safeguard the framework conditions and build investor confidence in advanced biofuels.

4. Is the discretionary margin in your sector of value? Or can it be done just as well or even better without it?

The possibility to fulfill sector target with credits created in another sector creates flexibility and cost efficiency for the target fulfilment. However, especially for the road transport sector it is essential to maintain investment security and market continuity for fuel producers and suppliers supplying advanced biofuels to the market. **Therefore it is highly supported that in road sector mandates need to be filled with the solutions and fuels in the road sector and the option to fulfill the mandate with credits from other sectors is prevented.**

UPM

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