Biofuels Consultation
Heat & Transport Energy Policy
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[redacted]

Response by Neste to the "Consultation on the development of the Biofuels Obligation Scheme for the period 2021 to 2030" of the Irish government

Dear ladies and gentlemen,

We are delighted to be given the opportunity to express Neste's views in relation to your government's abovementioned public consultation.

Climate change is the most pressing challenge of this generation. Europe is committed to lead global climate action and concrete solutions are needed to meet the EU's and its member states' ambitious 2030 and 2050 targets. A speedy and successful decarbonization of the transport sector plays a vital role. According to recent scientific findings we only have a few years to make a decisive impact on the health of our planet.

At Neste we believe that all solutions are needed - biofuels, renewable electricity, hydrogen and other technologies, domestic and regional, all will need to play their part. The sustainable, renewable diesel Neste brings to the market is already contributing significantly to global greenhouse gas emission reductions. It is available to support Ireland's ambitions immediately.

And Neste is implementing ambitious capacity growth plans. Similarly across the industry, renewable diesel/renewable jet fuel capacity is projected to double between 2019 and 2023. Every drop renewable diesel reduces greenhouse gas emissions by up to 90%.

In the annex to this letter, we have provided our responses in relation to those questions where we felt we have important insights to share.

We urge the Irish government to pursue its ambition with strong, bold and speedy action in relation to the implementation of the Renewable Energy Directive as well as to the Alternative Fuel Infrastructure Directive. The situation requires leadership to develop further an ambitious, effective, coherent and sustainable policy framework that meets the real needs for decarbonization.

We hope that you are able to consider Neste's views in your consultation process. We would be delighted to provide further information or meet in person and support your government in making informed and ambitious decisions.

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Neste in brief

Neste (NESTE, Nasdaq Helsinki) creates sustainable solutions for transport, business, and consumer needs. Our wide range of renewable products enable our customers to reduce climate emissions. We are the world's largest producer of renewable diesel refined from waste and residues, introducing renewable solutions also to the aviation and plastics industries. We are also a technologically advanced refiner of high-quality oil products. We want to be a reliable partner with widely valued expertise, research, and sustainable operations. In 2018, Neste's revenue stood at EUR 14.9 billion. In 2019, Neste placed 3rd on the Global 100 list of the most sustainable companies in the world. Read more: neste.com

ANNEX I

Responses to relevant questions posed in the public consultation on the Irish Biofuels Obligation Scheme including the implementation of the elements relating to renewable transport fuels in the recast Renewable Energy Directive

Neste Response to question 1 on the blending levels and the approach to increase the biofuels obligation rate:

We recommend the Irish government to look for all possibilities to accelerate the decarbonization of its transport and other sectors. Brave and bold actions are required from all stakeholders, and governments can play a decisive role.

We believe that the benefit from technological solutions already available today should be maximized. There is a growing market of biodiesel, bioethanol as well as other renewable fuels. The current market for renewable diesel (HVO), a drop-in fuel that can be blended in high ratios or used pure (100 % without any blending with fossil fuels), is also significantly growing.

Already for 2023, based on publicly made announcements of companies, there are expectations for the global HVO market (nameplate capacity for stand alone and co-processing) to pass the 15 Million tons mark, more than doubling from 2019 levels. Similarly Neste's renewable product overall capacity will increase by up to 1.3 million tons per annum in 2022, bringing the company's total renewable product capacity close to 4.5 million tons annually.

We therefore strongly encourage the Irish government to set ambitious targets that meet the real need of decarbonizing society. We believe it is very much possible to go also beyond the currently enshrined 14% renewable energy target.

Not only the obligation rate is important for a sustainable emission reduction strategy, also the clarity and the stability of the obligation targets. Neste therefore encourages the Irish government to enshrine the targets and interim targets in the legislation upfront as intended. Other member states such as Finland have seen that setting a ten year biofuel obligation increases planning certainty and investments in renewable solutions.

Neste Response to question 2(b, c, d) on the introduction of diesel fuels with a higher blending ratio:

Renewable diesel (HVO) is a clear solution to the problem of higher blending obligations. As mentioned under Question 2, there is a growing market and growing availability of such fuel in Europe and globally that can fulfill the Irish needs. With Renewable diesel (HVO), due to its drop-in nature and high quality, there are no technical and consumer challenges and no additional support needs envisioned.

In many markets (i.e. Sweden, Finland, USA), renewable diesel already provides a very significant contribution to lowering transport emissions, as a blended product as well as a EN15940 compliant pure renewable fuel. The experiences of these markets have shown that higher blending obligations are achievable and publicly acceptable. They also show that with significantly higher blending ratios in diesel, possible blending restrictions elsewhere can be compensated.

Neste Response to question 3 on a possible move to an energy-based obligation:

Undoubtedly, a GHG-based obligation provides the most direct link to the actual target of the regulation and, if designed well, is able to encourage additional GHG reductions in the supply chain of renewable fuels. Those markets that introduced a GHG-based system have shown they were able to manage the level of complexity. Hence, with an equally high ambition level, a GHG-based system is ultimately the most effective solution for climate protection.

Neste Response to question 4 on the considered timing of changes to the Biofuels Obligation Scheme:

In line with Neste's determination to create a healthier planet for our children and to decarbonize transport, we encourage the Irish government also in this respect to use all available means and solutions and to be fast and bold while ensuring economic operators have the ability to adapt to regulatory changes. As there are still more than 13 month until the start of 2021, we believe there is sufficient time to complete the RED implementation process and for economic operators to also prepare for the changes by then. Of course the domestically operating parties can provide the best insights into the feasibility of the proposed timing. Neste is willing to engage with domestic parties in relation to supply.

Neste Response to question 5 on the introduction of an advanced biofuel obligation:

Renewable diesel can be made from a variety of feedstocks, also from what is termed as "advanced raw material", and Neste as well as others are investing heavily in making new raw materials and new energy sources usable for its production. It though needs to be stressed that the availability of Annex IX A list raw material is currently limited and, for the most part, will require high technology investments.

In relation to the advanced biofuel obligation as well as more widely, we encourage considering a wide spectrum of sustainable raw materials that can contribute to meeting Ireland's ambition.

Neste recommends the creation of a process whereby new raw materials, while not explicitly mentioned in Annex IX A, are endowed with the same regulatory status as they fulfill the definitions specified in Annex IX A, d).

Similarly we recommend establishing a process to recognize new raw materials that fall in the rightly foreseen category "other" (as raised in question 8), namely (waste & residue) biofuels made of raw

materials which are not listed in Annex IX and are not food and feed crops, fulfill the sustainability criteria and greenhouse gas reduction limit. Such biofuels must qualify for the fulfillment of the targets set out in the Renewable Energy Directive as well as national support schemes.

The focus should be on enabling the marketing of sustainable biofuels that deliver true greenhouse gas reduction value. Biofuels listed in Annex IX do not necessarily have superior greenhouse gas performance.

Neste Response to question 7 on the consideration to fully or partially exempt certain fuels from the obligation:

The ultimate goal is to reduce greenhouse gas emissions. Non-liquid biofuels should be incentivized in accordance with their actual greenhouse gas emission profile. A system that accounts for the true life-cycle emission reductions would serve this purpose best. Such a system could then also account for recycled carbon fuels that can prove significant emission reductions.

Neste Response to question 8 on the considered approach to issue energy credits:

It is vital that decarbonization advances rapidly also in aviation. In order to enable a speedy decarbonization in non-road sectors, Neste recommends the Irish government to keep separate crediting systems for aviation and, if needed, maritime (the action flowing at the global level from IMO might be worthwhile to consider before national measures) respectively. Such separate systems support directly the development of ever more advanced emission reduction solutions. First experiences with opt-in models show that these do not provide a very strong push for the creation of a market for renewable aviation fuels as do separate mandates.

As mentioned in the answer to question 7, recycled carbon fuels and other alternative fuels that qualify for meeting the obligation should be credited according to their emission reduction value.

Neste Response to question 9 on multipliers:

It should be carefully considered that the use of any double counting halves the actual climate effect. And double counting seems no longer needed for transition from crop based biofuels to waste, residues and new raw materials, because of the mandatory Annex IX sub-target as well as the cap on fuel from crop based materials.

Neste Response to question 10 on high ILUC risk feedstocks:

The Renewable Energy Directive foresees a phase out of raw materials classified as high ILUC risk feedstocks. The foreseen trajectory provides market players with possibly required short-term flexibility to adjust to increasing obligation levels.

Neste Response on question 11 on the crop cap level:

As capacity for renewable fuels from waste and residue material is growing it is important to consider the availability of such fuel in the short-term.

Neste response to Question 15 on the approach to dealing with potential supply disruptions:

Clear and tight requirements should be set for a ministerial merit to allow obligated parties the option to make up for any shortfall in a specified calendar year in the following calendar year in place of paying compliance costs.

Neste Response to question 16 on the introduction of a Biofuel Obligation Scheme in the heating sector:

As in road, rail and aviation transport, renewable diesel is also able to replace its fossil alternative in heating applications. A separate renewable obligation for heating will prove an effective tool to decarbonize the sector. Also in heating applications, very high blending ratios of up to 100% are possible. And due to its excellent storage and cold properties, unlike biodiesel (especially in higher blending ratios), renewable diesel is ideal for longer storage periods.