

Public
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NESTE OIL NO-DEFORESTATION AND RESPONSIBLE SOURCING GUIDELINES FOR RENEWABLE FEEDSTOCK

1 Introduction

Neste Oil believes that biofuels are an important contributor in combating climate change and moving to a low-carbon energy mix. We therefore want to ensure that the biofuels we provide to our customers are contributing to a sustainable future and that any negative impacts of production are thoroughly understood and mitigated. As deforestation is seen as one of the most serious problems with the use of biomass, we have developed these guidelines to make sure that our raw materials will not lead, either directly or indirectly, to loss of valuable forests.

2 General principles

All of our feedstock sourcing already follows the requirements for sustainability performance as required by the European Union Renewable Energy¹ and Fuel Quality Directives² and by other international regulations relevant for our markets. This provides certain assurances regarding the protection of peatlands, forested areas, and protected areas, as described in annex 1 of these guidelines. We also do not source from areas that were converted from grassland after January 2008, pending the publication of the European Commission's definition of highly biodiverse grassland.

In addition to those requirements and also considering multi-stakeholder initiatives such as RSPO, we will only purchase biofuel or biofuel feedstock from sources that:

- Are fully traceable back to the point of origin;
- Are produced in compliance with local laws and regulations;
- Protect High Conservation Values as defined by the HCV Network³;
- Support the Free, Prior and Informed Consent⁴ of indigenous and local communities for activities on their customary lands;
- Protect High Carbon Stock (HCS) forest areas through an approach which uses various analytical methods such as satellite analysis and fieldwork to distinguish natural forest from degraded lands with only small trees, scrub, or grass remaining. We will be guided by the fieldwork being undertaken by TFT to identify such areas and as a result of the field pilots support the definition of a threshold for HCS within the 'old scrub' category of land classification. For this fieldwork and research approach, we will include multiple stakeholders in the discussions.
- Protect and properly manage peatlands

¹ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=Oj:L:2009:140:0016:0062:en:PDF>

² <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:140:0088:0113:EN:PDF>

³ <http://www.hcvnetwork.org/>

⁴ <http://social.un.org/index/IndigenousPeoples/DeclarationontheRightsofIndigenousPeoples.aspx>

Public
4 April 2013

We will prefer suppliers who are actively implementing similar no-deforestation principles in all their operations. Suppliers with credible long-term programs to improve the use of existing cultivation areas, e.g. investing in yield improvements, as well as prioritizing degraded land for plantation expansion will also be preferred.

Our aim is to reduce the risk that increased demand leads to negative indirect impacts, including a potential loss of biodiversity and greenhouse gas emissions associated with indirect land use change. We believe that maximizing our use of wastes and residues, investing in feedstock R&D as well as yield improvements, and buying from suppliers who are committed to expanding only on acceptable lands reduces the risk of contributing to unwanted indirect impacts.

3 Neste Oil commitment to and implementation of these guidelines

We will use a combination of research, stakeholder engagement and consultation, second-party audits and third-party certification to assess our suppliers' compliance with these Responsible Sourcing Guidelines. We will work proactively with industry, NGO and government stakeholders to build producers' capacity to comply with these Guidelines in all their palm oil operations. We will regularly report on what activities we have undertaken to implement these guidelines, and the level of compliance of our supplier base.

Our goal is to support our suppliers to meet these guidelines. If, over time, our suppliers prove unwilling to comply with these guidelines, we will reconsider our supplier relationship.

Neste Oil is committed to supporting initiatives that strengthen forest protection by promoting sustainable agriculture through expanding responsible sourcing guidelines to all industrial end uses.

Public
4 April 2013

ANNEX 1

Neste Oil's legally binding land-use related requirements for renewable raw material supply

1. Biofuels and bioliquids shall not be made from raw material obtained from land with **high biodiversity value** as defined in the RED and Fuel Quality Directive (FQD) and interpreted as follows

Conservation of primary forest and other wooded land

- Biofuels and bioliquids shall not be made from raw material obtained from land that was primary forest or other wooded land in or after January 2008, whether or not the land continues to have that status
- Primary forest and other wooded land is defined as forest and other wooded land of native species, where there is no clearly visible indication of human activity and the ecological processes are not significantly disturbed.

Conservation of protected areas

- Biofuels and bioliquids shall not be made from raw material obtained from land that was a protected area in or after January 2008, whether or not the land continues to have that status.
- This includes areas designated:
 - by law or by the relevant competent authority for nature protection purposes; or
 - for the protection of rare, threatened or endangered ecosystems or species recognised by the RED⁵ and the FQD⁶
 - An exception to the abovementioned is possible if evidence is provided that the production of that raw material did not interfere with those nature protection purposes.

Any conversion of grasslands after January 2008 is prohibited to cultivation of feedstocks for biofuel or bioliquid production, until the European Commission has published its definition of **high biodiverse grassland**.

3.2 Biofuels and bioliquids shall not be made from raw material obtained from land with high carbon stock, such as wetlands and forests⁷

Wetlands

⁵ The second subparagraph of Article 18(4) of the RED;

⁶ FQD art 7b(4)

⁷ These provisions shall not apply if, at the time the raw material was obtained, the land had the same status as it had in January 2008

Public
4 April 2013

- Biofuels and bioliquids shall not be made from raw material obtained from land that was wetland in January 2008 and no longer has that status
- A wetland is land that is covered with or saturated by water permanently or for a significant part of the year

Continuously forested areas

- Biofuels and bioliquids shall not be made from raw material obtained from land that was continuously forested in January 2008 and no longer has that status
- Continuously forested areas are defined as land spanning more than one hectare with trees higher than five metres and a canopy cover of more than 30%, or trees able to reach those thresholds in situ
- Continuously forested areas do not include land that is predominantly under agricultural or urban land use. In this context, land under agricultural use refers to tree stands in agricultural production systems, such as fruit tree plantations, oil palm plantations and agroforestry systems when crops are grown under tree cover (EC Communication 2010/C 160/02).

Sparsely forested areas

- Biofuels and bioliquids shall not be made from raw material obtained from land that was sparsely forested in January 2008 and no longer has that status
- Sparsely forested areas are defined as land spanning more than one hectare with trees higher than five metres and a canopy cover of between 10% and 30%, or trees able to reach those thresholds in situ, unless evidence is provided that the carbon stock of the area before and after conversion is such that, when the methodology laid down in part C of Annex V of the RED is applied, the greenhouse gas threshold would still be fulfilled.

3.3 Biofuels and bioliquids shall not be made from raw material obtained from peatland

- Biofuels and bioliquids shall not be made from raw material obtained from land that was peatland in January 2008, unless evidence is provided that the cultivation and harvesting of that raw material does not involve drainage of previously undrained soil.
- This means that for peatland that was partially drained in January 2008 a subsequent deeper drainage, affecting soil that was not already fully drained, would constitute a breach of the criterion. (EC Communication 2010/C 160/02, section 4.2.3.)

In addition to these land-use related requirements, Neste Oil shall comply with all the requirements that are set for raw material and product traceability, supply chain management, greenhouse gas savings and balance over the whole life-cycle of the product, and verification of compliance by external, independent and competent body. Further internal principles and instructions on supplier selection and biofuels are available at www.nesteoil.com.