

ACT

**ROADTEST
LAYMAN REPORT**

Assessing low- Carbon Transition

Pulp & Paper



July 2022

1. CONTEXT OF THE ROAD TEST

PULP & PAPER SECTOR

As the 4th most energy-intensive industry, accounting for 5.6% of the industrial energy consumption in 2014 [1], the pulp & paper sector has an important role to play in global decarbonization. In Europe, the pulp & paper industry has already reduced the GHG emission intensity of paper and board production by 44% per tonne of product since 1990 [2] and achieved significant energy efficiency improvements. However, additional efforts are needed to be on track with the mitigation objectives of the Paris Agreement.

ACT PULP & PAPER METHODOLOGY

For the past six years, ADEME and CDP have been working together on developing the ‘Assessing low-Carbon Transition’ (ACT) initiative, a methodology to assess companies that have set climate commitments and want to take climate action in line with the Paris Agreement. The ACT methodology uses a holistic approach to assess a company’s climate strategy and determine its readiness to transition to a low-carbon economy.

The road test version of the ACT Pulp & Paper Methodology is designed to assess a company’s climate impacts across its value chain. In practice, not all companies have activities in all stages of the value chain, and, as a result, the ACT Methodology categorises companies as pulp, paper and board manufacturers, converting companies, integrated and semi-integrated companies, according to the products they produce. This classification influences the overall ACT performance results through score weightings, which adapt raw scores according to the relevance of each indicator to a company’s activities.

GOALS OF THE ROAD TEST

The project’s objectives were:

- to test the draft ACT Pulp & Paper Methodology and accompanying tools
- to provide recommendations to refine the Methodology
- to ensure the ACT Pulp & Paper Methodology is relevant and robust for the sector
- to engage companies and other stakeholders in the low-carbon transition

The road test for the ACT Pulp & Paper Methodology was carried out by I Care & Consult and Deloitte.

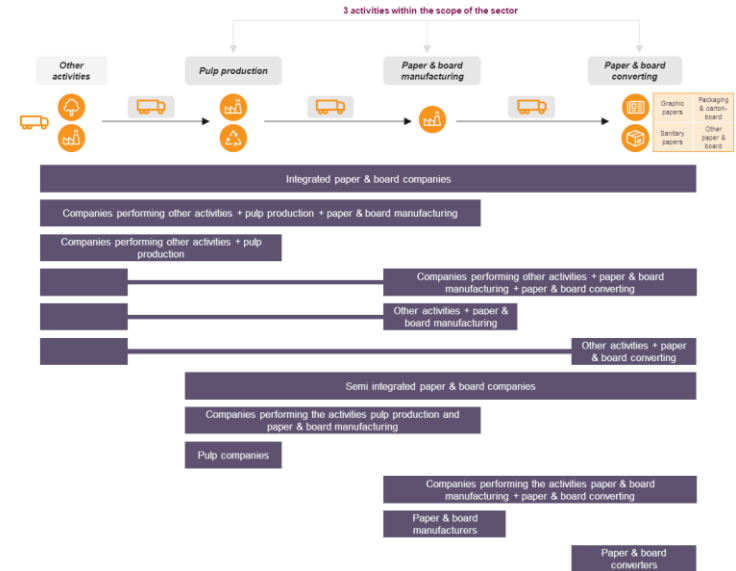


FIGURE 1: COMPANIES THAT CAN BE ASSESSED BY THE ACT PULP & PAPER METHODOLOGY

ASSESSED COMPANIES



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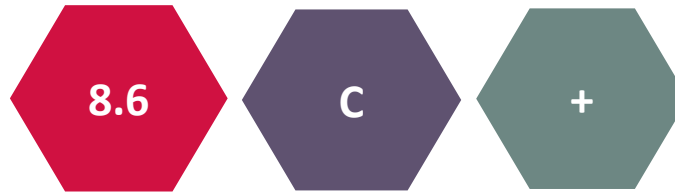
8 companies assessed using publicly available data

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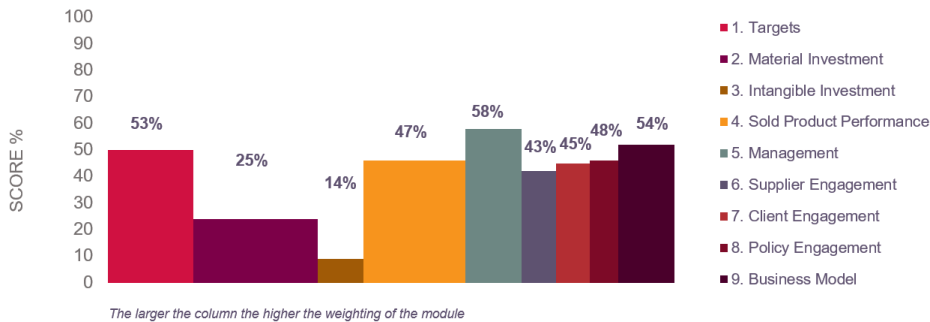
2 companies assessed on private data and under a hybrid format

2. RESULTS OF THE COMPANY ASSESSMENTS

OVERALL RESULTS



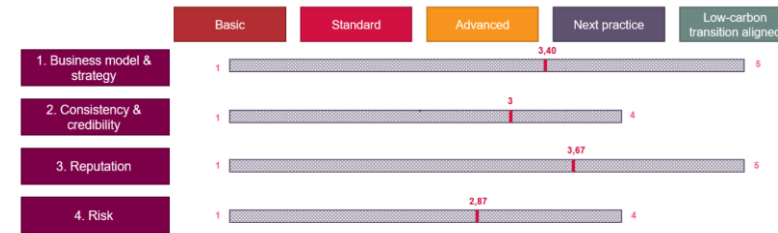
The average performance score was 8.6 where 13.3 was the highest and 2.1 the lowest. The worst score is obtained by a lack of data provision by the company participating in the road test. The top performer's score is driven by its effective and ambitious transition towards decarbonization shown by the development of low-carbon business models, financial investments and the renewal of its production units (replacing high-consumption machines with less consumptive ones, promoting low carbon technologies, using new technologies). Indeed, the company excelled in the Material investment and Intangible investment Modules as it provided detailed information on its investments in terms of its physical assets but especially on its CAPEX plan, which most of the other companies did not provide.



OVERALL PROFILE OF THE 5 ACT GUIDING QUESTIONS

The average narrative score was **C**, indicating an overall medium alignment with a low-carbon scenario. The narrative score for companies ranges from 2.5 to 4 (D to A). In general, companies have a better "reputation" score because the half that encountered environmental controversies managed to address them effectively. Moreover, these controversies were mostly minor. The lowest score obtained is for the "risk" criterion. Almost all companies have a risk analysis in place, but only a few take them into account substantially in their strategy and implement adaptation measures. Regarding the dimensions "business model and strategy" and "consistency and credibility", the companies scored relatively well compared to other sectors. Consistent actions can be observed between the emissions reduction targets enacted at the company level and an operational implementation of these objectives at the level of the production sites. In addition, companies are almost all engaged in business models based on the development of low-carbon products or technologies. However, business models involving low-carbon

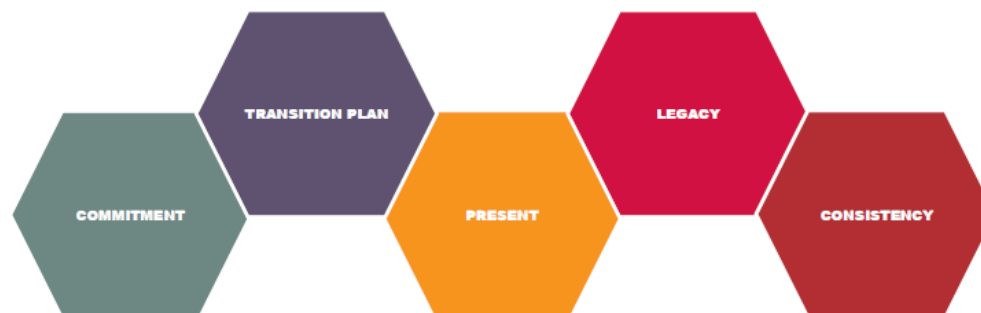
production processes are often not mature enough and thus investments in low-carbon energy and technologies



need to increase.

The average trend score was rated **plus (+)** for the pulp & paper sector. Indeed, most companies are on a positive trend and have implemented most of the conditions to transition towards a low-carbon economy. For instance, they have aligned targets and management practices, which are key prerequisites of a durable business. They are also increasingly intervening within their supply chain, notably towards their suppliers, which suggests their willingness to accelerate the transition of the sector. Nonetheless, more efforts need to be made, notably in terms of CAPEX investment to transform their production system and reach their ambitious targets.

While each ACT methodology is sector-specific, they are all based on the ACT Framework and as such there are fundamental commonalities among all of them. The assessment's main goal is to evaluate past, present and (anticipated) future company performance to determine the company's maturity level with respect to its transition to a low-carbon economy. The ACT initiative focuses on five guiding principles to determine company performance:



1

Companies in the pulp and paper sector have for the most part set science-based emissions reductions targets for their scope 1 & 2. Very few companies have set emissions reductions targets for their scope 3 emissions, which would allow to take into considerations their upstream and downstream emissions.

Thus, companies from pulp and paper must set long-term target to reduce their scope 3 emissions.

2

Companies in the sector have reported the exploration of low-carbon business activities (increase share of recycled fibres in sanitary products, transitioning towards low-carbon energy, selling surplus of electricity, developing biomass-based products for other industries etc.). However, the level of maturity varies considerably between companies. Participants rarely disclosed information on profitability, limiting the analysts' ability to understand progress in the implementation of transition plans. However, some gaps have been identified between targets set by companies and the ambition of transition plans in aligning with a low-carbon economy. Almost no companies disclose targets to increase the share of recycled fibres in sold products.

3

Most companies have developed sustainability strategies and report current targets to tackle their climate impacts, but current levels of data availability are still below ACT's standard. The majority of companies presents a high share of certified virgin fibres and commitment to zero deforestation, but robustness and granularity of the traceability systems varies widely from one company to another.

4

Past performance varies between companies. While some companies are developing sustainability strategies, the sector is not widely recognised for previous achievements in tackling its climate impact, and this is consistent with the ACT assessment results.

5

Overall, assessments have shown that climate strategies were consistent and fairly reflected the level of maturity of the company. However, some gaps have been identified between companies' commitments and their transition plans. Companies should also be aware of the importance of having a coherent approach between the emission reduction target implemented at corporate level and the decarbonisation plans at production site level. The material investments that reduce emissions from production must be commensurate with the corporate objective if companies are to see impactful results and move towards a low-carbon economy.

3. CONCLUSION AND OUTLOOK



SUCCESSSES OF THE ROAD TEST

- 15 assessments performed leading to methodological improvements by now better reflecting how companies **report their data**
- Confirms the need to have **quantitative decarbonization scenarios per activity** (disaggregation of the sector IEA scenario performed during the methodology development) in order to provide a **tailored benchmark**
- **Good representation of the sector both in terms of players** (integrated companies, converters, pulp, paper and board manufacturers) and geographies
- The ACT Pulp & Paper Methodology has shown to be a robust tool for evaluating companies' readiness for their transition towards a low-carbon economy by **accurately reflecting strengths and weaknesses in companies' current strategies and actions**



LIMITATIONS OF THE ROAD TEST

- **Limited engagement from companies** of the sector to be part of the road test due to their participation in other initiatives (SBTi Flag, GHG Protocol, WBCSD sustainability forest, etc.).
- **Limited public availability of required data for public assessments** and difficulties sometimes to obtain data from companies (private assessments). Hence it is complex to know whether it is **due to a lack of data or a lack of maturity of the company in its low-carbon transition.**
- Decarbonization pathways (SBTi FLAG), including GHG emissions related to land management, land-use and carbon removal were not available yet. This prevented both a quantitative assessment on these key topics for the sector and **might have affected the attractiveness of the Methodology.**

MAIN CHANGES & RECOMMENDATIONS TO EXTEND THE METHODOLOGY TO THE REST OF THE SECTOR

Deloitte and I Care & Consult have already implemented methodological enhancements as well as improvements to the questionnaire. All inconsistencies or issues experienced by the analysts and companies during the road test have been gathered in a logbook and integrated at the end of the road test after discussion with the Steering Committee and the Technical Working Group. The following points summarise the key recommendations that have been addressed or will be addressed:

- **A consolidated benchmark for the sector:** It has been noted during the road test that companies do not always have their CO₂ emissions already disaggregated per activity. A new consolidated benchmark will be created (in tCO₂/t of material) to replace the previous benchmark per activity. Companies will still need to provide the volume of production per activity (and volume of consumption of paper/board for the converting activity) in order to compute a relevant and tailored benchmark.

- **An additional indicator (PP 1.2) dedicated to scope 3 targets:** As a result of the road test, it was noticed that there are still too few companies from the sector that have developed a scope 3 emissions reduction target. To better reflect this fact in the performance score, a dedicated indicator will be created to reward companies who do have an emissions reduction target on their scope 3 emissions.
- **A reshaped indicator PP 4.3 assessing companies' actions on deforestation and material procurement:** This indicator appeared irrelevant for players at the end of the value chain (converters). The (almost) only lever is the use of certified raw materials. Therefore, this indicator has been adapted for converters and the whole indicator has been reshaped through two dimensions. Firstly, assessing the robustness of commitment on no-deforestation / sustainable procurement and the implementation of a supply chain traceability system and, secondly, focusing on a company's target in the future regarding the use of recycled fibres, sustainable fibres or the reduction of fibres used per product. Also, the sub-dimension regarding the sustainability of woody biomass has been integrated into indicator 2.5 Transition towards low-carbon energy.
- **Further criteria on the dimension assessing the use of heat and steam:** A novel approach was introduced in the ACT Pulp & Paper Methodology to recognise the efforts implemented by companies investing in technologies enabling a transition towards low-carbon heat and steam. However, it was highlighted during the road test that there is a need to identify efficient technologies (e.g., for biomass boilers) or at least to define a minimum threshold on the carbon content of energy used in combination with those technologies. Also, additional criteria's have been added to to refine what is considered as sustainable biomass.
- **An improved low-carbon electricity dimension:** The dimension assessing low-carbon electricity has been improved to more accurately answer the question "is the company contributing to the development of new low-carbon electricity capacity?". The updated version of the indicator 2.5 will give more details on the mechanisms used by companies to consume low-carbon electricity and value mechanisms that correspond to a commitment to the addition of new low-carbon electricity generation capacity.
- **Other technical points have been addressed:**
 - Additional guidance will be added to indicator 4.2 regarding certification schemes that can be used to justify the use of recovered fibres and virgin fibres from sustainably managed forests
 - Additional levers have been added to the module "Supplier engagement"
 - The list of business models eligible under the indicator 9.1 Business models and new business activities supporting low-carbon processes has been further clarified

4. REFERENCES

- [1] International Energy Agency, "Energy Technology Perspectives 2017," 2017.
- [2] Cepi, "2050 Roadmap to a low-carbon bioeconomy," 2017.