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+++ presentation

Operator^ Ladies and gentlemen, thank you for standing by, and welcome to today's Q3 2020 Neste Corporation's Earnings Conference Call. (Operator Instructions) Must advise you the conference is being recorded today, and that's Thursday, the 22nd of October 2020.

I'd now like to hand the conference over to your speaker today, Juha-Pekka Kekäläinen. Please go ahead, sir.

Juha-Pekka Kekäläinen^ Thank you, and good afternoon, ladies and gentlemen, and welcome to this conference call to discuss Neste's Third Quarter Results published this morning. I'm Juha-Pekka Kekäläinen, Head of Neste IR. And here with me on the call are President and CEO, Peter Vanacker; CFO, Jyrki Mäki-Kala, and the business unit it's Matti Lehmus, Renewables Platform; Marko Pekkola Oil Products; and Panu Kopra of Marketing & Services. We will be referring to the presentation that can be found on our website. Please pay attention to the disclaimer since, as always, we will be making forward-looking statements in this call. With these remarks, I would like to hand over to our CEO, Peter Vanacker, to start with the presentation. Peter, please go ahead.

Peter Z. E. Vanacker^ Thanks a lot, JP, and a very good afternoon also on my behalf. Distinctive feature of the third quarter summer period was a gradual recovery from the first wave of the COVID-19 pandemic. And this naturally varies country by country, and we now seem to be moving to the worst again. In these circumstances, we are very pleased to be able to share with you our very good overall performance in the past quarter. I must say that the Neste employees have done a superb job again during this quarter. It's a lot of fun and a lot of joy to work with such passionate people.

If we move to Slide #4, despite the market turbulence caused by the COVID-19 pandemic, our performance was solid in the third quarter. The group's comparable EBIT was EUR 373 million. Renewable Products had another strong quarter as the business continued to be very resilient. And from a financial point of view, this was one of the best quarters in renewables ever. The renewable diesel demand remained good, and our sales volume was stable at 730,000 tons. Sales volumes were slightly down from the record levels in Q2, but higher than in the corresponding period last year. Our production facility is operated at the high 95% utilization rates, even including the scheduled catalyst change at the Singapore refinery that was completed in early July, and we had also one at the Porvoo units in September.

As expected, the feedstock markets remained tight, and particularly the palm oil price continued its way up. As a result of successful sales performance and a positive contribution from the feedstock market movements combined with our hedging, we were able to increase our sales margin to an exceptional $744 per ton again, an exceptional achievement.

The oil products was impacted by a continued very weak refining markets caused by the global COVID-19-related demand reduction and the resulting oversupply situation. The reference margin, reflecting the general market conditions, averaged at minus $0.80 per barrel in the third quarter. It was the lowest quarterly level in at least the past 20 years and had a negative impact of EUR 170 million on the comparable operating profit year-on-year. The comparable EBIT remained slightly negative. And on a positive notes, our additional margin was strong at $6.7 per barrel, supported by good operational performance, currency hedging and some contango inventory profits. Several cost reduction measures have been successfully taken in oil products.

Our Marketing & Services segment performed very well in the challenging market, also considering the divestment of the Russian operation that we completed last year. Sales volumes were still impacted by the COVID-19 pandemic, but we were able to improve our unit margins. And also, Marketing & Services has done a great job in reducing their cost basis. We continue to take the risks related to the COVID-19 pandemic seriously. Our primary objective is to ensure the health and safety of our employees, our customers and other partners as well as to ensure the continuity of our operations and secure supply of products. Our occupational safety performance was very good in the third quarter, and the total recordable incident frequency was 0.4 incidents per million hours, which is really a record in the entire industry.

This is the lowest quarterly result also for Neste ever. The process safety event rate also improved to 1.5, but we still have to work to reach the targeted level. Despite the market turbulence, we continue to focus on our strategy execution, and I will come back to that at the end of the presentation, as usual.

As you have surely noticed, we have initiated cooperation negotiations on a plan to restructure our refinery operations in Finland. It is done in order to ensure the long-term competitiveness of the Oil Products business. We're exploring the shutdown of the refinery operations in Naantali and focusing the site on a terminal and harbor operations as well as transforming the Porvoo refinery corporations to coprocessing of renewable and circular raw materials. And if implemented, the plans would mean up to 470 redundancies, including possible outsourcing. The decisions on the measures and impacts will be made after the negotiations have been concluded. The planned changes are expected to result in annual fixed cost savings of approximately EUR 50 million. Although the time is not optimal, and this is definitely news that is unfortunate for many of us, the planned actions to develop our refinery operations are urgently needed to maintain operations and strategic capabilities in refining in Finland and to secure the Oil Products' competitiveness.

As authorized by the AGM on the 18th of May this year, the Board of Directors have decided on the distribution of the second dividend installment, and they have confirmed the proposal to distribute an ordinary dividend of $0.46 and an extra dividend of $0.10 per share.

On Slide #5. Our strong financial position continues to be visible in our financial targets. We reached a high after tax ROACE of 23.1% on a rolling 12-month basis, again, clearly exceeding the 15% target. And our leverage ratio was 4.5% at the end of September. As stated before, the strong financial position enables the implementation of our growth strategy going forward. And this is even more important in these turbulent times.

Now with these remarks, I would like to hand over to Jyrki, our CFO, to discuss the financials in more detail.

Jyrki Mikael Mäki-Kala^ Yes. Thank you, Peter. If we take summary page there. It's basically good early afternoon, like already stated just a few minutes ago, we delivered good quarter 3 result despite another quarter affected by the ongoing COVID-19 pandemic on our global operation. We managed to deliver good operating profit, strong cash flow and even strengthened our already strong balance sheet. If we look at the figures, I will more comment here, the quarter-to-quarter items. If we take the top line, quarter 3 revenues were some EUR 3 million higher than in quarter 2, but clearly lower than 2019 quarter 3, and that was roughly EUR 1.1 billion. And comparing to 2019, EUR 700 million, out of that is coming from the crude oil price effect and slightly lower sales volumes in Marketing & Services of roughly EUR 300 million. And if you really look also the year-to-date, September position, the revenue difference is roughly EUR 3 billion. So it's roughly EUR 1 billion per quarter, how it will be seen in our top line revenues.

If we then move to the comparable EBIT, EUR 370 million, it was some EUR 60 million below quarter 3 2019, when we take into account the fact that we had also retrospective BTC from 2019. And if you look at the figures, it's really a matter of Oil Product that had a hit of EUR 114 million on the group level EBIT. But if you look to renewable products as a whole, you are seeing that we made 94% of the quarter with comp EBIT out of Renewable Products. They posted EUR 47 million higher comp EBIT than previous quarter 2019, but really when taken into account this retrospective 2019 BTC to comp EBIT, it was pretty much at the same level as in 2019.

The weakening U.S. dollar made some EUR 22 million hit on our 2020 quarter 3 financials versus previous year, but that was all compensated by higher sales volumes and higher sales margin that were both up by some 2% or 3% compared to previous year. Matti Lehmus will open the development a bit more in his presentation.

If we move then to the Oil Products part, I think the important thing is that they managed to push their comp EBIT after the low levels, quarter 2, EUR 60 million negative to slightly negative, very close to 0 level in quarter 3. The reference margin was basically $8 per barrel lower than the previous year, and this had an effect of EUR 170 million, which was then partially compensated by the action that the segment was able to do, like 41% higher additional margin and EUR 22 million lower fixed cost. For example, if you look at the details in the material, even the refinery production costs were one of the lowest during the last 6 quarters. And it's very notable that in quarter 2, 2020, the reference margin was minus 0.3%, and now it was minus 0.8%. Quarter 2 out of the fixed cost and also from the CapEx point of view, we had the first part of the Porvoo turnaround and now 2021 will have the second part of the turnaround, and Marko Pekkola will open the results more in his presentation.

If you go then to Marketing & Services, like stated earlier, they actually delivered their strongest comp EBIT with the current setup after Russian business was sold 2019 that had roughly EUR 4 million comp EBIT contribution for the quarter 3, 2019. So EUR 26 million comp EBIT in a quarter is an excellent achievement in the COVID-effected environment.

Sales were slightly lower by volumes, but the margin were higher, and also the management was able to lower the fixed cost significantly during the quarter. And Panu Kopra will also describe more in details a bit later. The segment Others that basically, going forward, it's only about our engineering unit and our corporate cost, as we sold the Nynas AB shares in September. So we have EUR 6 million better comp EBIT coming out of the other segment.

If we then look to cash flow before the financing activities, i.e., free cash flow, it improved now clearly to the level of EUR 350 million versus last year EUR 71 million. And this was really done through very tight working capital management. That impact was EUR 422 million. Our year-to-date free cash flow is still slightly negative by EUR 51 million, but 1 item here is to remember that the effect of the U.S. Blender's Tax Credit from the years 2018 and 2019, we received a check 9th of October, roughly USD 355 million. So that will further improve our working capital position and increase our free cash flow during quarter 4.

And finally, the KPI comparable earnings per share, it is year-to-date, roughly 4% higher than in 2019. So then very briefly about the bridges. The next one is really about segment by segment. But basically, Oil Product is down due to the negative reference margin and Renewable Products compensated EUR 47 million through volumes and margins. And then finally, MS actually improved slightly if we think about the sold Russian business 2019. But everything is around Oil Products, reference margin and then Renewable Products performance.

If you look at the quarter bridge that is there in the next page, a little bit more in details by unit. And let's take first, by comparison purposes, really this 2019 BTC, EUR 56 million to make the figures really comparable. Then OP reference margin this $8 per barrel, it had a huge impact in 1 quarter, EUR 170 million. And then the own actions, like mentioned, additional margin improvement, et cetera. The improvement was EUR 39 million in OP. And then Renewable Products, higher sales margin $744, had an improvement of EUR 12 million. And all in all, these things meant this EUR 119 million change compared to 2019. And remember that the FX changes in 1 quarter, especially in this case, it had a EUR 34 million negative impact on our comparable EBIT, but compensated nicely by the fixed cost savings.

And the year-to-date with then the final slide in my presentation, you'll see very clearly that there are 2 big items. And then for nearly not visible in the material. Just for the comparison purposes, 165 -- sorry, EUR 164 million -- or EUR 166 million, sorry, BTC 2019 added, and then we have the comparable figures and then you'll see that we had improvement with some sales volumes, fixed cost and also in the other BU, but the big ticket item, again, is the 9-month Oil Products lower reference margin, $4.8 per barrel that had a massive impact of EUR 339 million. And you remember that during quarter 1, it was practically 0 compared to 2019. So this is all concerning quarter 2 and quarter 3. But the positive thing certainly is that the OP additional margin, more than EUR 80 million improvement and then Renewable Product with slightly higher -- slightly lower sales margin, negative EUR 65 million. So overall, this meant this impact by comparable purposes, what is then finally the outcome there.

You may say that the fixed cost savings are not visible in this material, but remember that we really sold 2 businesses 2019 engineering service, some units and also our Northwest Russian business in Marketing & Services, and those impact is EUR 40 million in this case. So actually, our savings in fixed costs are much higher than seen in this material. So I end my presentation here and leave the stage to Matti Lehmus, please.

Matti Lehmus^ Thank you, Jyrki and good afternoon, everybody. I'll be happy to give some comments on the renewables segment. So obviously, what I'll start with is that very happy with the very good EBIT level of EUR 352 million in the third quarter. This was a 15% improvement versus last year third quarter and also 12% improvement versus the previous quarter. And I have to say I'm very pleased with the operational performance across the chain, whether it's production, whether it's sales, whether it's feedstock supply. One of the highlights in the quarter is, of course, the very good sales margin level at $744 per ton. This was stronger than last year, even including the retroactive BTC and clearly stronger than in the second quarter of 2020. Several positive factors supported the third quarter margin in spite of a continued tight feedstock market, including hedging, including sales performance. And I will discuss this later a bit in more detail.

Another highlight of the quarter is that the sales volume continues to be at a good level of 730 kilotons. This is approximately 5% lower than the record level that we had in the previous quarter, but also a very good level in the third quarter. And it reflects the fact that the overall renewable diesel demand continues to be solid in spite of the COVID impacts on diesel demand in a number of markets. If I look at production, we had a very good quarter with 762-kiloton production, higher than year ago, also higher than the previous quarter. And this contains the fact that we completed successfully our Porvoo catalyst change and also the ramp-up of Singapore in the beginning of the quarter after our catalyst change there. So in -- outside of the shutdowns, we were able to maximize our utilization very successfully. So overall, very good quarter.

Some quick comments on the waterfall on the next page. So obviously, high level, this is very clear. If you compare our -- the EBIT to the third quarter 2019 and I take into account the BTC readjustment, the EBIT level was actually quite similar with the difference of only minus EUR 9 million. And this is, of course, a good achievement in a business environment where feedstock prices have been increasing clearly year-on-year. The drivers are also quite clear. Volumes were slightly higher. Sales margin was slightly higher, and these factors were compensated by the impact of a weaker dollar, which had a EUR 22 million impact year-on-year. And also that fixed costs have been slightly higher than last year, reflecting the strengthening of our resourcing to prepare for Singapore expansion start-up.

Let me then move to some comment on the feedstock markets. My first comment would be that waste and residue market dynamics were quite similar as in the previous quarter. We had a tight market and also the increasing price trend continued. Demand for waste and residues continues to be solid, but also availability continued gradual recovering. So for example, if I take used cooking oil as an example, in China, we saw that the supply recovered pretty much to the same level as before COVID. The key market driver in the third quarter was a rapidly strengthening vegetable oil markets, and both palm oil, soybean oil prices increased significantly during the quarter. For example, crude palm oil average price increased by 25% versus the second quarter. In case of palm oil, there were uncertainties on the production outlook, during, for example, by the weather, La Niña phenomenon, and also at the same time, quite solid demand, for example, into China.

If I then turn to the waste and residue such as animal fat and used cooking oil, they did follow partially the vegetable oils, but price movements were clearly less pronounced than for vegetable oils. And in practice, this means like you can see nicely in the chart that the price differential between waste and residue in vegetable oils narrowed during the third quarter. And again, if I take the example of used cooking oil, price movement actually stabilized during the quarter as availability was also improving.

Some comments on the U.S. market on the next slide. Perhaps noting that the LCFS credit prices continued on a high level in third quarter, averaging $196. This is actually a very similar level as a year ago and also as in the previous quarter. On the RIN values, on the same time, if you look at the D4 RIN charts, you can see that there was a clear strengthening to $0.67 a gallon. This actually reflects that the market responded to a widening price differential between soybean oil and petroleum products like heating oil and also continued solid demand for RINs.

Well, then finally, turning to sales margin slide on the next page. The sales margin, like commented earlier, was at a very good level of $744 per ton, slightly stronger even than in the second quarter. And this was a big -- in the third quarter last year, I mean. And it was a big margin improvement versus the level of $625 per ton in the previous quarter. The high sales margin was a result of 2 particular drivers. The first one being that the feedstock market development, combined with our hedging, supported the margins. Like commented earlier, that waste and residue prices did increase during third quarter, but the price differential to palm oil narrowed as vegetable oil prices increased more significantly. And in this situation, our hedging had a positive result and supported the sales margin. Another factor is that the sales performance in the third quarter was also very good. It supported the margin development, and we had a positive development on price premium and also a very successful market optimization.

And finally, of course, commenting on the third quarter. Also, the operational performance in production was very good, high utilization rate and this -- a smooth operational performance, of course, always also has a positive impact on the margin performance. With these comments, I will hand over to Marko Pekkola, who will discuss the oil products.

Marko Pekkola^ Thank you, Matti. And I'll comment the Oil Products third quarter. Comparable EBIT totaled out EUR 1 million negative, driven by still depressed global demand, oversupplied market and positive euro strength differential. During the quarter, the reference margin average, as already highlighted, at minus USD 0.8 per barrel. Our sales volumes were only 3% higher compared to the Q3 2019 when we had planned maintenance in Singapore in Porvoo, reflecting the lower demand. Refinery utilization rates was adjusted down to 87%. Urals’ share was 65% on lower level than normal due to mitigation actions for Urals' differential being very volatile and averaging higher than Brent during the third quarter.

If we then move on to the EBIT bridge between Q3, '20 and 2019 where the impact of the exceptionally weak product market can be seen. This resulted in refining margins trading mostly at negative values during the quarter, which had a negative impact of EUR 170 million on the comparable operating profit year-on-year. Main positive impacts in Q3, '20 EUR 39 million came from additional margin, which was supported by improved operational performance, balance sheet, currency hedging and then contango inventory profits. Positive impact of EUR 22 million came from successfully implementing short-term cost-reduction measures.

If then move on and let's have a look at the markets, where we also see the continued impact of COVID-19 pandemic on physical product demand and low margins in both diesel and gasoline. Urals-Brent differential was very narrow during the quarter, mainly due to the lower export volumes of Russian Export Blend. The Urals differential average at positive $0.10 per barrel for the quarter. Brent crude oil price was trading in a fairly narrow range between USD 0.39 to USD 0.46 per barrel during the quarter.

When -- then let's move on and take a look on our own profit performance. With total, the refining margin was very low at level of $5.9 per barrel, but supported by strong additional margin of $6.7 per barrel in Q3, 2020. Refinery production costs were below last year's level, mainly due to the successful implementation of short-term cost-reduction measures. And as already mentioned by Peter, in order to ensure the long-term competitiveness of Oil Products business, we have initiated the cooperation ecosystems on a plan to be structured refinery operations in Naantali and Porvoo. The cooperation negotiations are ongoing and the plant changes are expected to result in annual fixed cost savings of approximately EUR 50 million. And this is a very important part of Oil Products' future success to continue solid cash generation. With these comments, I would like to hand over to Panu to talk about marketing services.

Panu Kopra^ Thank you, Marko. Hello to everybody. This is Panu Kopra speaking. Taking into account all different kind of circumstances in the markets, I can say that we performed very well. When we eliminate the impact of the Russian divestment, we actually improved our operating profit compared to last year. During Q3, we suffered still low bunker and Jet-A1 volumes, however, traffic under growth was not so low anymore than it used to be in Q2. Lower volumes were compensated by healthy margins, mainly due to excellent network pricing. We also did a lot of work for cutting of fixed costs and outcome of that is also clearly visible in operating profit. Return on net assets again above 26%, which is in the retail business, healthy figure.

The availability of Neste MY is expanding not only in Finland, but also in the Baltic countries. Now Neste MY is available roughly in 120 stations. Sales results clearly shows that those companies and consumers who has a high priority for sustainability are moving as a first to use Neste MY. We see transformation ongoing from fossil diesel to renewable. And it is not only about the sales of Neste MY as a product, it is even more. We have started to sell additionally Co2 reporting services to our customers in order to make their life easier and daily sustainability indicator, transparent and reliable. This is what we call selling of sustainable solutions, and it comes on top of product sales and margins. Number of Neste mobile app users is increasing very rapidly. Customers prefer to pay fuel by their own mobile device instead entering into normal payment terminals. Since time, we collect a lot of direct marketing permissions and develop efficient communication channel to our customers. All in all, solid Q3 in Marketing & Services. Handing over back to Peter.

Peter Z. E. Vanacker^ Yes. I agree, Panu, very, very good results Marketing & Services. I'm very happy with that. Let's now move on to the current topics. And first of all, on strategy implementation. The very good progress on our strategy implementation has continued. The Singapore renewables capacity expansion is proceeding well and the updated completion scheduled targeting startup in Q1 of 2023 remain solid. We naturally need to take all precautions and follow the development of the COVID-19 situation in Singapore very carefully. The feasibility study phase of the next renewables capacity expansion project in Europe is also progressing well. The next step for decision-making will be to select the sites, and we hope to be able to give more news on this during the first half of 2021. This is, of course, not a final investment decision since such a decision is only made shortly before starting the construction.

Several new contracts and partnerships have been made in the Renewable Aviation and Renewable Polymers & Chemicals businesses. As examples, I would like to mention, getting access to the fuel pipeline delivery system of the San Francisco International Airport and sustainable aviation fuel deliveries to American Airlines, Alaska and JetBlue. And new sales agreements also with Air BP and Shell. In October, we announced getting Unilever on board in our cooperation with Recycling Technologies in the United King in the area of waste plastic recycling developments. There's a lot going on in the new businesses, and their traction is good. But both are still in the early markets making phase, of course.

Based upon our business continuity plans, we continue to focus on short-term cost reduction activities. We're on track with our Neste Excellence program with a target to achieve at least EUR 225 million EBIT improvement by the end of 2022 compared to the year 2018 that we took as a baseline. I already mentioned the plans to restructure the Oil Products business. The ongoing cooperation negotiations are expected to be completed in the fourth quarter, and decisions will be made after that.

In the area of innovation, we've studied further improvements on the NEXBTL pretreatment technology, which has enabled us to increase our nameplate capacity already to the 3.2 million tons that we mentioned during the call after Q2 results. The first industrial scale test run of coal processing liquefied waste plastic has also been successfully carried out. And these were just some of the highlights because the list is very long that I wanted to mention. We have a clear strategy, and we're moving consistently ahead.

Let's have a look at the fourth quarter. What do we see? And first of all, sales volumes for renewable diesel are expected to be slightly lower or maybe similar to the previous quarter. The waste and residue markets are anticipated to remain tight and utilization rates of our renewable production facilities are forecasted to remain high in the fourth quarter, except for a scheduled catalyst change at the Rotterdam refinery. And that is expected to have a negative impact of EUR 50 million on the segment's comparable operating profits, mainly in that fourth quarter.

In the fourth quarter, Oil Products demand is seen to continue recovering slowly but to be still impacted by the COVID-19 pandemic. And the reference margin is expected to remain very low and very volatile. Contango inventory profits were expected to impact the Oil Products' fourth quarter result positively. In Marketing & Services, the sales volumes and unit margins are expected to follow the previous year's seasonality pattern in the fourth quarter and some negative impact on demand and sales volumes is still anticipated due to the COVID-19 pandemic.

On the next slide, our strategic projects proceed as planned, but we reprioritized everything else. Our group capital expenditure is estimated to be approximately EUR 800 million in 2020, excluding M&A. And previously, as you know, the group CapEx was estimated to be EUR 850 million. Now this concludes the presentation, and we would now be very happy to take your questions. Operator, if you can open the question slide.

+++ q-and-a

Operator^ (Operator Instructions) And our first question comes from the line of Mehdi Ennebati.

Mehdi Ennebati^ Congratulation on very strong on quarter margin. Two questions, please from me. The first one is about the trend for the demand of renewable diesel. Would you say that the demand has been strong in the third quarter because there has been some catch-up from second quarter level impacted by COVID-19, meaning that in Q4, the demand might come back to a kind of normal level and be lower than Q3? Or on the contrary, would you say that regarding Q4, so far, the demand remains very strong and you might benefit from it? In fact the aim is just to try to understand the dynamic of the demand and then the potential impact for your renewable product pricing in the coming months, quarters?

Second question. Regard with the feasibility study that you just talked about regarding a new renewable product unit in Europe or in the U.S., I just wanted to know, do you think that under the current environment, you might be able to save some CapEx regarding the construction for that unit, given that the price for services is probably going down or not really?

Matti Lehmus^ Yes. Thank you, Mehdi, for the question. This is Matti Lehmus, and I'll start with a question on the demand of renewable diesel. So like we commented, we saw the demand in the third quarter being quite solid. And also, in a way, we don't see very big changes in that demand pattern. If you look at the big picture, of course, the fact that fossil diesel is, in some markets, lower by 5% by 10%, depending on the market, has some impact. But as we, at the same time, have had mandates increasing in 2020 in a number of markets. We have seen pretty solid demand throughout the year. And that's on the renewable diesel demand outlook.

On the other question, which was on the feasibility study that is ongoing, and we are indeed comparing Porvoo and Rotterdam locations as possible locations. It's too early for me to say whether and what type of impact the COVID situation could have on CapEx. This is the type of information where we will have more information as we go forward in our engineering studies. And like commented earlier, we would anyway be targeting to have maturity to make an investment decision towards end of '21.

Peter Z. E. Vanacker^ Yes, I would also confirm, Mehdi, what Matti is saying, I mean, on the demand, I have not seen, I mean, any shift, I mean, from one quarter to the other quarter, I mean, in terms of demand. Demand, continues to be solid on a quarterly basis, even on a monthly basis. Of course, you always have certain fluctuations. But here, I would like to point out again, like I did in the Q2 results, the change in business model that we have successfully implemented in the renewable road transportation. If you look at the external revenues, you will find that 37% in the mix is in other markets than our home market in the northern part of Europe or in United States, like in California. And this is repeating what we also have done in Q2, where it was about 40% of the total mix. So you see that successful positioning in different geographic markets, as said, something we started doing in Q2, 2019. I'm very pleased, I mean, with that stability and the optionality that we have built in our business model.

With regards, I mean, to Q4. I mean, one needs to, of course, consider that there will be, because of the catalyst change, I mean, this is about 100 KT of product that is not available. So one needs to take that in consideration as well in the guidance that we have given on -- yes, I would say, from today's perspective, it will probably be slightly lower in terms of volumes compared to Q3. I know that we have said slightly, maybe it's going to be on the level. But if you would ask me, then I would say it's going to be slightly lower because of that. Yes.

Operator^ And the question comes from the line of Erwan Kerouredan.

Erwan Kerouredan^ Thanks for taking my questions and congratulations on the strong quarter. I've got a follow-up on Mehdi's question on the on the sales level actually into 4Q. I'd just like you to confirm that it's purely -- the lower -- the slightly lower guidance, it's purely due to maintenance because we're -- like basically, we're 3 weeks into the fourth quarter. So I just want to make sure that basically we'll remain with a healthy outlook through the end of the year.

And I guess more longer term, I've seen news recently that a draft in Germany, including caps on 1.9% of biofuels made from used coking oil and animal fats. Should we see -- should we heed this headline and like and like basically -- should it be concerning basically call like future mandate for Neste when it comes to renewable diesel as well as SAP. These would be my 2 questions.

Matti Lehmus^ So I can take the first one on the sales level, basically reiterating what Peter said. The main thing to take into account is that we do have a turnaround in Rotterdam refinery in the fourth quarter. This is 4-week turnaround, it has an impact of around 100 kilotons on our production. And that is the main reason why we are also commenting on that. Sales outlook that we expected to be, slightly lower or similar than in the first quarter. As the other one, Peter, do you want to?

Peter Z. E. Vanacker^ Yes, I can make a couple of comments, I mean, on what is happening currently, I mean, in Germany. And of course, I mean, it's on that draft that has been introduced, I mean, by the Federal Ministry of the Environment regarding the RED II implementation in Germany. It's quite disappointing, I mean that they, in that draft, have not been more aspirational, I would say, by maintaining the existing 6% regional cash reduction targets, I mean, through 2025. Of course, I mean, this is just addressed. And if you have followed what has happened, I mean, since that draft has been published, there has been a huge amount of restructuring in Germany going on and a huge amount of criticism as well on not being aggressive enough with that draft. So it's just a draft at this point in time. And you can hear a bit from my comments. You are, of course, very close to that.

Matti Lehmus^ Yes. General comment, there is also a number of countries. If you look at Europe, we have already decided on the mandate next year. And for example, the Nordic countries, Finland, Sweden, Norway. Also, for example, Holland, Spain, have already decided on an increasing ambition for next year.

Peter Z. E. Vanacker^ Yes. So, yes, it comes back, I mean to our strategy. I mean, it is building up optionality in our business model not being dependent, I mean, on one particular country in terms of how eager are they or bullish are they. And like Matti said, I mean, if we then see on the other hand side, how some other countries really have substantially gone beyond what is an already too, like in Sweden, for example. Next question.

Operator^ And your next question comes from the line of Iiris Theman.

Iiris Theman^ A couple of questions, please. So on hedging, and you can quantify how big was the positive hedging effect in Q4? And was it clearly larger quarter-over-quarter? And what is the outlook for Q4? And then on pricing, were you able to increase price in renewable products as in Q2? And what is the conclusion from your price negotiations with customers for next year? And then finally, on the EU taxonomy, what is the current situation regarding the taxonomy? And do you expect any changes to happen?

Matti Lehmus^ Yes. Thank you, Iiris. This is Matti. I'll answer the one on hedging and the pricing. So first, on the hedging, just reminding how our hedging philosophy works. We have in 2020 hedged around 50% of our term sales volume. And that means that how we do the hedging is we are using, on one hand, vegetable oil instruments like palm oil. And on the other hand, oil product-related instruments like gas oil.

And the hedging, if you look at how the price curves have developed over the year, you can obviously see that it has had a positive impact because the price differential of, for example, palm oil and gas oil, it has clearly widened during the year. We are not quantifying the exact impact. I think if you want to, you can make some order of magnitude calculations based on this hedging policy that we have described. And looking at Q4, it, of course, depends then on the exact development of the market. The hedging volume is similar, slightly lower than what we had in the third quarter.

On the pricing, just perhaps a brief comment, like I commented in my part, yes, that was part of the good performance in the third quarter that we were also able to have a good performance on the sales premium. Also in some markets like the U.S., the fact that the RIN appreciated, of course, has an impact. What comes to next year, we are just in the process of negotiating next year's contract. So too early to comment yet.

Peter Z. E. Vanacker^ On the taxonomy, Iiris, I just had a huge amount of discussions, I mean, with commissioners and DGs during the last couple of weeks. So the latest on the taxonomy process is actually that we are expecting that the DG FISMA, who is responsible for that will publish a draft delegated acts. And that act is a draft, as said, so it will be going into a feedback consultation. We don't know exactly when the delegated act draft will be published. Some members of the commission told me end of October, maybe beginning of November. Then the consultation period is 4 weeks. And then, of course, it still has to go, I mean, to the council in European parliament. So normally, I mean, they have a couple of months, I mean, to approve or reject. And if everything would run has currently, remember, it has been delayed, I mean, already a couple of times. If everything will run as scheduled then the taxonomy would come into force on the 1st of January 2022.

A huge amount of discussions currently ongoing between the different DGs because there are quite a lot of different opinions still going on there. The -- we are, of course, also involved in that feedback consultation loop. And actually one of our specialists is also on that platform that has been established to talk about what does now this so-called Page 211 of the TEG reports. What's -- what does it mean this formulation of -- for other types of biofuels that are not advanced biofuels but may offer substantial climate mitigation benefits. The TEG requests that the platform undertake further work to consider establishing criteria for ensuring substantial contribution to climate mitigation. So stay tuned is a bit -- the message. There's quite some activity ongoing and we are involved, of course, as you can hear.

Operator^ And your next question comes from the line of Joshua Stone.

Joshua Eliot Dweck Stone^ I've got 3 questions, please. Firstly, just following up on Germany. I noticed ticket prices in that market have fallen quite sharply in the last few weeks. I just wondering, is that something that impacts your margin in Germany? And if so, to what extent are you able to move sales out of that market into other markets during Q4?

And then the second question on the sales mix again. So you're looking at the U.S. versus Europe split, I'm looking at your U.S. peers, like I can't help but notice that your U.S. margins tend to be higher than European margins for renewable diesel or at least that's the implication from what's reported. So is that a fair comment? And what's stopping you from selling more products into the U.S.?

And then my final question on Porvoo and your plan for coprocessing there. I wonder if you could talk about the potential blend rates you see as possible. And is it possible to get blend rates as high as 20%? Or could it get up to sort of mandate levels in Finland?

Matti Lehmus^ Yes. Thank you, Joshua. This is Matti. I'll take the first 2 questions. So on Germany, I mean, obviously, like in any market, you will have some movement on the individual market parameters. And what comes to our flexibility. Of course, for term sales, we have typically already allocated the volumes to certain markets. But for the spot sales, it's, of course, something we continuously analyze and then adjust based on the market situation, also the feedstock availabilities, of course.

What comes to U.S. versus Europe, I would just make the general comment that, of course, the margin level in U.S., for example, and California, as an example, will always depend on what type of feedstock is available, the whole carbon intensity plays a big role. And it is something that's also then the market parameters affect. From our perspective, it's something we monitor continuously. And we then, of course, if there is an opportunity, we try to make some allocation changes, but I wouldn't make a generic comment that one market is better than the other always.

Marko Pekkola^ Okay. And I can take the comment related to the Porvoo coprocessing of the share of the field. I think that when we talk about -- I know it would be renewable or then it would be the circle of feeds. Al least our understanding for the moment is that those will be single-digit numbers, and at least in the beginning, or even very low now in the beginning. And we will get used to it then. That's, of course, situation for the time.

Peter Z. E. Vanacker^ So very clear, Joshua, I mean, technically, I mean, 20% is completely out of the possibility. So like Marko said, I mean, it's low single digits, and you start with very low percentages. And then you see how far you can go and what needs to be done in terms of the optimization of the assets to then drive it eventually, I mean, to a middle single digits. But 20% in coprocessing, I personally don't see that happening.

Operator^ And your next question comes from the line of Nick Konstantakis.

Nikolaos Konstantakis^ I mean I'd just like to start -- you have previously discussed about 1 million tons of incremental demand for renewable diesel in 2021. Obviously, Sweden is now over compliant, I guess Germany is a bit down. So can you just give us kind of an estimate of how that has changed, in your mind? And related to that, and back to Iiris' question. I appreciate this quite early on to be talking about the term agreements, but is this kind of relative tightness as we go into next year reflected in the pricing you're getting? And then if I may just go back to the -- something you commented on, Peter, about the other European revenue has been growing quite a lot over the last 4 or 5 quarters. Can you just give us a flavor on which are the important markets there today? What is the market conditions more broadly? How would you be thinking about the evolution of that part of the portfolio and the mix going forward?

Matti Lehmus^ Yes. Thank you. So I can start with the demand comment. And as I'll just take a global view in a way, of course, in 2020, like I commented earlier and also Peter commented, we have seen the market for renewable diesel still growing. You probably -- we're going to see something like slightly over 1 million ton growth globally, a bit lower than we had perhaps anticipated a year ago because of COVID, but still robust growth. If I just take a high-level view on 2021, it will, of course, depend, to a certain extent, on the COVID recovery, but already analyzing the different regulatory changes, the ambition that is growing not only in a number of European countries, like mentioned earlier, but also if you take the example of California, where the carbon intensity, again, grows from 7.5 target reduction to 8.75, same in Oregon, also growing. So we do expect the demand growth to continue also in 2021. And like I said, some uncertainties, of course, relate to COVID, but I would estimate something between EUR 1.5 million and EUR 2 million to be a realistic number for 2021 growth.

Peter Z. E. Vanacker^ Yes. Nick, of course, I mean, excellent questions, and you know that I can, of course, not very explicitly give any guidance, but you fully understand that. But a couple of comments I would like to make also on demand, I mean, 2021. And that goes, I mean, more towards, I mean, the supply side from our point of view. It's very clear, I mean, that we have, let's say, we have already done a huge amount of hard work in capturing 0.5 million tons of creep nameplate capacity during the last couple of years. But that also means that if we are talking about 2021, that there is no low-hanging fruit anymore. So whilst we continue to work, of course, in scratching here and there and being creative and finding some means, it also means that we will be very tight in terms of the capacity that we actually have available. In addition to that, comes, of course, also -- and we will definitely talk about that later when we are then starting the year 2021. We have some tie-ins to do already in Singapore. So we will have a major shutdown in 2021 in Singapore in the existing facility. Again, don't ask for numbers. When we are ready, I mean, to disclose those numbers, we will give them. But just a little bit as heads up. So yes, demand growth in 2021 expect to be very healthy in the market. But the key question is where to get the product from?

Then you're asking, I mean, for a bit more detail on the internationalization of our business model in renewable road transportation. Maybe the only guidance that I can give you there is, this is not one particular markets. We have established our access and footprints in the majority of countries in Europe. We don't want to disclose too much on the details because of competitive reasons. But rest assured, I mean, we can relatively quickly shift them in from one country, I mean, to the other country, especially, of course, when we're talking about the spot business.

So very pleased, I mean, with that distribution that we currently have around 40% of the total external revenue that is going into these other markets that did not use to be, I mean, our home markets, we may start saying that they are our home markets as well.

Operator^ And your next question comes from the line of Artem Beletski.

Artem Beletski^ It's Artem from SEB. Three questions from my side. So first starting with renewables and thinking about hedging for 2021. Have you done a lot of activity already at this stage related to next year and whether it is really attractive to do right now, given the fact that spread is quite wide between palm oil and gas oil at the moment? Then continuing with renewables. Could you maybe comment on the fixed costs going forward? So we have seen quite substantial decline sequentially. Is it a good proxy for the level in upcoming quarters as well? And the last one is on oil products and thinking about contango opportunities in Q4. So you have been benefiting already in Q3, but is it fair to assume that Q4 will be bigger in terms of related benefits?

Matti Lehmus^ Thank you. Matti, starting with a question on hedging for '21. So like commented also in previous quarter, we have not -- actually, the hedging ratios for 2021 are very low. We are still in the middle of our term negotiations. And at the same time, like you pointed out also, the levels in the market are not such that there is any reason to start early with that program. So very low hedging for '21 in place.

On the fixed cost, perhaps comment, good observation. Like in the other part of the company, we have also, in the renewables business, made a lot of effort to, let's say, identify cost-saving opportunities. The Q3 fixed costs were clearly lower than in Q2. If I look forward, probably Q3 was exceptionally low, we were able to, if I -- also the timing of the different cost items from different development activities. So probably that would be my comment that Q3 was probably particularly low.

Peter Z. E. Vanacker^ Yes. And the fixed cost reduction program, I mean, we started that immediately when we were developing the business continuity plans when we started -- what we saw in January that COVID-19 was hitting in China because of our activities in China, of course, and then also in Singapore. And one may not look at that as something that is now under the cover of Neste Excellence. So that means sustainable. A lot of these activities that we have undertaken or short-term activities just to navigate through that period of time with the COVID-19 pandemic. So we need to continue, of course, building up our access to waste from residues, the whole network. We need to continue to build up the Renewable Aviation, Renewable Polymers & Chemicals business. We have activities, of course, that need to go on with the buildup of people to then run our Singapore facility. You don't hire the people when you have the facility already ready, you hire them in advance so that you actually can involve them in build-up of the facility.

And then, of course, in terms of the internationalization, that means in the internationalization, in the future, you need to make sure that you have, I mean, the basic functions in place that can support that. Plus we delayed a bit in innovation, some hiring in terms of the business innovation platforms. They are now installed. And of course, next year, we will need to staff, I mean, those functions as well. So building up, I mean, the future. Now to your contango question, Marko?

Marko Pekkola^ Yes, I can take the one. We are -- yes, like I said, some contango supported our result in Q3, and we expect them to do so also in

Q4, but we don't disclose their expected results, but I'd like to highlight in that sense that, that we are not expecting them to consent to low, very low and weak margin market or the environment at we're facing in front of us.

Operator^ And our next question come from the line of Henri Patricot.

Henri Jerome Dieudonne Marie Patricot^ Just 2 questions left on Renewable Products. The first one, going back to the pricing question in the U.S., it looks like your prices to the U.S. were a little bit lower quarter-on-quarter despite as you flagged the higher RIN prices sequentially. Were there any other developments in U.S. explaining -- slightly down pricing?

And then secondly, just looking at the Used Cooking Oil market. Has there been any change in terms of the availability of Used Cooking Oil with the renewed restrictions that we've seen in Europe in particular? You mentioned there was some recovery in the third quarter, but is that reversing now in the fourth quarter?

Matti Lehmus^ Yes. Thank you, Henri. So a brief comment on the first question. I think the pricing in the U.S., it's quite a transparent market mechanism. I think the RIN change is probably the main one that at least I'm aware of from that angle.

On the Used Cooking Oil, perhaps a couple of more comments. So I did mention earlier that availability has been gradually recovering. And I mean a positive example here is that, for example, certain Asian countries like China, we have seen recovery back to a level like before the COVID outbreak. At the same time, it's clear that in other markets, in other countries, both in Europe, in North America also in a number of Asian countries, we are still recovering and behind the availability level when the COVID outbreak happened in spring. At the moment, of course, something we are watching very closely as there is an increasing number of COVID cases and more strict lockdown measures in a number of countries, whether that has an impact going forward, that's something we will see in the coming months, I'm sure.

Operator^ And your next question comes from the line of Sasikanth Chilukuru.

Sasikanth Chilukuru^ This is Sasikanth Chilukuru from Morgan Stanley. I had 2, please. The first one was related more to a longer-term outlook on the renewable diesel markets. This year, we've seen a flurry of U.S. refiners looking to convert refineries into renewable diesel plants. And more recently, we've seen European majors, including Total and BP, present an ambitious plan to ramp up their renewable diesel capacity. In this backdrop, I was just wondering -- I just wanted to understand your view on these announcements and whether this has changed your approach on capacity additions and how you plan now your future growth projects whether -- also any indication of what you think this might have -- the impact might be on longer-term margins? Now that would be useful.

The second question was more of a follow-up question related to the capacity additions. Just wanted to check, you're doing feasibility studies at the Rotterdam and Porvoo refinery. Is there any possibility in both being selected as projects for FID? Can you handle 2 projects construction at one time? Or is it possible to have them staggered Rotterdam and then Porvoo?

Peter Z. E. Vanacker^ Yes. Talking about the RD, I mean, longer term, if you look at demand creation, I mean, from the other -- from one hand side and if you just look at what the International Energy Agency is projecting in future demands for second-generation biodiesel. So our renewable diesel then I would say this goes even beyond, I mean, what we have currently in our scenarios. So very strong demand creation longer term.

In addition to that, I mean, good to see in the Renewable Aviation side that there is movements in terms of setting of mandates, Norway is known with the 0.5% that will continue. Sweden is very active in that regard. France actually, if I remember well, originally, they had set, I mean, together with the bailout of Air France, a mandate of 2% by 2025. They actually are now saying that they will start coming earlier than that. If I'm not mistaken, it 2022, that they will start, I mean, with the implementation of that mandate.

So you see a lot of activity. I mean the Netherlands is talking about 14% by 2030 on renewable aviation. And then in addition to that, on the polymers and chemicals side, demand creation, you saw the recent announcements, also the alignment of different partners along the value chain, the last one being, I mean, Borealis and Covestro for the raw material that you use, I mean, to produce polycarbonates. So these are all things in addition in terms of demand creation in addition to, let's say, the projection on road transpiration. So it continues to be that we are working on the implementation of our business model centered around, I mean, building up optionality not just, I mean, from a regional point of view, but also from the different applications that we are building up.

So that's pretty much list, I would say, that continue to look more at the demand, let's say, than at these announcements on supply. And then in addition to that, maybe also short comments, not everything that is being announced will then eventually be built or built on time or it's more than just steel and iron, yes, without being arrogant here, but there is a lot, I mean, to running a business model, it's not just, I mean, retrofitting in existing assets.

Matti Lehmus^ On the other question, on the -- on the feasibility study that is ongoing in Porvoo and Rotterdam. Perhaps how I just clearly see that we are at a stage where we are comparing different alternatives. And the intent is to be able to make a prioritization and, ultimately then, hopefully, an investment decision for one of the locations.

These are, of course, very complex projects, whether you look at the resources needed, whether you look at the CapEx needed. And of course, also from a feedstock perspective, it's always important that the whole supply chain is in place when a big, big project like this starts up. So it makes a lot of sense to look at them one at a time. Of course, longer term, one can always look at different alternatives over a longer period of time.

Peter Z. E. Vanacker^ But remember, I mean, we are building a world-scale facility with the highest optionality that the industry has ever seen in Singapore, whilst at the same time, we are doing feasibility studies. And if we will then have the decision on the location in the first half of next year, that means that we will go into quite a lot of resources that we'll start working on quite a lot of engineering on the selected side. So we are running 2 projects, I mean, simultaneously during that period of time.

Operator^ And your next question comes from the line of Peter Low.

Peter James Low^ Just a couple of follow-ups. Just to go back to the hedging briefly to try and understand the high-level dynamics. The hedging has contributed positively to the margin throughout 2020. But it's not in place for 2021. Does that mean it will drop out and be a headwind next year as higher feedstock costs come through or could you work to offset that through your pricing negotiations that are currently underway? Appreciate -- you can't guide specifically, but any color on the dynamics there would be appreciated. And the second was just to clarify your comment on the shutdown in Singapore next year. Again, I know you can't quantify it. Can you just confirm what the reason for that is? Did you say it was to tie it into the new expansion in some way?

Peter Z. E. Vanacker^ Matti has already asked -- answered quite a lot of questions around hedging. So let me now answer one question around the hedging. Again, as we have said also before, hedging is in the function of term deals, yes, so we don't hedge, let's say, 50% to 60% of the overall volumes. We don't do that either and haven't done that for the year 2020. But it's taking risk out of the term deals. So that means that if you have 70%, for example, term deals and 30% spot, then that hedging need to be considered always in the context of that 70% of the term deals. That's one point to remember.

The second point is, hedging at the current conditions, without having clear visibility on the term deal negotiations, would, in my opinion, be unprofessional, yes? So whilst we have started building up a small percentage, as Matti also said, in terms of hedging, but a very small percentage for 2021. We are mainly focusing now on the term negotiations. And they have started. They are ongoing. We will not disclose any confidential information on how they are running right now. So stay with us, Peter. Need to be a little bit patient. You can imagine, these are very, very intensive discussions that we have ongoing. I've said also in previous calls that quite a lot of people from our sites were involved. I'm personally also involved in that, just like Matti and Carl Nyberg. So 2 members, I mean, in addition to me of the executive committee. That's how high it is on our radar. But nothing more at this point in time in terms of the term deal negotiations that does do our homework, run the negotiations and then we'll see.

Matti Lehmus^ Perhaps I can comment briefly on the second question, which was a follow-up on the Singapore turnaround next year. That's just making the general comment that it's good to understand that there is 2 types of turnarounds. One that happens quite frequently is so-called catalyst turnaround, which is exchanging the catalyst. And that is something that, of course, also the interval depends on the optimization, but that's a relatively quick one, let's say, within a month, typically can be executed.

And then in a more less frequent interval, we have what we would call more major turnarounds where it's certain maintenance activities. It can also be tie-ins, like in this case, for the for the expansion, and they take typically longer because there's more work to be done. And that's just -- I mean, an additional comment on next year that in Singapore, we have then this more extensive turnaround upcoming next year.

Operator^ And you do have a few more questions. And your next question comes from the line of Michael Alsford.

Michael James Alsford^ I've got a couple, please. Firstly, I appreciate the volumes are pretty small at the moment. But you're selling, obviously, sustainable aviation fuel and feedstock for polymers. So are they being sold at the same margin as renewable diesel for road transport? And I guess, taking a more medium-term view, do you expect that to be the case going forward? That will be my first question.

Just secondly, coming back to Matti's comments on demand for renewable diesel into 2021. If I remember back to the Capital Markets Day in February, and you look at the supply-demand balances that you showed there, when you look at the demand outlook for renewable diesel '20 to 2021 it looks like it's growing from about 6 million to 7 million tons to around -- or just over 10 million tons, so more than the 1.5 million to 2 million tons that Matti suggested. So I'm just wondering, that can't all be COVID. So is that just a conservative view that Matti has just outlined there? Or am I missing something, would be my second question.

And finally, just to touch on the improvement points on the cost savings. You mentioned, Peter, that it was EUR 225 million was your target by the end of 2022. Can you just give me a run rate of where you are at the moment? Are you watching the numbers currently?

Peter Z. E. Vanacker^ Let me start. I mean, with the first question, Michael. On the new business units, on the margins there, I mean, you know that we are running a -- the way how we are running our business is based upon, of course, margin optimization. So we are not allocating volumes to the 3 different business units, and then they can sell those volumes at whatever margins they feel were appropriate, I mean, for their respective markets. So that will -- that has been established. I've made comments on this, and that will continue also in the future that margin optimization.

So having said that, in the Renewable Aviation, the sustainable aviation fuel in a normal situation, let's say, we have normal kerosene, fossil-based kerosene prices. We're pricing it at 3x the fossil-based kerosine prices. So nothing has changed there. Of course, we don't yet have the economics because we don't have Singapore up and running. So here, we are investing in the buildup, and we are shifting some volumes from renewable diesel to build up the market in Renewable Aviation. And once Singapore is up and running, then, of course, we will have, I mean, the costs like it needs to be.

And if we then conclude also on the RJF, and then the sustainable aviation fuel project in Rotterdam that is still ongoing. If we do that final investment decision then we will also have these costs, I mean, in Rotterdam. So today, we don't have that cost position. So you can conclude that every volume that we are selling in renewable aviation doesn't have the same margin as compared to renewable road transportation because of that market buildup. And it's a bit different, I mean, in Renewable Polymers & Chemicals. Because here in Renewable Polymers & Chemicals, there are different products that we are selling. But generally spoken, one can say, margins are comparable because we don't have, let's say, this additional step we have, the facilities available if we sell biopropane from Rotterdam or we sell renewable diesel as renewable hydrocarbon from Rotterdam or portal or if we sell some renewable naphtha, then, of course, I mean, that comes out of the existing assets. It's not the same like an aviation.

On the CMD, February, supply and demand balance. Matti already gave a little bit of a hint to that when we were talking about 6 million to 7 million tons of demand that was, of course, pre-COVID-19 estimation. So that has gone down. So demand has been creating, of course, but it's approximately 1 million tons of additional demand globally in 2020 that has been created, so not 2 million tons. And then going to the 10 million tons of demand creation, it's a bit difficult to say, I mean, what will be the number. Today, I mean, we have still COVID-19 ongoing. With lots of discussions around regulation ongoing, I would probably say it's going to be somewhere between globally 1.5 million and 2 million tons of demand creation compared to the 6 million tons of 2020.

On the cost savings, and here we need to differentiate. We have the COVID-19-related cost savings. These are just pulling the brakes and navigates, as I explained, through this pandemic situation to make sure that we have a good cash flow in 2020, to make sure that we have good EBITS, good profits in 2020. Then there is the Neste Excellence program, which includes creation of through Six Sigma projects, creation of additional margins, EBITs to the bottom line. And here included, for example, or the creep capacity that we have been able to create in the renewable products areas.

In addition to that, what we also covered there are sustainable cost reductions when we are changing end-to-end processes, and they need to be sustainable at least, and we are auditing them, of course, for 3 years in a row. So if you talk about the restructuring in OP, if we would take that final decision on that about EUR 50 million, that is sustainable. So that would go into that bucket of the EUR 225 million has a sustainable EBIT improvement. I want to make sure that you understand. I mean, there are 2 different buckets here because of this COVID-19 that we have opened at the beginning of the year, this additional short-term cost savings bucket.

In terms of where are we standing with the EUR 225 million, very pleased to say that actually, we are extremely well on track. And we will probably, I mean, during the next months, discussed internally, what is the number that we will propose during the next Capital Markets Day in 2021. Will we repeat EUR 225 million or will we increase it? But it will not be decreased, that's clear. Okay, next question.

Operator^ You have further 3 questions. And your next question is from the line Henri Tarr.

Henry Michael Tarr^ Two quick questions really. One is, what's the main driver for the decision as to where to locate the new facilities? And have some of the planned capacity expansions, particularly in the U.S., influence that decision so far?

And then the second question, just the longer-term opportunity within plastics. Is there any technology amongst the polymers or recycling that you think could be material for the group within 5 to 10 years?

Peter Z. E. Vanacker^ You want to go to the criteria, Matti?

Matti Lehmus^ Yes, I can briefly comment on that. I mean, like we commented, after the second quarter, we have focused now for the next big project after the Singapore expansion on the Rotterdam and Porvoo alternatives. So a European side. That is what we are prioritizing at the moment. The criteria, I would say, very typical for this type of decision. We are, of course, looking at things like expected CapEx level, expected operating cost level, we are also looking at feedstock availability related logistic costs, we are looking at market, proximity-related logistic cost. So it will be, then, of course, an overall comparison with several commercial and technical criteria.

Peter Z. E. Vanacker^ And of course, I mean, we continue to look, I mean, and monitor, I mean, supply and demand, and that will, of course, also play an important role when we are then moving towards a decision on the investments. But as I said before, I mean, currently, with the visibility that we have in supply and demand, we see that to be -- and to continue to be very, very healthy.

In terms of the plastics, we need here also, again, differentiate. On one hand side, we've talked already on the renewable hydrocarbons, which is a building block, I mean, to produce plastics or chemicals out of it. Very good progress here, and it comes out of the existing or future to build renewable diesel facilities, Porvoo, Rotterdam and Singapore. Of course, we are working also on the full circularity. So here, we talk about waste plastics that we are taking, then through a first step liquefaction pyrolisis type of technologies. And then second step, which is specialty refining to then have, again, a renewable hydrocarbon, which is then equal like the renewable hydrocarbon that comes out of our renewable diesel facilities and can go immediately into the polymers and chemicals processes. Technical processes to produce plastics and chemicals out of it.

We have made announcements on the cooperation that we have with the Recycling Technologies, Recycling Technologies is a U.K.-based start-up company. We have an equity position in that company. They were on that liquefaction step that I talked about. And we are working together with the Unilever because they have high aspirations, of course, also to make our plastics, I mean, recyclable, and at the same time, reduce their greenhouse gas emissions. So we're working on that together with Recycling Technologies. We do own developments as well in that field. We have done the first ever successful specialty refinery trial in our site in Naantali. Whereby for the first time on the planet, actually, these kind of renewable hydrocarbons have been produced based upon waste plastic. So we are proceeding very well. I think what I've said in the Capital Markets Day and what you said also, Henri, 5 to 10 years from now, yes, this will be feasible, quite confident on that. That will add, I mean, to the portfolio of renewable and circular solutions that we have in the company.

Operator^ And your next question comes from the line of Thomas Adolff.

Thomas Yoichi Adolff^ A few questions from me as well, please. Just kind of going back to all the projects that are being discussed, whether it's in the U.S. or whether it's in Europe by the European majors. Would you agree whether or not these projects will move forward all of them would also be a function of whether these companies can actually line up the feedstock and that the feedstock may actually be the key bottleneck in the future? And with that, and depending on your answer, maybe you can also provide a bit more detail on the -- what progress you're making on expanding the feedstock pool across different geographies, improving the access, et cetera?

The second question is on the next big development where you will give the market an update in the first half, potentially within FID towards the end of next year. Just looking at the press release from end of 2018, when you launched the Singapore expansion, and you've targeted a production timeline of anywhere between 3 to 3.5 years on your first production in this first half of 2022. Obviously, that's delayed due to the COVID issue. For the next expansion, should we also think of a similar time line, 3 to 3.5 years? Or was more experience, can you kind of narrow that range? Is that range still relevant?

And then maybe just finally, and I do apologize for my final question. When I look at the group variety of 23% today and for a number of years, it's maintained your target at 15%, you used to say at least 15%. I think when you look at 15% versus 23%, it's fair to say that renewables is doing a lot better. But you haven't changed your target. So are you indirectly implying that you don't think the advantage you have today is sustainable?

Peter Z. E. Vanacker^ Okay. Very good questions and quite a lot of questions. We're going to try, I mean to answer them all. On the investment projects, feedstock. What I would say is focus the discussion more on what we are doing. I mean we are currently the largest buyer, as you know, of waste and residues. We have embarked, since a number of years, on expanding that position on a global basis. We very successfully entered Australia for Australia and New Zealand. We've very successfully -- I'm personally very pleased, I mean, with that decision that we entered into China. That's already substantial volumes that we are collecting, aggregating, specifying, certifying, auditing and sending to our Singapore facility. And that went extremely fast despite COVID-19 pandemic.

We have to postpone a little bit here going into South America. We are collecting, I mean, waste and residues, I mean in South America, but we wanted to do one additional step there also in expanding our footprint there. But of course, I mean, with a heavy concentration of COVID-19, in these countries, it's clear that we had to actually delay that a little bit, but it's still very high on our agenda.

And then you saw the announcements, you saw the acquisitions, Mahoney Environmental as a platform, more than 30,000 restaurants that they are covering. And I said on purpose as a platform because, of course, we continue to look at how can we expand that organically as well as through M&A. We're expanding in Europe also through our networks, we made acquisitions here. We have a joint venture with Demeter. We are now established in Poland. We go to the southern part of Europe. So all that is expanding, let's say, our leadership position that we have. So imagine what we can do in the next 5 years prior to those new announced new builds or retrofits when they come on stream. And that's, let's say, my comment that I want to make. I mean, it's up to us. I mean, to always be the world leader in the collection of waste and residue and leave a big gap, I mean, to somebody else that wants to enter that market. And the rest, we will then see, I mean, how it plays out. So I think I tried to answer your first 2 questions. If we now go, Matti, I mean to time line on the European project and then compare it to the Singapore project.

Matti Lehmus^ Yes. As I can briefly comment on that. Like we said earlier, our target is to mature the study engineering to a point where we would have the possibility to make decisions on investment in '21, if so decided. If that happened, it is indeed, like you can see from the Singapore expansion, quite typical what the construction time is. And we have said, I think, also in the CMD that this could then lead into 2025 target for the start-up. But this is, of course, depending on the decision still to be made. But this is a very typical time line.

Peter Z. E. Vanacker^ Yes. And maybe let me, again, make one comment for clarification here. And I alluded already to that previously. If you look at when did we take the final investment decision for the Singapore facility? That was in December 2018, and we started the piling in January 2019. So you take a final investment decision just before you actually start deploying the site and start working on it. So that's the way one needs to look at if we say we target, if everything goes right, middle of 2025, then you calculate back on a normal period of building up. And then you come a bit with an indication on when approximately would be the final investment decision.

Yes, we still have 1 question. Yes, ROACE, more than 15%. Of course, I mean, we always aspire to do more than 15% ROACE. And we are very pleased, I mean, that we are doing very successful investments that, as you also said, I mean, show that we have substantially higher. It's not because we are doubting, I mean, on that 23% or 18% or what it is. It also has to do. I mean, with the belief that we have, especially, I mean, if we are talking about investing in new technologies that a ROACE of above 15% is a very good and value-creating target.

Operator^ And your next question comes from the line of Matt Lofting.

Matthew Peter Charles Lofting^ At this stage, I'll keep myself to just 1 question just on feedstock markets. You commented in the outlook this morning, and again, earlier during the call on tightness or potential tightness in waste and residue markets equally. When we look at recent months, we've seen this sort of a differential against vegetable oils appear to narrow. And you've also commented earlier on areas like used cooking oil in Asia appearing to trend positively from where they were earlier in the year. So I just wanted to understand better. Could you talk about that outlook, the extent to which it is precautionary in the context of a COVID-influenced uncertain near-term outlook or whether there are specific markets or submarkets within your feedstock pool, where you see genuine concern around incremental tightness?

Matti Lehmus^ Thank you for the questions. So this is Matti. I would say it's more making the general comment like we have had the dynamic throughout 2020 that we have a solid demand for waste and residues. That is into biofuels. It is also into other chems. And at the same time, because of the COVID, we, of course, had some availability, let's say, impacts, especially in spring, which have now gradually recovered. For me, that doesn't change anything about the fact that the market remains tight. And it is basically something that will continue with similar dynamics, I'm sure, like we have seen in the previous quarters. Something that was also mentioned earlier, of course, it's then depending on how the COVID situation develops, it could have impact on some specific markets, but that is something we will see in the coming quarters.

Operator^ There are currently no further questions from the phone lines, sir.

Peter Z. E. Vanacker^ Yes. Okay. If there are no more questions, and thanks a lot. I mean, a very good call with lots of questions and excellent questions as well. So thank you for your active participation. I would like to conclude by saying that the high uncertainty related to the development of the COVID-19 pandemic, of course, and its impact on the global economy continues. Let's not fool ourselves. I mean the pandemic is definitely not over.

Of course, I mean, we remain very confident in our ability to navigate through these uncertain times. And the Renewable Products business has proven to be very resilient in a growing global market. But please also to manage your expectations on the comments that we have made in this call. We don't have a Singapore that is starting up in 2021, okay. So 2021, if I just put a bit of a picture here, has COVID-19 pandemic, has a challenging market in oil products, has no volume, so to say, to grow in the Renewable Products business. And has a starting point that has no hedging. So is dependent on the outcome and the successes that we have in the term negotiations. Whilst at the same time, of course, we continue to build up our access to new markets like Renewable Aviation, Renewable Polymers & Chemicals as well as, of course, the investments that we are undertaking in the new innovation business platforms as well as in certain functions like public affairs. So I think it's very important also to manage a bit your expectations on the coming years. And I wanted to take already, in a qualitative way, take the opportunity in this call to make those comments.

Of course, we will manage -- I mean, through the crisis. We have great people, as you know, we have great customers. We have great partners, and we are extremely pleased also that we have great investors. So stay safe and healthy. And thanks a lot, everybody. Goodbye.

Operator^ Thank you. Ladies and gentlemen, that does conclude our conference for today. Thank you all for participating. You may now disconnect.