

BIKE is a Horizon 2020 project whose objective is to support uptake of the low ILUC-risk concept for biofuel feedstocks. This series of Briefing Notes seeks to explore issues in the EU policy sphere which may impact low ILUC-risk value chains, and identify opportunities for fostering an enabling policy environment.

Low ILUC-risk Concept in the EU Taxonomy



Castor plants in central Greece.

Climate finance is a term referring to local, national, and transnational financing for climate change mitigation and adaptation. Due to the nature of the investments, it often overlaps or is used interchangeably with the terms green finance or sustainable finance. So-called 'taxonomies' have been developed to signal to investors what can be considered a climate-friendly or sustainable economic activity; these allow for increased transparency of the climate finance market, and for tracking its capital flows.

Over 20 taxonomies or standards have emerged in the sector in the recent years. These can be divided into those developed by state jurisdictions – the EU, China, Japan, France, South Africa – and those developed by organisations such as the International Capital Market Association (ICMA) which published its Green Bond Principles and the Green Loan Principles, or the Climate Bonds Initiative (CBI) with its Climate Bonds Taxonomy. This Briefing Note introduces the EU's Taxonomy on sustainable finance, and explores how the details of the Taxonomy framework and screening criteria could act as enablers for the low ILUC-risk biofuel system.

EU Taxonomy Regulation

The EU Taxonomy Regulationⁱ of 2020 is a classification system establishing a list of environmentally sustainable economic activities. It is now considered an international benchmark and best practice, aiming to support private companies, investors and policy makers with clear definitions on what can be labelled as environmentally sustainable. These investments are expected to drive progress towards the EU's 2050 climate neutrality targetⁱⁱ, while avoiding greenwashing.

For an economic activity to qualify as environmentally sustainable, it shouldⁱⁱⁱ:

- a. contribute substantially to one or more of the six environmental objectives (namely, climate change mitigation, climate change adaptation, sustainable use and protection of water and marine resources, the transition to a circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystems);
- b. do no significant harm (DNSH) to any of the above six objectives;
- c. be carried out in compliance with minimum safeguards such as OECD Guidelines for Multinational Enterprises and UN Guiding Principles on Business and Human Rights;
- d. comply with technical screening criteria that have been established by the European Commission.

The Taxonomy Regulation will be supplemented by delegated acts which contain the technical screening criteria in the last point. So far only one delegated act^{iv} has been issued, regarding climate change mitigation and adaptation.

In addition, the EU issued a proposal for a European green bond standard (EUGBS)^v in July 2021, which is a voluntary standard that will be aligned with the EU Taxonomy to help scale up and raise the environmental ambitions of the green bond market.

Investing in low ILUC-risk biofuels

Although biofuels have been earmarked for contributing to EU 2050 climate neutrality targets, concerns have been raised during the last decade regarding their climate and environmental credentials, including the risk that diverting agricultural production to the energy sector will stimulate indirect land use change (ILUC). To address this issue, the recast Renewable Energy Directive (RED II)^{vi}, which largely determines the market and investment landscape for biofuels, has devoted special attention to limiting high ILUC-risk biofuels, and created a foundation for promotion of low ILUC-risk certified biofuels.

The EU Taxonomy^{vii} covers economic activities that “generate, transmit, store, distribute or use renewable energy in line with RED II” and that “produce clean and efficient fuels from renewable or carbon-neutral sources” to contribute substantially to climate change mitigation. More specific regulations on the manufacture of transport biofuels are applied by the Technical Screening Criteria^{viii}: these require, among other things, that agricultural feedstocks comply with the RED II sustainability criteria and are not identified as food and feed crops. These conditions go some way to reducing the impacts of land use change, and may have been guided by the EU Technical Expert Group on Sustainable Finance (TEG) report which identified “Reduce the risk of Indirect Land Use Change” as a principle to guide the Taxonomy’s treatment of biofuels^{ix}. (An earlier TEG report^x had gone further to assert that “certified low-ILUC fuels [sic.] [should be] eligible” for the Taxonomy, but this provision was dropped in the 2020 update.) Since the official Technical Screening Criteria requirements exclude all food and feed crops, many genuine low ILUC-risk projects would be excluded from the Taxonomy – even under the updated definitions recommended in Briefing Note #2^{xi}.

On the other hand, the bioenergy criteria of the aforementioned Climate Bonds Standard^{xii} require that bioenergy projects (1) meet the established GHG emissions threshold (demonstrated by a Life Cycle Assessment conducted using any one of five named tools), and (2) reduce the risk of ILUC impact demonstrated either by certification under the RSB's low ILUC optional module^{xiii} or by providing evidence that they comply with above module in terms of yield increase, unused/degraded land, or use of wastes/residues.

Recommendation

The EU Taxonomy is a tool to help investors and companies make informed decisions regarding the degree of sustainability of an investment, as they consider all the latest regulatory evolvments in the relevant sectors. It is recommended that the Commission considers adding provisions to the Taxonomy Technical Screening Criteria for climate mitigation regarding the manufacture of transport biofuels in order to recognise the EU's low ILUC-risk system as providing verification that ILUC impacts have been mitigated.

- I. Regulation (EU) 2020/852 (henceforth 'Taxonomy Regulation'),
<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32020R0852&qid=1684516495326>
- II. https://climate.ec.europa.eu/eu-action/climate-strategies-targets/2050-long-term-strategy_en
- III. Taxonomy Regulation, Article 3
- IV. Commission Delegated Regulation (EU) 2021/2139 (henceforth 'Taxonomy Technical Screening Criteria'),
<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32021R2139>
- V. Commission Proposal for a Regulation on European Green Bonds, COM (2021) 391,
https://eur-lex.europa.eu/resource.html?uri=cellar:e77212e8-df07-11eb-895a-01aa75ed71a1.0001.02/DOC_1&format=PDF
- VI. Directive (EU) 2018/2001 (henceforth 'RED II'), <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32018L2001>
- VII. Taxonomy Regulation, Article 10, Paragraphs 1(a) and 1(h). Quotes may have been lightly edited for brevity and clarity.
- VIII. Taxonomy Technical Screening Criteria, Annex I, Section 4.13,
<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32021R2139>
- IX. EU Technical Expert Group on Sustainable Finance, 2020, 'Taxonomy Report: Technical Annex',
https://finance.ec.europa.eu/system/files/2020-03/200309-sustainable-finance-teg-final-report-taxonomy-annexes_en.pdf
- X. EU Technical Expert Group on Sustainable Finance, 2019, 'Taxonomy Technical Report', Section 22.11,
https://finance.ec.europa.eu/system/files/2019-06/190618-sustainable-finance-teg-report-taxonomy_en.pdf
- XI. BIKE Briefing Note #2, 'Legal definitions in the low ILUC-risk policy framework', accessed from
<https://www.bike-biofuels.eu/briefing-notes/>
- XII. <https://www.climatebonds.net/files/files/Bioenergy%20Criteria%20Document%20Aug%202022.pdf>
- XIII. <https://rsb.org/rsb-low-iluc-module/>



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