

The Government must act vigorously to change the European Commission's draft Taxonomy for sustainable investments. The starting point in the proposal is correct, but the effect is counter-productive when the perspective on biofuels is one-sided, which threatens to slow down industry's transition from fossil fuels to renewable energy.

The EU's Taxonomy for sustainable investments is welcome. Sweden and France have pressed forward work on developing a system for ensuring common guidelines for the financial sector when it comes to defining and classifying what activities to class as green. That compass will be crucial when the European Commission's "Green Deal" is to be implemented, primarily by helping private investors to invest their money in sustainable companies. It will also form the basis for standards for and labelling of financial products. This will make it easier for capital to set the right course in the transition, which will facilitate the financing of several important projects for going fossil free and increase transparency for consumers.

The Taxonomy is an enormously powerful instrument, and that is why it is so important to get it right. Unfortunately, the present proposal is more likely to be an obstacle to a country like Sweden that has one of the EU's most ambitious climate targets. When the European Commission's draft for climate-related activities was presented in November, it turned out to contain assessments that go against previous directives, especially concerning how biofuels are viewed. It overturns the earlier political process and ultimately risks undermining confidence in the EU among Member States. It is incomprehensible that the European Commission is choosing to present a proposal that impedes, instead of accelerating, the possibilities for Swedish industry to implement important parts of the 22 road maps for fossil free competitiveness that the business sectors have produced as part of Fossil Free Sweden.

Bioenergy is an important factor in the Swedish transition. Sweden's reduction of emissions by 29% since 1990 owes a great deal to how a rapidly growing market for biofuels in heating plants emerged after the introduction of the Swedish carbon dioxide tax in 1991.

Looking ahead, we also see that the target for domestic transport of reducing emissions by 70% by 2030 will be reachable through the reduction obligation, which means that more and more biofuel is gradually being mixed in all petrol and diesel. A reduction obligation is also being proposed for aviation, where the industry target is for all domestic traffic to be fossil free in 2030. With aid of biofuels, local and regional bus services are already running on 90% renewables today. Many other companies, municipalities and regions have already signed up to Fossil Free Sweden's challenge to switch to completely fossil free transport before 2030. Even if a large share of transport will be electrified in the future, it will not be possible to reach the targets by 2030 without biofuels.

But now all these initiatives risk being slowed down or prevented since bioenergy is being devalued or excluded in various ways in the draft Taxonomy:

- Not considering the life-cycle perspective and only looking at what comes out of the exhaust pipe in passenger transport means that biofuels are not classed as renewable, irrespective of whether their production is sustainable and is carbon-dioxide neutral from a system perspective. In practice, this risks pulling the rug out from under

companies that are pioneers in the transport sector, since it may lead to the disappearance of the tax exemption for biodiesel and ethanol that Sweden has had since joining the EU.

- For forestry to be classed as sustainable, “additionality” has to be demonstrated, i.e. the taking of new measures to increase sustainably. Even if rewarding development is, of course, a good thing, this means that it will be more difficult for forestry that has already carried out measures to be classed as sustainable. So those who have taken the lead are put at a disadvantage, which gives wrong incentives at a time when the transition needs to go faster.
- Moreover, the Taxonomy does not assess any fuel production from feed or food crops as sustainable since it risks leading to changes in land use and may compete with food production. But in Sweden we have a surplus of arable land, and energy crops would help to keep the land open so that it can switch quickly to food production if needed. The decision is also a departure from the EU’s Renewable Energy Directive (REDII) and, for example, impedes Swedish ethanol production from energy crops such as cereals, whose ethanol has a 95% lower climate impact than ordinary petrol.

Several companies are now about to make major investments in, for instance, biorefineries and the development of more sustainable biofuels from Swedish agriculture and forestry that could also contribute through new technology and new cultivation systems to developing more sustainable fuels globally. Investments that are threatened if they are no longer considered sustainable.

The Taxonomy also risks being counter-productive in other areas. By not taking account of the whole life-cycle of products such as vehicles and homes and only looking at their energy use or exhaust pipe emissions, the Taxonomy misses a chance to create markets for sustainably produced basic materials, such as fossil-free steel. Another problem concerns the key figures for homes, which mean that new build is classed as greener than renovation, which short-circuits circular thinking.

It is important that the Taxonomy sets up strict sustainability criteria but, with its present design, it fails to take in the full system perspective, and by excluding renewable alternatives it leads to an increase in fossils.

The Taxonomy is a chance to really move capital to where it will do most good, and it will help many to increase the pace of their transition work. With changes on the points raised here, it can be an essential component in speeding up the investments that Europe needs to lead the world away from fossil society while strengthening the competitiveness of the whole Union. But without these changes the Taxonomy risks being counter-productive and instead restricting large parts of climate work in Sweden.

Fossil Free Sweden