



Riverstone response to EC Indirect Land Use Change Consultation

Riverstone is a global investor focused on the energy sector. We build private energy companies using capital that we have raised from pension funds, foundations and other sources of capital primarily in North America and Europe. Encouraged by the strong policy commitments contained in the pioneering Renewable Energy Directive, Riverstone has become an active investor in the EU's low-carbon energy sector. In recent years we have committed more than €600 million to solar, offshore wind, biofuels and biomass-to-power companies and projects based in Europe.

We are particularly active in the bio-energy sector, where we hold nine investments diversified between biofuels and biomass-to-power, across a number of different feedstocks and across multiple geographies, representing €1.1 billion of total capital committed. Four of these nine investments are either based in or supply the European bio-energy market:

- Ensus. A wheat to bioethanol company based in the northeast United Kingdom
- Patagonia Bioenergia. A soy to biodiesel company based in Argentina, which exports a significant amount of its output to Europe
- CNAA. A sugarcane to ethanol company based in Brazil, which supplies local and international markets
- Enviva. A wood fuels business supplying the European biomass-to-power sector, which has operations in Germany, Belgium and the United States.

We appreciate the opportunity to reply to the questions raised in this consultation. We note recent global clean energy investment data published by Bloomberg New Energy Finance. These data show that in the first three quarters of 2010, the Asia-Pacific region attracted the highest level of clean energy investment, the Americas region was second and – for the first time since 2000 when this data was first compiled – the EU was third.¹

¹ Clean energy investment by region, \$ billion. Public data compiled by *Bloomberg New Energy Finance*:

Region	2007	2008	2009	2010 YTD*
EU	51	49	44	23
AMER	43	51	32	34
ASOC	26	32	43	46
Total	121	134	122	106

* Includes Q3 2010 data

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In our view increased regulatory uncertainty has reduced confidence and dampened Europe's ability to attract investment in recent months. In the bio-energy sector, lack of clarity about how the European Commission will address Indirect Land Use Change (ILUC) is the greatest impediment. Recognising this, we encourage the European Commission to make a firm decision on ILUC policy in its forthcoming report on this issue. Not doing so would prolong uncertainty, continuing to restrain investment into European bio-energy, a sector that is essential in meeting the Renewable Energy Directive's energy and climate commitments.

Q1. Do you consider that the analytical work referred to above, and/or other analytical work in this field, provides a good basis for determining how significant indirect land use change resulting from the production of biofuels is?

No. Recent modeling exercises reveal that the presence and magnitude of possible ILUC effects cannot easily be quantified and depend heavily on assumptions. In fact we are doubtful that ILUC modeling could ever generate conclusions firm enough to justify 'penalty factors' set at certain levels. Pursuing this approach is likely to weigh the industry down in technical discussions and arguments over assumptions that are very difficult for non-specialists to understand. If this situation were to play out very little investment would flow.

Q2. On the basis of the available evidence, do you think that EU action is needed to address indirect land use change?

See answer to Q4 below.

Q3. If action is to be taken, and if it is to have the effect of encouraging greater use of some categories of biofuel and/or less use of other categories of biofuel than would otherwise be the case, it would be necessary to identify these categories of biofuel on the basis of the analytical work. As such, do you think it is possible to draw sufficiently reliable conclusions on whether indirect land use change impacts of biofuels vary according to feedstock type, geographical location or land management?

No. See answer to Q1 above.

Q4. Based on your responses to the above questions, what course of action do you think appropriate?

We support option D, take some other form of action.

For the reasons discussed in response to Q1 above, we strongly encourage the European Commission to explicitly rule out penalty factors as a policy mechanism to address ILUC in its forthcoming report.

Instead, we encourage the European Commission to develop a more holistic and positive policy response to ILUC. Such a response would recognise that good, environmentally sustainable first-generation biofuels, along with improved vehicle efficiency, are probably the only material options to decarbonise and diversify the European transport fuels sector before 2020. Advanced biofuels and electric vehicles are probably at least ten years away from achieving significant scale. An investor-

friendly approach would build on the strong sustainability provisions contained in the Renewable Energy Directive, which effectively distinguish good from bad biofuels. Finally, a realistic policy response would recognize that ILUC, where it occurs, cannot be solved by a silver bullet and that a suite of measures should be pursued, both within the biofuels sector and in the broader agricultural system in which biofuels play only a very small part. In our view, European policy makers should work in partnership with national governments and private enterprise on approaches to reduce ILUC risks – for example stricter land management controls, crop yield improvements, use of co-products and agricultural intensification – recognising that carrots work better than sticks at changing behaviour.