

ERCST Reflection note

Gas and nuclear energy in the EU Taxonomy

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Introduction

The EU Taxonomy was introduced in 2020 by the EU institutions as a classification system (“dictionary”), which gives guidance to investors with respect to economic activities that contribute significantly to a sustainable economy and society. The declared goal is to direct the flow of private capital to finance transition towards a sustainable economy and to avoid the misuse of green labeling.

The EU Taxonomy is a flagship element of the EU’s sustainable finance strategy adopted by the European Commission (EC) in 2018 and plays an important role as a reference for investors in the new ‘strategy for financing the transition to a sustainable economy’, adopted in 2021 as a part of the European Green Deal (EGD).

Clarity and predictability are very important elements that investors seek in considering new activities. However, in the ambitious task of reaching a decarbonized but sustainable and industrial economy, market solutions should be given priority to ensure the highest possible effectiveness of decarbonisation efforts. Carbon pricing, through the EU Emission Trading System (ETS), is the flagship in that direction and should continue to be the reference. Regulation should be imposed only when the market clearly fails to achieve the designated objectives. Governmental involvement in labeling activities as “sustainable” is a significant intervention in the economy and represents a shift in balance between market and regulation, towards the latter. That is why the impact of different elements of taxonomy should not be minimized, and the treatment of gas and nuclear is important.

The treatment of nuclear and gas in taxonomy has been polarizing and is to a large degree ideological. One issue that should be made clear from the start is the fact that they have been treated under the same file when the issues that need to be discussed are very different.

What is happening?

Reporting under the Taxonomy is based on criteria which are drafted by the Platform on Sustainable Finance, an advisory body, and adopted by the European Commission through delegated acts. Those acts are subject to scrutiny by the Member States and the European Parliament but without possibility to amend them. The only options are “yes” or “no”.

In February 2022 the Commission adopted the Complementary Delegated Act which contains the criteria to qualify nuclear energy and gas as significantly contributing to the climate objective. The Member States and the European Parliament may reject this act by July 11, 2022. It is unlikely that there is a majority in the Council to reject this act.

However, the combined ENVI/ECON Committees expressed the negative opinion on June 15 on the CDA and now the matter will be decided in plenary (July, 4-8), where 353 votes would be needed to block this Delegated Act. This is also unlikely to happen.

However, the fact that we arrived at this point in the legislative process with a rejection in committee should be a surprise but also a signal that the issues related to gas and nuclear in taxonomy merit further discussion and clarity.

The proxy discussion about the transition model

The political debate around labelling gas and nuclear energy as green meets the fundamental arguments about the objective of the Taxonomy, but also of the model of energy transition.

For some the argument is simple: gas is a fossil fuel, period; nuclear energy requires complex waste management which they do not accept as having been addressed. It therefore follows that neither of them belongs in the green Taxonomy. It is a matter of principle and ideology for many.

However, the issues are more nuanced and complex than ideology usually allows. In passing judgement and looking for a way forward, a few basic issues need to be considered:

- Sustainability requires harmony between the three axes: economic, social, and environmental aspects. Short of that, the solution cannot be seen as sustainable anymore.
- Nuclear and gas are different solutions with different challenges: horses for courses.
- In a net zero world, renewable will take the lion's share.
- The role of gas will largely depend on technology developments for a circular carbon economy, especially capture and storage.
- Nuclear provides in some EU countries with significant energy at cheap prices, which in today's environment is not a minor achievement. It also sees expansion in many jurisdictions and is part of all credible models for a path to net zero (base load configuration). It should be analyzed on its merits in economic terms and to the degree that it provides technological solutions, and not be driven by fear.
- Sustainability is also adapting to countries' conditions. If sustainability standards are imposed, they are discredited.

Having said that, there are important arguments that need to be seriously considered. The high cost of gas resulting from the current geopolitical circumstances puts its availability and economic suitability as a transitional fuel into question. There is also the concern of gas providing a distraction from focusing necessary investments in the development of renewable energy.

While gas is seen largely as a transition energy source, the long-term future of nuclear energy is yet to be determined and its shelf life may be longer, especially if the new technological solutions are successful. Its future rests on factors that are different from those that need to be considered in the case of gas.

The Taxonomy is being presented as only a classification system providing guidance, which in our view minimizes the likely influence that it will have on making investment decisions. There will be significant reluctance for the private sector to invest in projects and technologies that are not part of the Taxonomy. The fear of being cut off from commercial financing for the development of gas

and nuclear energy is neither hypothetical nor unreasonable.

This fear grows in countries with proportionally higher cost of transition, with increasing inflation and rising interest rates making capital more expensive. The renewable energy has no problem with attracting the capital; it is the transition which needs investments. On financial markets the perception is important for attracting investments and, even if the screening criteria may turn out to be too rigid to align many gas or nuclear installations with the Taxonomy, it will help to recognize the role of gas and nuclear energy and let the market choose from more decarbonization options.

The Complementary Delegated Act is a confirmation that nuclear energy and gas is seen by the EC as providing a (temporary, transitional) solution, which is an acknowledgement that currently there is not an economically viable low-carbon alternative to deliver a stable power and heat generation.

Summary of criteria

Gas (used for production of electricity, heat and both)	Nuclear energy
Emission threshold 270g CO ₂ e/kWh	Stricter criteria applicable for nuclear waste management (DNSH)
Construction permits issued before 2030	Construction permits for new units issued before 2045; upgrades of existing plants possible until 2040
Substitution of an existing coal facility which cannot be replaced by renewables	Deployment of best available technology – revised every 10 years
Gas installation must switch to 100% low carbon gases (incl. H ₂) by 2035	Positive opinion of the European Commission about fulfilling the Taxonomy criteria
Additional reporting requirements	