The debate on the inclusion of natural gas and nuclear energy in the EU Taxonomy has intensified. It is not clear what the advantages of including these are. However, the risks of including these energy sources for the credibility of the EU sustainable finance agenda are significant. It will weaken the perception of the EU’s ambitions vis-à-vis international partners.

The EU Taxonomy: a list of sustainable activities for private finance
The EU Taxonomy is a list of economic activities that qualify as sustainable because they align with certain environmental objectives according to scientific criteria. For climate mitigation it seeks to define what activities are fully compatible with the objectives of the Paris Climate Agreement of ensuring that global warming remains within 1.5°C by achieving carbon neutrality by 2050. It therefore sets the performance levels that each economic sector needs to reach by 2050.

It is a labelling tool for private companies and investors to assess how their current and future investments align with sustainability objectives. It does not prohibit investors from investing in economic sectors not deemed sustainable in any way.

EU Taxonomy does not limit Member States’ strategic choices regarding future energy mix
The current global energy needs and the challenges of meeting the long-term climate objectives create a complex equation for Member States regarding their current and future energy mix, needing to align their plans with climate objectives while considering implications for the security and stability of energy supplies.

The EU Taxonomy does not limit these strategic choices. Some countries have already made their choice clear to rely on nuclear energy and to phase out thermal coal by switching to natural gas. The absence of these energy sources from the EU Taxonomy has not prevented these plans.

Including natural gas and/or nuclear energy would fundamentally change the nature of the EU Taxonomy, from a "green" to a 'transition' list of activities
Natural gas and nuclear energy will play a limited role in the energy transition as pointed out by the IEA in its 2050 Net-Zero roadmap, with the share of nuclear energy remaining stable while natural gas disappears (Annex). While these sectors may be needed in the short-term to secure energy supply, their inclusion would alter the nature of the EU Taxonomy from a list of sustainable activities to a list of transitional activities. As the IEA stated, in a Net-Zero scenario no additional investments in fossil fuels should occur. Therefore, these activities should not be treated as ‘sustainable’ in the EU Taxonomy that is meant to be science-based.
Including natural gas and nuclear energy brings little benefit, but carries profound risks for the credibility of the EU Sustainable Finance agenda more broadly

To protect the credibility of the EU Taxonomy, if natural gas and nuclear energy are to be included it needs to be as a transitional activity, with very strict performance levels and in the case of natural gas for a time-limited period. The benefits of including these activities in the EU Taxonomy are limited but carry two major risks.

First, it is likely to confuse and undermine the confidence of private investors and their advisers as constituting a credible list of sustainable business activities. There is already a significant risk that it is perceived as a list politically driven by industrial policy considerations – and not a science-based list. The inclusion of gas and nuclear will only aggravate this, with investors in some EU Member States clearly not regarding these energy sources as sustainable.

Secondly, it will set the precedent for other sectors to seek less stringent, less science-based treatment under the EU Taxonomy, in the climate delegated act as well as the further four environmental objectives expected early next year.

Inclusion of gas and nuclear will result in less transparency and a greater risk of mis selling, undermining confidence in sustainable investment fund disclosures

The inclusion of natural gas and nuclear energy in the EU Taxonomy as sustainable or transition activities would result in these activities being deemed Taxonomy-aligned. They will therefore be included in the Taxonomy-alignment figures to be disclosed by investment funds under the SFDR regulation as recently proposed by the European Supervisory Authorities and which are a cornerstone of the MiFID regime to consider investors’ sustainability preferences. While these rules require additional disclosure on transition activities, it does not require the disclosure of which sectors these activities are in. To give a concrete example, it will be complicated for investors to distinguish between an investment fund with a 5% alignment composed of renewable energies and another fund with 5% alignment coming from natural gas and nuclear energy assets, with little ability to understand that difference under the current reporting rules.

This would result in less transparency, a greater risk if mis selling and potentially putting ambitious sustainable investment strategies at a disadvantage compared to more conventional investment strategies. This outcome cannot be in line with the initial policy intent. Therefore, any inclusion of natural gas and nuclear energy would require rethinking the SFDR reporting.

Regardless of the decision taken on natural gas and nuclear energy, Member States should approve the Climate Mitigation & Adaptation delegated act

Nearly eight months after its publication, the EU Taxonomy Climate delegated act is still not approved. The adoption of the act is essential for the EU sustainable finance architecture to function properly: companies need it to start their reporting, financial institutions to start reporting how their SFDR financial products align with it and for financial advisors to appropriately advise investors on sustainable investment options.

The European Parliament has already endorsed the delegated act. Member States should do the same now, regardless of the decision taken on the inclusion of natural gas and nuclear energy in the EU Taxonomy.
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Annex – Evolution of the global energy until 2050 to remain within the objectives of the Paris Agreement

Figure 3.10 ➤ Global electricity generation by source in the NZE

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