What is the Taxonomy?

- The EU Taxonomy is a classification system for sustainable economic activities.
- Overall goal to create transparency and disclose the impact of investments. It is part of the EU Action Plan Financing Sustainable Growth (European Commission 2018a).
- Aims to enable the financial system to guide investment decisions into a more sustain- able direction and thus accelerate the transition to a circular economy in Europe and beyond
- EU aims to mobilize €1 trillion in 10 years to meet Fit for 55 agenda
- There is an estimated €3.3 trillion in ESG assets in the EU, therefore taxonomy seen as key.

Timeline

- Taxonomy Regulation published 22 June 2020 & entered into force 12 July 2020
- Draft delegated act for first two environmental objectives (climate change mitigation and adaptation) approved 21st April 2021
- Delegated Act supplementing Article 8 of the Taxonomy Regulation adopted 6th July 2021 (specifies the content, methodology and presentation of information to be disclosed by financial and non-financial undertakings). Taxonomy compass launched
- The draft delegated acts for the remaining four environmental objectives published by the end of 2021.
- The Taxonomy will be fully operational by 2023.
- 1st January 2022 Commission announced consultation on Complementary Delegated Act covering certain nuclear and gas activities

Who will it affect?

- **Companies**
  - That are already required to provide non-financial information (under the Corporate Sustainability Reporting Directive) will have to disclose the share of their Taxonomy-aligned activities.
  - Helps them measure the sustainability of a particular investment and gradually increase the share of a company's sustainable economic activities
- **Financial market participants**
  - Offering sustainable finance products.
  - Help them to avoid investments in green- washing and support institutional investors (such as insurance companies or pension funds) to invest their long-term capital in sustainable economic activities
- **Public Sector**
  - Used to define green financial products via the EU Ecolabel or EU green bond standards

Environmental objectives

- Economic activity is considered taxonomy-compliant if it:
  - makes a substantial contribution to at least one of six environmental objectives (either own performance reducing impact on env/improving state of env or enabling others to do this)
  - **does no significant harm (DNSH) to the other environmental objectives (where relevant),**
  - meets minimum safeguards, e.g. with regard to social and human rights
- Threshold for substantial contribution must ensure that economic activities significantly enhance the environmental objective in question, the DNSH threshold is set lower
- Criteria for each objective are necessary to assess whether it contributes to the above. Criteria drafting process slightly differently

Source: EU Technical Expert Group on Sustainable Finance (TEG 2020)

Nuclear and Natural Gas within the Framework

- The Commission considers there is a role for natural gas and nuclear as a means to facilitate the transition towards a predominantly renewable-based future.
- Consultation launched on 1st Jan and closed on 12th January 2022
- The European Parliament and the Council had four months. QM (20 Member States) have right to overturn proposal and majority of EP can overturn proposals.
- Draft report:
- Nuclear power plant investments designated as green **if the project has a plan, funds and a site to safely dispose of radioactive waste**. To be deemed green, new nuclear plants must receive construction permits before 2045.
- "Finally, by providing a stable baseload energy supply, nuclear energy facilitates the deployment of intermittent renewable sources and does not hamper their development, as required by Article 10(2), point (b), of Regulation (EU) 2020/852"
- Natural gas if they produce emissions below 270g of CO_2 equivalent per kilowatt hour (kWh), replace a more polluting fossil fuel plant, receive a construction permit by Dec. 31 2030 and plan to switch to low-carbon gases by the end of 2035. The power generated by the activity may not yet efficiently be replaced by power generated from renewable energy sources.

EU Scientific Assessments :

- Technical Expert Group on Sustainable Finance (TEG): Did not provide a conclusive recommendation on nuclear energy and indicated that a further assessment of the ‘do no significant harm’ aspects of nuclear energy was necessary
- Joint Research Committee: The analyses did not reveal any science-based evidence that nuclear energy does more harm to human health or to the environment than other electricity production technologies already included in the Taxonomy as activities supporting climate change mitigation.
- Scientific Committee on Health, Environmental and Emerging Risks: the SCHEER is of the opinion that there are several findings where the report is incomplete and requires to be enhanced with further evidence. For the DNSH criteria, in many cases the findings (comparing Nuclear Power Plant (NPP) to other energy generating technologies already in Taxonomy) are expressed as do less harm than at least one of the comparator technologies, which in the SCHEER view is different to “do no significant harm”. It is the opinion of the SCHEER that the comparative approach is not sufficient to ensure “no significant harm.”
- EU Platform on Sustainable Finance: That activities on new nuclear and existing nuclear as defined by the TSCs should not be considered as taxonomy aligned on the basis that they do not ensure Do No Significant Harm and therefore do not meet the requirements of the Taxonomy Regulation.
- 1.a)100g CO2e/kWh on a life cycle basis is maintained as this is the science-based, technology neutral approach consistent with other energy activities in the existing climate delegated act. Any criteria for GHG emissions above 100g CO2e/kWh on a life-cycle basis could use an alternative Taxonomy treatment such as an Intermediate Performance (or Amber zone) in any extended Taxonomy beyond green (with the final Platform proposal being published in coming weeks)

European Investment Bank

- EIB has “no intention” of ever financing nuclear power and funds must be channelled into emerging technologies that offer solutions to the climate crisis, said president Werner Hoyer – January 2022
- It had already ended all loans to oil and gas

Taxonomy in EU Institutions

Endorsement by the Parliament is the final step in adoption process

Member States

- November 2021 – Austria announces it will challenge EU decision – decision likely in 2023
- Luxembourg also to be involved in court case
- Germany voted against in Commission, but not enough to derail proposal – as 20 of 27 countries needed to object

Views

- Institutional Investors Group on Climate Change, or IIGCC, which represents investors with more than €50 trillion of assets under management, wrote to EU member states and the European Parliament to call for gas to be excluded from the taxonomy.
- “For banks, what is in the taxonomy matters because it determines how they report their own sustainable lending volumes. Over time this disclosure will translate into a score – the Green Asset Ratio and, more recently, the Banking Book Taxonomy Alignment Ratio – indicating the lender's level of alignment with the taxonomy. Hence banks can now label loans to gas companies as sustainable financing”
- NatWest’s “It’s unlikely that we’ll see green money moving away from renewables and flooding into gas exploration and the clean energy transition impeded as a result, ”But the inclusion could be a “door opener” for nuclear. Investors without a clear policy who want to add utility stocks to their portfolio for a more dependable return can now do so and say they are still green, he adds.
- Nuclear Industry Association (UK): “Nuclear’s inclusion in the EU taxonomy is a huge victory for science. Nuclear is green, with the lowest lifecycle carbon, lowest land use, and lowest metal use of all electricity generation technologies

Impact of the war - Gas

- European Gas Demand Reduction Plan with best practices and guidance for Member States, to help them reduce gas demand by 15% from 1 August to 31 March 2023
- Significant new investment in floating LNG facilities – 25 new in coming years (according to S&P) –
- Gas Infrastructure Europe (GIE) estimates LNG terminals in the EU could provide a gateway for more than 285 billion cubic meters of imports by 2030, enough to meet estimated import demand at that time – stranded assets
- Strengthening of gas network (allow increased export from existing import capabilities
- Facilities that are ‘hydrogen/Ammonia ready’.

Impact of War on Nuclear

- Possible life extension in Germany
- Greater political support for replacement or new nuclear power plants
  - Netherlands, ordering two new reactors
  - UK – pushing for new build
  - Poland negotiating with US ?

Conclusion - discussion

- Much has changed in the energy world as a result of the war in Ukraine, would gas/nuclear's inclusion in the taxonomy be different if the processes started now ?
  - More political support for nuclear
  - New investment in gas infrastructure
- Dangers of stranded assets – gas ?
- Accelerated renewable deployment and efficiency, what impact on future gas/nuclear demand