

A ZPP commentary: The European taxonomy is staring into an abyss. It's own power generation sources based on atom and gas are today as important for Europe as before the war, if not more important

In February this year, the European Commission announced that projects based on natural gas and nuclear energy could be considered compatible with the EU's climate and environmental objectives once the relevant criteria are met. This compromise was intended to support the acceleration of Europe's departure from electricity produced from coal. On 14 June, the European parliament's combined committees – Committee on the Environment, Public Health and Food Safety (ENVI) and Committee on Industry, Research and Energy (ITRE) - raised objections to the treatment of these two fuels as sustainable within the framework of taxonomy of green finances. In the first week of July, the EP will resolve this issue, thereby prejudging the direction of the development of energy mix in Europe.

The objective of the EU taxonomy, and in fact the objective of *the sustainability systematics*, is primarily to support the cash flow toward sustainable activities. Without investors directing their capital toward greener technologies and business transformation, achieving climate neutrality by 2050 would become an unrealistic commitment. The EU sustainability systematics offers a uniform interpretation on the basis of which entrepreneurs can invest in projects and economic activities that generate positive impact on the climate and the environment. Taxonomy also imposes additional disclosure obligations on financial market participants in order to make it easier to assess projects against the criteria set.

While climate objectives are considered common to the EU as a whole, the energy mix of individual countries varies, and its shape can be decided by the Member States individually. The huge differences in the start point in terms of energy sources between countries have led to a compromise whereby gas and atom were to be used as transitional and stabilizing fuels for electrical power systems. In the opinion of the Union of Entrepreneurs and Employers (ZPP), this provision was a widely-expected and fair approach, giving the opportunity for countries with a carbon mix to lay a reasonable path to becoming decarbonized.

Moreover, as the European Commission has underlined in the justifications to *the complementary delegated act on climate change systematics*, including atom and gas in sources covered by EU support. Achieving climate neutrality by 2050 will require a large number of private investments. The EU sustainable systematics aims to target private investment toward the actions that are necessary to achieve climate neutrality. Taking into account scientific opinions and current technological developments, the Commission believes that private investment in natural gas and nuclear activities plays an important role. The delegated act supports the European economy in a fair energy transition. Strengthening private investment in transformation is key to meeting our energy targets. – claimed EC.

Projects in the nuclear field, which have been mentioned by the EU taxonomy, are:

- pre-commercial stages of advanced nuclear power generation technologies with minimum fuel cycle waste;
- the construction and safe operation of new nuclear power plants for the generation of electricity and/or heat, including for the production of hydrogen, using the best available technologies;
- production of nuclear electricity from an existing installation.

The eligibility of the identified activities as sustainable was subject to obtain a building permit by 2045. Investments should also meet the requirements of nuclear and environmental safety and, since 2025,

accident-proof fuel is to be used in nuclear installations. The investor must also demonstrate that the nuclear waste will be disposed of without damaging the environment.

For gas projects, the document lists:

- the production of electricity from fossil gas fuels;
- high efficiency cogeneration of heat/cooling and fossil gas fuels;
- production of heat/cooling from fossil gas fuels in an efficient heating and cooling system.

In order to qualify as a climate change mitigation activity, the European Commission has indicated that the life cycle emission threshold should be below 100gCO₂e/kWh and for installations for which construction permits were issued before 2030 - below 170gCO₂e/kWh. Installations should also be designed and constructed in such a way as to use renewable and/or low-carbon gas fuels. The transition to full use of renewable and/or low-carbon gas fuels was expected to take place by 31 December 2035, so natural gas was to be considered as a bridge/transition fuel.

It was assumed that gas projects would be funded by the EU by 2030 and nuclear projects by 2045, with EU-supported gas installations having been able to use over time "green" hydrogen, produced with the support of renewable energy sources, thus gas fuel was clearly supported in this case on a conditional basis. Among the EU countries that opposed to such taxonomy, there were countries such as Germany, Austria, Luxembourg and Denmark; in turn France, Poland, the Czech Republic, Slovakia, Slovenia, Romania, Finland and Hungary have strongly supported this shape of the EU taxonomy. The dispute was also of a financial (apart from ideology) dimension, as it concerned about EUR 17.5 billion from EU funding programs that could have been acquired or lost by nuclear and gas projects.

Since the new taxonomic wording was to enter into force from 1 January 2023, a large proportion of private investors, whose involvement is important for the EU legislator in this case, have already been able to include gas and atom projects in investment strategies. It should be suspected that part of the investment decisions and actions have already been taken due to the severe time pressure from climate objectives. Infrastructural investments in energy are not only capital intensive but also spread over the years. They require a number of administrative permits, but also often partnership or consortia agreements. This kind of preparation in many companies started already in February this year and gained momentum in the face of Russia's invasion of Ukraine, for the obvious need to become independent of Russian hydrocarbons as soon as possible.

It is therefore totally incomprehensible that the position of the ENVI and ITRE committees may block a significant number of private investment streams that have already been allocated. It is true that the direction indicated by the two parliamentary committees will be decided in the next weeks in the EU. The EU co-legislators, namely the European Parliament and the Council, had 4 months to examine the document and express their objection. In order for this objection to be binding, the Council would have to obtain a negation of the act by an enhanced qualified majority, which means that at least 72% of the Member States – at least 20 Member States – representing at least 65% of the EU population would have to object to the delegated act. In turn, the European Parliament may object, if a majority (i.e. 353) of Members vote against it in a plenary meeting. The vote on the leaving of gas and atom in the EU taxonomy is scheduled between 4 and 9 July.

Russian policy has forced Europe to redefine both energy security and the current needs for green transformation. Following the rather demanding *Fit for 55* package, the *REPowerEU* program is presented, which envisages an even more intensive investment in RES development, energy efficiency improvements and the reduction of consumption of fossil fuels or energy in general. In the case of gas, there is already a clear decline in the consumption of this fuel in industry. Although this is primarily due

to the high prices of this fuel which have been in existence since 2021, the war in Ukraine and Russia's reduction in gas supply to the European market have exacerbated this. The side effect is, however, that the prospect of carbon leakage has extended considerably and the current demand for this raw material is breaking records, as a result of the huge number of carbon blocks that work in recent months in Europe. This phenomenon is very apparent among others in Germany, which is the most blatantly defending climate objectives and which also have nuclear power, and yet still trigger more coal blocks in recent times.

The EU taxonomy was to promote activities for which there are no yet alternative low-carbon solutions that are technologically and economically feasible, but support the transition to a climate-neutral economy or contribute to climate change mitigation. In this sense, these projects were to be considered compatible with EU objectives and indirectly supporting the implementation of low-carbon solutions.

In the opinion of the Union of Entrepreneurs and Employers, the rejection by the European Parliament of the sustainability systematics adopted by the European Commission on 2 February will have a negative impact on many energy transformation processes. Many investments in infrastructure that was intended to bridge the path to climate neutrality will be hampered and, in the absence of sufficient capacity, the least efficient carbon blocks will be integrated into the system. While we see a clear need to review and maintain European coal assets as long as it is necessary to guarantee energy and heat to EU citizens, such a role for conventional energy should only be stabilizing and, where we have the possibility to replace the exploited and inefficient installations with new powers that are slightly more sustainable, it is the direction where community or state resources should be channeled.

Private investors need a transparent policy in this respect. They cannot learn every few months about such important changes in EU priorities, such as the inclusion or exclusion of gas and atom from taxonomy. This leads to far-reaching confusion and increases the assessment of the risk of investments that may not be made as a result. As a result of this situation, already today, the demanding climate targets will become completely unrealistic and are only present on the paper of EU declarations; such a situation will in turn undermine the authority of the analyzes and findings at European level. This is a highly dangerous direction for the unity of Europe which, in the present geopolitical situation, needs mutual understanding, operational efficiency and good cooperation between administrations and the home business.