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## ALIGN THE EU'S GREEN TAXONOMY WITH THE NEW GEOPOLITICAL REALITY

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The Russian invasion of Ukraine has seen rapid rises in the prices of fossil fuels as countries scramble to replace Russian energy supply. The war has underpinned the need for accelerated energy transition in Europe and globally to clean and local sources. The decision to label nuclear and in particular gas as green investments is now clearly at odds with the overall direction the European Union is taking. The European Parliament should reject the Taxonomy Complementary Delegated Act.

The European Union's response to the Russian aggression in Ukraine has been clear: diversify fossil fuel imports in the short-term, scale up deployment of renewable energy in the medium- to long term. In April, the European Parliament called for a comprehensive embargo of Russian gas, oil, coal and nuclear fuel with an overwhelming majority of 519 MEPs in favour.<sup>1</sup> In May, the European Commission has made clear with the 'REPowerEU' plan that the future of energy resilience in the European Union lies in renewable energy and energy efficiency.

In this context, **the proposal by the European Commission to label gas and nuclear as green technologies in the EU Taxonomy Complementary Delegated Act runs counter to the EU's policy shift.** As we outline below, the delegated act fails to consider the severe energy security and investment risks associated with the EU's exposure and over-reliance on gas and nuclear material imports; the impact on the cost of living on Europeans; and the damage to Europe's climate leadership and international credibility. The European Parliament must correct the EU's course by vetoing the proposal.

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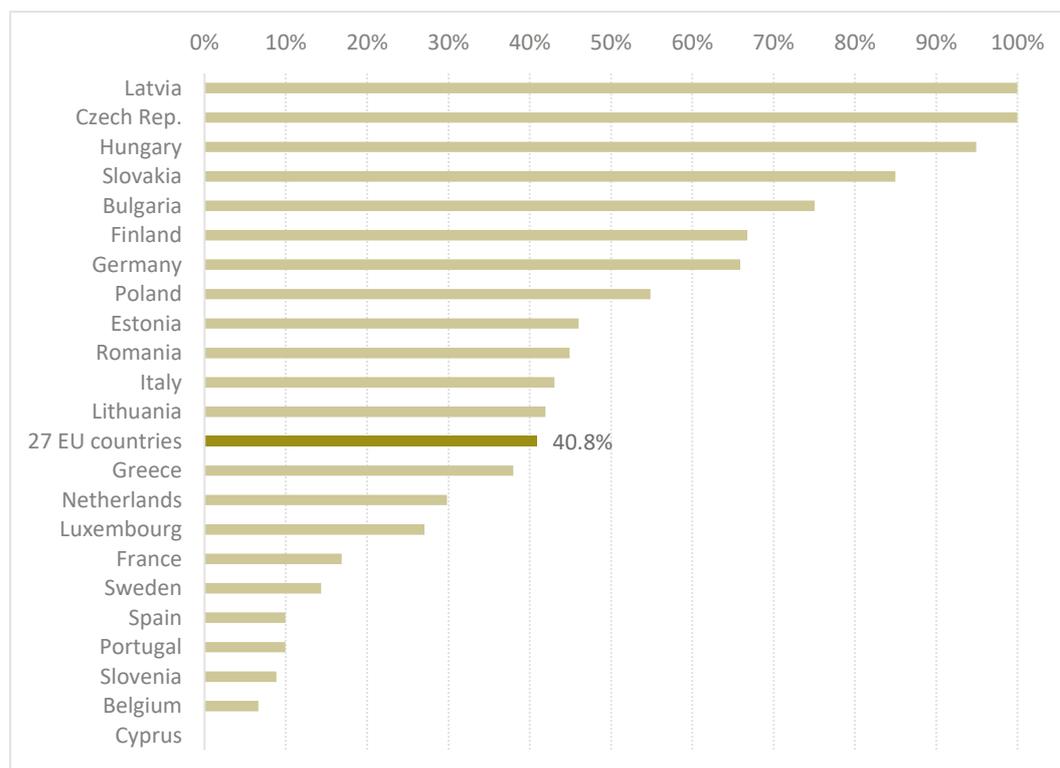
<sup>1</sup> European Parliament, 2022, **MEPs demand full embargo on Russian imports of oil, coal, nuclear fuels and gas**



## Transition case for gas is now weak in the face of dependency and investment risks

The EU's dependence on Russian gas deliveries is significant and poses a security risk to Europe. Only within the two months since the outbreak of the war, the EU has collectively spent over €52 billion on gas deliveries.<sup>2</sup> Around 40% of gas in the EU is supplied by Russia, with some countries in Central and Eastern Europe being 100% dependent on such deliveries.<sup>3</sup> In this context, Russia has not hesitated to use gas as a tool to politically pressure EU Member States, as the recent abrupt halt of Gazprom supplies to Poland and Bulgaria after their refusal to pay in roubles shows.<sup>4</sup>

Figure 1: EU Reliance on Russian gas - Share in total imports in 2020 of Russian natural gas in %



Source: Eurostat via AFP - For some countries such as Austria, very dependent on Russian gas, Eurostat does not have data

The EU has recognised the security risk this dependency poses and its response has been unequivocal: The Union has to untangle its gas dependency from Russia

<sup>2</sup> Europe Beyond Coal, 2022, **EU Member State Spending on Russian Fossil Fuels**

<sup>3</sup> AFP, 2022, **EU Reliance on Russian Gas**

<sup>4</sup> Politico, 2022, **Poland and Bulgaria start life with no Russian gas**



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at the utmost speed. Patrick Graichen, State Secretary in the German Economy and Climate Ministry, stated clearly that the Russian invasion has “destroyed the bridge for gas as a transition fuel.”<sup>5</sup>

The EU has responded to the situation by raising the target for the share of renewables in the electricity mix to 45% until 2030<sup>6</sup>. The German government announced that it will establish a 100% renewable electricity system in just 13 years<sup>7</sup>. Polish Prime Minister Mateusz Morawiecki acknowledged that “thanks to renewable energy we will be independent of expensive fossil fuels”<sup>8</sup>. Crucially, many Member States have also put into place immediate efficiency measures which will hopefully result in a significant short-term decline in gas demand.<sup>9</sup>

These measures severely undermine the argument that gas may play a significant role in the EU’s climate transition in the short- or long-term, even in the context of LNG imports to fill the gap left by Russian gas. An E3G study confirmed that the EU could implement a full stop of buying Russian gas by 2025, without a need to expand the existing infrastructure.<sup>10</sup> New LNG terminals and the build-up of the respective infrastructure would furthermore not be ready before 2024, as contemplated in the case of Germany.<sup>11</sup>

From an economic perspective, the **significant investments that will be required to build up Europe’s LNG storage capacity present a transition risk** in the face of the EU’s long-term climate targets. Recent analysis has warned that the EU’s political rhetoric around LNG may, if taken at face value, lead to over-investment in LNG infrastructure, posing multiple risks to investors banking on an increase in long-term LNG contracts to Europe.<sup>12</sup> In addition, the expansion of natural gas infrastructure could also pose a risk to utilities vis-à-vis their shareholders, as they could find themselves at odds with their decarbonisation targets and see negative impacts on their shareholder value as a result.<sup>13</sup> Including gas in any way as part of the EU taxonomy will therefore serve to exacerbate these security and investment risks.

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<sup>5</sup> RTE, 2022, [The war, the sanctions and the energy shifts](#)

<sup>6</sup> European Commission, 2022, [REPowerEU \(europa.eu\)](#)

<sup>7</sup> Der Spiegel, 2022, [Regierung will 100 Prozent Ökostrom bis 2035](#)

<sup>8</sup> See Polish Government News, 2022, [Założenia do aktualizacji Polityki Energetycznej Polski do 2040 r. \(PEP2040\) – wzmocnienie bezpieczeństwa i niezależności energetycznej](#)

<sup>9</sup> E3G, 2022, [Future of EU Gas Demand](#)

<sup>10</sup> E3G et al., 2022, [EU Can Stop Russian Gas Imports by 2025](#)

<sup>11</sup> NDR, 2022 [LNG-Terminal in Brunsbüttel: Land und Bund wollen Tempo machen](#)

<sup>12</sup> CREO, 2022, [EU Energy Policy Research Note — CREO](#)

<sup>13</sup> Forbes, 2020, [Utility Investors Risk Billions In Rush To Natural Gas: Is It A Bridge To Climate Breakdown?](#)



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## Transition status for nuclear power does not support energy security

The Russian attacks on the nuclear power station Zaporizhzhia in Ukraine and the international community's horrified reactions have highlighted the **security risks involved with nuclear power, casting doubt on the argument that it is a "sustainable" fuel that should be expanded further through new 'green' investments.**<sup>14</sup>

Beyond the risk of radiation disaster, the Russian invasion has underscored another risk relating to nuclear power: that of supply chain disruption for nuclear fuels. European states are vulnerable in this regard. As a recent report showed, over a third of imported uranium comes from Russia (and Kazakhstan, a close ally in the Russian hemisphere).<sup>1516</sup> In particular, Eastern European countries such as Bulgaria, Hungary, Slovakia and Czechia receive as much as 100% of their uranium from Russian sources. This dependency is to such an extent that Slovakia and Hungary have been forced to suspend the closure of their airspace to Russian planes to receive a delivery of uranium fuel.<sup>1718</sup>

Moreover, some EU member states are reliant on Russia for other steps of the nuclear fuel chain, such as radioactive waste storage and reprocessing of spent nuclear fuel.<sup>1920</sup> It remains in doubt how the EU, and in particular its Eastern members, will be able to detach from the Russian fuel deliveries in the near future. It is therefore equally questionable why further investment in nuclear energy should receive a preferential treatment in the EU's taxonomy in the face of these challenges.

While diversification of supplies from Russia could be easier than for gas supplies given no additional infrastructure is needed, the question of what happens to the global uranium market remains. Russian state company Rosatom produces around 20 percent of the world's nuclear fuel, which makes it an important source of

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<sup>14</sup> The Independent, 2022, **Biden urges Russia to cease military attack on Zaporizhzhia power plant and calls in nuclear safety advisors**

<sup>15</sup> Energy Monitor, 2022, **Weekly data: Cutting nuclear links with Russia may be harder than cutting fossil fuel imports**

<sup>16</sup> Eurostat, 2022, **Nuclear energy statistics - Statistics Explained**

<sup>17</sup> Euractiv, 2022, **Russian plane with nuclear fuel landed in Slovakia**

<sup>18</sup> Reuters, 2022, **Hungary receives nuclear fuel from Russia by air - foreign minister**

<sup>19</sup> Heinrich Boell Stiftung et al., 2019, **World Nuclear Waste Report 2019: Focus Europe**

<sup>20</sup> Greenpeace, 2021, **Exposed: French nuclear companies dumping radioactive waste in Siberia**

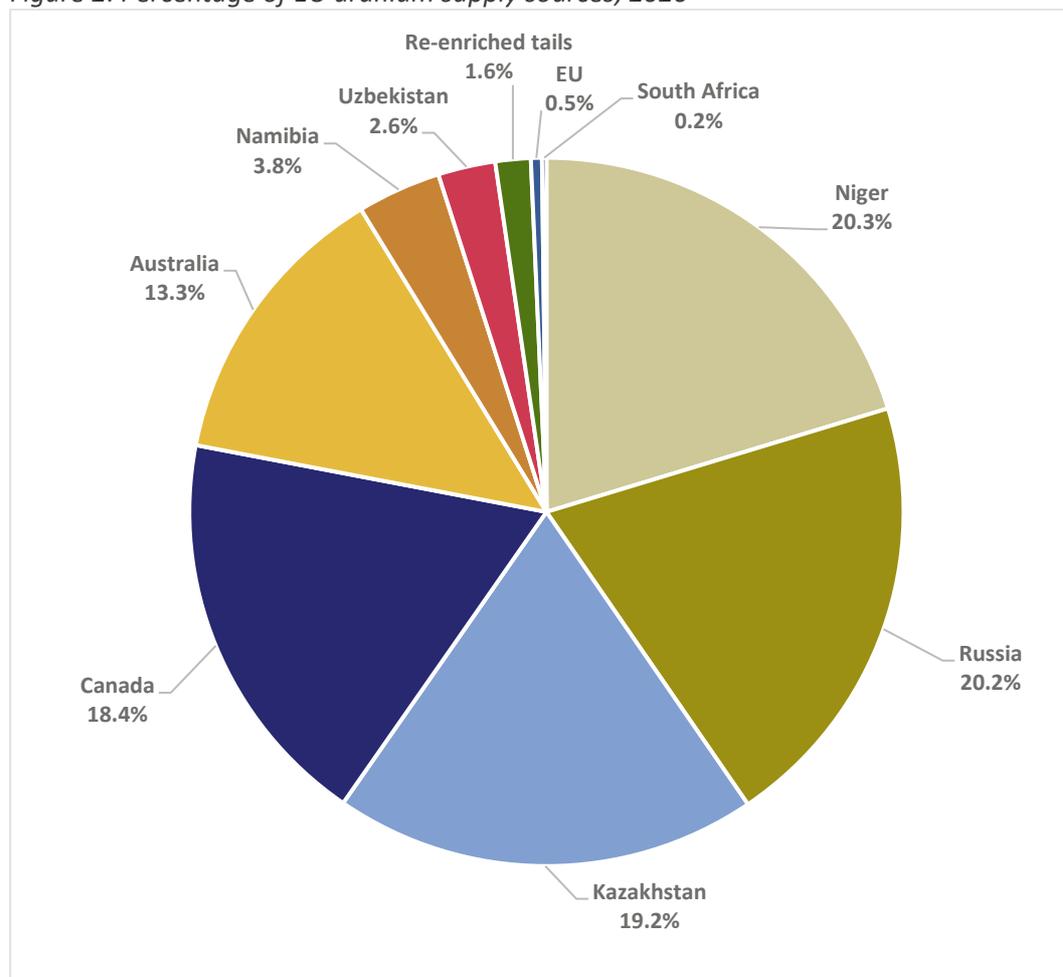
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revenue for the country.<sup>21</sup> The European Parliament has called for a full embargo on Russian energy imports including nuclear fuel. However, for Russian-made nuclear reactors in Member States in Central and Eastern Europe especially, there are no alternatives to the Russian nuclear fuel.<sup>22</sup>

Figure 2: Percentage of EU uranium supply sources, 2020



Source: World Nuclear Association

The war in Ukraine has made the **link between nuclear power, uranium supplies, and geopolitical and security risks** more explicit and it **should be factored into the considerations to include it in the taxonomy.**

<sup>21</sup> The Verge, 2022, [The US can't seem to quit Russian uranium](#)

<sup>22</sup> Bulletin of the Atomic Scientists, 2022, [Five reasons that Russia's nuclear exports will continue, despite sanctions and the Ukraine invasion. But for how long?](#)



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## Taxonomy would not help solve the cost-of-living crisis

Large scale investments in new gas and nuclear infrastructure, which the taxonomy could justify if both are included, can negatively affect European households currently facing a serious cost-of-living crisis.

Gas prices in Europe have increased six-fold since January 2021.<sup>23</sup> The economic argument for gas as a cheap transition fuel no longer holds in the current reality. Yet, as member states are turning toward the comparatively more expensive LNG as a bridging solution, **high prices are here to stay**. Not a silver bullet to mitigate the rising cost of living, such a switch could prolong economic dependencies: In the near to medium term even with diversification of supplies, the global gas market will be tight, prices will remain high and volatile, especially when compared to the declining cost of renewable energy technologies.<sup>24</sup> **The significant investments that will be required to build up Europe's LNG storage capacity can divert long-term investments to renewable energy and energy efficiency solutions.**

Similar price disruptions are affecting nuclear power, often regarded as a reliable long-term solution to cutting gas dependencies and energy security.<sup>25</sup> With 85% of the world's uranium being produced in only six countries - Russia, Kazakhstan, Canada, Australia, Namibia, and Niger, this would inevitably lead to a tighter global market and higher and unpredictable uranium prices in the near term.<sup>26</sup> Recent considerations by Russia to ban enriched uranium exports have disrupted the global market with soaring prices, pointing to the price volatility of nuclear power.<sup>27</sup>

As the following graph shows, **neither nuclear energy nor gas will provide the desired cost relief for households in both the short- and long-term**. While the cost of nuclear energy has continued to soar over the last decades, the price hikes in the gas markets will likely exacerbate the cost gap between expensive fossil fuels and cheaper renewable energy solutions, whose cost curve is expected to further decline.

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<sup>23</sup> Bruegel, 2022, **The European Union demand response to high natural gas prices**

<sup>24</sup> Energy Post, 2022, **Price volatility and greenwashing: do Gas and LNG make economic or climate sense?**

<sup>25</sup> Reuters, 2022, **Will Ukrainian crisis help bring nuclear in from the cold in Europe?**

<sup>26</sup> World Nuclear Association, **How is uranium made into nuclear fuel?**

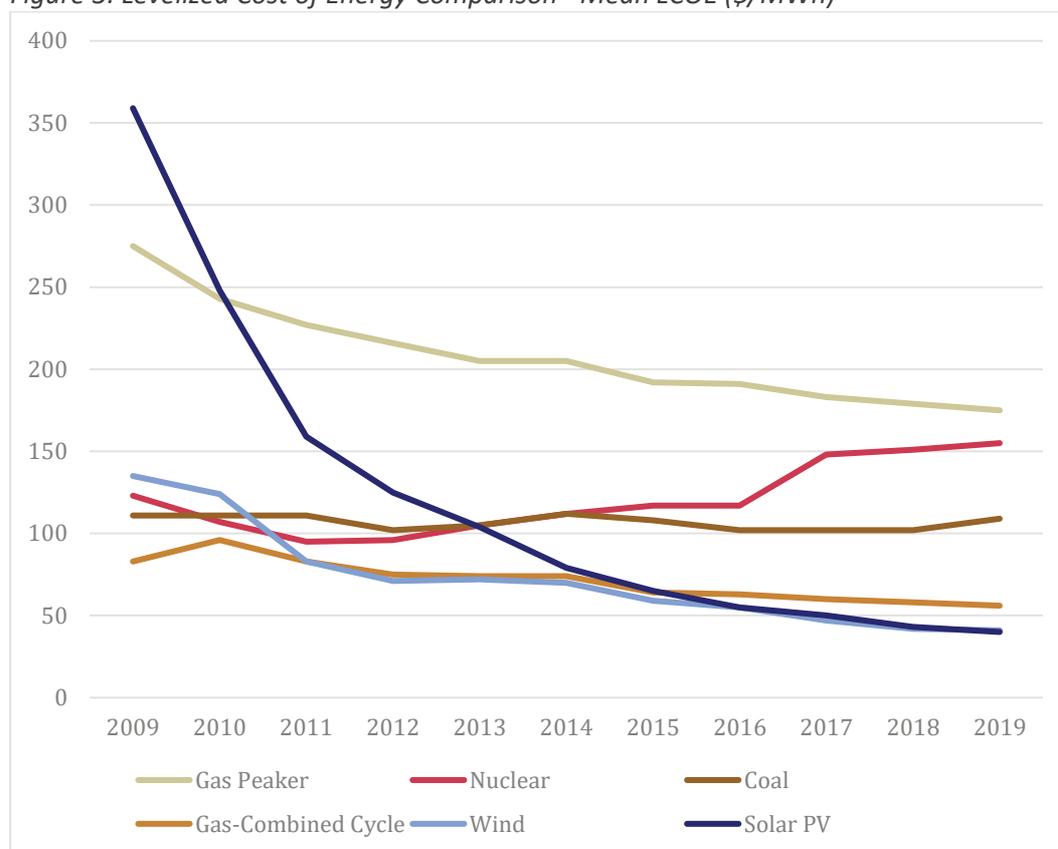
<sup>27</sup> Oil Price, 2022, **Russia's Proposed Ban On Uranium Exports Sends Stocks Soaring**

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Figure 3: Levelized Cost of Energy Comparison - Mean LCOE (\$/MWh)



Source: Lazard, 2020

Further investments in nuclear and gas will therefore not only fail to address Europe's long-term security concerns, but will also ultimately lead to increased cost-of-living for ordinary citizens affected by the price hikes.

## Taxonomy threatens the EU's climate leadership and credibility

The EU's proposal to include gas and nuclear in its taxonomy has implications beyond Europe and jeopardises the EU's climate leadership and international credibility.

For other jurisdictions developing taxonomies, the inclusion of gas and nuclear in the EU taxonomy is creating a bad example that some are choosing to follow in their own taxonomies.<sup>28</sup> South Korea included LNG in its K-taxonomy in December,

<sup>28</sup> E3G, 2021, [Will Europe Give Away Its Climate Leadership?](#)



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strongly influenced by the discussions leading to the European Commission’s delegated act proposal. The country is now considering a U-turn on the inclusion of nuclear power and is using the EU’s decision as justification.<sup>29</sup> Even the Russian taxonomy, which currently excludes gas, may be altered to mirror the EU’s decision on gas as Russia seeks to ensure its access to international markets.<sup>30</sup>

**The EU taxonomy therefore risks falling short of becoming the envisioned “gold standard”, which will come at a cost for global transition** as the EU loses its ability to foster ambitious global convergence because of negative examples at home. The table below shows that the EU’s proposed taxonomy has fallen to among the lower ambition proposals among jurisdictions, whereas others are clearly pulling ahead, thereby continuing to set important guidelines for sustainable financial markets that leave the EU behind. Refer to the **Annex** for a detailed breakdown.

| Country/Jurisdiction | Gas            | Nuclear            |
|----------------------|----------------|--------------------|
| ASEAN                | Transitional   | Excluded           |
| Bangladesh           | Excluded       | Excluded           |
| China                | Transitional   | Included           |
| Colombia             | Excluded       | Excluded           |
| EU                   | Included       | Included           |
| Korea                | Included       | Excluded (for now) |
| Russia               | Excluded       | Included           |
| South Africa         | Excluded       | Excluded           |
| UK (TBA)             | To be excluded | To be included     |

In addition, the EU’s proposed inclusion of gas and nuclear is prompting justifications for investments in these technologies beyond Europe, showcasing the dangerous use the taxonomy can be put to if its integrity as a classification system is not maintained. The Norwegian government has, for example, recently defended plans for more offshore oil and gas exploration and cited the EU

<sup>29</sup> Financial Times, 2022, **South Korea signals nuclear fuel U-turn as global energy crisis looms**

<sup>30</sup> Bellona, 2022, **All eyes on EU Taxonomy discussion: Risks Russia watering down sustainable criteria to meet EU’s new low bar**



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taxonomy in the European Court of Human Rights to justify gas exploration and drilling in the Arctic.<sup>31</sup>

The EU's decision may furthermore have **unintended consequences for the developing and climate vulnerable countries**. Member States' gas diversification efforts following the Russian invasion of Ukraine are already forcing less wealthy buyers like Pakistan to buy gas at record highs and prices in global energy markets are likely to remain high until the phase out of fossil fuels.<sup>32</sup> As the EU announced its External Energy Engagement Strategy<sup>33</sup>, the decision on the taxonomy has become even more critical. At the EU and African Union Summit in February, critical voices called out the hypocrisy of European efforts to limit investment in natural gas in Africa as a transition fuel, while including it in the taxonomy as a sustainable investment.<sup>34</sup> The decision on the taxonomy therefore presents not only a loss of credibility for the EU, but can contribute to weakening the clean economy partnerships the EU is hoping to build to secure its own transition.

Reports are also increasing that the preferential treatment of gas in the taxonomy is not reflected in the EU's climate foreign policy, raising serious questions about incoherence and unfair treatment of developing nations. As an example, most EU members states and the European Investment Bank signed the Clean Energy Transition Statement at the 26<sup>th</sup> UN climate conference in Glasgow (COP26), thereby committing to phasing out all international public investment for fossil fuels. **The EIB's president Werner Hoyer publicly declared that the taxonomy would not change the banks' advanced energy lending policy, which virtually excludes gas.**<sup>35</sup>

## Next steps

The Russian aggression on Ukraine has highlighted the fallacies of including gas and nuclear as sustainable investments in the EU Taxonomy. Despite the expert advice by the Platform on Sustainable Finance that the proposed criteria deviate from scientific evidence, there appears to be no blocking majority of Member

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<sup>31</sup> ENDS Europe, 2022, [Norway relies on EU gas ambitions in Arctic oil drilling rights case](#)

<sup>32</sup> E3G, 2022, [Germany's Bold and Ambitious 100% Renewable Power Plan](#)

<sup>33</sup> EU, 2022, [Joint communication EU external energy engagement in a changing world](#)

<sup>34</sup> Carnegie Endowment for International Peace, 2022, [Why the EU-AU Summit Could be a Turning Point—Even if the Headlines Disappoint](#)

<sup>35</sup> Euractiv, 2022, [Investors warn 'green' label for gas undermines EU taxonomy](#)

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States to the proposal in the European Council.<sup>36</sup> The European Parliament is the last EU co-legislator that could decide over the fate of the delegated act in the coming months and should veto it.

A cross-party resolution will be put before the Parliamentary committees in June<sup>37</sup>, and to the plenary session of Parliament in July.<sup>38</sup> In the interest of the integrity of the European Green Deal, the EU's climate leadership ambition and its geostrategic repositioning, MEPs across the political spectrum should support it.

Ultimately, **the decision on the taxonomy will be seen not as a singular one, but a possible example of preserving the integrity of regulations for the EU's climate goal and the future safety of European citizens in the context of geopolitical crisis. This makes a veto of the proposed gas and nuclear Delegated Act the only sensible choice before Parliament.**

## About E3G

E3G is an independent climate change think tank with a global outlook. We work on the frontier of the climate landscape, tackling the barriers and advancing the solutions to a safe climate. Our goal is to translate climate politics, economics and policies into action.

E3G builds broad-based coalitions to deliver a safe climate, working closely with like-minded partners in government, politics, civil society, science, the media, public interest foundations and elsewhere to leverage change.

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<sup>36</sup> Platform on Sustainable Finance, 2022, [EU Platform on Sustainable Finance response to complementary Delegated Act](#)

<sup>37</sup> ECON and ENVI committees of the European Parliament.

<sup>38</sup> Yahoo Finance, 2022, [EU lawmakers move to block green investment label for gas and nuclear](#)

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