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Our ESG partners' view on nuclear energy and sustainability

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The proposal announced by the EU Commission on the last day of 2021 to include certain activities in connection with nuclear power and natural gas in the EU Taxonomy via a supplementary delegated legal act raised a lot of eyebrows. After heated discussions at the beginning, the issue quickly calmed down again though.

In view of the tense situation between the EU and Russia, Erste AM has contacted its ESG research partners in order to get an update on their current handling of nuclear energy in their ESG assessment. We asked them, among other things, how they saw and rated nuclear power in general, what they thought about different sectors, utility companies, and the financial sector in this context, and what their stance was on small modular reactors (SMRs).

Pros & cons of nuclear power

Both ESG research partners have years of experience in the field of company (e)valuation. As different as their approaches may be, both try to be objective by taking into account positive and negative aspects and using them to inform their assessment of the sustainability efforts of the respective company.

They generally regard nuclear power as reliable source of basic-load power with minimal CO₂ emission intensity, but they consider other aspects such as the disposal and storage of radioactive waste, water consumption for the cooling system, radiation contamination by leaks, regulatory risks (exit from, or re-entry of, nuclear power) as negative.

Utility companies

An important aspect in the assessment of a utility company is the energy mix employed in power generation. Here, a large share of nuclear power has a positive climate effect due to less CO₂ emission, whereas aspects such as water consumption, operating safety (radiation), and the disposal and storage of nuclear waste eat into the valuation. According to ISS ESG, an investment strategy that hinges on the construction of new nuclear reactors would be negatively assessed. MSCI believes that not many listed utility companies, with the exception of state-controlled ones, will invest in new reactors, the main reasons being regulatory requirements, high risk of delays in the planning, construction, and start-up phase, resulting overspending, and relatively high operating costs of nuclear energy in comparison with power generated from wind, solar, gas, and even anthracite coal.

Financials

ISS ESG used different indicators to value companies in the financial sector, depending on the business model. If environmental and social guidelines exist that exclude the provision of financial services to the nuclear power sector and its infrastructure, this is rated positively. The same is true for the financing of renewable energy or solutions geared towards the increase in energy efficiency. The exclusion of nuclear power from the investment business is rated positively in connection with general asset management services, structured investment products, and/or brokerage services. MSCI believes that new nuclear power plants tend to be driven by state subsidies or investments rather than private investments.

Small Modular Reactors (SMRs)

We have seen an increase in the number of reports on so-called small modular reactors (SMRs). Some investors have discussed them as possible interesting investment opportunity. Several EU countries have shown interest and also announced research funds.

To this, our ESG research partners have pointed out that the development of SMRs is still at an early stage. While we have seen some progress in nuclear technology (SMRs, micro-reactors, and fusion) recently, it will take a while for them to be market-ready. The supporters refer to the benefits of SMRs such as lower costs, faster construction, and flexibility when it comes to the choice of location. However, initial projects seem to suggest significant overspending, much like with conventional nuclear power plants. It is also still unclear whether SMRs can compete with wind and solar power in terms of cost structure. And it is unclear to what degree regulatory requirements such as design certification, building licences, or environmental standards support or impede the introduction of nuclear power plants. Even if SMRs may contain less nuclear material, one should not forget the cumulative effect of such plants. Here, too, one would have to clarify what kind of waste would accrue, how much of it would be produced, how long it would remain radioactive, and how it could be disposed of and stored professionally. And lastly, one would also have to ensure the same level of safety for numerous decentralised SMRs as for the traditional variety of power plants.

Sources:

[ISS ESG Insight](#)

[IAEA Small modular reactors](#)

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