From greenwashing to clarity

Excluding fossil fuels in SFDR categories

May 2025

The Sustainable Finance Disclosure Regulation (SFDR) has been fundamental to increasing sustainability awareness and information from and for investors. We welcome a targeted revision of SFDR focused on the specific areas that need improvement to maximise effectiveness, while maintaining most elements of SFDR which are relevant. In particular, Articles 8 and 9 have been both confusing and misused by the market as labels; it is necessary to move to product categories with clear minimum sustainability criteria.

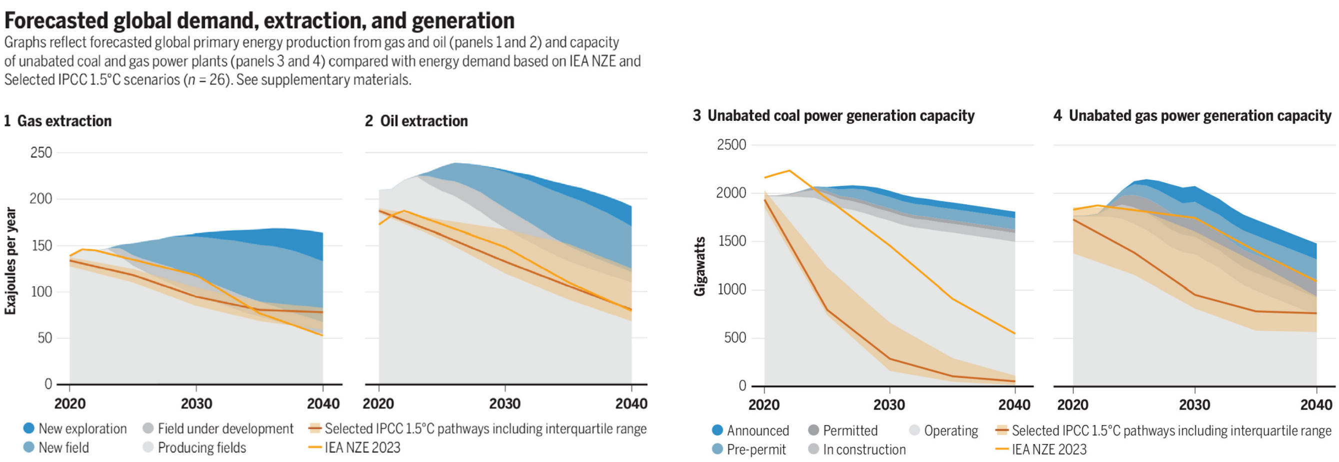
While the specific product categories and their number are still under discussion, **this briefing raises the relevance and need for specific criteria across these categories: fossil fuel exclusions**. The three sections of the briefing provide why this is necessary, present the precedents and propose a concrete way forward:

- The EU committed to net zero emissions and a decarbonised energy system, requiring to phase out fossil fuels: what climate science finds, and what EU policy requires;
- A state of play of fossil fuel exclusions by national sustainable finance labels;
- Concrete recommendations for the SFDR review, making fossil fuel exclusions simple to implement.

1. THE EU COMMITTED TO NET ZERO EMISSIONS AND A DECARBONISED ENERGY SYSTEM, REQUIRING TO PHASE OUT FOSSIL FUELS

1.1. What climate science finds

To limit global warming to 1.5°C, there is no room for new fossil fuel projects, no new coal mines, no new oil and gas fields, no new coal and gas-fired power plants. In the case of coal-fired power generation, it is not enough anymore to stop new projects; the early retirement of several assets is required.[1]



Source: Science

1 International Institute for Susainable Development (2022), Navigating Energy Transitions: Mapping the road to 1.5°C; Green et al. (2024): No new fossil fuel projects: The norm we need. See also in AMF (2024), Reporting on climate transition plan in ESRS format (2024), Box 7: Halting the development of fossil energies in transition plans, page 42.

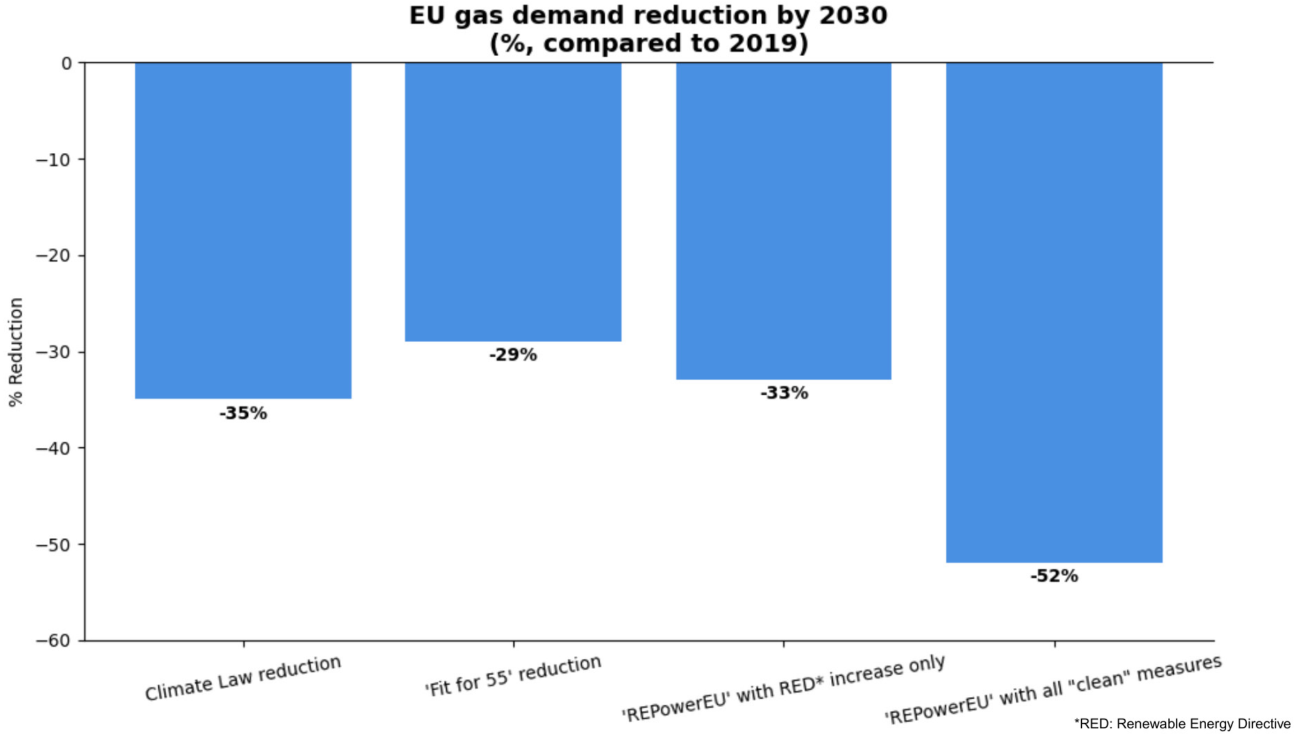
Global scenarios find that developed regions must decarbonise faster than developing ones. The electricity sector needs to reach net-zero emissions by 2035 in advanced economies and by 2045 in the rest of the world, according to the International Energy Agency.[2] For coal in particular, the **Net Zero Emissions by 2050 Scenario** from the International Energy Agency finds that **unabated coal-fired power needs to be phased out by 2030 in advanced economies and by 2040 in the rest of the world.**

1.2. What EU policy requires

In 2021, the EU confirmed the shift towards net-zero emissions by 2050, with the **EU climate law and the Fit for 55 package** including several key laws. It notably agreed to ban the sale of new petrol and diesel cars from 2035. In 2022, the **RePower initiative**, reacting to the invasion of Ukraine by Russia, accelerated the shift towards an energy-efficient and renewable energy system.

This will lead to a strong reduction of the EU fossil fuel consumption in the coming years, while necessitating significant investments in energy efficiency, renewable energy and enabling infrastructure.

In particular, it should be noted that the Climate Law and the RePower initiative mean a **reduction of the EU's total fossil gas consumption from 35% to 52% by 2030** compared to 2019 (see chart below). Today, the **EU's gas demand is already in structural decline**: the EU gas consumption fell by 20% between 2021 and 2024, and Europe's LNG imports declined by 19% in 2024.



Source: E3G 2022

In the last two years, this EU policy shift has translated into explicit statements from EU leaders to exit fossil fuels as quickly as possible:

- When presenting the Draghi report in September 2024, **Commission president von der Leyen stated:** ***"First, the only way to ensure our long-term competitiveness is to shift away from fossil fuels** and towards a clean, competitive, and circular economy."*

2 International Energy Agency (2024), World Energy Outlook 2024, p.231

- **The Draghi report itself specified**: "*According to the International Energy Agency, the EU's fossil fuel energy import bill increased from EUR 341 billion in 2019 to EUR 416 billion in 2023 (approximately 2.7% of GDP).* ***These funds could be better used by the EU to invest in infrastructure, innovation, education, and other areas, which are essential for developed economies to keep their competitive edge in global markets."***
- Von der Leyen has time and time again set out the direction of the European Commission for a fossil-free Europe. For instance, at COP 28 in September 2023, which, **as she stated**, marked the "beginning of the post-fossil era", or during her **speech at the Beyond Growth Conference 2023**: *"That is the clear message that a growth model centred on fossil fuels is simply obsolete. This assessment has been confirmed, time and again. The recent IPCC report is just the latest reminder that we need to decarbonise our economies as quickly as possible."*
- Similarly, European leaders of Austria, Belgium, France, Germany, Luxembourg, the Netherlands and Switzerland **committed** in December 2023 to **decarbonise their interconnected electricity system by 2035**.
- **At COP 28, France stated**: ***"The EU should adopt a much stronger and clearer narrative on the exit from fossil fuel demand****, with a quantified trajectory and an exit date for each fossil energy, based on science, to set phase-out deadlines for oil, gas, and coal."*

In parallel, the EU committed to reaching at least 42.5% of renewables in its energy consumption by 2030, while aiming for 45%. This renewable target requires around € 150 billion of annual investments until 2030, according to various converging estimates[3]. The Commission is preparing a new communication on the **Framework for State Aid measures to support the Clean Industrial Deal**[4], which states: "*the Clean Industrial Deal recognises the need to fast-track the rollout of renewable energy sources (...). In this context, it is essential to* ***facilitate investments to accelerate and expand the availability of renewable energy in a cost-effective way with a view to quickly reducing dependency on fossil fuels imports****, accelerate the energy transition and achieve lower and less volatile energy prices*".

Recently, the change of the US government created higher geopolitical risks for Europe, given its large dependency on US gas imports.

The EU sustainable finance framework needs to be consistent with climate science and EU energy and climate policy, and financially contribute to achieving it, while not supporting counterproductive developments.

This notably means that the forthcoming SFDR product categories need to be conducive to supporting the Clean Industrial Deal and achieving the EU 2030 climate and energy targets, which means, among others, clear fossil fuel exclusions. Indeed, it would be inconsistent to allow SFDR product categories to finance more fossil fuel dependency while the EU is facilitating state aid for renewable energy to decrease its fossil dependency.

2. FOSSIL FUEL EXCLUSIONS BY NATIONAL SUSTAINABLE FINANCE LABELS: STATE OF PLAY

Fossil fuel exclusions are already a focus point for national sustainable finance labels. Nearly all national sustainability labels require at least the exclusion of coal-related activities and restrict investments in (un)conventional oil and gas production. While there are differences, most fossil fuel-related exclusions are based on revenue criteria:

3 Bruegel estimate, aligned with the estimates for additional green investment needs in 2025-2030 in the Draghi report, based on European Commission and European Central Bank calculations.
4 Clean Industry State Aid Framework – CISAF, to be adopted by the Commission in the second quarter of 2025.

Table 1: Revenue-based Fossil Fuel Exclusion Criteria of National Sustainability Labels

Label	Coal Criteria	Oil & Gas Criteria	Utilities Criteria
SRI Label (France)[5]	Companies deriving ≥ 5% of revenue from thermal coal (whole value chain)		
FNG Siegel (Germany)[6]	Companies deriving > 5% of revenue from coal mining	Companies deriving > 5% of revenue from processing or extracting tar sands or manufacturing or using fracking technologies	Companies deriving > 5% of revenue from coal-fired power generation
TSL (Belgium)[7]	Companies deriving ≥ 25% of revenues from thermal coal (whole value chain)	Companies deriving ≥ 25% of revenues from oil and gas (whole value chain)	
Umweltzeichen (Austria)[8]	Companies deriving ≥ 5% of revenue from coal (whole value chain except services)	Companies deriving ≥ 5% of revenue from oil and gas (whole value chain except services)	Companies deriving ≥ 5% of revenue from fossil fuel-based energy generation
Nordic Swan (Denmark, Finland, Iceland, Norway, Sweden)[9]	Companies deriving ≥ 5% of their revenue from coal (whole value chain except services)	Companies deriving ≥ 5% of their revenue from exploration, drilling, extraction and/or refining (for fuel) of natural gas or crude oil	Companies deriving ≥ 5% of revenue from fossil fuel-based energy generation
LuxFlag Climate Finance (Luxembourg)[10]	Companies deriving > 30% of revenue from thermal coal mining		Companies deriving > 30% of revenue from coal-fired power generation
Greenfin Label (France)[11]	Companies deriving > 5% of revenue from thermal coal (whole value chain)	Companies deriving > 5% of revenue from oil (whole value chain) Companies deriving > 5% of revenue from exploration, extraction, refining, production of natural gas Companies deriving ≥ 30% of revenue from the transportation, distribution and storage of natural gas	Companies deriving > 5% of revenue from fossil fuel-fired power generation

Source: Urgewald

Most of the above fossil exclusions target exploration. However, **revenue-based exclusions cannot capture expansion activities** since exploring for and developing new fossil resources typically does not generate revenues. To avoid this blind spot and to comply with climate science, three important national sustainability labels tightened their fossil exclusions recently by **introducing a zero tolerance for companies actively pushing fossil expansion projects** (see table 2 below).

5 https://www.lelabelisr.fr/wp-content/uploads/EN_Referentiel-Label-ISR-mars24.pdf p.50.
6 https://fng-siegel.org/media/downloads/FNG-Siegel2024-Verfahrensbedingungen.pdf p.22.
7 https://towardssustainability.be/public/TowardsSustainability_QSRevision2023_Final_20230630.pdf p.45.
8 https://www.umweltzeichen.at/file/Guideline/UZ%2049/Long/UZ49_R6.0a_Sustainable%20Financial%20Products_2024_EN.pdf p.13.
9 https://www.nordic-swan-ecolabel.org/48f946/contentassets/1831da8fd64f4a04a2b27f6d0f3677a4/criteria-document_101_investment-funds-and-investment-products-101_english.pdf p.10.
10 https://luxflag.org/?jet_download=46a5f7da365b0ad2feaa237cc5aa403551433fb9, p13.
11 https://www.ecologie.gouv.fr/sites/default/files/documents/Label_TEEC_Criteria%20Guidelines.pdf p.25.

Table 2: Absolute Fossil Fuel Exclusion Criteria of National Sustainability Labels

Label	Coal Criteria	Oil & Gas Criteria	Power Utility Criteria
SRI (France)	Companies developing new thermal coal exploration, extraction or transport projects	Companies developing new projects for the exploration, extraction and refining of conventional and unconventional oil and gas	
Greenfin Label (France)	Companies developing new projects for the exploration, extraction, transportation, refining of coal	Companies developing new projects for the exploration, extraction, transportation, refining of oil and gas	Companies developing new fossil-based power generation capacity
TSL (Belgium)	Companies involved in coal exploration, or the exploitation or development of new coal mines Companies with an increasing absolute coal production	Companies involved in the exploration, and exploitation or development of new conventional and unconventional oil or gas fields Companies with an increasing absolute unconventional oil and gas production	Companies developing new coal-fired power stations Companies with structurally increasing absolute production of or capacity for coal-based power generation

Source: Urgewald

When introducing product categories in the SFDR overhaul, the Commission should follow these precedents to align with EU policy goals and the findings of climate science.

3. CONCRETE RECOMMENDATIONS FOR THE SFDR REVIEW

3.1. Building on the recommendations from the Platform on Sustainable Finance

The recent **report by the Platform on Sustainable Finance** – the Commission's expert group on sustainable finance - proposed the following dual approach:

- **exclusion of fossil expansion in all product categories (based on capex for new projects);**
- **in addition, exclusion of fossil activities in the sustainable product category (based on revenues from ongoing projects).**

Concretely, the Platform builds on the fossil fuel exclusion in the **Climate Benchmark Regulation**, which the Platform recommends updating in order to integrate the expansion element. The delegated act of the Climate Benchmark Regulation setting the minimum standards for climate benchmarks states:

Article 12. Exclusions for EU Paris-aligned Benchmarks (we focus here on fossil fuel exclusions only).

1. Administrators of EU Paris-aligned Benchmarks shall exclude all of the following companies from those benchmarks:
   (...)
   (d) companies that derive 1 % or more of their revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite;
   (e) companies that derive 10 % or more of their revenues from the exploration, extraction, distribution or refining of oil fuels;
   (f) companies that derive 50 % or more of their revenues from the exploration, extraction, manufacturing or distribution of gaseous fuels;
   (g) companies that derive 50 % or more of their revenues from electricity generation with a GHG intensity of more than 100 g CO2 e/kWh;

On that basis, we understand that the Platform recommends the following fossil fuel exclusions for the SFDR product categories:

- For all categories: exclude companies that *"invest in first-time production, expansion or exploration of fossil fuels"*. This does not apply to issuers of use-of-proceeds bonds financing sustainable projects (i.e. green bonds) which have a CapEx plan in line with the EU Green Bond Standard.
- In addition, for the sustainable product category: as per the Climate Benchmark Regulation, exclude companies that derive 1 % or more of their revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite; or 10 % or more of their revenues from the exploration, extraction, distribution or refining of oil fuels; or 50 % or more of their revenues from exploration, extraction, manufacturing or distribution of gaseous fuels.

Generally, we support the Platform's approach to differentiate fossil expansion (new projects) and ongoing fossil activities, and systematically exclude fossil expansion across all SFDR product categories.

However, we recommend adapting and completing the Platform's approach in three areas:

- **Exclude ongoing fossil activities in all SFDR categories except the transition category.** We recommend that all SFDR product categories, except the transition one, exclude ongoing fossil activities. In addition to the transition and sustainability categories, we recommend an impact category, as in the UK **FCA Sustainability disclosure and labelling regime**, which should exclude both fossil expansion and ongoing fossil activities. Instead, the Platform proposes an ESG collection category; should this option be retained, it should also exclude both fossil expansion and ongoing fossil activities, otherwise, such a category would have a very limited added value climate-wise.
- **The transition category should also exclude companies unwilling to transition away from coal.**
  60% of the coal industry has no expansion plans anymore (i.e. plans to develop new thermal coal mines, coal transport infrastructure or coal power plants).[12] An exclusion criterion based on fossil expansion only would therefore fail to exclude the bulk of the coal industry, which is quite problematic. However, **95% of the coal industry still has no commitment to exit coal.**[13] Basing the minimum exclusions for the transition category on expansion criteria only would mean that many coal companies unwilling to transition away from coal remain investible. This is inconsistent with the transition approach: only companies committing to transition should be investible in this category. We therefore recommend that companies which have not committed to a credible Paris-aligned coal phase-out plan should be excluded from the transition category.

12 Urgewald, Global Coal Exit List, 2024.
13 Urgewald, Global Coal Exit List, 2024.

- **Simplifying the operationalisation of fossil exclusions using available data sources.** Importantly, the Platform specifies that *"Corporate CapEx activity disclosure is still lacking"* and that proxies should be used in such a case.[14] CapEx data remains hard to find. However, according to the Platform, *"The key factor is that there should be no indications of investments in new fossil fuel-related infrastructure"*. We fully support this approach and argue that this can be easily implemented by leveraging already available data (see next section), instead of revising the relevant Delegated Act on the Climate Benchmark Regulation as proposed by the Platform.

3.2. Making fossil fuel exclusions simple to implement

The above analysis finds that there is widespread agreement, in many national sustainability labels and in the Platform's recommendations, to exclude companies with fossil expansion plans in all SFDR product categories.

The exclusion of investments in companies developing new fossil-related infrastructure can be implemented by leveraging two online databases published by the German organisation Urgewald:

- **the Global Coal Exit List (GCEL)**
- **the Global Oil & Gas Exit List (GOGEL).**

Both databases are free, transparent, and publicly available. They are updated annually and are already extensively utilised within the finance industry: according to Natixis Corporate Investment Bank, GCEL is "a reference for investors" to assess their exposure to the coal sector. Both GCEL and GOGEL have a unique focus on expansion activities in the fossil sector and are tailored to the specific needs of financial institutions. The data is used to implement sectoral policies and to comply with regulatory disclosure requirements and sustainability label criteria. As of today:

- Almost **300 financial institutions are already using GCEL and GOGEL** (see charts below).
- Urgewald's GCEL data on coal expansion is accessible via **MSCI's ESG platform**.
- GCEL and GOGEL data are explicitly **featured** in the Belgian TSL label requirements and frequently used to comply with the French SRI label requirements focusing on expansion.
- The Science Based Targets initiative (SBTi) **recommends** using GCEL and GOGEL to set fossil fuel finance targets for validation under the SBTi Financial Institutions' Near-Term (FINT) criteria.
- The European Insurance and Occupational Pension Authority **(EIOPA) lists the exposure to GCEL companies as one of four ESG-related risks in its IORP Risk Dashboard**.
- Since 2020, the French regulators **AMF and ACPR have been using GCEL and GOGEL data** for their annual assessment on climate commitments of French financial market participants.

The Global Coal Exit List (GCEL)

GCEL currently provides coal-related data for almost 2800 companies. It covers more than 90% of global coal production and global coal-fired power capacity and is widely regarded as the gold standard for data on the coal sector in the finance industry.

14 *"Corporate CapEx activity disclosures is still lacking, where no CapEx data is available, however forthcoming advice by the Platform on use of estimates would help to fill this gap. If neither data nor estimations are available, the Precautionary Principle suggests that issuers should be excluded if they fail the revenue threshold or if they are investing in new fossil fuel-related infrastructure. When CapEx data is unavailable or cannot be estimated, and revenues are used as a proxy, the revenue threshold could be higher."*

GCEL provides the following data for the 2800 companies covered:

Relative Criteria %

The company's
- Coal share of revenue (CSR) ≥ 10%
- Coal share of power production (CSPP) ≥ 10%

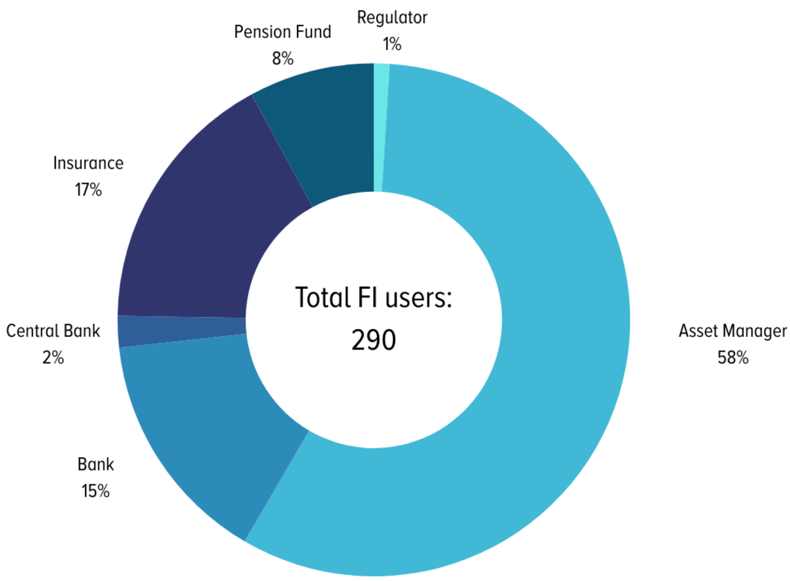
Absolute Criteria |x|

The company's
- Annual thermal coal production ≥ 10 Mt pa
- Coal-fired generation capacity ≥ 5 Gw

Expansion Criteria

The company develops
- New coal mines
- New coal-fired power plants
- New coal-related infastructure

GCEL financial institution users by type as of November 2024:



"Urgewald's GCEL is a powerful information system and played a significant role in financial institutions' efforts to develop new coal policies."

-Ostrum Asset Management

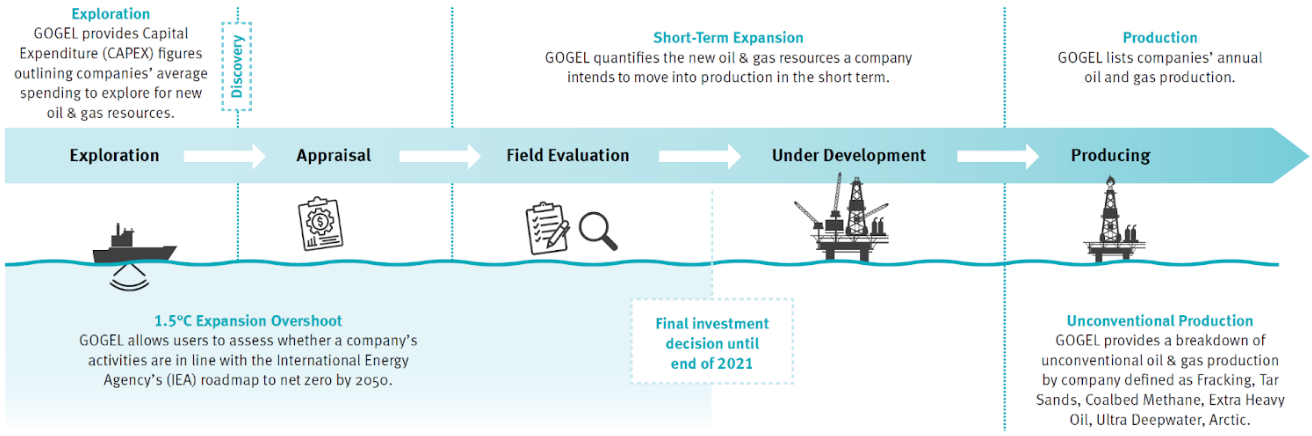
"The Global Coal Exit List has helped us to formulate criteria for the coal sector in the latest Update of the Towards Sustainability Quality Standard. Furthermore, it is a high quality and independent source of detailed information about coal-related activities that is not readily available elsewhere."

-Tom Van den Berghe,
Managing Director of the Belgian Towards Sustainability Label (TSL)

The Global Oil & Gas Exit List (GOGEL)

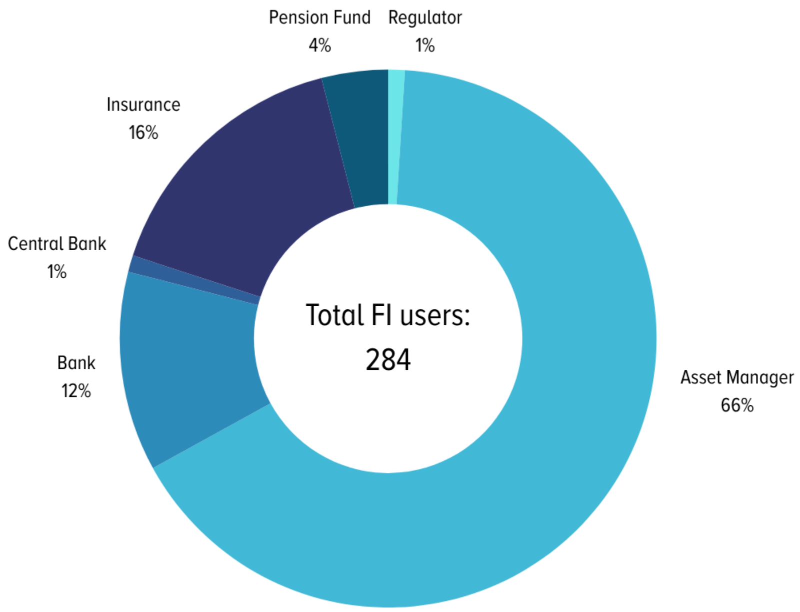
GOGEL is the most comprehensive publicly available database on the oil & gas industry. GOGEL 2024 covers more than 1,700 companies and covers more than 95% of global oil and gas production.

GOGEL provides the following data for the upstream companies covered:



In addition, GOGEL lists companies developing new oil and gas pipelines and LNG terminals as well as companies developing new oil- or gas-fired power capacities.

GOGEL financial institution users by type as of November 2024:



"We find GOGEL incredibly useful to identify actors that are involved in activities that are not in line with our climate strategy. It will be a key resource for implementing our decision to exit from the oil and gas companies that do not have a science-based transition pathway by 2030."

-La Banque Postale

"GOGEL makes data available not only on pure play exploration companies, but also on the ones that are at the forefront of upstream expansion and new infrastructure development, which is all the more critical to following the most recent IEA guidelines for net zero."

- Charlotte Gardes,

Expert Member of the Scientific Committee of the Observatory for Sustainable Finance

3.3. Recommendations for the fossil fuel exclusions in SFDR product categories

Based on the previous sections, we recommend the following approach:

- **Transition category:**
  - **exclude fossil expansion (new projects)**
  - **exclude companies with no coal phase-out plan (no transition commitment)**
- **Other product categories:**
  - **exclude fossil expansion (new projects)**
  - **exclude ongoing fossil activities.**

For fossil expansion:

Exclude companies which are developing fossil expansion projects. This data is already publicly available in the GCEL and GOGEL databases, while the capex data is hard to find. It has the additional benefit of being immediately applicable, without having to revise the Delegated Act of the Climate Benchmark Regulation.

For coal phase-out:

Exclude companies without a credible Paris-aligned coal phase-out plan. Relevant data is available in Urgewald's coal phase-out analysis[15] and will be integrated into the GCEL database as of 2026. Indeed, Urgewald, together with Reclaim Finance, developed seven simple criteria to assess the coal phase-out plans of companies in the GCEL database.

For ongoing fossil activities:

Exclude companies based on revenue thresholds, building on the existing exclusions for EU Paris-aligned Benchmarks (Climate Benchmark Regulation).

Summary of exclusion criteria for SFDR product categories

Transition category	Other categories
• **No fossil expansion** Criteria: exclude companies which develop: • New upstream projects and related large-scale infrastructure (LNG terminals and pipelines) • New coal mines, mine extensions and related infrastructure • New coal-fired power generation <u>This data is available in the GCEL and GOGEL databases</u> • **No coal phase-out plan** Criteria: exclude companies which do not have a credible coal phase-out plan that includes: • Exit from coal power, mining and related infrastructure by 2030 in the EU and OECD • Exit from coal power, mining and related infrastructure by 2040 in the rest of the world <u>This data is available and will be integrated into the GCEL 2026</u>	• **No fossil expansion** Criteria: exclude companies which develop: • New upstream projects and related large-scale infrastructure (LNG terminals and pipelines) • New coal mines, mine extensions and related infrastructure • New fossil-fired power generation <u>This data is available in the GCEL and GOGEL databases</u> • **No ongoing fossil activities** Criteria: exclude companies which are above the following thresholds: • Revenue thresholds from the Paris Aligned Benchmarks: 1% revenues for coal[16], 10% revenues for oil, 50% revenues for gas; 50% revenue from electricity generation with a GHG intensity of more than 100 g CO2 e/kWh. <u>These criteria have been in use for several years</u>

15 https://www.coalexit.org/coal-phase-out-plans. As of publishing date, 124 companies among those listed in GCEL have announced a date for exiting coal.
16 Many national sustainability labels are already proposing a 5% threshold.

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