

Eurogas Response to SFDR Public Consultation

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The European Commission's proposal to revise the SFDR represents a positive step towards greater regulatory clarity and legal certainty for market participants.

Since its entry into force in 2021, the Sustainable Finance Disclosure Regulation (SFDR) has shown several limitations, including complexity, overlapping requirements, and inconsistent implementation. To address these issues, the Commission published a reform proposal in November 2025 aimed at simplifying the framework and improving coherence with the Taxonomy and CSRD.

The SFDR is notably evolving from a disclosure-based framework towards a voluntary labelling regime built around three product categories: *Sustainable*¹, *Transition*² and *ESG Basics*³, each reflecting different levels of environmental and social ambition. Such system is intended to allow to guide capital more effectively toward sustainable and transitional activities. This evolution comes at a critical moment, as the EU seeks to accelerate decarbonisation while safeguarding energy security. **Eurogas welcomes the Commission's intention to streamline the framework and agrees that the introduction of clear product categories is a step forward.**

We consider that the revision of the Sustainable Finance Disclosure Regulation should reflect the EU broader policy objectives. The gas sector shares the European Commission's objective of advancing the clean energy transition while strengthening the EU's economic competitiveness and resilience, and plays a key role in ensuring affordable energy for households and industry.

The specific characteristics of energy systems - particularly long asset lifecycles, capital intensity, and security of supply considerations - mean that transition pathways and timelines differ from those observed in other sectors. The transition therefore requires a gradual transformation of the energy mix, in which the continued provision of reliable gas supply remains an important component, alongside the development of low-carbon alternatives. A regulatory approach under the SFDR that reflects these elements would support credible transition pathways and ensure consistency with the Union's energy and competitiveness objectives.

In this regard, Eurogas considers that the exclusion criteria should respect two core principles:

- **Linearity:** criteria should be proportionate and avoid binary cut-offs that exclude entire sectors irrespective of company-level progress or performance.
- **Distinction:** criteria must be able to differentiate between companies that are genuinely transitioning and those that are not.

These principles of linearity and distinction are essential to ensure that the SFDR supports and incentivises — rather than inadvertently hinders — the decarbonisation of a sector that plays a central role in the EU's climate objectives. Poorly calibrated exclusions risk penalising major actors in the energy transition and undermining the effectiveness of the framework.

¹ The sustainable category should cover products claiming to invest in companies, assets, activities or projects that are already sustainable or pursue a particular objective related to sustainability factors, including environmental or social objectives.

² The transition category should cover products claiming to invest in companies, assets, activities or projects that are on a credible path to sustainability or that pursue particular environmental or social transition-related objectives.

³ The ESG basics category should cover products claiming to integrate other sustainability considerations beyond sustainability risks in their investment strategy.

The current wording of Article 7.1 (c) unfairly excludes companies actively involved in transitional activities e.g. hydrogen, biomethane, renewable power and CCUS, while creating inconsistencies with other well-established benchmarks. To that end, Eurogas recommends the deletion of the criteria proposed in Article 7.1 (c). In any case, SFDR 2.0 should include adequate exemption for use of proceeds instruments for financing Taxonomy-aligned activities.

Beyond such deletion, the text would benefit from clarifying numerous definitions and references, to ensure alignment with the EU regulatory framework and avoid unintended consequences.

Concerns Regarding the Transition Category (Article 7)

The current wording of Article 7.1(c)⁴, which sets conditions for the Transition category, raises concerns for companies involved in oil and gas activities, **even when many of these companies demonstrate measurable emissions reductions, deploy advanced decarbonisation technologies, and expand their renewable and low carbon portfolios.** The provision also overlooks the fact that in many regions, switching from coal or lignite to natural gas yields substantial emissions reductions and is an essential temporary measure for phasing out coal in the absence of a full remedy provided by renewable and low carbon alternatives. The growing share of renewable and low-carbon alternatives in the common infrastructure that will replace their fossil counterparts in the medium to long term means there is no risk of lock-in effects or stranded assets.

As written, the article does not distinguish between companies expanding fossil assets and those simultaneously directing funds to low-carbon investments, creating a distorted view of the sector's actual contribution to decarbonisation. This results in an exclusion that is disproportionate and misaligned with the purpose of the *Transition* category, which is intended to recognise companies that are not yet fully sustainable but are progressing along a credible transition pathway. Such a blanket exclusion would weaken incentives to decarbonise, restrict meaningful investor engagement and impact the investor base of (EU) corporates, and risk promoting superficial "portfolio decarbonisation" rather than genuine emissions reductions.

In addition, it risks creating unnecessary barriers to transition finance and even excludes corporates from the *Transition* category when issuing use of proceeds instruments for financing Taxonomy-aligned activities. For these reasons, **Eurogas believes that SFDR 2.0 should include an overarching exemption across the categories, including Art. 7, for use of proceeds instruments issued by companies where these proceeds do not fund underlying excluded activities and should not restrict such exemption to Art. 7.1(b) only.**

Finally, the Commission should in general strive towards coherence of **cross-EU frameworks (SFDR, benchmark regulation, Taxonomy)**. The new exclusions risk creating inconsistencies with existing **Paris-Aligned Benchmark (PAB)** and **Climate Transition Benchmark (CTB)** exclusion criteria under the

⁴ "Financial market participants shall not claim that their financial products invest in the transition of undertakings, economic activities, or other assets towards sustainability, or contribute to such transition, unless those financial products meet the following conditions: (...)

(c) they exclude investments in companies that:

- i. develop new projects for the exploration, extraction, distribution or refining of hard coal and lignite, oil fuels or gaseous fuels; or
- ii. develop new projects for, or do not have a plan to phase out from, the exploration, mining, extraction, distribution, refining or exploitation of hard coal or lignite for power generation."

benchmark regulation, which are already well-established. Aligning the SFDR exclusions with the BMR framework would reduce regulatory fragmentation and improve clarity and usability, supporting the Commission's stated objective of simplification.

For these reasons Eurogas considers the proposed wording of Art. 7.1 (c) inadequate and recommends its deletion.

If criteria are to be set, it should at least be considered to have a mechanism allowing to reintegrate European companies that are genuinely engaged in the energy transition into the Transition funds category, as it reinforces the purpose of that category itself. Such mechanism would recognise and support actors committed to decarbonisation, incentivise further progress, and facilitate access to the capital required to deliver it.

Necessary clarifications

In addition to revisiting the inadequate criteria set for the *Transition* category, the proposal would benefit from clarifications as several ambiguities in the revised SFDR risk producing inconsistent or unintended outcomes.

1) Gaseous fuels:

The proposal does not define "*gaseous fuels*", creating uncertainty as to whether the exclusion covers only fossil gas or also renewable and low-carbon gases. SFDR 2.0 should explicitly clarify that it only references **fossil gaseous fuels**. This interpretation is supported by the impact assessment accompanying the proposal, which refers specifically to fossil fuel exclusions.

2) Alignment with Taxonomy:

In general, we believe that companies developing any **Taxonomy-aligned activities**, including those related to gaseous fuels as transitional activity, should not be impacted by exclusion criteria.

3) Distribution:

Gas distribution operators are regulated utilities subject to stringent oversight, transparency requirements and public service obligations under EU legislation i.e. DSOs have a legal obligation under public service contracts (in case of regulated activity) to connect new customers to the existing gas grids, including for natural gas, and should not be penalised by doing so under sustainable finance policy.

It should be made explicit that the "gas distribution"-activity should be interpreted strictly in line with Article 2(19) of Directive 2024/1788 (*lex specialis*): "*the transport of natural gas through local or regional pipeline networks for delivery to customers, excluding supply.*"

Beyond clarifying such definition, it must be underlined that distribution infrastructure ready for renewable and low carbon gases meets all the criteria set by the SFDR for sustainable investment: **they contribute to environmental objectives by** enabling the displacement of fossil gas by renewable and low carbon gases. Furthermore, they are compliant with the current **DNSH** principle by repurposing existing gas networks for renewable and low carbon gases therefore avoiding the environmental impacts of new infrastructure.