Comments to the EU Ecolabel criteria for Retail Financial Products, Technical Report 3.0, 11 December 2020

Reference	Comment	Proposal	Rationale
General comment	While the aim of the EU Ecolabel should be guiding retail investors towards truly sustainable financial products, and at the same time avoiding the greenwashing of unsustainable investments, the current proposal creates the exact opposite scenario for the label. It is labelling unsustainable investments as "green" and not sufficiently promoting targeted and genuine sustainable investments. As a result, the proposal is at odds with the urgency and systemic transformation needs to meet the Paris Agreement, the Sustainable Development Goals and the European Green Deal. We have strong concerns that the approach taken provides a real risk for greenwashing financial products, misleading consumers and harming the reputation of the EU Ecolabel scheme beyond finance.	We call on the Commission to **address the shortcomings of the proposal,** by more comprehensively analyzing its implications, involving stakeholders and **organizing an additional working group.** A **delay of the process** would also allow a **better alignment with the development of the Taxonomy Regulation Delegated Acts**.	The previous draft proposal allowed investment funds deriving only 18% of total revenue from environmentally sustainable activities to qualify for the label. Following this, a subgroup was set up to discuss the approach and increase the ambition level. The revised proposal however does not reflect the aim of the work of the subgroup and leads to an even weaker ambition level, even below the 18% threshold for green revenues (as showed by simulations provided in the comment related to equity funds).

Scope **Pension schemes**	**Pension schemes** We regret that **pension schemes** are not covered. We acknowledge that further criteria for pension schemes would be needed, especially regarding real estate. We appreciate that it is proposed to include them within the scope at the time of the 1st criteria revision.	Include a reference to the expansion of the scope to cover pension schemes in the Regulatory Statement accompanying the Ecolabel Decision.	Pension schemes represent high volumes of investments and are accessible to a vast majority of households. Especially personal pensions products could be a good starting point (whether EU PEPPs or national products under Pillar 3). Many of the individual pension products can be labelled already, as they are often investment funds.
Scope **Structured products**	It is unclear if **structured products** are excluded by the proposal	Introduce an explicit exclusion of structured products.	The lack of transparency associated to these products makes the application and verification of the criteria very challenging. Awarding the EU Ecolabel to such products may give them a qualitative competitive advantage, despite being less consumer-friendly in terms of accessibility, transparency, fees, and risk/return profile.
Criterion 1. Investment in green economic activities **Equity funds**	**a) Equity portfolio threshold** The **portfolio threshold should be set at 51% at least**. Given that the investment universe is enlarged by integrating capex (and projected green revenues) as an additional indicator for determining the overall greenness of the portfolio, 40% is not an acceptable threshold. The threshold should in addition be revised upwards and grow every year as we would expect that a larger part of the portfolio builds on green activities (e.g. 5% every 3 years so resulting 55% in 2023, 60% in 2026,…). We insist that this threshold refers to a wide universe of taxonomy compliant activities which include, in addition to green activities, enabling and transitional activities. According to	**We would like to propose the following solutions to address the shortcomings of the proposal:** 1. ***Return to a simpler, transparent formula whereby green revenues and green capex are computed: 0.8 X GRi + 0,2 X GCi.*** 2. ***Limit the contribution of capex to the portfolio "greenness" by using a 80:20 revenues/capex***	**a) Equity portfolio threshold:** We reiterate that consumers would expect that a majority of the activities covered by the fund are sustainable. In this regard, consumer organisations and environmental NGOs would find it very hard to promote products that are not even "half green", not now nor in the future. The investable universe offered by the Taxonomy Regulation is much wider than just "dark" green activities, as it also integrates transitional and enabling activities: out of 90 activities listed in the draft DA on climate change mitigation, 27 are classified as transition (30%), 24 are enabling (37%) and 39 are "own performance" or already low-carbon (43%). The study from Novethic *European Green Funds and the EU Taxonomy: the great challenge!* focus on assessing compliance of

	the Paris-aligned S&P Index, a majority of existing funds could potentially comply with the first two objectives of the taxonomy and, while excluding carbon intensive utilities and transport operators, retain profitability without increasing the risk profile. **b) Untransparent formula that lowers even further the ambition level** The formula proposed alters dramatically the greenness of the portfolio because it integrates several erroneous factors which should be corrected. If all the factors are combined, it would be possible to build portfolios complying with the 40% threshold while relying mainly on companies with circa 10% of real green revenues. **c) Unacceptable inclusion and definition of companies in transition** Criterion 2 is fundamentally weakening the proposal and the threshold calculations in criterion 1. Investment in companies made eligible for application of the Ecolabel thanks to criterion 2 are only providing a very limited and very late contribution to addressing sustainability.	***weighting ratio instead of 60:40 as proposed.*** *While capex is a helpful indicator to create incentives for investee companies, it should have a* ***subordinate role to green revenues****. Greening capex is relatively easier and faster than greening the revenues and it has limitations to ensure the full sustainability of the company – which depends on other factors, notably the potential need to address existing assets and to decommission older assets with a long lifespan, in some sectors at least (e.g. existing coal plant, oil and gas pipeline, steel plant, etc.).* *3.* ***Do not use projected capex*** *as this is a promise of future investments with difficult enforcement and artificially inflates the greenness of the portfolio.*	existing funds with the two taxonomy objectives related to climate change. It shows that European sustainability funds on average have 29% green share (i.e. taxonomy compliant) and that 20 out of the tested 159 funds have more than 50% green share. In bond funds the average is 85%. If green funds already achieve around 30% on average, it would be reasonable to set the Ecolabel threshold higher to stay relevant when the EU Ecolabel will enter into force as the market of sustainable funds is moving quite fast. It can be expected that the fund products can be developed to reach a 51% threshold, which additionally is more flexible because it integrates capex in addition to green revenues. Moreover, there is also an allowance under criterion 3 for waste and energy. Last but not least, in 2022 the delegated act for the remaining objectives of the taxonomy should be in place, widening even further the universe of investable companies which can be part of an EU Ecolabel retail financial product. **b) Untransparent formula that reduces the ambition level even below 18%** The inclusion of **projected capex** as a promise of future investments can double the greenness of companies, inflating and disturbing the calculation. **The weighting of 60% green revenues and 40% green capex** (or green projected revenues) gives a too high premium to companies with very low level of green revenues. The **inclusion of projected green revenues,** and in particular based on the **annual growth of percentages** and using a **cumulative calculation method** (not average like the capex factor) will multiply dramatically the greenness of the holding. For instance, if a company

		4. ***Rely on capex but not on projected green revenues.*** *The reason for introducing capex is to create incentives for companies to green their business. Given the annual mandatory reporting requirement and granular definition of green capex in the Taxonomy regulation, it provides much more robust verification than "projected change in green revenue". While forward-oriented, capex is measured today, it is not a "promise" to invest, it is an actual investment. The introduction of "projected change in green revenue" could create incentives for gaming the system as investee companies make promises that are not verifiable or sanctionable once the label has been awarded.* 5. ***A minimum 5% of green revenue for each company*** *in the portfolio should be introduced.*	increases its projected green revenues from 1% to 2% during a five-year period, this is calculated as a 100% green improvement and is rewarded as much as if the company had 100% green capex during all five years. It means also that the very inflated factor *projected growth of green revenues* will outperform average capex and therefore be the basis for the forward-looking aspect in the formula, which is also the case in the calculation examples from JRC. There is no need to include both capex and projected green revenues in order to ensure that capex results in green revenue growth. **Capex is an indicator of future revenues** and closely correlated to it. Including both the would be rewarding green capex twice: once as green capex and then again as future revenue. There is **no cap on how many transition companies can be included** in the portfolio fund, while the greenness of this companies as defined in criterion 2 is far from acceptable (see below). **c) Unacceptable inclusion and definition of companies in transition** If retained, criterion 2 would allow a company with only 6% green revenues and which will be only 20% green or have a 20% green capex in 2027 to be eligible for an Ecolabelled fund. This does not match the scale and timing of the systemic transformation that the EU needs to achieve a carbon neutral economy which fits planetary boundaries. In addition, the verification of eligibility criteria such as a "formal commitment" to close down capital assets that would otherwise be excluded under criterion 3.1 is in our view not practically enforceable. Please find in annex to these comments two simulations for investment funds that through the proposed formula would meet

		6. ***Delete criterion 2 altogether,*** *as this creates an additional layer of unnecessary complexity for the approach and leads to weakening of criterion 1.*	criterion 1 although we would not expect them to be rewarded with the Ecolabel. Example 1 presents a case with green revenues going from 6% up to 12% in 5 years and low green capex at 20% which can meet the 43% threshold. A second example presents green revenues low and stable at 6% and an (unlikely) high green capex at 100% which the formula rewards with a 43% threshold as well.
Criterion 1. Investment in green economic activities **UCIT Bond funds**	Ecolabelled Bond Funds sold to retail consumers should be entirely composed (100%) of green bonds compliant with the EU Green Bond Standard. An exception should be allowed for 'pure play' green companies that have at least 90% green revenues and 100% green capex. We acknowledge that a number of years will be necessary before the new EU, taxonomy based, standard will provide enough assets for the market. We therefore propose exploring the introduction of a transitional period of a few years during which also other standards could potentially be accepted subject to alignment with the taxonomy	Raise the threshold to 100% with an exception for "pure play" green companies that have at least 90% green revenues and 100% green capex.	Requiring that at least 50% of the total portfolio value is invested in green bonds is a very low ambition level.
Criterion 1. Investment in green economic activities **Green asset to deposit ratio**	The proposal requires that at least 70% of the value of the total deposits is used to make green loans and/or to invest in green bonds. We do not see any (real) rationale why this threshold is set below 100%.	**Change to:** ***100%*** *of the value of the total deposits shall be used to make green loans and/or invest in green bonds.*	From the consumer's point of view, a savings account should either be green or not, but not only "two thirds green". The Austrian Ecolabel already sets this threshold at 100% and the EU Ecolabel should not be less ambitious than national standards. There is no (real) rationale reason to be lower than 100%. The main challenge could be that there would be more savings than green (financing) projects. However, there can be flexible solutions to deal with this situation as proposed in the Austrian Ecolabel.

Criterion 2. Investment in companies investing in transition and green growth	The EU Ecolabel should not introduce a definition for companies investing in transition and green growth, as this is inconsistent with the approach of the Taxonomy Regulation which already integrates transition activities leading to unnecessary confusion. Moreover, as highlighted in previous comment, the inclusion of these definitions lead to an important weakening of the ambition level of criterion 1. Criterion 2 also contradicts the exclusions under criterion 3 (as it allows that companies still have capital assets which are part of the environmental exclusions of criterion 3.1). Last but not least, the conditions proposed for companies in transition are really week compared to the urgency of achieving systemic transformation in the next ten years, i.e. a company with only 6% green revenues and which will be only 20% green or have a 20% green capex in 2027 would be eligible for an Ecolabelled fund. In addition, the verification of eligibility criteria such as a "formal commitment" to close down capital assets that would otherwise be excluded under criterion 3.1 is in our view not practically enforceable.	**Delete Criterion 2**	Investment incentives are created by rewarding green capex under criterion 1, within limitations (20% maximum). There is no need to go further than that. Companies that are already making efforts to become greener and change their production processes can also benefit from inclusion in the taxonomy as their activities will include taxonomy-eligible transition activities. Criterion 3 already contains allowances for companies in transition in the energy (fossil fuels) and waste sector.

Criterion 3: excluded activities based on environmental aspects **Exclusion thresholds**	We welcome that the clause that "investment funds and insurance products shall not contain equities or bonds issued by companies that derived more than 5% of their revenue from excluded activities" has been maintained and not made less strict (e.g. 10%). We can accept a small percentage allowance for pragmatical reasons. However, when it comes to energy and waste management an allowance of 30% is introduced. We consider that this exemption should be temporary and decrease over time.	Do not weaken the 5% threshold. State in the report that the 30% allowance for energy and waste is intended to be temporary and introduce additional derogation conditions (see comment below).	

Criterion 3. Excluded activities based on environmental aspects **Energy**	We appreciate that the criterion excluding fossil fuels has been made stricter by covering the entire fossil fuel value chain (including now transportation, distribution and storage), as well as artic drilling and oil sands. However, the exclusion should be extended to the heating sector. The proposed wording currently only applies to electricity generation.	Add "heat" to: *The supply of solid, liquid and gaseous fossil fuel for fuel or electricity* ***and heat*** *generation using these fuels,…*	In domestic heating, the use of heat pumps + solar energy is already the new standard for new homes in many European countries thanks to the Energy Performance of Buildings Directive and, given that domestic and tertiary consumption for heating and cooling is roughly 1/3 of EU final energy consumption, it is evident that decarbonisation of heating and cooling at domestic and tertiary sector is a pre-requisite to achieve carbon neutrality in Europe. No fossil fuel heating should hence be allowed in new or refurbished homes. In Industry: in the steel sector only in 2018 the 30 largest blast furnaces emitted 90MT/CO2eq every year from coal, as opposed to 626MT emitted by coal power plants (14.4%). However, there are further 339 iron and steel installations that emitted 22MT/y. The European Green Deal aims to create a carbon neutral industry and one of the quickest and easiest way to decarbonize heavy industry is the electrification of heating processes (smelters, kilns, etc) by providing electricity from renewable sources. Indeed, while fossil fuels in certain production processes are still necessary as feedstock (ore reduction, plastic production), it is no longer the case for such heating processes and no fossil fuel investment should be promoted in such domain.

Criterion 3. Excluded activities based on environmental aspects ***Exemptions applied to energy companies***	We understand that it is necessary to frame exemptions for the energy sector to support the transition but consider that the proposal should be made stricter. There are notably 4 aspects that should be corrected: 1. We do not think that a new definition for companies investing in transition should be introduced in this criterion. This is totally inconsistent with the Taxonomy Regulation and would create a lot of confusion. 2. We can support the exemption for companies whose revenue from fossil fuels is below 30%. However, it should be indicated in the background report and the regulatory statement that this exemption will be temporary and reduced overtime. 3. The phase-out, closure for natural gas and coal power stations on a ten-year time frame is acceptable, but not the introduction of a fuel-switching plan, as most likely that will be related to switching to biomass. 4. We miss one important element that NGOs had proposed in comments to the previous report and which has not been addressed at all. A Capex plan can also support the transition. Companies should become Paris-aligned (1.5 degrees) and for that they need to set up very ambitious zero-carbon capex plans. Otherwise, the Ecolabel will not be helping the transition from unsustainable to sustainable, but only moving from a 6°C scenario to 3-4°C, but certainly not <2°C.	**1. Delete:** **“A company is investing in transition”** **2. Add:** **As a temporary exemption,** the company revenue from these excluded activities is below 30%. Include in the regulatory statement that this exemption will be addressed in the next revision to introduce a reduction over time. **3. Delete:** **“fuel-switching plan”** The company has set a phase-out closure plan for natural gas and coal power stations on a ten-year timeframe. **4. Add :** **Companies must meet the four following criteria:** (i) they have adopted and published climate science-based measurable and time-bound emission reduction targets to ensure alignment with a 1.5°C Paris-compliant	Commission’s impact assessment on bioenergy states that the idea that forest biomass can mitigate climate change is extremely problematic and acknowledged that demand for forest biomass is hindering EU forests’ ability to act as a carbon sink.

		scenario and zero emissions by 2050 at the latest(ii) they have adopted and published credible transition plans, including zero capex in fossil fuel expansion; (iii) their reported GHG emissions decrease annually. (iv) they meet the emission reduction criteria recommended by the Technical Expert Group (TEG) for companies to be included in Paris-Aligned Benchmarks and Climate Transition Benchmarks indices (I.e., -7% decrease of CO2 equivalent emission, year-over-year). Fund managers shall disclose the names of these companies, so that Competent Bodies can carefully review the investments and compliance with the above conditions. The information should also be disclosed to retail investors (e.g. in the annual report).	

Criterion 3 **Energy**	Financing is a fundamental supporting activity to fossil energy companies and projects and as such banks play an important role in driving climate change. We therefore propose that banks that provide more than EUR 1 billion in financing (lending, bond issuance, underwriting) to companies and projects that *expand* their fossil energy activities (upstream, midstream, downstream, power production and distribution) should be excluded. This would otherwise be a loophole where EU Eco-labelled funds could get exposure to the fossil fuel industry without investing directly.	We propose to add a criterion explicitly excluding banks that provide more than EUR 1 billion annually in finance to fossil energy expansion activities	According to the Fossil fuels finance report card 2020, the 35 largest financiers provided 2,7 trillion in financing of fossil fuels since the Paris Agreement. An absolute threshold is necessary since the financing can account for a relatively small part of a bank's total financing and lending, but it can still be a major financier of the fossil fuel sector and thereby contribute to massive climate impact. Even at the bank with the largest fossil fuel financing, JP Morgan, the fossil fuel sector accounted for only 7,6 per cent of its total financing in 2016-2019.
Criterion 3 **Energy**	We recommend adding a criterion to exclude new investments in **hydropower,** with the exception of investments for the improvement of sustainability of existing installations.	Add: - C.5. New hydropower infrastructure, with the exception of improvement of sustainability of existing installations.	TEG recommendation that "*construction of small hydropower (<10MW) should be avoided*" considering the massive negative impacts of small installations on freshwater biodiversity. 150 NGOs have also asked that no new hydropower is built in Europe, given the already excessive number of hydropower plants which heavily disrupt freshwater ecosystems and the negligible benefit of new hydropower in transitioning to carbon neutrality.
Criterion 3 **Agriculture**	We regret that the **exclusion of GMOs** has been removed with a reference to the challenge to verify this criterion. However, GMOs are excluded in other national Ecolabels showing that it is possible to enforce this exclusion.	Reintroduce a full exclusion of GMOs[1].	Based on the precautionary principle, GMOs are excluded in other Ecolabel product groups. National Ecolabels for financial products also exclude GMOs, showing that it is possible to enable the verification of such requirement. Potential risks of GMOs on human health and environment have been the subject of scarce scientific research which until now failed

[1] Disclaimer: Please note that as regards this comment BETTER FINANCE does not support a general exclusion of GMOs, but only of those that have not passed a risk assessment carried out according to EU legislation and therefore recommend reintegrating the text proposed in the previous draft proposal: exclusion of "the

			to ensure that GMOs are safe, see e.g. https://www.ncbi.nlm.nih.gov/pmc/articles/PMC3791249/. With research showing that an overwhelming majority of EU citizens (71% at least) reject GMOs, their including in the Ecolabel would be inexplicable for most citizens and would severely undermine the credibility of the label and its marketing potential.
Criterion 3 **Agriculture**	We recommend excluding livestock farming, unless organic or extensive, or there are clear efforts in drastically reducing the livestock density per farm. We also propose to exclude farms where livestock is fed with soya and other crops imported from countries where their cultivation leads to deforestation and other negative land use changes.	Add under 3.1.1 list of excluded activities: A.4. Livestock farming, unless organic or extensive, there are clear efforts in reducing drastically livestock density and the number of animals per farm and if livestock is fed with crops whose cultivation does not lead to deforestation and other negative land use changes in third countries.	The global food system, from farm to fork, is responsible for about 25-30% of global greenhouse gas (GHG) emissions of which around three quarters are emitted by the livestock sector, including the production of feed and the associated land use changes. Contrary to many other emitters sectors, agriculture has the particularity to emit three different GHG, with different impact and different lifetimes in the atmosphere: carbon dioxide (CO_2), methane (CH_4), and nitrous oxide (N_2O). Besides, in the EU, anthropogenic methane emissions mainly come from agriculture (56%), of which more than 80% from the livestock sector. We see the number and concentration of livestock as one of the main barriers to significant GHG reductions in the sector. Yet there is no steering of investments towards lowering these numbers. Given livestock's high impact on climate, biodiversity, air and water pollution and land use, it should be excluded while more stringent criteria are developed. Also, farm animals in Europe are largely feed with soy and other crops importing from third countries. Their cultivation has negative

development, distribution and cultivation of food or feed from genetically modified varieties of plants that have not passed a risk assessment carried out according to the criteria in Annex II of Regulation EN 503/2013 or equivalent".

			climate and environmental impacts in the territory of these countries – in particular through deforestation. For example, in July 2020, a new study published in the review *Science* [2] concluded that roughly 20% of soy exports from the Brazilian regions of Amazon and Cerrado to the EU may be contaminated with illegal deforestation. The authors estimated that EU soy imports alone from these two parts of Brazil could be responsible for the indirect emission of 58.3 ± 11.7 million metric tons of CO_2 equivalent ($MtCO_2e$) between 2009 and 2017.
Criterion 3 **Agriculture**	We welcome the exclusion proposed by A3 minimising the use of pesticides. However, we think that reduction of use of synthetic fertilizers should also be addressed.	Add: Cultivation of crops that does not minimise the use of pesticides and synthetic fertilizers	The application of fertilizers to agricultural soils stimulates the production of nitrous oxide (N_2O). The fertilization of agricultural soils is responsible for the yearly emissions of a quantity of 174 MT CO_2 equivalent in the EU. In its Farm to Fork Strategy, the European Commission announced the following objectives to be reached by 2030: the reduction of the overall use and risk of chemical pesticides by 50%, the reduction of the use of more hazardous pesticides by 50% and the reduction of the use of fertilizers by at least 20%.
Criterion 3 **Forestry**	We welcome that the wording has been sharpened compared to the previous draft. However, it should still be further improved to ensure that only forestry activities certified through sustainable management schemes will be covered by the fund. In line with the EU Communication on Stepping up EU Action against Deforestation and Forest Degradation, forestry should be excluded unless managed in a sustainable manner under control of certification	In line with other product groups, we propose to introduce a reference to responsible management certification schemes as tools to demonstrate the forestry requirements.	Only forestry related activities which are object of sustainable management practices should be part of investment certified with the Ecolabel, in line with the approach followed in other EU Ecolabel product groups.

[2] Rajão, R., Soares-Filho, B., Nunes, F., Börner, J., Machado, L., Assis, D., Oliveira, A., Pinto, L., Ribeiro, V., Rausch, L., Gibbs, H. and Figueira, D. (2020). The rotten apples of Brazil's agribusiness. Science, 369(6501). 246–48.

	schemes (referred to in other product groups of the EU Ecolabel).		
Criterion 3 **Waste management**	We welcome the exclusion of waste management facilities and services without any form of material segregation of non-hazardous waste, including waste handling, landfill and incineration. However, there are several loopholes that could lead to weak implementation to this exclusion and that should be addressed either by improved wording or specification in the user manual accompanying the criteria. Particularly, we are concerned that having a front-end removal of metals such as eddy current or post-end removal of metals from Incineration Bottom Ash would be considered as material segregation and thus allow funding of those excluded activities.	We propose the following changes in the wording: Waste management facilities and services material without any form of material segregation of non-hazardous waste, including waste handling, landfill and incineration; **such activities which include material segregation maybe eligible provided the company operating the activity:** • is a company investing (Delete: in transition) (Add) **in technologies to recover materials from non-hazardous waste suitable for recycling,** and • the company revenue from these activities excluded activities is below 30% We also recommend clarifying in the user manual	Only activities that are focused on material recovery for recycling purposes should be financed in line with the circular economy agenda and the eligibility as stipulated in other granting measures such as the Just Transition Fund and the ERDF/CF. There is no need to include a definition of companies investing in transition (see proposal to delete criterion 2 in previous comment). This can be replaced by a reference to companies are investing in technologies to recover materials from non-hazardous waste for recycling.

		that front-end removal of metals such as a eddy current or post-end removal of metals from Incineration Bottom Ash will not be considered as material segregation. The background report should state that the exemption allowing 30% revenues from the excluded activities is temporary and will be reduced over time.	
Criterion 3 **Manufacturing (chemicals)**	The references proposed for the exclusion of hazardous substances provide a very robust framework and we welcome its inclusion. Given ghat the Chemical Sustainability Strategy will integrate substances in Annex VI of substances with chronic effects in the CLP Regulation in the definition of substances of concern, we recommend that this reference is also added to the list.	Add: Substances with chronic effects in Annex VI of Regulation (EC) No 1272/2008, of 16 December 2008, on classification, labelling and packaging of substances and mixtures, amending and repealing Directives 67/548/EEC and 1999/45/EC, and amending Regulation (EC) No 1907/2006.	Improved consistency with the Chemical Sustainability Strategy and the EU Ecolabel Regulation.
Criterion 3 **Transport**	The new proposal has weakened significantly the criterion, with the result that there are no car manufacturing companies that will be excluded under the Ecolabel.	Reintroduce the wording of the previous draft to exclude manufacturing of cars that do not comply with the thresholds set in the	Road transport is one of the biggest sectors responsible for climate change. The current proposal does not bring any added value to ensure that the EU Ecolabel rewards the companies doing most efforts to decarbonise the car sector.

		Taxonomy Regulation (only zero emissions after 2025 and 50 g CO2/km until then). *Transportation* *Production, distribution and sale of new passenger cars and light commercial vehicles, unless the company undertaking the activity complies with the following requirements:* *- For new passenger cars: Manufacturers shall have made available to consumers at least one zero- and low-emission vehicle (ZLEV) model with tailpipe emissions of <50 g CO2/km and the average tailpipe emissions of all models that they have registered in the last calendar year shall be 5% lower than the respective EU target applicable at the time.* *- For light commercial vehicles: The average tailpipe emissions of all models that a manufacturer registered in the last calendar year shall be 5% lower than the respective tailpipe CO2 emissions target.*	

Criterion 3 **Transport**	Any investment in airport expansion should be excluded from funds eligible for the EU Ecolabel.	**Add a criterion to exclude airport expansion**.	CO2 emissions alone from flights within Europe have increased 26% since 2013. Aviation emissions have more than doubled in the last 20 years and the sector is responsible for an estimated 4.9% of man-made global warming. In 2018, Ryanair was the tenth largest emitter in Europe, only surpassed by nine coal plants.
Criterion 3 **Transport**		**Exclude "biofuels" from the scope of the criteria.**	The increased demand for food-based fuels leads to an increased use of agricultural land for energy. Since most agricultural land is already being used to produce food for people, new areas need to be found to meet the ever-increasing demand for food and animal feed. This leads to deforestation and draining of rich ecosystems, releasing tons of greenhouse gases. Currently, around 80% of the EU biofuels market is made of biodiesel, mainly produced from vegetable oils, and 20% consists of bioethanol. In addition, EU car and truck drivers are the top consumers of palm oil – more than 50% of all EU imports of palm oil end up in EU cars and trucks. It is crucial that such fuels are not eligible for the EU Ecolabel.
Criterion 3 **Transport**		**Exclude gas use in transport**	Gas (LNG/CNG) has been shown to contribute to climate change on a Well-to-Wheel basis the same amount as conventional fossil fuels. For biogas, currently 0.5% of gas supply is biomethane. Even if we assume the maximum sustainable potential is produced and all of it is allocated to transport - which is unlikely in practice as it would mean no biomethane for heating or industry – such biogas could only cover 6.2-9.5% of transport's energy needs. As such, gas should not be promoted as environmentally friendly under the EU Ecolabel for Financial Products. See T&E study: CNG and LNG for vehicles and ships - the facts, October 2018.

Criterion 3	While specific sectors are excluded, we miss a general requirement to ensure that companies perform their activities following “do-no-significant harm to the environment principles”	We encourage the JRC to add a criterion that companies must comply with the environmental principles in the UN Global Compact and the OECD Guidelines for Multinationals.	This will ensure a broader scope of the environmental criteria across sectors, in addition to the sector-specific criteria listed above. It will also make the environmental criterion consistent with the social criterion which also includes normative criteria (UNGP, OECD Guidelines) as minimum safeguards.
Criterion 3 **Assessment and verification of exclusions related to economic activities**	Despite some improvements of the text there are still important shortcomings which should be further addressed to ensure the robustness of the Ecolabel: 1. There is only a requirement for initial verification of proof of compliance with the excluded activities at the moment of application. This is an obvious demand, but in order to ensure that there is continuous compliance reporting verification should be required at the very least annually. 2. The wording is also unclear. It says "information shall be provided on each company’s link (tie) to each of the excluded activity", but "link (tie)" need to be clearer, it needs to prescribe that any incident of suspected/alleged violations of the criteria should be reported and the fund manager should explain why it does not violate the exclusion criteria. 3. The report should preferably also be public to increase the incentives to properly deal with these incidents. 4. Competent Bodies should make sample checks to assess whether all serious incidents are reported.	- **The fund manager should report on all cases of allegations against companies in the fund that could indicate a violation of the environmental exclusion criteria.** For each allegation the fund manager must describe its conclusions and possible actions, including engagement (in this case the fund manager should report according to the proposal outlined under on engagement). The reporting should be part of the annual reporting to the Competent Body and preferably also in a publicly available document, since this will increase incentives	Through such transparency requirements the incentives can be considerably increased for fund managers to properly assess and act on suspected or alleged violations of the ecolabel criteria. The reported incidents are also a basis for the Competent Body to analyze and raise issues with the fund manager. It can also be a useful source for identifying gaps and issues that need to be addressed when updating the criteria. The public complaint mechanism should also be a source for the Competent Body to identify possible violations. It is important that the mechanism is communicated clearly in connection with the EU Ecolabel.

		for fund managers to minimise and address problems in its portfolio **The Competent Body should annually sample review 5% of the funds' holdings** to check if the fund manager has reported all severe allegations. For this an ESG research provider can be used. If the Competent Body finds severe allegations which have not been reported, the fund manager receives a warning. After x warnings the label is withdrawn.	
Criterion 3 **Exclusions relating to sovereign and sub-sovereign bonds**	Sovereign bonds are excluded from the portfolio if the issuer has not published a credible CO_2 trajectory compatible with a **2 degrees scenario.**	Change: Sovereign bonds are excluded from the portfolio if the issuer has not published a credible CO_2 trajectory compatible with a **1.5 degrees scenario.**	IPCC 2018: https://www.ipcc.ch/sr15/
Criterion 4 **Social and governance aspects**	We welcome that a reference to the UN Guiding Principles on Business and Human Rights and International Humanitarian Law has been introduced.		Aligns the EU Ecolabel with other relevant EU legislation (Taxonomy Regulation, Sustainable Finance Disclosures Regulation) in the field of sustainable finance.

Criterion 4 **Social and governance aspects** **Corporate responsibility**	It is important that the scope of the criterion applies to the full supply chain of businesses activities. While we see that the wording has been sharpened to include a reference to the countries where the company operates and where it sources its raw materials, we miss a clear reference to the company's subcontractors.	*Add:* A company is excluded on the basis of social aspects if, throughout its business activities, it does not comply with the following conditions: Respect the protection of internationally proclaimed human rights and relevant domestic laws and regulations of the country in which companies **or their subcontractors** operate **any activity of their supply chain, including the sourcing of raw materials.**	We propose to include a reference to the company's subcontractors to ensure that the full supply chain is covered.
Criterion 4 **Social and governance aspects** **Tobacco**	We support the exclusion of tobacco companies. However, a zero tolerance on tobacco sales would exclude all supermarkets. A 5% tolerance threshold would exclude tobacco companies, tax-free operators etc.	Add a 5% tolerance threshold on retail sales of tobacco products.	The criterion might unintendedly exclude retailers.
Criterion 4 **Social and governance aspects**	We regret that the exclusion of weapons has been weakened substantially, because in the previous proposal weapons were excluded altogether while now most weapon companies would be in the Ecolabel scope. Conventional weapons are excluded only if there is evidence of sales in countries under EU restrictive measures.	Delete: **"if there is evidence of sales in countries under EU restrictive measures"** Change the criterion about weapons to: "The production and trade of weapons including dual-use items, as well as military	The criterion allows funding the production of conventional arms, which contradicts what retail investors expect from ethical or responsible investments. Exclusion of all weapons is also one of the two most common sector exclusions by European investment fund (46%), almost as common as excluding tobacco (49%). P. 24 http://www.eurosif.org/wp-content/uploads/2018/11/European-SRI-2018-Study-LR.pdf The reference to EU restrictive measures is totally insufficient. Studies by Fair Finance Guide have shown that criteria referring to EU regulatory framework still allows investments in companies

Exclusions applying to companies: **Weapons**		products used for combat, and their key components.”	transferring arms to conflict areas, like in Yemen, or to very repressive regimes, since European arms control agencies do not prohibit such transfers. https://fairfinanceguide.se/media/495569/deadly-investmenst-followupstudy.pdf The term “weapons” risks leaving out military and dual-use products used in combat, such as weapon platforms like military ships that carry weapons, supporting systems like radars and flying command centers that identify and guide to targets, and key components like engines to fighter aircraft and tanks that are specially fitted for this deployment.
Criterion 4 **Social and governance aspects** **Exclusions applied to sovereign bonds**	We welcome that a reference to the ratification of International Human Rights Treaties is integrated. However, we consider that countries should ratify ALL human rights treaties and not only half of them as suggested by the criterion.	Delete “half” and replace by “all”: The investment portfolio shall not contain sovereign bonds issued by countries … ~~That have ratified less than~~ ~~**half of the 18**~~ that have not ratified all of the 18 Core International Human Rights Treaties.	
Criterion 4 **Social and governance aspects** **Exclusions applied to**	We regret that a criterion on the exclusion of the death penalty is not applied.	Add: States where death penalty is still applied / has been applied in the past 10 years.	The EU Ecolabel should reflect European values and it is feasible to integrate this criterion, as already addressed by the Austrian Ecolabel.

sovereign bonds			
Criterion 4 **Social and governance aspects** **Assessment and verification**	We have similar concerns as under criterion 3, but we would like to highlight higher risk under social exclusions since there are many normative criteria, e.g. on human rights, labor rights etc. The stringency of the exclusion criteria depends completely on a reasonable interpretation and application by the fund managers, which require clear incentives for them to conclude that a company violates the Ecolabel criteria.	In order to strengthen the incentives, the reporting requirement must be stricter, by adding these criteria: **The fund manager should report on all allegations against companies in the fund that could indicate a violation of the normative criteria (UN Guiding Principles, OECD Guidelines and Global Compact).** For each allegation the fund manager must describe its conclusions and possible actions, including engagement (in this case the fund manager should report according to the proposal outlined below under criterion on engagement). **The reporting should be part of the annual reporting to the Competent Body and preferably also in a publicly available document,** in order to maximize incentives for fund managers to minimize and	Through such transparency requirements the incentives can be considerably increased for fund managers to properly assess and act on suspected or alleged violations of the ecolabel criteria. The reported incidents are also a basis for the Competent Body to analyze and raise issues with the fund manager. It can also be a useful source for identifying gaps and issues that need to be addressed when updating the criteria.

		address problems in its portfolio. **The Competent Body should annually sample review 5% of the funds' holdings** to check if the fund manager has reported all severe allegations. For this an ESG research provider can be used. If the Competent Body finds severe allegations which have not been reported, the fund manager receives a warning. After x warnings the label is withdrawn.	
Criterion 6 **Measures taken to enhance investor impact**	As part of the measures taken to enhance investor impact it is mentioned in 3.1.1. that the fund manager has required phase out strategies with milestones for specific harmful activities. We do not understand this measure, since we consider that activities listed in criterion 3 are fully excluded. We would understand this measure in case it relates only to the exemptions provided under energy (3.c.2) and waste (D.1) and provided that the requirement is improved with stricter conditions (see our comments on that above).		

Criterion 7. Retail investor information	This criterion is critical to ensure retail investor's confidence. We believe that it needs to be tightened. We welcome that an obligation is included to disclose the share of revenues and CAPEX of the portfolio from taxonomy compliant activities. It is also positive that a breakdown of the portfolio holdings per company and bond issuer is made publicly available. However, this information will not be easily understandable by consumers. It would be necessary to list the type of activity on a sub-sector level, for example "airline", "chemical production", to ensure that retail investor truly understands where his/her money is investing in concretely.	Add: - The fund manager has to make publicly available the breakdown of portfolio holdings by value of AuM and for each company and bond issuer. **It should be expressed in terms that can be easily understood by consumers, e.g. mining instead of extractives, airlines instead of transportation etc.** Asset managers should use a standardized mapping between NACE sector codes and simplified terms for sectors to help consumers.	
Criterion 7 **Retail investor information**	As part of the list of elements which should be part of the annual report made public in the fund website we miss the disclosure of incidents related to incompliance with the exclusion criteria that have occurred and how they have been addressed. Outcomes of engagement and measures taken to enhance investor impact should also be part of the report (an obligation already exist in criterion 5 and 6 to report on progress towards Competent Body and the public).	Add: As a minimum the following information shall be made available annually by the fund manager to the retail investors, where applicable: […] - A list of allegations against companies in the fund that could indicate a violation of the environmental and social exclusion criteria.	It is important to create incentives for fund managers to minimise and properly address incidents related to incompliance of environmental and social exclusion criteria.

		For each allegation the fund manager must describe its conclusions and actins to address the allegations. - Outcomes of engagement (criterion 5). - Results on investor impact of the product (criterion 6).	

Annex. Simulation of application of criterion 1 to two examples of portfolio composed of transition companies

Criterion 1 - Equity fund greenness

				Projection					Historic record			Projection								
			Green Revenue over 5 years					Green Capex over 5 years							Formulas					
	Type of company	Portfolio contribution	GR2020	GR2021	GR2022	GR2023	GR2024	GR2025	GC2018	GC2019	GC2020	GC2021	G2022	GC2023	Green Revenue GRi	GRGi	GCi	Greeness contribution without formula	Greeness contribution with formula	
Other Assets		0.0%																0%	0%	Other assets
Firm1		0.0%	3%												3%			0.00%	0.00%	Equities
Firm2	Company investing in transition	25.0%	6%	6%	6%	6%	6%	12%	20%	20%	20%	20%	20%	20%	6%	100%	20%	1.50%	10.90%	
Firm3	Company investing in transition	25.0%	6%	6%	6%	6%	6%	12%	20%	20%	20%	20%	20%	20%	6%	100%	20%	1.50%	10.90%	
Firm4	Company investing in transition	25.0%	6%	6%	6%	6%	6%	12%	20%	20%	20%	20%	20%	20%	6%	100%	20%	1.50%	10.90%	
Firm5	Company investing in transition	25.0%	6%	6%	6%	6%	6%	12%	20%	20%	20%	20%	20%	20%	6%	100%	20%	1.50%	10.90%	
Firm6			40%	40%	40%	50%	50%	50%	20%	13%	17%	10%	13%	10%	40%	25%	14%	0.00%	0.00%	
Firm7			40%	40%	40%	50%	50%	51%	20%	19%	15%	18%	12%	10%	40%	27%	16%	0.00%	0.00%	
Firm8			40%	40%	50%	50%	50%	52%	20%	19%	19%	17%	15%	20%	40%	29%	18%	0.00%	0.00%	
Firm9	Company investing in green growth		55%	55%	56%	58%	60%	61%	20%	19%	10%	15%	13%	10%	55%	11%	15%	0.00%	0.00%	
Firm10	Company investing in green growth		52%	54%	55%	60%	65%	70%	12%	10%	15%	13%	13%	17%	52%	31%	13%	0.00%	0.00%	

Total PC	100.0%

GCi: This term is the average Green Capex across the 5 years looking period

GRGi: There is a cap of 100%

EXAMPLE 1

PORTFOLIO COMPOSED OF TRANSITION COMPANIES
WITH 94% OF NON GREEN REVENUES GOING DOWN TO 88% IN 5 YEARS
WITH ONLY 20% STABLE GREEN CAPEX

Portfolio Greenness	6.00%	43.60%

Criterion 1 - Equity fund greenness

				Projection					Historic record			Projection							
			Green Revenue over 5 years						Green Capex over 5 years						Formulas					
	Type of company	Portfolio contribution	GR2020	GR2021	GR2022	GR2023	GR2024	GR2025	GC2018	GC2019	GC2020	GC2021	G2022	GC2023	Green Revenue GRI	GRGI	GCI	Greeness contribution without formula	Greeness contribution with formula	
Other Assets		0.0%																0%	0%	Other assets
Firm1		0.0%	3%												3%			0.00%	0.00%	Equities
Firm2	Company investing in transition	25.0%	6%	6%	6%	6%	6%	6%	100%	100%	100%	100%	100%	100%	6%	0%	100%	1.50%	10.90%	
Firm3	Company investing in transition	25.0%	6%	6%	6%	6%	6%	6%	100%	100%	100%	100%	100%	100%	6%	0%	100%	1.50%	10.90%	
Firm4	Company investing in transition	25.0%	6%	6%	6%	6%	6%	6%	100%	100%	100%	100%	100%	100%	6%	0%	100%	1.50%	10.90%	
Firm5	Company investing in transition	25.0%	6%	6%	6%	6%	6%	6%	100%	100%	100%	100%	100%	100%	6%	0%	100%	1.50%	10.90%	
Firm6			40%	40%	40%	50%	50%	50%	20%	13%	17%	10%	13%	10%	40%	25%	14%	0.00%	0.00%	
Firm7			40%	40%	40%	50%	50%	51%	20%	19%	15%	18%	12%	10%	40%	27%	16%	0.00%	0.00%	
Firm8			40%	40%	50%	50%	50%	52%	20%	19%	19%	17%	15%	20%	40%	29%	18%	0.00%	0.00%	
Firm9	Company investing in green growth		55%	55%	56%	58%	60%	61%	20%	19%	10%	15%	13%	10%	55%	11%	15%	0.00%	0.00%	
Firm10	Company investing in green growth		52%	54%	55%	60%	65%	70%	12%	10%	15%	13%	13%	17%	52%	31%	13%	0.00%	0.00%	

Total PC	100.0%

GCI: This term is the average Green Capex across the 5 years looking period

GRGI: There is a cap of 100%

EXAMPLE 2

PORTFOLIO COMPOSED OF TRANSITION COMPANIES
WITH 94% OF NON GREEN STABLE REVENUES
WITH 100% GREEN CAPEX

Portfolio Greenness	6.00%	43.60%