

European Parliament Adopts Criteria for Sustainable Investments

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The European Parliament has adopted (as of 18 June 2020) [new legislation on sustainable investments](#).

The new law was published in the Official Journal of the European Union last week and will come into effect on 12 July 2020. It sets out six environmental objectives and permits economic activities of investors and undertakings to be labelled as 'environmentally sustainable' only if they contribute to at least one of the objectives without significantly harming any of the others.

This is the first time that there will be a uniform set of pan-EU criteria for determining whether economic activity is environmentally sustainable. Such criteria will assist investors and consumers in identifying economic activity which they can participate in without sacrificing environmental standards.

The European Parliament sees the establishment of clear 'green' criteria for investors as being key to raising more public and private funding for 'environmentally sustainable' economic activities. Thus, the new law shall contribute to the EU becoming carbon neutral by 2050, as contemplated in its ambitious '[European Green Deal](#)'. The European Commission (i.e. the EU's executive branch) [has estimated that Europe requires around €260 billion per year in extra investment to achieve its 2030 climate and energy targets](#).

In addition, the new law will help combat 'greenwashing' - the practice of presenting false or misleading information as to a company or product's environmental credentials.

The six objectives are:

- climate change mitigation;
- climate change adaptation;
- sustainable use and protection of water and marine resources;
- transition to a circular economy;

- pollution prevention and control; and
- protection and restoration of biodiversity and ecosystems.

Activities incompatible with climate neutrality (and which therefore cannot be regarded as environmentally sustainable), but which are nonetheless considered necessary in the transition to a climate-neutral economy, may be labelled as *transition* or *enabling activities*. Such activities must, however, have greenhouse gas emissions levels corresponding to the best performers in the relevant economic sector.

The Commission will regularly, acting through its [Technical Expert Group on Sustainable Finance](#), develop and update technical screening criteria for determining what activities can be labelled *transition* or *enabling activities*.

Solid fossil fuels, such as coal or lignite, are excluded from being determinable as *transition* or *enabling activities*, but gas and nuclear energy activities may potentially be labelled as such provided they do not contravene the ‘*do no significant harm*’ principle.

The Commission will also, by the end of 2021, develop taxonomy of economic activities that are deemed to significantly harm the environment. Further, the Commission will specify the technical screening criteria for determining whether certain economic activities qualify as ‘environmentally sustainable’ in the definition of the new law.

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