

SFDR Review: A Call for Clarity, Proportionality and Political Oversight

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Introduction

This position paper from Tobacco Europe sets out comments on the European Commission's proposal¹ to review the **Sustainable Finance Disclosure Regulation (SFDR)**, which requires financial market participants to disclose how they integrate sustainability risks and impacts into their investment decisions and financial products. Despite its stated objective of improving clarity and usability, the proposal in practice turns a disclosure framework into a mechanism that drives broad sectoral exclusions.

In particular, the proposed changes to Articles 7, 8 and 9 introduce sectoral exclusions which go beyond disclosure, effectively transforming SFDR from a transparency framework into a *de facto* eligibility regime.

More specifically, the Commission proposes to systematically exclude companies involved to any extent in the cultivation and production of tobacco from all sustainability-related financial product categories, regardless of whether such companies carry out sustainable economic activities or pursue transition strategies in accordance with sustainability factors.

By imposing a blanket exclusion on tobacco-related activities irrespective of transition efforts, the proposal not only repurposes the SFDR's original transparency nature into a mechanism that determines access to finance, but also removes any regulatory incentive for affected companies to improve their sustainability performance. We therefore invite the European Parliament and the Council, as co-legislators, to use the review process to restore clarity, ensure proportionality, and make sure that the SFDR remains a transparency framework rather than an exclusion regime.

SFDR risks excluding legitimate industries

The Commission proposal embeds exclusion criteria from the Commission Delegated Regulation (EU) 2020/1818, resulting in the **horizontal exclusion of certain legal sectors** across sustainability-related product categories under Articles 7, 8 and 9 SFDR.

"The criteria and exclusions developed under the EU

Climate Benchmark framework serve a specific technical purpose in defining Paris-aligned investment indices. Applying those same exclusions horizontally within SFDR goes beyond its original disclosure-based logic and should therefore be specifically justified and assessed

EU tobacco-nicotine value-chain ecosystem

<i>SMEs value-added in tobacco-nicotine value chain</i>	€ 6,7 billion¹
<i>Annual contribution to EU27 GDP</i>	€194 billion²
<i>EU jobs created</i>	1,5 million¹
<i>Number of tobacconists in six Member States – SMEs, often family-run businesses</i>	169,221³
<i>Annual EU27 tax revenue (excise/VAT)</i>	€107 billion¹
<i>Annual tax losses due to illicit trade</i>	€13 billion⁴

¹ https://finance.ec.europa.eu/publications/commission-simplifies-transparency-rules-sustainable-financial-products_en

² Standard & Poor's Market Intelligence – [The Economic contributions of the traditional tobacco and new nicotine products value chains to the EU-27](#), (May 2023)

³ KPMG – [Illicit cigarette consumption in Europe 2024](#), (June 2025)

⁴ Combined figures of 7 member-states with network of licensed specialized tobacco stores, including [Italy](#), [France](#), [Spain](#), [Austria](#), [Hungary](#), [Greece](#)

in light of SFDR's objectives and the principle of proportionality. Without such justification, the resulting exclusion of entire lawful industries appears arbitrary and disconnected from an assessment based on actual performance or credible transition pathways."

Such an approach places the tobacco industry – a legal, regulated sector – within a framework functionally aligned with exclusion regimes developed for **prohibited activities – for example chemical weapons** – without equivalent legal justification.

The tobacco industry, and the larger tobacco-nicotine value chain, is a legitimate economic actor contributing to European competitiveness. It provides a contribution to GDP comparable with Greece, sustains 1.5 million jobs across SMEs, retailers, growers and manufacturers, and raises €107 billion in taxes each year, powering Europe's economy⁵.

Fundamental proportionality issue not addressed

There is a fundamental issue of proportionality that is not sufficiently addressed in the Commission proposal. Treating legal sectors such as the tobacco industry as if they belonged explicitly or implicitly in the same category as **chemical weapons or other internationally prohibited activities** is neither proportionate nor justified. The tobacco industry is the only sector that would be excluded outright (blanket, non-conditional exclusion). Other high-impact sectors are excluded only conditionally (e.g. revenue threshold for fossil fuels, or only prohibited weapons, not the entire category)

Excluding the entire tobacco industry removes any possibility of:

- funding transition efforts within the sector,
- supporting transformation through engagement,
- or differentiating between companies, activities and assets within the sector.

The blanket exclusion does not take account of transition efforts undertaken by companies within the sector and may have the perverse effect of hindering their transition away from "adverse" activities. This approach is difficult to reconcile with the stated objective of the SFDR of helping to attract private funding to facilitate the transition towards greater sustainability.

Rather than being penalized and excluded from private investment opportunities, companies – including in the tobacco industry – should be incentivized to evolve and invest in ever more sustainable *modus operandi*.

Recommendations for the Legislative Process

It is crucial for the European Parliament and Council to reassert their role and define clear legislative boundaries. The co-legislators should strengthen the Commission proposal to ensure that SFDR remains a transparency framework and not an exclusion regime.

In particular, the revised text should:

- confirm that SFDR does not mandate sectoral exclusions, beyond those already set out in EU law;
- separate disclosure from investment decisions;
- prioritise performance and transition over blanket exclusions;
- make sure that legal activities are not treated as equivalent to prohibited or illegal ones.

This is essential to ensure legal certainty, proportionality, and consistency across the EU.

⁵ Standard & Poor's Market Intelligence – [The Economic contributions of the traditional tobacco and new nicotine products value chains to the EU-27](#), (May 2023)

Conclusions

SFDR is a cornerstone of EU sustainable finance. Yet without targeted improvements, the Commission proposal risks **creating arbitrary exclusion of legitimate industries across sustainability-related product categories.**

This review is not just technical, it is a test of whether EU sustainable finance remains **rule-based, proportionate, and politically accountable.**

The European Parliament and Council must ensure the final framework delivers:

- **Clarity over ambiguity,**
- **Proportionality alongside simplification,**
- **And transition-focused investment over symbolic exclusion.**