

FNG Response to the EU Commission's Defence Omnibus Consultation

Relevant questions to the financial sector: Q5 and Q12

Q5: Are there, in your view obstacles (legal/regulatory/administrative or other) related to access to finance, including Environmental, Social and Governance ("ESG") investment?

FNG response: No.

As FNG, we are responding from the perspective of the sustainable finance industry. To our knowledge there are no obstacles to investing in defence.

One important regulatory requirement refers to controversial funds only and is currently coming into force: Under the ESMA Fund Name Guidelines, funds in scope of the Guidelines have to adhere to the PAB exclusions. These exclude investments in controversial weapons ("companies involved in any activities related to controversial weapons", Article 12(1)(a) of CDR (EU) 2020/1818). Other weapons are however not addressed neither here nor in other parts of the sustainable finance regulatory framework.

The relationship between defence investment and sustainable finance has been addressed in a number of recent EU publications:

- [Joint White Paper for European Defence Readiness 2023](#): The paper states that "The EU's Sustainable Finance Disclosures Regulation (SFDR) does not prevent the financing of the defence sector."
However, the White Paper sees a need for additional clarification on the application of the SFDR, stating that "the Commission will provide the necessary clarification in the context of the review of the SFDR, on the relationship of defence with the investment goals of the sustainability framework."

- [Joint communication: A new European Defence Industrial Strategy: Achieving EU readiness through a responsive and resilient European Defence Industry](#): The communication states that "Under the EU sustainable finance framework, no EU rule, or any EU planned rule, impedes private investment in the defence industry."
However, the joint communication finds "financial actors' willingness to engage with the defence industry appears to be affected by [...] assumptions around Environmental Social Governance (ESG) factors."
- Draghi-Report [The future of European competitiveness](#): The Draghi-Report implicitly states that there are no actual rules against investing in defence, but that the interpretation of the sustainable finance rules is the obstacle: "Access to finance is often hindered by the interpretation given by financial institutions to the EU's Sustainable Finance Frameworks and Environmental, Social and Governance (ESG) frameworks."

The three mentioned papers agree that there are no issues within the EU regulatory sustainable finance framework when it comes to investments in defence.

We therefore do not support the conclusion the papers draw, which is that we need clarification that investing in defence is conform with ESG principles.

We do recognize the need for Europe's ReArm Strategy – but this does not need to be and should not be financed through sustainable finance. The main reason being that defence is not sustainable.

Why investments in defence are not sustainable

When assessing whether weapons and defence-related activities can be considered sustainable, it is essential to apply the same conceptual frameworks used in other sectors. In the environmental domain, for example, we ask whether an economic activity contributes positively to sustainability goals and whether it causes significant harm in any other area. This approach is embodied in the EU Taxonomy Regulation through the "Do No Significant Harm" (DNSH) principle.

The current debate around the defence sector tends to focus on the first part of this assessment: *Can the defence industry make a positive contribution to security and peace?* While this is an important question, it must not overshadow the second, equally critical part: *Does the activity cause significant harm?* In the case of arms and defence, the answer to that second question is unequivocal—yes. Weapons are designed to cause destruction. Their use results in the devastation of infrastructure, cultural heritage, and human lives.

From the perspective of social sustainability, which includes the protection—and ideally the promotion—of human rights, the harm caused by armed conflict fundamentally contradict core sustainability principles. War and violence are intrinsically incompatible with the goals enshrined in

the UN Sustainable Development Goals (SDGs), particularly SDG 16 (Peace, Justice, and Strong Institutions), as well as SDGs relating to health, education, and reduced inequalities.

If we understand sustainability as contributing positively to the SDGs *without causing significant negative impact on other goals*, then the production and use of weapons cannot be classified as sustainable under any comprehensive interpretation of the term.

Furthermore, sustainability risks persist beyond the initial use of arms. The continued circulation of weapons—including their resale to non-democratic regimes or misuse by non-state actors such as terrorist groups—poses long-term threats to global security and sustainable development. Even so-called “non-controversial” weapons carry these risks, undermining any argument for their sustainability in the broader sense.

For further arguments, see our [Position Paper](#) (in German).

In conclusion, we strongly recommend that the EU Commission carefully considers the funding options for defence. Sustainable finance does not have a role to play here.

Q12: Is there anything else that can be done to simplify the EU regulatory environment and harmonise rules for you/your organisation and the defence industry overall?

FNG response: Yes.

- a. Explain which provision/administrative procedure creates the problem for you/your organisation and provide specific examples.**

Labelling investments in defence activities sustainable would lead to a loss of trust in sustainable finance. Weapons and military equipment are traditionally a value-based exclusion criterion within sustainable investments. In recent years, the importance of this criterion has increased again, as the [FNG Market Studie 2024](#) shows.

Including investments in defence actively in sustainable finance will have a similar effect to that of including nuclear in the EU Taxonomy: it will erode investor's trust in the EU sustainable finance agenda, and ultimately hinder it.

b. Provide concrete proposals for changes that would solve the issue.

Investments in defence should not be considered sustainable (see response to Q5).

Whilst we support amendments to the SFDR in order to address issues around greenwashing and product categories, we do not support a specific reference to the defence sector in the Regulation. The SFDR should remain sector agnostic.

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Geschäftsführung

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Forum Nachhaltige Geldanlagen - FNG

The FNG is the association for sustainable investments in German-speaking countries (D, AT, CH), representing around 200 members. These consist of a variety of different stakeholders including banks, investment companies, rating agencies, financial advisors, research institutions, insurance companies, NGOs and individuals. The FNG promotes information exchange and dialogue between its members – and more broadly between the market, politics, regulation and research. We have been advocating for a legal and political framework fostering sustainable investments since 2001. We are a founding member of the European association Eurosif.