EU Simplification Package

CSRD, CSDDD and CBAM under revision

28 February 2025

On 26 February 2025, the European Commission presented its long-awaited Omnibus package, purportedly aimed at simplifying a range of EU regulations, with a particular focus on the Corporate Sustainability Reporting Directive (CSRD), the Corporate Sustainability Due Diligence Directive (CSDDD), and the Carbon Border Adjustment Mechanism (CBAM). The revisions respond to mounting pressure from businesses and governments, who argue that the current regulatory framework is overly complex and imposes excessive administrative burdens to ensure compliance.

This move aligns with the Commission's broader strategy to enhance European competitiveness by fostering a more business-friendly environment by reducing red tape. However, critics question whether it represents a significant watering down of the European Green Deal's objectives by substantially reducing corporate accountability for adverse impacts caused to human rights and the environment. Our briefing underscores the key changes proposed.

CSRD

The CSRD, which came into force in 2023, mandates that in-scope entities disclose both the risks they face from climate change and other sustainability issues, as well as the impacts their activities have on people and the environment— a concept known as the double materiality principle. While this principle remains intact, the Omnibus proposal aims to reduce its scope of application and simplify reporting obligations.

Reduced scope of application: The current text defines scope of application based on meeting two out of three criteria related to turnover, assets, and employees. Under the proposal, the criteria have been revised to apply only to EU companies with more than 1,000 employees and also meet either the turnover (€50 million) or asset (€25 million) thresholds.

For non-EU parent-companies, the employee threshold would also apply, the EU turnover threshold would increase from €150 million to €450 million, while the requirement of having an EU subsidiary or branch meeting certain thresholds would remain.

Extended timelines: Companies initially mandated to start reporting in 2026, covering the financial year 2025, would now have until 2028 to comply, providing additional preparation time. For non-EU Parent Undertakings, the original timeline remains unchanged, with reporting obligations commencing in 2029 for financial periods starting on or after January 1, 2028.

Value chain stakeholders reporting streamlined: in-scope companies would be prohibited from demanding data beyond those included in the voluntary simplified reporting standard to be adopted by the European Commission, which would be based on the standard developed by EFRAG for SMEs. The Commission argues that this is required to protect out-of-scope companies within the value chain of in-scope companies from excessive information requests (trickle-down effect),

More leeway for audit sustainability assurance: The Commission would no longer have the possibility to transition from a requirement of limited assurance to reasonable assurance for sustainable reporting. The later entails a much more extensive engagement, where procedures include consideration of internal controls and substantive testing. A limited assurance is usually provided in a negative form of expression by stating that no matter has been identified by the practitioner to conclude that the subject matter is materially misstated.

Additionally, before adopting mandatory standards for sustainability assurance, the Commission would be mandated to issue targeted assurance guidelines. These guidelines are intended to clarify the necessary procedures that assurance providers must perform as part of their limited assurance engagements.

Streamlined reporting standards: The Commission would be required to revise the European Sustainability Reporting Standards (ESRS) with the goal of substantially reducing the number of data points. Additionally, the adoption of sector-specific standards would be abolished.

Taxonomy reporting: Only in-scope companies which have turnover exceeding €450 million would need to follow reporting requirements under the EU Taxonomy regulation. For all other in-scope undertakings, Taxonomy reporting would be on a voluntary basis only.

CSDDD

The CSDDD, which came into force in 2024, mandates that in-scope entities establish robust due diligence systems to identify and address adverse human rights and environmental impacts within their own operations and global value chains. The key amendments proposed are as follows.

Postponement of application: Member States would have an additional year to transpose the CSDDD into national law, with the new deadline set for July 2027. Consequently, the largest companies mandated to start reporting in 2027 would have an extra year to prepare and would begin reporting from 2028.

Longer intervals between due diligence assessments: The interval between periodic assessments of the due diligence system would be extended from annual to every five years. However, companies would still be required to conduct *ad hoc* assessments when new risks emerge, ensuring that compliance remains adaptive and responsive to changing circumstances that could jeopardize the adequacy and effectiveness of the measures in place.

Narrowed scope of due diligence: The focus of due diligence would shift from the entire value chain to direct business partners. However, companies would still be required to address issues involving stakeholders beyond Tier 1 business partners whenever they have plausible information (e.g., credible media outlets, NGO reports) suggesting current or potential adverse impacts.

In addition, companies would still be expected to ensure that their code of conduct is followed throughout the chain of activities in accordance with contractual cascading and SME support.

Value chain stakeholders reporting streamlined: Similar to the CSRD, aiming to protect out-of-scope companies within the value chain of in-scope companies from excessive information requests (trickle-down effect), in-scope companies would be prohibited from demanding data beyond the voluntary simplified reporting standard to be adopted by the European Commission, which would be based on the standard developed by EFRAG for SMEs.

Risk Mitigation: Companies are no longer obligated to terminate business relationships when actual or potential adverse impacts are severe and cannot be reasonably minimized or ended. Instead, the proposal focuses on measures such as suspending or refraining from extending existing relationships.

Harmonization of core due diligence obligations: To ensure maximum harmonization across the EU, Member States would be prohibited from introducing due diligence requirements that exceed or diverge from those established by the Directive. This approach aims to maintain a level playing field across the EU, preventing countries from adopting stricter frameworks that could create inconsistencies and competitive disparities.

Civil liability left for national frameworks: A EU-wide civil liability framework would be removed. Consequently, liability rules will remain under the competence of national regimes. However, Member States are still mandated to ensure that victims of adverse impacts have effective access to justice and to guarantee their right to an effective remedy.

Penalties: The minimum fine of 5% of global turnover would no longer apply. To ensure uniformity, the EC would develop fining guidelines.

CBAM

The EU's Carbon Border Adjustment Mechanism (CBAM) is the EU's tool to put a price on the carbon emitted during the production of carbon intensive goods that are entering the EU. The proposal aims to simplify processes and cut red tape. Key changes include:

Reduced application: CBAM will no longer apply to small importers (e.g., SMEs and private individuals) when importing less than 50 tons of CBAM goods per year (approx. 80 tons of CO_2 equivalents). This would eliminate obligations for a high number of importers while still covering over 99% emissions in scope.

Authorization of CBAM Declarants: Importers can delegate reporting requirements to third parties, allowing specialized entities to handle compliance on their behalf.

Data Collection from Third-Country Producers: Facilitate the gathering of necessary emissions data from producers outside the EU.

Claims for Carbon Prices Paid in Third Countries: Authorized CBAM declarants would have mechanisms to account for carbon prices already paid in third countries, even if not in the goods' country of origin.

The proposal also announces that simplifying the mechanism is a first step, enabling a possible new legislative proposal in early 2026 to extend the scope to other sectors covered by the Emissions Trading System (ETS), downstream goods, and indirect emissions.

Key Takeaways

The proposed Omnibus package is expected to trigger heated debate within the European Parliament this year, similar to the discussions experienced with respect to the postponement of the EU Deforestation-free regulation last year. While the Commission advocates the urgent need to reduce bureaucratic hurdles, critics contend that the proposed simplifications may overall undermine the EU's sustainability objectives. As the legislative process unfolds, the balance between easing regulatory burdens and maintaining robust environmental standards will be at the forefront of discussions. Much is still to come, so a closer look at the debates is a must for companies affected by these legislations.

BLOMSTEIN will continue to closely monitor the developments surrounding the Omnibus Simplification Package. If you have any questions on this topic, our ESG Team is ready to assist you.

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