

Client Alert

Environmental Health and Safety

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EU Commission Publishes Draft Omnibus Package to Simplify Corporate Sustainability Reporting and Due Diligence

The draft “Omnibus I” simplification package (“Omnibus I”)ⁱ published February 26, 2025 by the European Commission (“Commission”) proposes legislation to postpone application, reduce the scope of companies covered, streamline reporting, narrow due diligence requirements and enforcement, and otherwise amend three EU sustainability instruments: the Corporate Sustainability Reporting Directive (“CSRD”),ⁱⁱ the Corporate Sustainability Due Diligence Directive (“CSDDD”) ⁱⁱⁱ and the Carbon Border Adjustment Mechanism (“CBAM”).^{iv} The package is accompanied by a proposed Delegated Act for public consultation with respect to a fourth instrument, the Taxonomy Regulation.^v

This Alert summarizes the major proposed changes to environmental and social reporting under the CSRD and to human rights and environmental due diligence under the CSDDD. Separate Alerts will address the proposed changes to the Taxonomy Regulation, the impacts of the proposed changes on financial services and investment activities, and CBAM.

Brief overviews of the instruments addressed by Omnibus I are in the annex below. Omnibus I proposes to amend them in significant ways. Among other important changes summarized below, Omnibus I would:

- Postpone by two years (until 2028) the reporting requirements for companies remaining in the scope of CSRD and currently due to begin reporting as of 2026 or 2027;
- Raise reporting thresholds under CSRD, thereby excluding an estimated 80% of previously covered companies from CSRD reporting requirements;

- Eliminate Commission authority to adopt sector-specific reporting standards;
- Introduce a voluntary reporting option under CSRD for large companies not meeting the higher threshold of CSDDD;
- Reduce data points under the Taxonomy Regulation by almost 70%;
- Limit the ability of individual EU Member States to require more stringent human rights and environmental due diligence than provided by the CSDDD;
- Limit a company's human rights and environmental due diligence requirements in relation to business partners to direct partners, with only limited exceptions;
- Permanently exclude financial services and investment activities from the CSDDD;
- Remove the statutory minimum administrative penalty of 5% of net worldwide turnover for infringement of national laws adopted under the CSDDD;
- Remove the requirement that States allow civil suits for damages for a company's failure to comply with CSDDD requirements to end or minimize actual adverse impacts, or to prevent or mitigate potential impacts; and
- Bar adversely affected persons from authorizing labor unions and non-governmental organizations to bring enforcement actions on their behalf.

PROPOSED CSRD AMENDMENTS

The key amendments proposed by Omnibus I to the CSRD include the following:

Timing:

Postpone by two years (until 2028) the reporting requirements for companies which remain in the reduced scope (see below) of CSRD and are currently due to begin reporting as of 2026 or 2027. There would be no changes to timing for those companies which are already reporting and currently no changes to non-EU parent companies due to report in 2029.

Companies in-scope of CSRD:

- **Large company employment thresholds** for reporting under the CSRD would be raised to align more closely with the CSDDD. CSRD would apply only to large entities having more than 1,000 employees on average and either a net turnover of €50 million or a balance sheet total above €25 million. All companies with fewer than 1,000 employees or less than €50 million turnover as well as listed SMEs would now fall outside the scope of CSRD requirements.
- **Ultimate non-EU parent entities** would be in scope of CSRD if they generate (on a consolidated basis) €450 million in the EU (compared to €150 million currently). In addition, the relevant parent entity must have either a large EU subsidiary (as currently defined) or an EU branch. The threshold for a parent company's large EU subsidiary or EU branch would also be raised from generating a net turnover of €40 million to €50 million.
- **Opt-in provision:** Taxonomy reporting is currently mandatory for all companies in-scope of the CSRD. Omnibus I proposes that such reporting become optional and flexible in certain circumstances for EU undertakings with more than 1,000 employees and a net turnover not exceeding €450 million.

European Sustainability Reporting Standards (“ESRS”):

- **Simplified mandatory ESRS:** The Commission would be authorized to adopt a Delegated Act revising the first set of ESRS, which was adopted in July 2023. The revision would aim to substantially reduce the number of mandatory ESRS data points, clarify unclear standards, and improve consistency with other EU legislation.
- **No sector-specific ESRS:** The Commission would no longer be empowered to adopt sector-specific reporting standards.
- **Voluntary reporting:** Companies with up to 1,000 employees could choose to report voluntarily on the basis of a simplified standard to be developed by the Commission, based on the voluntary standards for SMEs developed by the European Financial Reporting Advisory Group.
- **Value Chain Cap:** In-scope companies would be barred from requiring companies in their value chain with fewer than 1,000 employees to provide information for purposes of CERD reporting that goes beyond the information specified in the ESRS for voluntary use, except for sustainability information commonly shared between companies in the sector concerned.

Assurance Standards:

Limited assurance: The CSRD requires auditors and audit firms to carry out the assurance of sustainability reporting in compliance with standards adopted by the Commission. Omnibus I would eliminate targets for “reasonable” assurance and clarify standards for “limited” assurance.

Taxonomy Reporting under the CSRD:

- **Voluntary reporting:** Omnibus I would introduce a possibility for large companies having more than 1,000 employees and a net turnover not exceeding €450 million to engage in voluntary Taxonomy reporting, thereby reducing the number of companies obliged to report their Taxonomy alignment.
- **Mandatory reporting:** Taxonomy reporting information would be required only for companies claiming that their economic activities qualify as environmentally sustainable. Data points under the Taxonomy Regulation would be reduced by nearly 70%.
- **Voluntary partial progress reporting:** Companies that have made progress towards sustainability targets, but only meet certain EU Taxonomy requirements, would be permitted to choose to voluntarily report on their partial Taxonomy-alignment.

PROPOSED CSDDD AMENDMENTS

Key Omnibus I proposed amendments to the CSDDD include:

- **Delay:** Initial CSDDD compliance would be delayed by one year to July 26, 2028, while the Commission would be mandated to adopt due diligence guidelines by July 26, 2026, thus allowing companies two years to implement the guidelines.
- **National standards:** Omnibus I would restrict the leeway of individual EU States to impose more stringent requirements than those prescribed in the CSDDD for human rights and environmental due diligence.
- **Direct business partners:** The requirement for companies to conduct human rights and environmental due diligence on the impacts of business partners would be limited to direct partners, and to indirect partners only where there is plausible information that there are or may be adverse impacts. However, companies may consider indirect partners when selecting their direct partners.

- **SMEs:** Omnibus I would reduce burdens and trickle-down effects for SMEs and small mid-caps by limiting the amount of information that may be requested as part of the value chain mapping by large companies.
- **Prevention action plans:** Where a company detects adverse impacts, the CSDDD requires that it adopt a preventive action plan to end or minimize actual impacts, or to prevent or mitigate potential impacts. Omnibus I would provide that when a company enters into a prevention action plan with a business partner, the mere fact of continuing to engage with the partner would not trigger the company's liability, so long as there is a "reasonable expectation" that the plan will succeed.
- **Termination:** Omnibus I would remove the duty to terminate business relationships when there is no "reasonable expectation" that a prevention action plan will succeed in ending or minimizing adverse impacts (but suspension for that reason would still be allowed in some circumstances),
- **Monitoring:** Companies would be required to monitor the effectiveness of their own measures, and those of their subsidiaries and direct business partners in their chains of activities, only every five years, not every year as originally in the CSDDD, except in the event of reasonable grounds to believe that the measures are no longer effective.
- **Stakeholders:** The stakeholders with whom a company must engage in regard to human right and environmental due diligence would no longer expressly include consumers, groups, entities, national human rights and environmental institutions, and civil society organizations whose purposes include the protection of the environment. Affected individuals and communities would be "stakeholders" only if their rights and interests are "directly" affected.
- **Engagement** with stakeholders in the due diligence process would no longer be required for suspension of a business relationship or for the development of indicators to monitor the effectiveness of company measures to prevent and address adverse impacts.
- **Financial sector:** Reflecting longstanding resistance by banks and other financial institutions to a requirement that they conduct human rights due diligence on downstream recipients of their loans and capital, Omnibus I would drop the requirement that the Commission prepare a report on tailoring due diligence requirements to regulated financial undertakings with respect to their financial services and investment activities.
- **Climate:** Omnibus I would no longer require that companies adopt and "put into effect" a transition plan to meet EU greenhouse gas emissions goals. It would require instead that companies adopt a transition plan, "including implementing actions" to meet those goals. This would align the CSDDD requirement with the CSRD reporting requirement.
- **Penalties:** Member States would no longer need to provide for maximum penalties of not less than 5% of net worldwide turnover for infringement of national laws adopted under the CSDDD, but would still be required to provide for penalties that are "effective, proportionate and dissuasive," taking into account such factors as the gravity of the infringement and the severity of resulting impacts.
- **Civil suits:** Member States would no longer be required to (but still could) provide under national law for company liability to third parties for failure to implement CSDDD due diligence requirements. However, States that do allow liability must provide for full compensation.
- **Enforcement:** Allegedly injured parties would no longer be permitted to authorize labor unions and NGOs to bring actions to enforce their rights.

WHAT'S LEFT OF THE CSRD AND CSDDD?

Contrary to earlier rumors, Omnibus I would maintain the double materiality standard for reporting under the CSRD. Companies must report not only on financial impacts to themselves, but also on environmental and social impacts of their business activities.

At the same time, Omnibus I would exclude thousands of companies from detailed reporting under the CSRD – according to the Commission, around 80% of companies currently covered. In addition, voluntary reporting would be permitted for many companies, and mandatory reporting for large companies would be simplified.

Omnibus I would also greatly curtail the reach of the CSDDD to indirect business partners. While over 4,000 large companies, including hundreds of non-EU multinationals, would still be required to comply with the CSDDD,^{vi} the extent, frequency and enforceability of their human rights and environmental due diligence would be reduced. However, due diligence by large companies would still be legally required and subject to regulatory oversight, as well as civil suits under national laws in those EU Member States which choose to permit them.

WHAT'S NEXT?

Omnibus I is a draft proposed by the EU Commission. It must still go through tripartite negotiations among the Commission, EU Parliament and EU Council. A number of provisions are controversial, facing opposition from some quarters inside the Commission and Parliament, as well as in the private sector and among civil society organizations. In the ensuing negotiations, the amended requirements could be weakened, strengthened or otherwise modified. However, political and economic trends in the EU suggest that most requirements are not likely to be strengthened and some might be further relaxed.

The negotiations going forward will take place in the context of a broader EU agenda to streamline EU regulations, stimulated in part by a report, *The future of European competitiveness*, issued last September by former European Central Bank President Mario Draghi.^{vii} In January 2025, the Commission presented a new framework - the *Competitiveness Compass* – which builds on the Draghi report. The *Competitiveness Compass* focuses on three core areas of action: innovation, decarbonization and competitiveness, and security and resilience.

Simultaneously with the publication of Omnibus I, the Commission published its *Clean Industrial Deal*,^{viii} aimed at balancing the policy objectives of EU competitiveness and decarbonization, as well as its *Action Plan for Affordable Energy*, aiming to reduce the cost of energy for EU industrial consumers and citizens.^{ix} For further analysis, see our separate [Alert](#) on the *Clean Industrial Deal*.

ANNEX: OVERVIEW OF THE FOUR AMENDED INSTRUMENTS

CSRD: In force since July 2024, the CSRD amends the EU Reporting and the Audit Directives to require certain companies to disclose detailed information on their environmental and social impacts, including greenhouse gas emissions. In-scope companies are divided into four groups, with a staggered implementation. The first CSRD reports by Group 1-large companies are due in 2025.

EU Taxonomy: Environmental reporting under the CSRD is to be done in accordance with the Taxonomy Regulation. In force since 2020, it requires (among other things) that an economic activity must make a substantial contribution to at least one of four “overarching conditions” in order to qualify as “environmentally sustainable”: climate change mitigation, climate change adaptation, pollution prevention and control, and protection and restoration of biodiversity and ecosystems.

CBAM imposes a carbon price on imports into the EU for certain industrial goods. Currently in a reporting-only transitional phase, payment obligations under the CBAM are scheduled to take effect from 2026 (with CBAM declarations for 2026 due by 31 May 2027 and annually thereafter).

CSDDD: Adopted in July 2024, the CSDDD requires large EU companies, and non-EU companies with significant business in the EU, to carry out due diligence to identify and assess the human rights and environmental impacts of their operations and supply chains, prevent or remedy adverse impacts, and implement climate transition plans. EU Member States have until 2026 to transpose the CSDDD into national law. A first wave of large companies must meet CSDDD requirements beginning in 2027.

OTHER INSTRUMENTS: These instruments are complemented by other EU instruments on human rights and environmental sustainability.^x

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ⁱ https://finance.ec.europa.eu/publications/commission-simplifies-rules-sustainability-and-eu-investments-delivering-over-eu6-billion_en.

ⁱⁱ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32022L2464>.

ⁱⁱⁱ <https://eur-lex.europa.eu/eli/dir/2024/1760/oj>.

^{iv} <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32023R0956>.

^v <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32020R085.2>

^{vi} A January 2005 study by the Centre for Research on Multinational Corporations reports that the CSDDD will cover 4,280 corporate groups, of which around 3,400 are based in the EU. (<https://www.somo.nl/csddd-datahub-reveals-law-covers-fewer-than-3400-eu-based-corporate-groups/>.)

^{vii} https://commission.europa.eu/topics/eu-competitiveness/draghi-report_en.

^{viii} https://ec.europa.eu/commission/presscorner/detail/en/ip_25_550.

^{ix} https://ec.europa.eu/commission/presscorner/detail/en/ip_25_570.

^x The EU sustainability regime also includes, among others, the **Batteries Regulation** (<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32023R1542>), **Deforestation-free Regulation** (<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32023R1115&qid=1687867231461>), **Forced Labor Regulation** (https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:L_202403015), and **Conflict Minerals Regulation** (https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:L_202403015).

content/EN/TXT/PDF/?uri=OJ:L:2017:130:FULL). These are further supported by the energy and decarbonization focused legislation that was adopted under the European Green Deal.