NEW ZEALAND
FOREIGN AFFAIRS & TRADE
Manatū Aorere

MARCH 2025

The European Commission's ‘Omnibus’ proposal for cutting ‘green tape’

MARKET INTELLIGENCE REPORT

Summary

- The European Commission has released the first of a series of proposals, collectively known as the “omnibus” proposals, aimed at cutting “green tape”, reducing the regulatory and reporting burden for businesses, and stimulating EU competitiveness, while maintaining its climate and sustainability goals.

- This first omnibus proposal focuses on simplifying four EU regulations related to corporate sustainability reporting (CSR) and due diligence: the Framework to Facilitate Sustainable Investment (EU Taxonomy Regulation) (1); Corporate Sustainability Reporting Directive (CSRD); Corporate Sustainability Due Diligence Directive (CSDDD); and Carbon Border Adjustment Mechanism (CBAM).

- Taken together, the proposed measures are estimated to lead to a reduction in administrative costs of around €6.3 billion.

- If implemented in its current form, the omnibus proposal could exempt a range of New Zealand exporters and investors from CSR and due diligence requirements, directly or indirectly, in the form of reduced requests for sustainability-related data and impacts. Large businesses which remain in scope of the relevant frameworks may benefit from simplified compliance requirements.

- A potentially lengthy process of negotiation between the European Parliament and European Council (comprising the 27 EU Member States) will now begin to determine the final shape of the proposed changes.

Report

The European Commission's sustainability omnibus package is designed to cut "green tape" and reduce the administrative burden for businesses while balancing the EU's climate and sustainability goals. A part of the Commission's 2025 Work Programme, the proposal is part of its efforts to reduce the regulatory burden for businesses by at least 25%, including a 35% reduction for small and medium-sized enterprises (SMEs), by the end of the Commission's 2024–2029 mandate (2).

Six further omnibus packages addressing simplification in different policy areas have been announced including:

- EU investment pools;
- a new definition for small-mid caps;
- reporting under the Common Agricultural Policy;
- digital/AI policy; and
- wider EU environmental legislation.

Key Changes

Framework to Facilitate Sustainable Investment (EU Taxonomy)

- Reporting to be mandatory only for large companies with more than 1,000 employees and a turnover of up to €450 million. Those with more than 1,000 employees but less turnover would be able to report voluntarily.
- Simplified reporting templates and reducing the number of data points currently required by 70 percent.
- Exemption from the obligation of assessing EU Taxonomy alignment for financially-immaterial economic activities (those not exceeding 10 percent of total turnover, capital expenditure, or total assets).
- Subject to an open public consultation, potential simplification of the most complex aspects of the EU Taxonomy's "do no significant harm" criteria for pollution prevention and control related to the use and presence of chemicals.

The scope and implementation timelines under the Corporate Sustainability Reporting Directive (CSRD), and Corporate Sustainability Due Diligence Directive (CSDDD) are outlined in this report from October 2024.

The key proposed changes are summarized below.

Corporate Sustainability Reporting Directive CSRD)

- The number of economic operators in scope of reporting requirements would reduce by around 80%, applying only to EU businesses with more than 1000 employees and either a turnover above €50 million, or a balance sheet total above €25 million.
- Large companies and listed SMEs that have not started reporting but remain in scope would have an extra two years to prepare for compliance, with reporting requirements delayed until 2028.
- Non-EU companies which do business in the EU would still come under the CSRD in 2028 as originally planned, but the threshold for their participation would be raised from €150 million to €450 million net turnover in the EU.
- The Commission would be tasked with revising the European Sustainability Reporting Standards (ESRS) framework to substantially reduce the number of data points, provide clarity, and improve consistency with other EU legislation.

Corporate Sustainability Due Diligence Directive (CSDDD)

- Scale of supply chain due diligence assessment for in-scope companies limited to direct business partners.
- Reporting on a five-yearly basis, instead of annually.
- Civil liability provisions which allowed for a wide range of stakeholders to hold companies liable for breaches would be removed.
- Stakeholder consultation obligations would be limited to those most directly affected by businesses operations.
- Minimum financial penalties for breaches of 5% of global turnover would be removed, leaving it to EU Member States to propose appropriate penalties for breaches.
- Obligation to end business relationships with non-compliant business partners would be replaced with a softer obligation to create “enhanced prevention plans”, with termination of the relationship as a last resort.
- Business plans including a climate mitigation element would still need to be adopted, but no longer need to be implemented.
- Implementation would be delayed for large companies to 2028 (companies with over 5,000 employees and €1.5 billion in global net turnover, or non-EU companies with €1.5 billion net turnover within the EU).
- Phased implementation timelines for companies with smaller numbers of employees or turnover would remain the same.
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Significant amendments proposed to the EU’s Carbon Border Adjustment Mechanism (CBAM) are outlined in this report from January 2025.

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Implications for New Zealand

From here, the sustainability omnibus package will be submitted to the European Council and European Parliament to be considered and negotiated before being adopted. Although the Commission has invited the Council and Parliament to prioritise the package, it is likely to take months to make its way through to adoption.

As a first step, Council and Parliament are pushing forward with aspects of the omnibus package that would delay or 'stop the clock' on various obligations contained within the regulations within the omnibus. This is intended give those affected more time to prepare while Council and Parliament negotiate the more substantive changes proposed. As part of that process, this first package of simplification measures is likely to see several proposals changed, added, or removed entirely.

Irrespective of where the sustainability omnibus package lands, many large companies impacted by the original regulations have already been investing in their supply chain due diligence and business reporting practices as part of their own corporate sustainability targets.

New Zealand businesses and exporters should continue to consider both the commercial and regulatory demands, both in Europe and in markets with similar regulatory approaches, as part of their business plans and investments.

Further reading

- European Commission Press Release: Commission simplifies rules on sustainability and EU investments (including Q&A)
- European Council Press Release: Simplification: Council agrees position on the 'Stop-the-clock' mechanism to enhance EU competitiveness and provide legal certainty to businesses
- European Parliament: MEPs discussed Omnibus proposal and other plans with Commissioner McGrath

(1) The EU Taxonomy Regulation is a classification tool which helps define which economic activities qualify as environmentally sustainable.

(2) The proposal builds upon last year's Draghi Report, the November 2024 Budapest Declaration, and subsequent Competitiveness Compass.

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