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The EU's sustainability rollback is a retreat disguised as simplification

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The European Commission's 'Simplification Omnibus' proposal, unveiled on 26 February, was presented as a necessary step to reduce the regulatory burden on businesses and enhance European competitiveness. By amending key sustainability directives – including the Corporate Sustainability Reporting Directive (CSRD), the Corporate Sustainability Due Diligence Directive (CSDDD) and the EU Taxonomy Regulation – the Commission claims to be streamlining compliance processes for companies.

However, beneath the rhetoric of simplification lies a profound retreat from the EU's sustainability commitments. The proposal significantly weakens corporate transparency, accountability and long-term economic credibility, undermining years of progress in environmental, social and governance (ESG) regulation.

CSRD – gutting corporate transparency

One of the most alarming aspects of the proposal is the drastic narrowing of the CSRD. By raising the reporting threshold to 1 000 employees, the Commission is effectively exempting thousands of companies from disclosing their environmental and social impacts. This means that a vast segment of the European economy will no longer be held to the same sustainability standards, creating a two-tier system where only the very largest corporations are accountable, while mid-sized and even some large firms – many of which do have significant environmental footprints – escape scrutiny.

Moreover, the provision allowing SMEs to refuse data requests from larger companies dismantles the very essence of value-chain transparency. The EU had positioned itself as a leader in ESG reporting but this rollback directly undermines the ability of investors, regulators

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and consumers to make informed decisions. Instead of simplifying compliance, this measure incentivises opacity and weakens due diligence efforts across entire supply chains.

CSDDD – watered-down corporate due diligence

The CSDDD – already weakened during the normal legislative process – suffers even more in this proposal. Postponing its implementation to 2028 signals a clear de-prioritisation of responsible business conduct.

Even more troubling is the shift in due diligence obligations to focus only on direct suppliers, abandoning a broader risk-based approach. This is not just a weakening of corporate responsibility rules – it's a rollback before the CSDDD has even been transposed or applied. Companies that have been preparing for compliance now face regulatory uncertainty, undermining trust in the EU's policymaking process. This fundamentally guts the directive's purpose, as most environmental and human rights risks lie deeper within complex global supply chains.

In short, by reducing assessments to once every five years instead of annually, the Commission is giving companies a free pass to ignore abuses for extended periods.

This change is particularly striking given the EU's own rhetoric on corporate responsibility. At a time when forced labour, deforestation and environmental degradation are high on the international agenda, the decision to dilute mandatory due diligence reflects a regulatory retreat that's both morally and economically shortsighted.

The EU Taxonomy – a hollowed-out framework

The EU Taxonomy Regulation, meant to be the gold standard for sustainable finance, remains largely intact – but with an enormous loophole. Companies below EUR 450 million in annual revenue are no longer required to report on their sustainability efforts. Given that these firms account for over 80 % of previously obligated businesses, this is effectively dismantling the Taxonomy's applicability.

The practical consequence? A massive information gap for investors and financial institutions. Sustainable finance relies on comprehensive, comparable data, and by shrinking the reporting pool, the EU is undermining the very credibility of its green investment agenda.

At a time when global markets are demanding greater transparency and regulatory certainty, this move will likely make European companies less attractive.

A broader retreat under the guise of 'competitiveness'

The proposal's overarching narrative – reducing red tape to boost competitiveness – is fundamentally misleading. Sustainability reporting and due diligence aren't mere bureaucratic burdens; they're essential tools for risk management, financial stability and corporate

accountability. By prioritising short-term deregulatory wins, the Commission is ignoring the long-term economic and reputational damage of weakening ESG frameworks.

The proposal risks eroding the EU's global leadership in sustainable finance and corporate governance. It sends a dangerous signal that Europe is willing to sacrifice transparency for short-term business convenience, undermining its credibility in international negotiations on climate and corporate responsibility.

If the goal is to enhance European competitiveness, this is a fundamentally flawed approach – companies that operate in a regulatory vacuum today will face greater legal, reputational and financial risks tomorrow.

A missed opportunity for smarter reform

By diluting key sustainability directives, the Commission has not only weakened corporate accountability but also introduced greater regulatory uncertainty for businesses and investors. Exempting thousands of mid-sized firms from CSRD reporting doesn't simplify compliance – it removes crucial transparency mechanisms, making it harder for markets to assess risks and opportunities. Abruptly eliminating reporting obligations, rather than phasing them in with proportional requirements, forces companies to navigate an unpredictable policy landscape.

Similarly, the weakening of the CSDDD's risk-based due diligence approach doesn't ease business operations – it exposes companies to greater long-term liabilities. Without a structured framework to assess supply chain risks, firms are left without clear guidelines, increasing their exposure to reputational and legal consequences. Instead of abandoning comprehensive due diligence, the Commission could have provided sector-specific guidance and support mechanisms to help businesses comply effectively.

The decision to carve out over 80 % of firms from EU Taxonomy reporting does not enhance competitiveness – it creates an information vacuum. Investors and financial institutions depend on reliable, comparable data to make informed decisions and a drastically reduced reporting pool undermines the credibility of sustainable finance. A more effective approach would have introduced simplified disclosures for smaller businesses rather than removing reporting obligations altogether.

Regulatory simplification should not mean regulatory backtracking. By prioritising short-term deregulatory gains, the EU has weakened its leadership in sustainable finance and corporate governance. A more balanced approach – focused on advisory services, capacity-building and digital compliance tools – would have supported businesses while maintaining high ESG standards.

Instead of retreating, the Commission really should have refined and strengthened its sustainability framework, ensuring Europe remains a leader in responsible corporate governance at a time when global markets are demanding greater transparency and accountability.

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