

Traceability and Regulation March 2025

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Update on the European Regulatory Scene

The global political situation is creating a lot of uncertainty, with trade wars emerging. The regulatory environment is embroiled in this uncertainty, with the emphasis pointing towards business competitiveness and simplification, having been through a period of significant levels of development of regulations related to sustainability and due diligence. The Commission has therefore initiated a simplification process that they are calling Omnibus to pull together different regulations under one umbrella. This process means that the regulations will be opened up to amendments. I have highlighted the main proposals coming from the Commission. These will have to be voted on at the parliamentary level and agreed at Council level, which is expected to happen during April.

EU Omnibus Package: Key Regulatory Reforms

On February 26th 2025, the European Commission introduced the "Omnibus Package," aiming to simplify four major sustainability regulations: the CSRD (Corporate Sustainability Reporting Directive), CSDDD (Corporate Sustainability Due Diligence Directive), Carbon Border Adjustment Mechanism (CBAM), and EU Taxonomy. These rules have been criticised as overly complex, unclear, and burdensome for multinational companies, particularly those outside the EU. The proposal's goal is to reduce regulatory strain, especially for smaller businesses, and focus ESG requirements on larger companies with greater environmental impact.

What's in the Package?

The package consists of two proposals: one revises the regulations, the other delays compliance deadlines for the **CSRD** and **CSDDD**. It's still under review and subject to change as it progresses through the EU legislative process. However, it could significantly reduce the number of impacted companies, lessen reporting demands, and delay implementation timelines.

This is how each individual regulation is affected:

Corporate Sustainability Reporting Directive (CSRD)

Current Status: In force since 2023, with most EU countries having implemented it.

Proposed Omnibus Changes:

- **Higher thresholds:** Fewer companies would fall under the CSRD. The changes may cut affected businesses by 80%.
- **Large Undertakings:** Now only applies to EU entities with 1,000+ employees and either €50M+ turnover or €25M+ in assets.
- **Third-Country Undertakings:** Now applies only if EU turnover exceeds €450M and they have a large EU subsidiary or a branch with €50M+ turnover.
- **Delayed Reporting:** Wave II (large companies) reporting pushed from 2026 to 2028.
- **Simplified Value Chain Reporting:** Limited to suppliers with 1,000+ employees.
- **No Sector-Specific ESRS:** Dropping future plans for mandatory sector-specific standards and reducing required data points.
- **Double Materiality Remains:** Companies must still report both inward financial risk and outward environmental/social impacts.
- **Limited Assurance:** Stays in place indefinitely, avoiding the shift to reasonable assurance.

Corporate Sustainability Due Diligence Directive (CSDDD)

Current Status: In force since July 2024; first compliance wave was set for 2027.

Omnibus Changes:

- **Delayed Timeline:** Compliance begins in 2028 for larger firms (3,000+ employees, €900M+ turnover) and in 2029 for mid-sized firms (1,000+ employees, €450M+ turnover).
- **Narrower Scope:** Focuses only on direct suppliers; monitoring reports required every five years instead of annually.
- **Climate Plans:** No longer requires full implementation—only "implementing actions" are needed.
- **Civil Liability:** Removes minimum 5% penalty and allows member states to set their own rules, making enforcement more flexible but less consistent.

Other Regulatory Updates:

EU Taxonomy

- Only applies to companies with 1,000+ employees and €450M+ EU turnover.
- Reduces required data by ~70%.
- Activities under 10% of turnover/CapEx/assets exempt.
- Voluntary reporting encouraged for others.

Carbon Border Adjustment Mechanism (CBAM):

- **Timeline Shift:** Certification delayed to Feb 2027; reporting deadlines pushed to August 31.
- **Exemptions:** Goods under 50 tons/year exempt.
- **Easier Reporting:** Default use of standard emissions values allowed.
- **Third-Party Reporting:** Companies can appoint external declarants.
- **Carbon Pricing Offset:** EU to develop a scheme to account for carbon prices paid in other countries.

What else is going on?

As can be seen from the proposed Commission amendments, there is an attempt at a significant watering down of the regulations. There is also activity in the USA.

There is a draft bill in the USA that is *"To prohibit entities integral to the national interests of the United States from participating in any foreign sustainability due diligence regulation, including the Corporate Sustainability Due Diligence Directive of the European Union, and for other purposes."*

The draft states under section 2 c) that *"Maintaining and, in some cases, increasing access to certain supplies and materials from the extractive sector, including agriculture, energy, mining, and timber, and access to materials from the manufacturing sector, are critically important for promoting economic development and human progress in the United States and around the world"*.

It is considered that the draft bill will not get through and that it is more of a statement of intent for future trade negotiations with the European Union.

Threat to EUDR entry into application?

The feedback from the Commission is that there is no intention to re-open EUDR and that there have not been any requests by member states to do so but never say never!

The Commission intends to introduce further Omnibus initiatives so EUDR might get swept up in the future, but it appears that there is little appetite to amend EUDR again.

My money is on EUDR entering into application on 30th December 2025.