

# The Omnibus Simplification Package: Burden Release at the Cost of Transparency?

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## ABSTRACT

Sustainable development has become a global priority, and the EU has responded with an increasingly stringent and standardized regime to regulate corporate sustainability practices. However, these directives have also received criticism from both companies and member countries. To ease the burden of companies and increase competitiveness, the EU presents the Omnibus Simplification Package I in early 2025 which simplifies requirements in key sustainable directives.

This article examines current sustainable reporting challenge and predicts the possible effect of the EU Omnibus Simplification Package I. First, drawing on the sustainability reports of three large companies from different industries, I found that, under current strict sustainable directives, they have conducted practices to obscure their adverse performance. Second, though the implementation of simplification package can release corporate's burdens, its over-simplified provisions may exacerbate current reporting situation. Additionally, if the simplification package been implemented, companies may avoid their sustainable obligations through four predictable approaches: managing to stay below the threshold applicable, taking intense activity only near the assessment year, maintaining or even intensifying current practice to construct a green image and avoid penalty through litigation over "uneven" fines.

*Keywords: Omnibus Simplification Package, Over-simplified, Sustainability reporting, ESG, Regulatory capture*

## 1. Introduction

Given the commitment to global sustainable goals, the EU has long been engaging in sustainability regulation, evolving from early voluntary initiatives to more recent mandatory directives including NFRD, EU Taxonomy, CSRD and CSDDD, together with the introduction of unified ESRS reporting standard (CSRD) and more specified obligations in the aspect of greenwashing prevention and human right due diligence.

An increasing body of empirical research has produced relatively optimistic evidence regarding these reforms, suggesting that they have standardized corporate sustainability practices, such as Ottenstein et al. (2021) and Francesca et al. (2022) investigated firms from the EU and found that after the implementation of the NFRD, both the quantity and quality of corporate sustainability disclosures have increased. Also, based on transition period test from 2020 to 2022, Kosi & Relard (2024) found that the announcement and passing of the CSRD led to an enhancement disclosure practice of German companies which "originally under the NFRD". However, these previous studies tend to measure progress through indicators such as disclosure volume and formal quality which do not necessarily reflect whether the reports achieve effective transparency or whether these companies genuinely operate sustainably. For these reasons, a close, report-

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level analysis is crucial for assessing how companies actually report and what the existing challenges are.

In early 2025, the EU presented the Omnibus simplification package I in response to the high compliance burden (BusinessEurope, 2025) and worries from member countries (Kinderman, 2019). This includes simplification in CBAM, CSRD, EU Taxonomy and CSDDD. There is no denying that the simplification package carries certain positive implications at the policy level, at least in the short term, it may alleviate corporate compliance costs and institutional friction. This policy shift also raises a critical question: what will happen when complexity is reduced, scope of application is narrowed, and assurance requirements are weakened?

This article therefore aims to examine EU sustainable reporting challenge and predict the possible effect of the EU Omnibus Simplification Package I, specifically, whether it will exacerbate existing weaknesses in ESG reporting and how companies may respond under the new regime. The second section concerns the proposal background and key simplifications of the package regarding EU sustainable directives. Then the third section conducts case studies of three large EU companies: Danone, TotalEnergies SE, and the Volkswagen Group which are from different industries and found that, under current directives, they have conducted practices to obscure their adverse performance including use of misleading language to construct a sustainable corporate image, low reliability of data in sustainability reports and selective disclosure. The fourth section then analysis whether the simplification package will exacerbate such situation and use the regulatory capture to interpret. The fifth section predicts that if the simplification package been implemented, there are four possible ways that companies may use to avoid their obligations which are staying below the threshold applicable, take intense activity only near the assessment year, maintain or even intensify current practice to construct a green image and avoid penalty through litigation over "uneven" fines. Last, concludes.

## **2. Evolution of EU Omnibus Simplification Package I**

### **2.1 The Urgent Need for Regulatory Simplification**

Despite the positive role that current strict EU directives have on sustainable development, they also impose great pressure on companies. For instance, in current sustainable directives, companies in EU are not only mandated to disclose comprehensive non-financial data related to their own operations, but also bear responsibility for tracking, assessing, and reporting on the sustainability practices of their entire value chains, including upstream and downstream business partners. This significantly increases compliance complexity, leading to high financial costs and intensive consumption of human resources. A report by PwC highlights that fewer than half of companies are "fully confident" in their ability to meet the obligations outlined in the CSRD (PricewaterhouseCoopers, 2024). Additionally, a company been interviewed, as reported by Financial Times, estimates it has already spent \$18 million in the past three years on automating its carbon emissions data and expects to spend another \$50mn-\$60mn over the next three to five years to comply fully with the CSRD (Bounds, 2024). Such costs and efforts are particularly stressful for SMEs, which may lack the resources of larger companies to manage such extensive compliance requirements.

While these reports and concerns about EU sustainable directives were brought to debated intensively last year, relevant policy response arises early in 2023 when the European Commission launched the SME Relief Package, calling for simplifying administrative procedures and creating a more SME-friendly regulatory environment (European Commission, 2023). This agenda was reinforced in 2024 by Mario Draghi's "The Future of European Competitiveness" (Draghi, 2024) and Enrico Letta's "Much More Than a Market" (Letta, 2025), both of which argue that the EU's current regulatory framework has become excessively complex and fragmented, undermining the effectiveness and competitiveness of the single market, and therefore needs to be substantially simplified. In early 2025, BusinessEurope in its report "Reducing regulatory burden to restore the EU's competitive edge" translated this narrative into 68 concrete "improvement" proposals focused on disproportionate compliance costs (BusinessEurope, 2025).

## 2.2 Key Revisions in Omnibus Simplification Package I

In response, the EU parliament proposed the Omnibus simplification Package I in February 2025, aiming to achieve "25% reduction in administrative burdens for all businesses and 35% for SMEs by 2030" (European Commission, 2025). It simplifies the requirement of key sustainable directives including CSRD, the EU Taxonomy, the Carbon Adjustment Mechanism (CBAM) and CSDDD to ease the burden of companies, especially SMEs. For CSRD, the package narrows the application scope by only applying to "large undertakings with more than 1000 employees on average" thus estimated to "exempt around 80% of the companies". In addition to the scope change, the package reduces the number of data points for disclosure and removes sector-specific standard in ESRS. Additionally, it removes the requirement for reasonable assurance. For EU Taxonomy, the mandatory reporting requirements will only apply to large undertakings with "more than 1,000 employees and net turnover above EUR 450,000,000". And for "large undertakings with more than 1000 employees but a net turnover not exceeding EUR 450 million", it introduces opt-in regime that companies only claim their activities are aligned or partially aligned with the EU Taxonomy shall disclose their turnover and CapEx KPIs, and they are allowed to report on activities that meet certain Taxonomy technical screening criteria without meeting all of them. And for CSDDD, key changes in the package are: decreased the frequency of corporate assessment of due diligence measures from one year to five years, corporate due diligence obligation limited to their direct business partners instead of previous whole value chain and in case of adverse impact, companies now are not obligated to terminate business relationship as a last resort.

**Table 1:** Key simplifications concerning CSRD, Taxonomy and CSDDD

Directives	Key simplifications
CSRD	<ul style="list-style-type: none"> <li>• Narrows the application scope and estimated to "exempt around 80% of the companies": only apply to large undertakings with more than 1000 employees on average</li> <li>• Moving from a requirement for limited assurance to a requirement for reasonable assurance would be removed</li> <li>• Reduces the number of data points for disclosure and removes sector-</li> </ul>

	<p>specific standard in ESRS</p> <ul style="list-style-type: none"> <li>• "Opt-in" regime eliminates the cost of compliance with the Taxonomy reporting rules for companies with more than 1000 employees on average and a net turnover not exceeding EUR 450 million: only claim that their activities are aligned or partially aligned with the EU Taxonomy shall disclose their turnover and CapEx KPIs, they can choose to report OpEx KPIs</li> </ul>
EU Taxonomy	<ul style="list-style-type: none"> <li>• Default Exemption: mandatory reporting to optional reporting for companies "not exceed a net turnover of EUR 450 000 000"</li> <li>• Opt-in Disclosure: only claim that their activities are aligned or partially aligned with the EU Taxonomy shall disclose their turnover and CapEx KPIs, can choose to disclose regarding OpEx KPIs</li> <li>• Partial Alignment Reporting: allowing these undertakings to report on activities that meet certain Taxonomy technical screening criteria without meeting all of them</li> </ul>
CSDDDD	<ul style="list-style-type: none"> <li>• Monitor and in-depth assessments now limited to direct business partners</li> <li>• Increasing the period of assessment of the adequacy and effectiveness of due diligence measures from one year to five years</li> <li>• Remove the obligation to terminate business relationships as a last resort in case of adverse impact, allowing them to instead focus on engaging with suppliers to resolve issues</li> <li>• Remove the minimum cap on fines, allowing for more flexible and context-specific penalty determinations</li> </ul>

These simplifications have been deemed to release the burden of companies in EU and thus strengthen competitiveness. Though the package has not yet entered into force, the EU has already applied 'stop-the-clock' mechanism which postpones the dates of application of certain corporate sustainability reporting and due diligence requirements to boost EU competitiveness and provide legal certainty to businesses (European Council, 2025).

The sections below further analyses whether the Omnibus simplification Package I may potentially exacerbate the existing sustainable challenge through case studies.

### 3. Large EU Companies' ESG Reporting Practice Under Current Sustainable Directives

I have selected recent ESG report of three large companies in the EU which are Danone, TotalEnergies SE, and the Volkswagen Group to analysis their current ESG reporting practice. There are two reasons for such selection. First, all three companies are companies subject to the EU's sustainable reporting directive. Second, this selection encompasses three distinct high-emission sectors: Danone from the fast-moving consumer goods industry, TotalEnergies SE from the energy sector, and the Volkswagen Group from manufacturing, thereby facilitating a horizontal comparative analysis. The three companies are selected as illustrative, sector-diverse cases to examine reporting strategies under the EU's current sustainability reporting regime. While not statistically representative of all EU companies, these three cases are indicative, in a limited sense, of disclosure strategies that may plausibly arise among large companies in high-emission sectors under the current EU regime. Also, the empirical basis in this section is limited to

publicly available ESG reports and related disclosure materials (including internal assurance statements where available). As the analysis does not triangulate these disclosures with regulatory enforcement data and independent third-party audits, the findings should be read as an assessment of the evidentiary strength and external verifiability of disclosed claims, rather than as a direct assessment of companies' underlying internal governance realities or operational performance. While deep into the ESG report of these three companies, I found that:

### **3.1 Companies Use Misleading Language to Construct a Sustainable Corporate Image**

This typically manifests in two forms: one is present symbolic commitment rather than substantive change. As evident in ESG report of TotalEnergies SE, this company commitment to "achieve carbon neutrality together with society by 2050." (TotalEnergies SE, 2025, pg.18) However, there is a fundamental contradiction between this vision and the company's investment strategy as it "plans to grow its Oil & Gas production by around 3% per year over the next five years" and has approved multiple new oil and gas projects (e.g., in Suriname, Brazil, and Angola)." While the company justifies these new projects as "low-cost, low emission", (TotalEnergies SE, 2025, pg.16) any new fossil fuel investment will lock in carbon emissions for decades to come, fundamentally undermining its carbon neutrality goal. Similar practice can also be found in the Volkswagen Group's ESG report, particularly in the section claiming biodiversity improvements, which leans toward case-study narration rather than a coherent plan with objectives and KPIs. The biodiversity protection actions mentioned in the report are mostly scattered and isolated "site-specific" projects, such as building bug hotels, installing nest boxes, and planting flower meadows (Volkswagen Group, 2025, pg.324). However, despite these positive actions, there is "No specific targets for biodiversity and ecosystems were defined for 2024 at Group level" (Volkswagen Group, 2025, pg.319). Without measurable goals, the commitments will come across as empty, as there is no effective way to manage or track progress. To address such core issue of lacking quantifiable targets in its biodiversity management, Volkswagen did introduce the Biodiversity Land Use Indicator (BLI) in 2024 (Volkswagen Group, 2025, pg.321), while this indicator still has great limitations. Specifically, the BLI is an area-weighted calculation thus sites may quickly improve the BLI score by simply expanding green areas with low ecological quality, while its actual contribution to local species protection and ecosystem functions may be very limited. Additionally, the BLI primarily measures the "internal greening" of production sites, but the most significant impact of the automotive industry on biodiversity comes from emissions during the vehicle use phase, raw material extraction in the supply chain, and waste at the end of the product life cycle which BLI does not directly address. As a result, this indicator is prone to becoming a mere reporting item or "image project," rather than a management tool that drives substantial improvement.

Another form is using emotional content to dilute substantive information. Looking into ESG report of TotalEnergies SE, the core of its report revolves around its dual-pillar strategy, which are LNG (traditional oil and gas operations) and emerging electricity businesses (TotalEnergies SE, 2025, pg.16). However, the report almost entirely avoids depicting core scenes or pictures from its traditional oil and gas operations, such as

drilling rigs, large-scale refinery facilities, or flaring. Instead, it deliberately showcases initiatives like the Marsa LNG project in Oman (emphasizing its solar-powered operation), electric vehicle charging networks, and employees working in laboratories or using high-tech equipment (e.g., drones for methane monitoring), etc. The company does not conceal data but visually "manages" the reader's focus, shifting attention away from its current fossil fuel industry toward a narrative of an ongoing green transition. This approach may lead readers to underestimate the scale of its traditional business and downplay continued scrutiny of the core contradictions in its current operations.

Crucially, these effects are not driven solely by corporate intent, they are also consistent with structural reporting incentives created by EU regulatory architecture. For instance, under the ESRS framework, companies must conduct a materiality assessment based on double materiality and determine the topics and depth of disclosure accordingly. This process inevitably relies on management judgement and interpretation, which encourages companies to organize disclosures into a more internally coherent narrative. Moreover, the CSRD introduces a mandatory limited assurance requirement, with the possibility of moving towards reasonable assurance in the future. As a result, companies may be more inclined to foreground content with clearer, traceable, and readily demonstrable evidence trails (the BLI illustrates a proxy indicator that can be assured yet may not equate to substantive improvement; similarly, the "laboratory/charging network/green project" visuals highlighted in TotalEnergies' report are more readily turned into demonstrable compliance materials and therefore tend to be repeatedly used and positioned as narrative focal points).

### **3.2 Low Reliability of Data in Sustainability Reports**

The "reliability" is used here in the evidentiary sense for external assessment, referring to whether reported data are sufficiently transparent and externally verifiable based on what is disclosed. In this regard, the reliability of certain data used in the ESG report of TotalEnergies SE and Danone remain questionable.

First, TotalEnergies SE innovatively introduces the concept of "Scope 4 emissions" (Enabled Emissions Reductions), claiming that its LNG sales helped customers reduce approximately 65 million tonnes of CO<sub>2</sub>e in 2024 (TotalEnergies SE, 2025, pg.62). However, "Scope 4" is not an internationally recognized standard (such as the GHG Protocol) but a company-defined metric. Also, this calculation is entirely based on a counterfactual assumption, specifically, that if customers did not use TotalEnergies' LNG, they would instead use coal or fuel oil for power generation (TotalEnergies SE, 2025, pg.108). This attribution is highly subjective and unverifiable. Customers' actual alternative may not necessarily be coal or fuel oil but other natural gas suppliers, renewable energy sources, or energy efficiency measures. By uniformly setting the alternative as the highest-carbon option, the company maximizes its claimed "emission reduction contribution," likely overstating its real impact. Furthermore, the emission reduction is calculated through the formula: (Emission Factor of Coal/Fuel Oil - Emission Factor of Natural Gas) × LNG Sales Volume, where the emission factors for coal, natural gas, oil, and other energy sources are primarily referenced from international agencies (e.g., the IEA). These factors represent industry averages and cannot reflect the actual emission levels of specific power

plants or projects. As a result, the calculated outcomes may deviate substantially from actual conditions.

A similar concern regarding data reliability can be observed in Danone's reporting practice. Danone positions climate change (e.g., methane emission reduction and net-zero targets) as a priority and highlight in its report (Danone, 2024, pg.29-31). However, according to its 2024 Universal Registration Document, key data supporting these commitments were not subject to the same rigorous "reasonable assurance" as its financial data, receiving only the lower level of "limited assurance" which "procedures performed are less in extent than for, a reasonable assurance engagement." Thus "consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement." (Danone, 2024)

### 3.3 Selective Disclosure

This is particularly evident in Volkswagen's ESG report.

**Table 2:** Volkswagen's revenue structure in its ESG report (Volkswagen Group, 2025, pg.353)

#### SALES REVENUE 2024

	SALES REVENUE		SUBSTANTIAL CONTRIBUTION TO CLIMATE CHANGE MITIGATION		COMPLIANCE WITH DNSH CRITERIA	COMPLIANCE WITH MINIMUM SAFE-GUARDS	TAXONOMY-ALIGNED SALES REVENUE	
	€ million	% <sup>1</sup>	€ million	% <sup>1</sup>	Y/N	Y/N	€ million	% <sup>1</sup>
Economic activities								
<b>A. Taxonomy-eligible activities</b>	<b>296,215</b>	<b>91.2</b>	<b>38,627</b>	<b>11.9</b>	<b>Y/N</b>	<b>Y</b>	<b>24,104</b>	<b>7.4</b>
<b>Vehicle-related business</b>								
3.3 Manufacture of low-carbon technologies for transport	292,685	90.2	38,309	11.8	Y/N	Y	24,104	7.4
3.18 Manufacture of automotive and mobility components	182	0.1	182	0.1	N	Y	-	-
<b>Power Engineering</b>								
3.2 Manufacture of equipment for the production and use of hydrogen	34	0.0	34	0.0	N	Y	-	-
3.6 Manufacture of other low-carbon technologies	3,237	1.0	102	0.0	N	Y	-	-
9.1 Close to market research, development and innovation	76	0.0	-	-	-	-	-	-
<b>B. Taxonomy-non-eligible activities</b>	<b>28,441</b>	<b>8.8</b>						
<b>Total (A + B)</b>	<b>324,656</b>							

1. All percentages relate to the Group's total sales revenue.

Table 2 presents Volkswagen's revenue structure as reported in its 2024 ESG Report, which serves as the basis for the subsequent analysis. As seen in the table, €296.2 billion (representing 91.2% of total revenue) was classified as Taxonomy-eligible (which mostly constructed by category 3.3, take up 90.2%). By highlighting this very high eligible share, the report creates a distinct "green" impression. In contrast, although it also discloses that 7.4% of revenue is Taxonomy-aligned, this figure is not further explained, and the report does not explicitly state that most of the revenue is not aligned.

The underlying classification further illustrates this problem. On page 347, the report clarifies that category 3.3 includes "all activities in our vehicle-related business..."

irrespective of their powertrain technology, " thereby covering BEVs, PHEVs and ICE vehicles and granting them Taxonomy-eligible status as "low-carbon technologies." However, passing from eligibility to alignment requires compliance with DNSH criteria, which ICE vehicles are unlikely to meet due to inherent tailpipe emissions and higher use of substances of very high concern (SVHC). Therefore, the 7.4% Taxonomy-aligned revenue is predominantly attributable to BEVs, implying that 82.7% ((292,685-24,104)/324,656) of the revenue (primarily generated from ICEs) does not comply with the taxonomy.

TotalEnergies SE also has similar problems. Rather than presenting a full accounting of its climate impact, the company strategically emphasizes intensity-based indicators. For example, as its ESG reports emphasize that the "ongoing reduction efforts have made it possible to reduce the Scope 1+2 intensity of our Upstream Oil & Gas operated assets, from 21 kg CO<sub>2</sub> e/boe in 2015 to 17 kg CO<sub>2</sub> e/ boe in 2024" (TotalEnergies SE, 2025, pg.17). While this approach highlights operational efficiency improvements, intensity metrics alone do not capture the company's total contribution to climate change, which is determined by the absolute volume of greenhouse gases (intensity\*production) released into the atmosphere. If TotalEnergies' total oil and gas production increases substantially during the same period, as outlined in its strategy which targets 3% annual production growth through 2030 (TotalEnergies SE, 2025, pg.16), then even with reduced emission intensity, its total carbon emissions could remain stable or even increase.

Similarly, Danone's ESG report emphasizes achievements while obscuring, or inadequately explaining underperforming projects and significant challenges. For example, regarding plastic packaging reduction, given the aim to "Halve the use of virgin fossil-based packaging by 2040, with a 30% reduction by 2030, accelerating reuse and recycled materials", only 8% had been achieved until 2024, which already over one-third of the timeline, indicating significantly lagging progress (Danone, 2024, pg.17). However, in presenting the data, Danone deliberately incorporates a comparison with the 2019 baseline (17%) and the progress from 2023 to 2024 (5%), alongside extensive mentions of successful plastic reduction actions taken in 2024 (Danone, 2024, pg.33-34). This framing guides readers to form a more optimistic impression than the overall data would support. Yet, the core fact remains: the overall progress of 8% over four years is unacceptably slow, and the report offers no explanation or risk assessment regarding this significant delay.

These three companies do not conceal unfavorable figures; instead, they engage in selective disclosure by prominently highlighting positive indicators while providing little narrative explanation of material misalignment or underperformance against long-term sustainability targets.

#### **4. From Strict Directives to Simplification: Will the Omnibus Exacerbate Existing Practical Problems?**

As far as I'm concerned, although the simplification package aims to reduce corporate burdens to strengthen competitiveness, its provisions may exacerbate the existing problems outlined in Part III due to excessive simplification. The analysis in this

section grounded in regulatory capture theory (Levine & Forrence, 1990, pg.169), by tracing concentrated private benefits (Section 4.1), influence pathways in rulemaking (Section 4.2), and the resulting distribution of costs and risks (Section 4.3), it explains why the regulatory reform may prioritize corporate interests and thereby exacerbate existing disclosure problems in Part III (see Table 3). The predicted corporate-level avoidance pathways that follow these regulatory changes are elaborated in Section 5.

#### 4.1 Regulatory Change Driven by Concentrated Interests

Regulatory capture theory emphasizes that changes in regulation are often driven by concentrated private benefits. In this regard, provisions in the simplification package are clear manifestations of this characteristic.

Concretely, the scope of CSRD application is significantly narrowed, predicted to exempt approximately 80% of companies, while a voluntary "opt-in" regime is established for the remaining entities (companies with more than 1000 employees on average and a net turnover not exceeding EUR 450 million). This implies that a vast number of enterprises will be exempt from any disclosure obligations. Furthermore, the simplified CSDDD reduces the scope of value chain due diligence from indirect business partners to direct partners thus companies can easily avoid reporting deep-rooted environmental and social issues in their supply chains by simply stating that these originated from their indirect partners that outside their monitored network. By confining mandatory disclosure to a relatively small group of large firms and restricting reporting to direct partners, regulators effectively convert the robust supervisory instrument into a partially optional, self-selecting transparency mechanism. Future research could exploit whether companies close to the thresholds exhibit drops in disclosure coverage, datapoint completeness, or assurance uptake relative to companies slightly above the thresholds.

Second, the requirement for reasonable assurance been removed implies that auditors face greater difficulty and have less incentive to detect data errors. Meanwhile, extending the period for assessing the effectiveness of due diligence measures from one year to five years means that problems within a company's internal data collection and governance systems can remain hidden for a much longer period before being systematically examined. These two simplifications directly reduce both the external supervisory pressure and internal management pressure concerning data reliability. When companies know that the scrutiny of their data will be less intense and less frequent, their motivation to invest resources in building effective data collection and management systems will also diminish. This can be tested in future studies by conducting pre- and post-reform comparisons to see whether weaker assurance requirements are associated with reduced verifiability of reported sustainability data. Such change could be operationalized using observable signatures like (i) greater volatility and reduced time-consistency in key indicators, (ii) a higher incidence of missing, revised, or otherwise corrected datapoints, and (iii) a wider gap between disclosed metrics and externally observable benchmarks where available.

Additionally, the simplification package has removed sector-specific standard in ESRS. However, core risks vary significantly across industries (e.g., water consumption in mining vs. data privacy risks in tech) and generic standards fail to accurately capture industry-specific risks, leading companies to persist in selective disclosure and avoid

addressing key issues. For instance, under a generic ESRS, the fashion industry might not be required to disclose detailed data on "water pollution from textile dyes in the supply chain" which is a core environmental risk for the sector. Brands may only issue vague statements like "committed to reducing water pollution" without specific metrics. Similarly, in the tech sector, without industry-specific standards, companies might avoid disclosing "data center energy consumption as a percentage of revenue". Consequently, the picture presented to the public and investors will possibly be a carefully crafted version of sustainability with material adverse impacts being excluded. This can be further assessed through sector-focused studies, examining whether the removal of sector-specific standards leads to lower coverage and completeness of industry-material datapoints that reflect sector-specific risk. For instance, constructing sector "materiality checklists" and comparing pre- and post-reform disclosure rates, quantification depth, and evidence traceability for those datapoints.

These simplifications above directly respond to complaints of large companies and Business groups concerning corporate competitive disadvantages and administrative burden.

#### **4.2 Business Group Report and Academic Articles Influence Rulemaking**

Firstly, even before the proposal was formally introduced, business groups had publicly released policy recommendation documents to set the tone for "burden reduction." For instance, BusinessEurope issued a report "Reducing Regulatory Burden to Restore the EU's Competitive Edge" in January 2025 which explicitly put forward 68 improvement proposals, with its core argument being that the current "complexity" and "disproportionate costs" of sustainability rules are impairing corporate competitiveness. Looking into current Omnibus provisions, there can be found that many of them comply with the report's suggestions, including narrow application scope (BusinessEurope, 2025, pg.19-20), opt-in regime (BusinessEurope, 2025, pg.21), decrease data points and removal of sector-specific disclosure (BusinessEurope, 2025, pg.23), etc.

Secondly, before the adoption of Omnibus Simplification Package I, a substantial body of academic articles and expert opinions also align with corporate positions, expressing negative attitude towards EU sustainable directives thus shaping a public narrative that "simplification is economically necessary and justified." For instance, O'Reilly S (2024) notes that under CSRD, SMEs will face indirect pressure from larger companies in supply chains thus enlarging their reporting burden. Hainz et al. (2021), Allgeier and Feldmann (2023) also holds similar view that although reporting obligations primarily target large enterprises, it would lead to a disproportionate burden if SMEs in their supply chains are also required to provide sustainability data. The study of Hainz et al. (2021) further recommends that policymakers should support SMEs by setting enterprise size thresholds or providing cost compensation.

#### **4.3 Business Gain Benefit While Exacerbating Sustainable Greenwashing**

The outcome of the Omnibus Simplification Package seems to benefit companies while exacerbating existing sustainable greenwashing.

Firstly, the most significant corporate benefit will be a substantial reduction in compliance costs. For instance, fewer data points mean less data collection and accounting

costs and simplified third-party independent assurance requirements lead to lower expenditures on audit and consultancy services. Secondly, the simplifications altogether create a less risky environment for sustainable greenwashing. This not only fails to resolve the profound issues illustrated in the earlier cases but legitimizes them. Furthermore, some of the behaviors are further shielded by revised penalty clauses in CSDDD. The removal of the minimum fine may signal to businesses that violating the CSDDD may not have "serious consequences." This might incentivize some companies to cut corners on compliance, opting to "gamble" with enforcement. And the shift to a more flexible and context-specific penalty mechanism is likely to facilitate "regulatory arbitrage," where companies tend to establish their headquarters or primary operations in jurisdictions with less stringent sanctions, thereby undermining a level playing field within the single market. For instance, a fine that could bankrupt a company in Country A might amount to only a minor sanction in Country B.

These foreseeable outcomes perfectly illustrate the final stage of regulatory capture theory: while rules persist in form, their substance has become tools of "paper compliance" serving special interests. Companies will benefit from lower compliance costs (concentrated private gains) and less risky greenwashing, while the public, investors, and the EU's broader green transition progress will bear the costs of diminished transparency and regulatory effectiveness.

**Table 3:** Comparison of regulatory capture theory and the Omnibus Package

	Regulatory capture	Omnibus Simplification Package I
Incentive	concentrated private benefits and diffuse public costs	<ul style="list-style-type: none"> <li>For companies: reduce the cost of capital and diminished regulatory risk</li> <li>For general public and investors: increasing negative environmental and human rights impacts; greater difficulty in accessing timely and reliable corporate sustainability data</li> </ul>
Pathway	Corporate lobbying (direct and influence academic articles)	<ul style="list-style-type: none"> <li>Business group report: "Reducing Regulatory Burden to Restore the EU's Competitive Edge" put forward 68 improvement proposals</li> <li>Academic articles before adoption of Omnibus note SMEs will face indirect pressure: O'Reilly S. (2024) SMEs face green reporting challenge; Hainz C, Wackerbauer J, Stitteneder T (2021) Economic Policy Goals of the Sustainable Finance Approach: Challenges for SMEs; Allgeier S, Feldmann R (2023) CSRD Sustainability Reporting For Non-listed SMEs: European Regulators Remain Challenged.</li> </ul>
Forecast consequences	Industry profit increase; weak enforcement under stringent rules; paper compliance	<ul style="list-style-type: none"> <li>Reduction in compliance costs</li> <li>A less risky environment for sustainable greenwashing and legitimate tools to craft a "green" image</li> <li>Companies sue for uneven fines to obtain reductions or cancellations of penalties</li> </ul>

Hanley et al. (2023) emphasis that burden release should "reduce the burden" while preserving the regulation's effectiveness. However, I think Omnibus may go far

beyond "simplification". Instead, it unjustifiably eliminates the core requirements that were originally considered essential to the EU's sustainability regime.

## **5. Assessing the Way Forward**

This section outlines four possible avoidance pathways that may be observed after the implementation of the Omnibus. Their prevalence and effects remain empirical questions that future post-implementation studies can test using the strategies outlined in section 4.1.

### **5.1 Avoid Reporting Obligations by Staying Below the Threshold Applicable**

Regarding simplification to CSRD, which will only apply to "large undertakings with more than 1000 employees on average (i.e. undertakings that have more than 1000 employees and either a turnover above EUR 50 million or a balance sheet above EUR 25 million)," some large companies may consider restructuring strategies to avoid falling into scope of CSRD. This can be practiced through two aspects. First, cut the number of employees to fall below 1000. For example, by outsourcing or subcontracting functions so that staff are not directly employed, thereby reducing the headcount of the undertaking. Second, control or reduce net turnover. For instance, as Stubben (2010) and Hugger (2024) noted, timing of revenue recognition is a relatively common instrument for revenue management. In this case, companies may delay recognition of some revenue to reduce its reported revenue in the short term and thus stay under the threshold. Similar practice can be found in the research of Felix Hugger (2024) which demonstrates that some firms managing their revenues to stay below the threshold by delaying revenue growth in order to avoid mandatory country-by-country reporting (CbCR).

### **5.2 Take Intense Activity Only Near the Assessment Year**

The simplification package has prolonged the mandatory period for assessing the adequacy and effectiveness of due diligence measures from one year to five years. When regulators only look at a few snapshots, firms have incentives to "clean up right before the photo is taken" and five-year period allows far greater room for such manipulation. For instance, companies can reduce substantive efforts during the first four years and then, in the fifth year (just before the assessment deadline), "package" their achievements by selective actions. For instance, companies may hire third-party auditors to conduct surprise audits of a small number of carefully selected, relatively low-risk or easily controllable direct suppliers. Or they might report only the improved data from the assessment year, deliberately avoiding comparison with the poor performance of previous years. For environmental and some human-rights harms, as the assessment nears, they may fund offsets, donations, or short-term remediation projects that are cheaper and more visible than changing core operations, while presenting in the assessment as evidence that "adverse impacts are being addressed". Similar practice can be found in research of Parise & Rubin (2025), which shows that ESG funds temporarily increase their ESG exposure just before portfolio disclosure dates and then revert afterwards, purely because holdings are only disclosed quarterly.

The consequences of a five-year assessment cycle are therefore severe. Firstly, it would possibly lead to a significant decline in response speed to supply chain risks in daily operations and due diligence would degenerate from a core management function into a periodic compliance task to be fulfilled. Secondly, over such an extended period, key personnel may leave, internal records may become incomplete, and commercial relationships within the supply chain may have changed. When companies begin preparations for the assessment in the fourth year, they may find it impossible to effectively trace and verify events and data from previous years, rendering the assessment itself a mere formality that fails to reflect the actual situation.

### **5.3 Continue Using Earlier Green-Image Practices**

Under the Omnibus Simplification Package I, several regulatory relaxations collectively create an environment in which companies may find it easier and less risky to continue relying on practices already observed under earlier, stricter directives.

Firstly, by elimination of sector-specific reporting standards in ESRS, companies may shift their disclosure content from "substantive information that reveals core industry risks" to "generic information," thereby escaping accountability.

Secondly, under the opt-in regime, companies may avoid Taxonomy reporting entirely by simply not "opt in" or disclose only a few "showcase" activities as partially aligned (partial alignment allowed), creating opportunities for companies like The Volkswagen Group to only disclose Taxonomy aligned business which is BEVs while obscure the fact that the overwhelming majority of their revenue is generated by non-aligned activities.

Thirdly, as the simplification removes the "reasonable assurance" requirement, companies will input less resources for data quality and management systems, increasingly relying on estimations, sampling, and industry-average data. They may also downsize specialized teams responsible for sustainability data management, shifting their focus from pursuing reliable ESG reporting to "maintaining compliance at the lowest cost."

### **5.4 Reduce or Avoid Penalty Through Litigation Over "Uneven" Fines**

The simplification of the CSDDD penalty regime removes the minimum cap on fines and allows for more flexible and context-specific penalty determinations. While the intention is to ensure "proportionality," it is likely to generate uneven and less predictable sanction levels across member states. In such a discretionary framework, companies will have stronger incentives to challenge fines they perceive as excessive or inconsistent with sanctions imposed in other jurisdictions. This is more likely to occur in jurisdictions with weak enforcement resources, where companies may consequently obtain reductions or cancellations of penalties, so the real deterrent effect shrinks.

## **6. Conclusion**

Having received complaints and criticism from both companies and member states for the heavy cost and complex rules of current sustainable directives, the EU presents the Omnibus Simplification Package I in early 2025 aiming to reduce the burden

and increase competitiveness. However, looking into the simplification provisions, I'm skeptical of whether the proposal complies with the regulatory capture thus the implementation of the package will exacerbate the current reporting situation. This paper examines current sustainable reporting challenge and predicts the possible effect of Omnibus Simplification Package I, finding that:

First, the case studies suggest that even under the current, relatively stringent EU sustainability directives, companies can still strategically obscure adverse aspects of their performance. An in-depth analysis of the ESG reports of TotalEnergies SE, Volkswagen Group and Danone reveal three patterns they use to obscure adverse performance. Firstly, TotalEnergies and Volkswagen rely on narrative framing to construct a sustainable image. Secondly, TotalEnergies SE and Danone provide low reliable reporting data: based on a counterfactual assumption, TotalEnergies SE maximizes its claimed "emission reduction contribution," and Danone positions climate change as a priority while key data supporting the commitment receiving only the lower level of "limited assurance". Finally, all three reports exhibit selective disclosure which tend to emphasize achievements while obscuring or inadequately explaining underperforming projects and significant challenges.

Second, the Omnibus Simplification Package I cannot settle the greenwashing currently observed nor restrain these practices. Instead, its over-simplified provisions may exacerbate the situation. This can be interpreted through the regulatory capture theory: the current simplification provisions directly respond to complaints of large companies and Business groups concerning corporate competitive disadvantages and administrative burden; the simplification package highly comply with the suggestions in report by BusinessEurope, and a large amount of academic articles published prior to the adoption align with corporate positions; companies are predicted to benefit from lower compliance costs and less risky greenwashing, while the public, investors, and the EU's broader green transition progress will bear the costs of diminished transparency and regulatory effectiveness.

Third, companies are predicted to avoid their sustainability obligations under this new package. Firstly, given the revised applicable threshold, large companies may consider restructuring strategies to avoid falling into scope of CSRD thus avoiding their reporting obligations. This can be achieved through cutting the number of employees or reducing net turnover. Secondly, with the prolonged mandatory period for assessing due diligence measures, companies can reduce substantive efforts during the first four years and then, in the fifth year (just before the assessment deadline), "package" their achievements by selective actions, leading due diligence transition from a core management function into a periodic compliance task to be fulfilled. Thirdly, companies are more likely to continue or even intensify relying on green-image practices as they previously did to construct a sustainable image under the more flexible and less risky regulations. Additionally, they may challenge uneven penalties in jurisdictions with weaker enforcement to avoid or reduce their penalties.

Overall, while the Omnibus is intended to ease corporate compliance burdens, if implemented without appropriate safeguards, such simplification would risk undermining transparency. Policymakers should therefore embed robust anti-greenwashing measures or independent verification requirements into the package's implementation to ensure that burden reduction does not come at the cost of disclosure transparency.

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