POLICY BRIEF

Towards a Balanced Omnibus Proposal

Simplifying the CSDDD and CSRD While Upholding Human Rights and Environmental Standards

Paul Healy, Juliane Bing, Finn Robin Schufft, Eva Kleemann

GERMANWATCH

Executive Summary

The **Corporate Sustainability Due Diligence Directive (CSDDD)** and the **Corporate Sustainability Reporting Directive (CSRD)** are central pillars of the EU's Green Deal, designed to ensure responsible business conduct, strengthen corporate accountability, provide reliable sustainability information for markets and stakeholders, and promote the protection of human rights and the environment in global supply chains. However, current Omnibus 'simplification' proposals risk undermining their effectiveness by prioritising deregulatory cuts rather than meaningful simplification. This policy brief argues that **meaningful simplification** is both possible and necessary: improving coherence, reducing complexity, and easing compliance without weakening human rights and environmental protections. Based on a comparative analysis of proposals by the European Commission, Council, and Parliament, the brief identifies where simplification strengthens effectiveness and where it constitutes harmful deregulation.

The policy brief makes the following recommendations:

CSDDD & CSRD:

- **Scope:** Restricting scope would significantly weaken protections for human rights, the environment, and the transparency of sustainability disclosures. The current scopes of both Directives should be maintained.
- **Value chain cap and information requests:** The existing safeguards in the European Sustainability Reporting Standards (ESRS) already prevent disproportionate supplier requests. Replacing them with weaker standards (VSME) risks data loss without simplification.
- **Legislative coherence:** Coherence should be strengthened by harmonising definitions and aligning risk-based and materiality-based approaches. Climate transition plans and harmonised guidance across the CSDDD and CSRD should be maintained.
- **Accompanying measures:** The Commission should establish a single helpdesk that provides integrated guidance on all relevant Green Deal and business & human rights legislation. Joint implementing guidelines should be adopted to clarify interoperability between legislative measures.

CSRD:

- **Mid-caps:** Mid-sized companies (250–750 employees) should be granted either a two-year extension of the 'quick fix' phase-in provisions or a simplified, mandatory ESRS-compatible standard. This would provide genuine breathing space for mid-caps while preserving the integrity of the reporting regime.
- **Assurance.** Mid-caps should remain under limited assurance, while large companies (>750 employees) transition from limited to reasonable assurance in stages. A clear timeline for assurance guidance and standards is essential for predictability and an eventual transition to verified data.

CSDDD:

- **Risk-based approach:** A clear risk-based approach across the entire value chain should be maintained. Limiting due diligence to direct suppliers risks more bureaucracy and less effectiveness.
- **Civil liability:** Removing the EU-wide harmonised regime and overriding mandatory provision would fragment liability into 27 national regimes, creating access-to-justice barriers for victims and legal uncertainty for companies. The harmonised liability regime must be preserved.
- **Stakeholder engagement:** Removing civil society from meaningful stakeholder engagement undermines effective risk identification. Engagement duties should explicitly include CSOs and apply when business relationships are suspended or terminated.
- **Simplification for SMEs:** To avoid abusive practices, the CSDDD should ban unfair cascading of obligations, require legal justification for supplier information requests, and support a shared EU database for sustainability information.

Zusammenfassung

Die **europäische Lieferkettenrichtlinie (CSDDD)** und die **Richtlinie über die Nachhaltigkeitsberichterstattung von Unternehmen (CSRD)** sind zentrale Säulen des Green Deal der EU. Sie sollen verantwortungsbewusstes unternehmerisches Handeln gewährleisten, die Rechenschaftspflicht von Unternehmen stärken, zuverlässige Nachhaltigkeitsinformationen für Märkte und Interessengruppen bereitstellen und den Schutz der Menschenrechte und der Umwelt in globalen Lieferketten fördern. Die aktuellen „Vereinfachungsvorschläge" könnten jedoch ihre Wirksamkeit untergraben, da sie eher auf Deregulierungsmaßnahmen als auf eine sinnvolle Vereinfachung abzielen. In diesem Policy Brief wird argumentiert, dass eine **sinnvolle Vereinfachung** sowohl möglich als auch notwendig ist: Verbesserung der Kohärenz, Verringerung der Komplexität und Erleichterung der Einhaltung von Vorschriften, ohne die Menschenrechte und den Umweltschutz zu schwächen.

Der Policy Brief enthält die folgenden Empfehlungen:

CSDDD & CSRD:

• **Anwendungsbereich:** Eine Einschränkung des Anwendungsbereichs würde den Schutz der Menschenrechte, der Umwelt und die Transparenz der Nachhaltigkeitsberichterstattung erheblich schwächen. Der derzeitige Geltungsbereich beider Richtlinien sollte beibehalten werden.
• **Value Chain Cap und Informationsabfragen**: Die bestehenden ESRS/LSME-Sicherheitsvorkehrungen verhindern bereits unverhältnismäßige Anfragen an Zulieferer. Ihre Ersetzung durch schwächere Standards (VSME) birgt die Gefahr von Datenverlusten ohne Vereinfachung.
• **Kohärenz**: Die Kohärenz zwischen der CSRD und CSDDD sollte durch die Harmonisierung von Definitionen und die Angleichung risikobasierter und materialitätsbasierter Ansätze gestärkt werden. Die Klimawandelpläne und harmonisierten Leitlinien im Rahmen der CSDDD und CSRD sollten beibehalten werden.
• **Begleitmaßnahmen:** Die Kommission sollte eine zentrale Anlaufstelle einrichten, die integrierte Leitlinien zu allen relevanten Rechtsvorschriften im Zusammenhang mit dem Green Deal und Wirtschaft und Menschenrechten bereitstellt. Es sollten gemeinsame Leitlinien für die Umsetzung verabschiedet werden, um die Interoperabilität zwischen den Rechtsvorschriften zu klären.

CSRD:

• **Mid-Cap-Unternehmen:** Mittelständische Unternehmen sollten von einer zweijährigen Verlängerung oder einer vereinfachten ESRS-kompatiblen Regelung profitieren, um den Übergang zu erleichtern und gleichzeitig die Qualität der Berichterstattung zu gewährleisten.
• **Assuranceniveau:** Mid-Cap-Unternehmen sollten weiterhin einer begrenzten Sicherheit unterliegen, und für große Unternehmen sollte ein schrittweiser Übergang von einer begrenzten zu einer hinreichenden Sicherheit mit einem klaren Zeitplan und Leitlinien ermöglicht werden.

CSDDD:

• **Risikobasierter Ansatz:** Ein klarer risikobasierter Ansatz über die gesamte Wertschöpfungskette hinweg sollte beibehalten werden. Die Beschränkung der Sorgfaltspflicht auf direkte Zulieferer birgt die Gefahr von mehr Bürokratie und weniger Effektivität.
• **Zivilrechtliche Haftung:** Die Abschaffung des EU-weit harmonisierten Systems und der Eingriffsnorm würde 27 nationale Haftungsregime schaffen, was für Betroffene Hindernisse beim Zugang zu Recht und für die Unternehmen Rechtsunsicherheit mit sich bringen würde. Das harmonisierte Haftungsregime sollte daher beibehalten werden.
• **Einbeziehung von Interessengruppen:** Die Ausklammerung der Zivilgesellschaft aus einer sinnvollen Einbeziehung von Interessengruppen untergräbt eine wirksame Risikoerkennung. Die Einbeziehungspflichten sollten ausdrücklich zivilgesellschaftliche Organisationen einschließen und auch dann gelten, wenn Geschäftsbeziehungen ausgesetzt oder beendet werden.
• **Vereinfachungen für KMU:** Um missbräuchliche Praktiken zu vermeiden, sollte die CSDDD eine unfaire Kaskadierung von Verpflichtungen verbieten, eine rechtliche Begründung für Auskunftsersuche an Lieferanten vorschreiben und eine gemeinsame EU-Datenbank für Nachhaltigkeitsinformationen unterstützen.

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1 Introduction

Faced with the interdependent challenges of the climate crisis, environmental degradation, and biodiversity loss, the European Union (EU) launched the European Green Deal in 2019 under Commission President Ursula von der Leyen. Back then, the Commission announced the ambitious goal of making the EU the first climate-neutral continent by 2050, linking industrial transformation and growth with environmental and social sustainability. The Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CSDDD) are two pivotal directives in this agenda. The CSRD's primary ambition is to establish a coherent system of sustainability disclosure that guides businesses in their transformation and produces reliable, consistent data for informed decision-making by investors and stakeholders. The CSDDD, on the other hand, imposes obligations of conduct on companies to exercise sustainability due diligence, obliging them to identify and address adverse human rights and environmental impacts in their operations and value chains.

Amid growing concerns over sluggish economic growth and underperformance in digital services and technology, European policymakers have begun to identify measures to boost the EU's economic performance. Enrico Letta's report 'Much More than a Market' and Mario Draghi's 'The Future of European Competitiveness,' both published in 2024, attempt to set out how the path towards a more competitive economy could be charted. Draghi's report, while stressing the importance of the CSDDD and CSRD, cites both directives as notable examples of 'regulatory burdens.' Draghi highlights the unclear interactions between the CSDDD and CSRD and the lack of guidance on their implementation.[1] The reports paved the way for the Budapest Declaration on the New European Competitiveness Deal in November 2024 and the European Competitiveness Compass in January 2025. These political watersheds, in turn, laid the groundwork for a 'simplification' agenda to reduce regulatory requirements for European companies, thereby aiming to boost their competitiveness. In February 2025, the EU Commission introduced the first of multiple Omnibus packages (the 'Omnibus I' or 'Simplification Omnibus') to 'simplify' the CSDDD, CSRD, Carbon Border Adjustment Mechanism (CBAM), and Taxonomy Regulation by proposing substantive amendments to each of the texts.

Amid this political drive for competitiveness, the Omnibus package was hastily proposed. The Omnibus I package was drafted by the Commission without an impact assessment or public consultation, leading to an enquiry by the EU Ombudswoman and raising questions about its legality.[2] In the Commission's communications, the CSRD and CSDDD have been one-sidedly portrayed as burdens to business, disregarding strong evidence to the contrary: multiple studies have concluded that both the CSDDD and CSRD benefit European companies.[3]

However, practitioners and researchers alike have rightly pointed to the complexities and challenges associated with the CSDDD, the CSRD, and the European Reporting Sustainability Standards (ESRS), the standards guiding disclosure under the CSRD. In the current debate, Germanwatch holds the view that a well-balanced proposal is necessary. We believe that challenges linked to implementation and legal complexity should be addressed as effectively as possible. However, such simplifi-

[1] Draghi, M., 2024, The Future of European Competitiveness, p. 318 (accessed 28 July 2025).

[2] See Cirio Advokatbyrå AB, 2025, The Legal Validity of the Omnibus Package: A Charter Rights Analysis, (accessed 28 July 2025).

[3] See PwC, 2024, PwC's Global CSRD Survey 2024: The promise and reality of CSRD reporting, (accessed 28 July 2025); Whelan, T., Atz, U., Clark, C., 2021, ESG and Financial Performance, (accessed 27 July 2025); Marcus, J.S. & Thomadakis, A. (Centre for European Policy Studies), 2025, Reporting Obligations, (accessed 27 July 2025); Jäger, J., Durán, G., Schmidt, L., 2023, Expected Economic Effects of the EU Corporate Sustainability Due Diligence Directive (CSDDD), (accessed 27 July 2025).

cation should be measured and balanced against the tangible advantages of sustainability reporting and due diligence. Such a balancing of costs and benefits has not been adequately applied, in part because the EU Commission introduced the Omnibus I package before there was meaningful implementation experience with the CSRD and before any Member State had fully implemented the CSDDD. In our view, many of the proposals currently being discussed by the EU Commission, the European Council, and the European Parliament fail the test of meaningful simplification. Instead, they pursue blunt deregulation, considerably weakening the global protection of human rights and the environment. Against this backdrop, this policy brief outlines what a more balanced Omnibus proposal could look like. In our view, meaningful simplification is defined as achieving a more effective and coherent application of the laws without compromising human rights and environmental protections.

Our brief is structured as follows: first, we analyse the differing positions of the Commission, the Council, and the European Parliament, assessing if they would lead to meaningful simplification and making recommendations to policymakers for constructive amendments. We then further examine two areas of effective simplification: increasing coherence between the laws and clarifying obligations towards business partners. We end with a conclusion of our key recommendations.

2 Comparative analysis of key positions of the European Commission, Council, and Parliament

The following chapter provides an overview of the positions of the three EU institutions on the Omnibus I package. Table 1 summarises the positions endorsed by the three institutions on seven key aspects that figure at the centre of negotiations: scope, a risk-based approach, civil liability, stakeholder engagement, climate transition plans, the value chain cap, and assurance level. It is worth pointing out that the European Parliament's position on the Omnibus has not yet been finalised. We therefore provide a summary of the proposed amendments proposed by the Committee on Legal Affairs (JURI) rapporteur Jörgen Warborn (EPP) and highlight constructive positions from other opinion-giving committees. Following this tabular overview, we discuss the seven substantive points given in the table separately and in detail.

Table 1: Comparison of key positions of Commission, Council, and European Parliament

	European Commission	European Council, general approach	European Parliament
Scope	**CSRD:** >1,000 employees + >EUR 50 million net turnover **CSDDD:** no change in scope (1,000 employees and EUR 450 million in net turnover)	**CSRD:** > 1,000 employees + > EUR 450 million net turnover; possible future scope extension review clause **CSDDD:** > 5,000 employees + EUR 1.5 billion net turnover	**CSRD:** > 3,000 employees + > EUR 450 million net turnover **CSDDD:** > 3,000 employees + EUR 450 million net turnover
Assurance level	**CSRD:** limited assurance Adoption of guidelines by October 2026; no	**CSRD:** limited assurance Adoption of targeted assurance guidelines by 2026 that clarify the necessary procedures that assurance providers are to	**CSRD:** limited assurance Adoption of limited assurance standards setting out the procedures that the auditor(s) and the

	time specified for adoption of assurance standards Deletion of the requirement to adopt standards for reasonable assurance	perform as part of their limited assurance engagement Deletion of the requirement to adopt standards for reasonable assurance	audit firm(s) should perform in order to draw conclusions on the assurance of sustainability reporting Adoption of a delegated act introducing assurance standards by 1 October 2026
Value chain cap & information requests	**CSRD:** sets the VSME as a value chain cap **CSDDD:** no information requests beyond VSME to direct business partners with <500 employees unless additional information is necessary and cannot be reasonably obtained otherwise	**CSRD:** introduces a right-to-decline clause for information requests; specifies that information outside of the value chain cap may be requested if required by other laws or a contract between two firms **CSDDD:** no information requests to direct business partners with < 1,000 employees unless additional information is necessary and cannot be reasonably obtained otherwise	**CSRD:** uses the concept of 'chain of activities' instead of 'value chain' (see below for details); deletes three-year transition period for value chain information **CSDDD:** no information requests beyond VSME to direct business partners with < 3,000 employees
Risk-based approach	**CSDDD:** scoping & in-depth assessment limited to direct business partners; in-depth assessment only if 'plausible' information available	**CSDDD:** scoping and in-depth assessment limited to direct business partners; in-depth assessment of indirect business partners only if 'objective and verifiable information suggests adverse impacts'	**CSDDD:** scoping and in-depth assessment only at level of direct business partners; 'further' assessment of indirect business partners only in case of 'plausible' information Committee on International Trade (INTA) opinion: companies should be able to prioritise assessing direct business partners, in line with severity and likelihood of adverse impacts
Stakeholder engagement	**CSDDD:** only 'directly' affected stakeholders, exclusion of national human rights and environmental institutions, CSOs Companies only required to engage with 'relevant' stakeholders, no longer required to engage in the event of suspension or termination of business relationship	**CSDDD:** only 'directly' affected stakeholders, exclusion of national human rights and environmental institutions, CSOs Companies only required to engage with 'relevant' stakeholders, no longer required to engage in the event of suspension or termination of business relationship	**CSDDD:** only 'directly' affected stakeholders, exclusion of national human rights and environmental institutions, CSOs Companies only required to engage with 'relevant' stakeholders, no longer required to engage in the event of suspension or termination of business relationship Human rights (DROI) subcommittee: 'where relevant' CSOs whose purposes include the protection of human rights and the environment; stakeholder engagement when deciding to suspend a business relationship

Climate transition plans	**CSDDD:** obligation to adopt, deletion of 'put into effect'	**CSRD and CSDDD:** defines 'reasonable efforts' in relation to 'best industry practices' **CSDDD:** obligation to adopt with no reference to implementation	**CSDDD:** full deletion of climate transition plans
Civil liability	**CSDDD:** no EU-wide common civil liability regime, no representative legal actions by CSOs or trade unions	**CSDDD:** no EU-wide common civil liability regime, no representative legal actions by CSOs or trade unions	**CSDDD:** no EU-wide common civil liability regime, no representative legal actions by CSOs or trade unions

2.1 Scope (CSDDD & CSRD)

CSDDD

The Corporate Sustainability Due Diligence Directive (CSDDD), in the form it entered into force in 2024, applies to approximately 3,400 company groups across the EU, just 0.05% of all EU businesses.[4] The proposals by the Council and by Warborn's report would further drastically reduce the scope of the Directive: the Council's proposal would exclude over 70% of the companies currently covered,[5] while Warborn's proposal would reduce coverage by 47%. To illustrate: in Germany, an estimated 945 companies would be covered by the original CSDDD, whereas only around 276 would fall under its reduced scope as proposed by the Council.

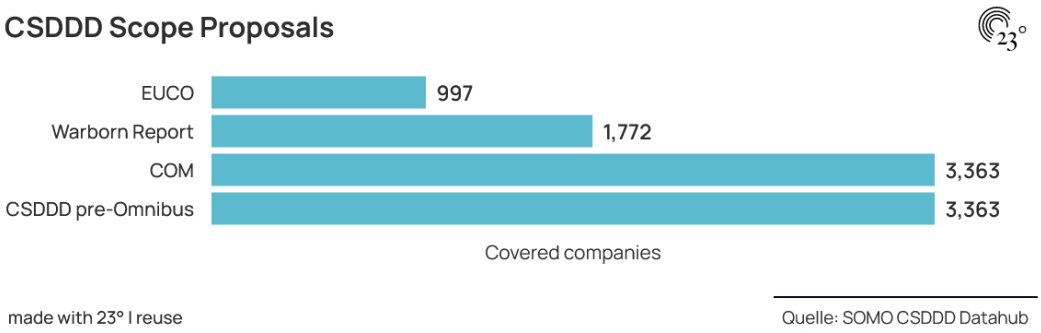

Figure 1: Comparison of proposed CSDDD scopes and covered companies

Both proposals would exclude thousands of companies, including many in high-risk sectors such as textiles, mining, and agriculture – industries with well-documented human rights and environmental violations. Large, influential companies would no longer be legally required to identify, prevent, or mitigate adverse impacts in their supply chains, considerably weakening protections for human rights and the environment. This would directly contradict one of the CSDDD's core objectives: to promote responsible corporate conduct across global value chains. Reducing the scope of existing

[4] De Leth, D.O. (SOMO), 21 January 2025, CSDDD Datahub reveals law covers fewer than 3,400 EU-based corporate groups, (accessed 28 July 2025).
[5] SOMO, 2025, CSDDD Datahub, (accessed 07 August 2025).

legislation is a clear example of pure deregulation: it does not simplify existing obligations but scraps them entirely.

Warborn has argued that higher thresholds are necessary to reduce costs for European businesses.[6] However, the exact opposite might be achieved with the proposals currently on the table: a recent survey found that 46% of surveyed companies are expecting higher costs due to the Omnibus proposal.[7] Several analyses have estimated the average annual CSDDD compliance costs to be modest for large companies. Even the highest estimate assumed these costs to be at only 0.09% of the average net profit of affected companies (based on 2023 data).[8] In fact, recent research on existing mandatory due diligence regulations has found no negative effect on corporate profits or revenues.[9] Excluding companies from the CSDDD would result in only marginal short-term savings, while forgoing the long-term benefits of more resilient and transparent supply chains.

Recommendation: Reducing the scope of the CSDDD will neither lead to meaningful cost savings nor increase long-term competitiveness of EU businesses, but instead significantly weaken the CSDDD's effectiveness in protecting human rights and the environment. Its scope should remain at the same level as the original CSDDD.

CSRD

With regard to the CSRD, the question of scope goes to the heart of the effectiveness of sustainability reporting. The graph below shows the number of companies associated with different proposals that have been suggested.[10]

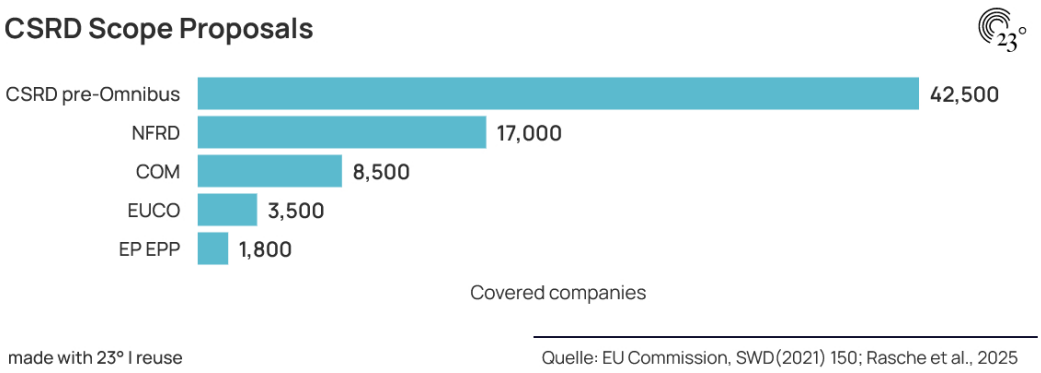

Figure 2: Comparison of proposed CSRD scopes and covered companies

For the effectiveness of CSRD reporting, scope matters in three key ways. Firstly, a reasonably large scope ensures that (small) mid-cap companies compile sustainability information. Investors request such data when screening companies for investment, making sustainability data a precondition for accessing capital. Pre-CSRD, larger companies are significantly better positioned to provide such data compared to small and medium-sized enterprises. Here, the CSRD levels the playing

[6] Akkermans, J., 22 July 2025, Jörgen Warborn (EPP) on the Omnibus Proposal: 'Cutting costs is the way back to prosperity', (accessed 28.07.25).
[7] JARO Institut & YouGov, 2025, LkSG and CSDDD in a reality check: opinions of 1,350 business decision makers, (accessed 06 August 2025).
[8] Van Teeffelen, J. & de Leth, D.O. (SOMO), 25 February 2025, CSDDD: Companies cry 'burden' while paying out billions to shareholders, (accessed 05 August 2026).
[9] See Reinsberg, B. & Steinert, C.V., 2025, The French duty of vigilance law: reconciling human rights and firm profitability, (accessed 06 August 2025).
[10] As noted by researcher Andreas Rasche, the changes to the scope obscure the fact that the extent to which companies fall out of the scope varies across sectors. Rasche and his co-authors find that high-impact sectors such as agriculture, real estate, and construction are excluded to a greater degree than other sectors. This shows that undifferentiated reduction of scope risks excluding key emitters from reporting. See Rasche, A. et al., 2025, Scenarios for CSRD Scope Amendments – Advancing Reporting Scope while Reducing Further Burden, (accessed 08 August 2025).

field as both small- and medium-sized enterprises dispose over such data. Next to levelling the playing field, the CSRD would have also freed companies from the need to purchase expensive ratings from external ESG-providers, because through their CSRD-reporting, they already dispose over the relevant data.

Secondly, with fewer companies subject to mandatory reporting, the CSRD's original ambition of putting an end to the proliferation of different voluntary standards is at risk. The original CSRD intended to achieve this by creating a system of comparable, verifiable, and standardised sustainability data. Such a system would overcome the shortcomings of the pre-CSRD system, in which companies reported according to a multitude of voluntary standards (notably those of the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), and the German Sustainability Code, in Germany). Voluntary regimes have been criticised, including by the Commission itself in a 2021 impact assessment, for the self-selection bias they produce, with companies over-reporting on information favourable to them and omitting critical information.[11] As data is calculated differently across standards, and the dimensions covered by two or more standards vary (e.g. the SASB is industry-specific and focused on financial materiality, while the GRI focuses on impact materiality), voluntary regimes produce a market failure of incomplete, incomparable information. Therefore, a single regime with harmonised, comparable data is important to ensure that data reflects real impact, instead of merely methodological differences in calculating data points.

Thirdly, many of the proposals (Commission, Council, Warborn report) would see companies that have already been reporting sustainability data under the Non-Financial Reporting Directive (NFRD), cease doing so.The NFRD covered around 17000 companies, for which reporting has become a regular part of their operations.The Omnibus proposals would exclude companies, for which transitioning to CSRD would not have posed problems, since they already have the relevant internal practices and management processes set up.

If scope reductions at the scale envisaged by the Commission, Council, and some legislators in the European Parliament are pushed through, this would have significant ramifications, especially for (small) mid-cap companies. While at first glance the exemption might come as a relief to smaller companies, small mid-caps are de facto deprived of an important tool to manage their sustainability transformation. In addition, businesses forgo a *disclosure dividend*: monetary benefits that result from better access to capital, greater business resilience, and improved compliance.[12] Predictably, the exclusion of small companies means they are left vulnerable to ad-hoc requests by external parties – whether ESG providers, other companies, or financiers. Often, external parties request data of a specific kind and in a particular format, with the result that companies have to cater to the specific, diverging demands of different actors. A mandatory reporting scheme would obviate this complication: it would ease access to sustainability data and thus lower search costs, a finding the Commission highlighted in its own impact assessment of the CSRD.[13]

Considering the importance of standardised information and of access to capital for mid-caps, we find that Omnibus approaches that seek to reduce the administrative burden by *lowering the number of companies* are inappropriate. These approaches underestimate the benefits of wide coverage and fail to resolve the actual issues the Omnibus set out to address in the first place: removing duplications and harmonising definitions across regulations. We therefore conclude that simplification via cuts to scope is superficial simplification – in other words, deregulation.

[11] See European Commission, 2021, Commission Staff Working Document Impact Assessment, (accessed 08 August 2025).
[12] See CDP, 2025, The Disclosure Dividend 2025, (accessed 09 August 2025); see also 'Position Paper on the Future of Sustainability Reporting', (accessed 09 August 2025).
[13] See European Commission, 2021, Commission Staff Working Document Impact Assessment, (accessed 08 August 2025).

Recommendation: We endorse Draghi's call for a mandatory and simplified reporting standard for small-mid cap companies.[14] We think that two options could bring about such simplification for mid-caps. First, *phase-in provisions*: lawmakers could extend existing phase-in rules by two years for mid-cap companies (250-750 employees) until the financial year 2029. This mechanism, already familiar to companies through the Commission's 'quick fix' proposal, delays around 40% of current requirements under the European Sustainability Reporting Standards (ESRS), particularly Scope 3 emissions, biodiversity, and several social standards. A second option is the introduction of a *simplified reporting standard for mid-cap companies*. Such a simplified reporting standard, as a reduced version of the ESRS, should build on the ESRS and uphold the double materiality principle. While less onerous, this simplified standard would retain its mandatory character, avoiding the above-cited pitfalls of voluntary standards.

2.2 Value chain cap and information requests (CSRD & CSDDD)

The value chain cap is a key provision within sustainability reporting as it regulates the information exchange amongst companies as they report on issues along their value chain. Granular value chain information is critical for enabling companies to gain a better understanding of their downstream and upstream risks, which is a precondition for investing in their own resilience.

Considering that data requests may impose administrative burdens on contacted companies, the CSRD already entails provisions that are meant to (a) give reporting companies leeway if obtaining information is cumbersome, and (b) shield contacted companies. More precisely, companies are exempted from their duty to obtain information if doing so is not feasible, entails unreasonable effort, or if the sourced data is unreliable.[15] Moreover, the CSRD stipulates that requests must remain within the limits of the Listed SMEs Sustainability Reporting Standard (LSME), a standard that replicates the ESRS structure. This ensures that the contacted companies actually have at their disposal the information that reporting companies solicit.

The Omnibus seeks to upend this structure. The Commission proposal sets the Voluntary Reporting Standard for SME (VSME), a standard conceived for micro-entities and SMEs with 10-250 employees, as the value chain cap. The VSME omits crucial sustainability data, notably Scope 3 emissions. It also relies on concepts like 'confirmed actions' for supply chain violations. 'Confirmed actions' refers to cases of already substantiated offences. The term's application is thus limited to very narrow circumstances. Moreover, the VSME introduces further incomparability by allowing data points to be calculated using different procedures.[16] For instance, the VSME allows the KPI 'water withdrawal in shared offices'[17] to be calculated using two different procedures, one of which allows eight different manuals to be used as a basis for calculations.

Another sticking point is the *value chain cap*. The value chain cap is a restriction on the information that company A may request from company B, which is in the supply chain. The Commission's proposal is to apply the VSME as such a cap. All data contained in the VSME may then be requested, but information requests beyond that are prohibited. In practice, the Commission proposal would create legal uncertainty about information requests, because it stipulates that the value chain cap does

[14] Draghi, M., 2024, The future of European Competitiveness, p. 318, (accessed 10 August 2025).
[15] See EFRAG, 2023, European sustainability reporting standards, Appendix A, AR-17, (accessed 09 August 2025).
[16] See EFRAG, 2024, Voluntary standard for non-listed micro-, small- and medium-sized undertakings (VSME), (accessed 09 September 2025).
[17] 'Water withdrawal' refers to the amount of water an undertaking uses for its operations.

not apply for '*sustainability information that is commonly shared between undertakings in the sector concerned*.' This formulation's vagueness and its bias towards existing practices thwarts the establishment of new best practices of information exchange between companies.

In Warborn's report, in turn, a Commission-style value chain cap is combined with the legal concept of 'chain of activities,' a concept found in CSDDD legislation.[18] The scope implied by 'chain of activities' is narrower than that of 'value chain' as used in the CSRD. How this proposal could aid companies in any meaningful way is unclear, as the narrower definition of 'chain of activities' would imply that the value chain cap covers *fewer* companies in the value chain.

Similarly, a range of proposals have been made with regard to the stage of the risk analysis in Article 8 of the CSDDD, in which information may or may not be requested from SMEs. Many of the suggested proposals rely on the VSME. Although the idea of limiting the information requests made to SMEs is a step in the right direction, relying on the VSME is misguided. The standard is inadequate during the scoping and in-depth assessments because it does not provide sufficient information about the key social aspects in supply chains needed to conduct effective human rights due diligence, such as the labour conditions or impacts on affected communities. A more coherent and effective solution would be to rely on the LSME standard as a value chain cap, thereby ensuring simplification for SMEs without compromising on the quality of data and information gathered.

Recommendation: The ESRS already protects SMEs by not requiring companies to get information from their suppliers if doing so is unfeasible, requires disproportional effort, or the data would be unreliable. If a risk-based and materiality-focused approach is applied, it becomes clear that companies do not have to request information from every supplier, but only from those suppliers that are particularly relevant from a materiality perspective. This thus constitutes an important point of departure for simplification. Moreover, if the CSRD scope is significantly limited, the exclusion from a mandatory reporting regime compromises the standardisation and quality of reported data.

The language in Article 8 of the CSDDD could be reviewed to clarify at which stage companies may request information from their business partners. This could be achieved by making clear that companies should first make an effort to obtain publicly accessible information for the scoping exercise before contacting their business partners. To ensure coherence with the CSRD, the LSME standard should be used instead of the VSME. Further recommendations on protections for SMEs from indiscriminate and burdensome information requests are made below in Section 3.2.

2.3 Assurance level (CSRD)

The assurance level refers to the third-party verification of sustainability data reported under the CSRD. The assurance profession distinguishes between two levels of assurance: reasonable and limited assurance. Limited assurance testifies to the absence of any flaws in the audit information provided. Reasonable assurance means the auditor uses detailed information to confidently state that the report is not only free from flaws, but that, based on all the evidence reviewed, the information is accurate and reliable. With reasonable assurance, auditors must verify metrics and disclosures by tracing them back to their original sources to ensure accuracy.

According to estimates by the European Financial Reporting Advisory Group (EFRAG), an EU committee on reporting standards, reasonable assurance costs twice as much as limited assurance, on average.[19] Nonetheless, its benefits are substantial. Firstly, while costlier, a higher level of assurance makes it less likely that companies are making claims predicated upon invalid data. In addition, it

[18] European Union, Directive 2024/1760.
[19] See EFRAG, 2022, Cover Letter on the Cost-benefit analysis of the First Set of draft ESRS, (accessed 22 August 2025).

also prevents companies from disproportionately highlighting areas where they perform well while downplaying others. To illustrate, a ShareAction report has found that banks set sustainable finance and decarbonisation targets across different operating areas (e.g. lending, investment, capital markets), but these targets often do not cover the same areas. Figures are thus prone to misrepresentation [20]. Secondly, a more thorough understanding by auditors of the internal processes through which ESG data is collected allows them to identify misstatements. Thirdly, the CSRD is founded upon the key principle that financial and non-financial information should be treated equivalently in their importance for business conduct. Given that financial data is subject to reasonable assurance, the application of the same standard for sustainability data would render sustainability a more salient topic within companies, including for management. For instance, reasonably assured data is a prerequisite for linking management remuneration to sustainability performance. Reasonable assurance would also send an important market signal: that sustainability information is not 'non-financial,' but financially relevant, reliable, and as important in decision-making as financial information.

The assurance level is directly linked to the question of scope. This is because out-of-scope companies that report voluntarily would not fall under any kind of assurance regime by auditors.[21]

Recommendation: We recognise the challenges involved in conducting first-time reasonable assurance. We also appreciate that requirements for mid-caps must be proportional. Therefore, we propose limited assurance for companies of this size category, consistent with advice by practitioners.[22] For large companies with more than 750 employees, we endorse a transitory phase with limited assurance that should be succeeded by reasonable assurance. We further recommend that decision-makers stick to the timeline for adopting guidance on assurance, a demand the Council and the EPP have both made.

2.4 Risk-based approach (CSDDD)

The Council, Commission, and Warborn report each propose the introduction of gradual due diligence obligations, obligating companies to conduct an in-depth assessment of adverse risks linked to indirect business partners only in the case of 'plausible' (Commission and Warborn report) or 'reasonably available' (Council) information.

A risk-based approach is at the heart of both the CSDDD and, by way of the materiality assessment, the CSRD. The risk-based approach means that companies have the freedom to build up their own risk management systems, to prioritise the risks and potential impacts they have identified as most severe, and to mitigate them according to their own leverage and with the measures that they deem most adequate.

The most serious human rights violations often occur at the beginning of the supply chain and not with direct suppliers. While the German Supply Chain Act (LkSG) does in principle follow the risk-based approach, it also adds an additional focus on Tier 1 (i.e. direct suppliers). The relationship of this additional focus with the risk-based approach is not fully clear. If there is one key lesson to be learned from the LkSG, it is that a focus on Tier 1 leads to a greater, not lesser, bureaucratic burden,

[20] See ShareAction, 2024, Mind the strategy gap: How disjointed climate targets are setting banks up to miss net-zero, (accessed 19 September 2025).
[21] See European Central Bank, 2025, Opinion of the European Central Bank of 8 May 2025 on proposals for amendments to corporate sustainability reporting and due diligence requirements, (accessed 15 August 2025).
[22] Ernst, C., 23 July 2025, CSRD 2-Scope Approach, (accessed 15 August 2025).

especially for SMEs.[23] Since many companies interpret the law as implying that they would be potentially responsible for mitigating *any* risk whatsoever at the level of their direct suppliers (without prioritising the most severe ones), this has led them to send sweeping 'one-size-fits-all' questionnaires to *all* of their suppliers. This has produced unnecessary paperwork and understandably caused frustration at the supplier level. Practitioners have warned that the Omnibus I proposal, by introducing the LkSG focus on Tier 1 into the CSDDD, risks reproducing the flaws of the German law.[24] While such a restriction to Tier 1 may be in the interest of certain large companies intent on reducing their due diligence to an automatic box-ticking exercise, it is certainly not in the interest of SME supplier companies nor generally an effective application of the law that serves rights holders. Instead of simplifying existing legislation, such an amendment would likely cause confusion among companies and result in additional paperwork. Instead, the legislators should focus on clearly spelling out the risk-based approach and support companies in applying it correctly in their area of business. For instance, Volkswagen was able to identify 550 'high risk' direct suppliers – less than 1% of their 75,000 direct suppliers.[25]

Recommendation: The CSDDD should clearly follow the risk-based approach and not create an artificial hierarchy of risks by forcing companies to focus on Tier 1 of their supply chain. The language in Article 8 should clarify the types of information that can be requested, and from whom, during different stages of the risk analysis, without compromising the Tier-N approach. The Directive should make clear that companies must first proactively gather information themselves instead of contacting their business partners, preventing the practice of companies sending general questionnaires to all of their suppliers, regardless of the likelihood or severity of adverse impacts. In the areas where risks are identified to be most likely and most severe, the company can contact its business partners for information for an in-depth assessment.

2.5 Stakeholder definition and engagement (CSDDD)

The European Commission, Council, and Warborn's draft report propose narrowing the definition of stakeholders by excluding national human rights and environmental institutions and civil society organisations (CSOs), limiting the definition only to those 'directly' affected by a company's operations and removing the requirement to engage with stakeholders when suspending or terminating business relationships. The vague terms 'directly' and 'relevant' risk allowing companies to ignore inconvenient stakeholders in the name of 'simplification.' Reducing the due diligence steps at which meaningful stakeholder engagement is required and removing CSOs from the process may seem like a simplification at first glance, but would actually sideline key actors with crucial knowledge of relevant geographical or local risks that companies might not otherwise be aware of, ultimately making due diligence less effective for companies themselves.

Engaging with NGOs with specific expertise in a certain sector or region can be especially useful during the scoping exercise in the first step of the risk analysis. When designing corrective action plans, engaging directly with local groups or stakeholders ensures that their perspectives are heard. Where direct engagement is unsafe or impractical, civil society groups can serve as helpful intermediaries, offering critical knowledge and representation between local populations and companies.

[23] See Schönfelder, D., 10 June 2025, Lessons learned from Germany with impressions from Norway: Recommendations regarding the risk-based approach, SME suppliers, and civil liability for the Omnibus based on experiences from the implementation of the LkSG , (accessed 21 August 2025).
[24] ibid.
[25] See Dohmen, C. (Table Media), 14 May 2025, VW-Menschenrechtsbeauftragte zum LkSG: 'Berichtspflichten sind nichts Schlechtes'.

It is especially essential to consult potentially affected rights holders and communities when deciding to suspend or terminate a business relationship, in order to avoid unintended consequences and potential harm to vulnerable groups.

The DROI sub-committee has made a sensible proposal by specifying the types of CSOs to be consulted, such as those whose purposes include the protection of human rights and the environment.

Recommendation: The wording in Article 13 of the CSDDD could further be clarified to specify the types of CSOs to be consulted, instead of completely removing them from the stakeholder definition. The duty to consult stakeholders when suspending or terminating a business relationship should be retained instead of eliminated to ensure the minimisation of possible negative impacts on affected rights holders.

2.6 Climate transition plans (CSDDD)

Both the EU Commission and the Council have removed the obligation for companies to implement climate transition plans. Warborn's draft report goes even further, completely deleting Article 22 on climate transition plans.

Before the CSDDD, the EU had already introduced a number of climate-related regulations for companies, mainly focusing on disclosures. The innovation of CSDDD's Article 22 lies in the legal obligation for companies to take action to align their business models with the objectives of the Paris Agreement. Proposals to delete the obligation to implement transition plans would not lead to simplification, but to more reports with considerably fewer incentives for real impact. Moreover, Article 22 in its current form creates legal certainty for companies by specifying their behavioural duty on the basis of an obligation of means ('through best efforts'). A group of 30 legal scholars from Oxford, LSE, Sciences Po, and other renowned European universities recently highlighted that mere disclosure without clear behavioural duties will lead to heightened legal liability risks for companies and create legal fragmentation, inefficiency, and uncertainty[26] – the exact opposite of simplification. In a recently published statement, over 475 investors, banks, companies, and other organisations called on the EU to keep in place the duty to adopt and implement climate transition plans, as they can mitigate companies' exposure to climate-based risks and create a competitive advantage to develop resilient business models.[27]

Opportunities for real simplification lie in ensuring coherence with company obligations on climate transition plans under the CSRD, i.e. through coordinating the guidance foreseen under Article 19 (2b) of the CSDDD with the guidance that is being developed by EFRAG for the CSRD.[28] Analyses of the first sustainability reports of large companies published in alignment with the CSRD have shown encouraging signs in regard to climate strategies, such as more detailed and nuanced emissions disclosures, improvements in target setting, and greater comparability of data.[29]

Lastly, in its landmark advisory opinion on the obligations of states with respect to climate change,[30] the International Court of Justice clarified that a state may be held responsible under international law where it has not taken the 'necessary regulatory and legislative measures to limit the quantity

[26] See 'Legal Scholars Concerned about the Weakening of Article 22 CSDDD on Climate Transition Plans', 02 May 2025, (accessed 23 August 2025).
[27] See 'Omnibus initiative: Sustainability rules are essential for European competitiveness', 02 September 2025, (accessed 09 September 2025).
[28] EFRAG, 2025, Implementation Guidance [draft]: Transition Plan for Climate Change Mitigation, (accessed 22 August 2025).
[29] See NewClimate Institute, 2025, Corporate Climate Responsibility Monitor 2025: Assessing the transparency, integrity and progress of corporate climate strategies, p. 17, (accessed 07 August 2025).
[30] See International Court of Justice, 23 July 2025, Obligations of States in respect of Climate Change, (accessed 20 August 2025).

of emissions caused by private actors under its jurisdiction.' Removing the obligation to implement climate transition plans would arguably constitute a breach of this obligation.

Recommendation: In further negotiations, the duty to implement climate transition plans should be re-included in the CSDDD, as well as the wording on best efforts to maintain legal clarity. The CSDDD guidance on climate transition plans should be aligned with the guidance being developed by EFRAG for the CSRD.

2.7 Civil liability (CSDDD)

Article 29 (1) of the current CSDDD creates a common civil liability regime for the 27 Member States of the EU, ensuring harmonisation instead of legal fragmentation and uncertainty. Affected parties would have a clear legal basis upon which to pursue their claims.

The deletion of the overriding mandatory provision in Article 29 (7) would mean that potential victims may be subject to non-EU laws that provide little or no remedy for human rights or environmental abuses. This would further exacerbate existing obstacles that rights holders face when seeking redress for corporate-related human rights abuses, such as procedural hurdles, evidentiary burdens, and limitation periods, depending on where claims are brought. Additionally, the removal of representative actions by trade unions or NGOs as foreseen in Article 29 (3)d further increases the barriers to access to justice for potential victims.

Removing the harmonised approach and the overriding mandatory provision of the CSDDD's liability rules would result in 27 different liability regimes across the EU and potentially expose companies to 206 liability regimes worldwide.[31] The Omnibus proposals would make it harder for companies to manage litigation risks, especially for those operating in multiple Member States. A recently conducted representative survey found that 53% of large companies fear growing legal uncertainty and increased complexity as a result of the proposed deletion of the harmonised civil liability rules.[32]

Recommendation: The proposals by the Commission, Council, and Warborn to remove the harmonised civil liability regime should be rejected in favour of a harmonised civil liability regime to establish legal certainty across the EU and ensure crucial access to justice provisions for rights holders.

3 Proposals for effective simplification without weakening social and environmental protection

3.1 Towards greater legislative coherence

Although the numerous pieces of EU legislation adopted as part of the Green Deal are complementary in nature and interlinked, the scope, definitions, concepts, criteria, obligations, enforcement, and supervision mechanisms among them differ. This has led to three related complications: firstly,

[31] See Van Calster, G., 2025, Legal opinion: how the Omnibus creates uncertainty on civil liability for companies, (accessed 06 August 2025).
[32] See JARO Institut & YouGov, 2025, LkSG and CSDDD in a reality check: opinions of 1,350 business decision makers, accessed (06 August 2025).

confusion about the interactions between regulations; secondly, a lack of clarity about their interoperability; and thirdly, implementation difficulties, owing to the fact that companies often duplicate internal systems and processes in parallel to comply with different regulations.

Our view is that many of the Omnibus proposals currently on the table would further exacerbate complexities and fragmentation. At the same time, relatively easy-to-implement measures exist that could lead to effective simplification without compromising the protection of human rights or the environment. We explore some of these measures below.

3.1.1 Existing complementarities between the CSRD and CSDDD

Despite their overlaps, the CSDDD and CSRD each address a distinct function: the CSRD obliges companies to disclose environmental, social, and governance information, while the CSDDD places an obligation on companies to conduct due diligence to identify and address adverse human rights and environmental impacts in their own operations and value chains.

The two pieces of legislation have different but complementary objectives, and their implementation by companies ideally relies on shared data, risk management systems, and governance structures. Contrary to the widespread assumption, the two pieces of legislation do not create overlapping or duplicative reporting obligations. The CSDDD does not impose additional reporting obligations on companies covered by the CSRD, as Article 16 (2) of the CSDDD exempts companies already subject to sustainability reporting under the CSRD from the need to publish a separate due diligence statement. Furthermore, Article 22 (2) of the CSDDD provides that companies that report a climate transition plan according to the CSRD are deemed to comply with the climate transition plan obligations of the CSDDD, while adding an obligation to implement the plan. The complementarities between both are visualised in Figure 3 below:

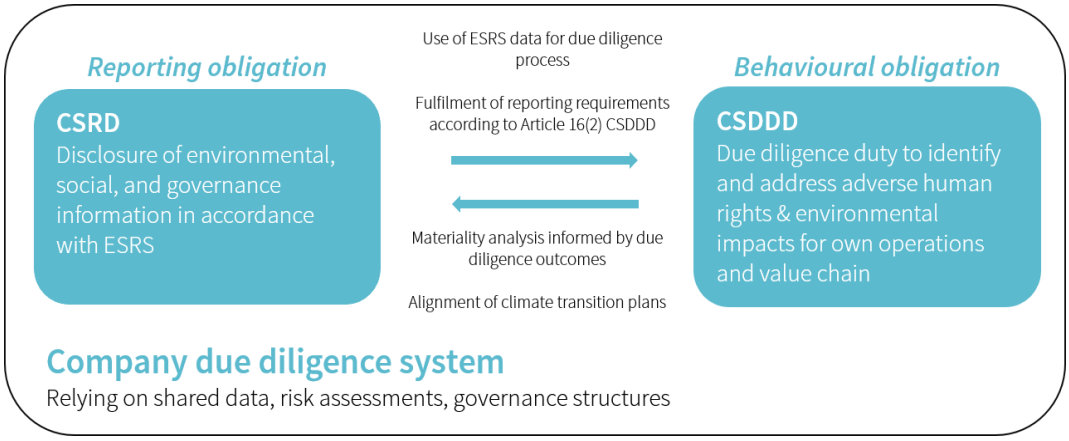

Figure 3: Interoperability between the CSDDD and CSRD

3.1.2 Further potential to increase coherence

Despite the existing complementarities, a number of measures could further increase the coherence and interoperability between the CSRD and CSDDD.

Streamlining auxiliary definitions regarding the ESRS and CSDDD

As has been pointed out by a study commissioned by the JURI Committee[33] and confirmed in conversations Germanwatch has had with business interlocutors, a major obstacle with regard to implementing the CSRD and CSDDD relates to the fact that the two directives address broadly similar areas – environmental and human rights issues – yet do so by harnessing different approaches.

One specific dimension along which this plays out are gaps in the interconnectedness between the CSDDD's due diligence mechanism and the ESRS.[34] To illustrate, under ESRS S1-3, firms can indicate which formal mechanisms employees have at their disposal to voice their concerns and views. This includes grievance mechanisms. Grievance mechanisms are also included under Art. 9 of the CSDDD. Under ESRS S1-3, the disclosure requirement is geared exclusively towards social and adjacent topics. Conversely, the CSDDD stipulates that such grievance mechanisms should take effect not only in the case of misconduct linked to human rights issues, but also in the case of environmental offences. When reporting on grievance mechanisms under the CSRD, meanwhile, companies can only cite such that relate to human rights grievances.

Similarly, the CSDDD and CSRD diverge in their definition of the concept of 'biodiversity sensitive-areas.' The CSDDD, as paraphrased by the think tank and consultancy Climate & Company, includes a behavioural duty to 'avoid or minimise adverse impacts on biological diversity' – where biological diversity is defined with reference to Article 10, point (b) of the 1992 Convention on Biological Diversity, Member State law, and the Cartagena Protocol.[35] The ESRS, in turn, introduced the requirement to check the necessity of introducing 'biodiversity mitigation measures' with reference to the EU Birds Directive (Directive 2009/147/EC), the Habitats Directive (Council Directive 92/43/EEC), and the Environmental Impact Assessment (EIA) Directive. The difficulty of inferring a legally sound and actionable definition that is applicable across regulations is evident. Streamlining such definitions and adding explanations that are actionable for practitioners would significantly simplify the efficient and coherent implementation of both Directives within companies.

Recommendation: The EU Commission should ensure alignment between the CSRD/ESRS and the CSDDD to harmonise key auxiliary definitions in the form of implementing guidelines or delegated acts that ensure consistent terminology and mutually reinforcing obligations across both directives. Such alignment would reduce legal uncertainty, prevent duplicative efforts, and enable companies to implement due diligence and sustainability reporting in an efficient and coherent manner.

Implementation guidelines

The different pieces of Green Deal legislation were drafted by different Commission Directorate-Generals (DGs), leading to incoherence and overlap between the files. To ensure coherence in developing joint implementation guidelines for interoperable pieces of legislation, such as the CSDDD and CSRD, coordination across DGs should be ensured. Joint implementation guidelines would enable companies to align internal data systems and governance systems to ensure efficiency and reduce overlap. The guidelines should be coherent with the UN Guiding Principles and OECD Guidelines, and could benefit from the lessons learned in Member States that already have existing human rights and environmental due diligence legislation. For instance, the German *Bundesamt für Wirtschaft und Ausfuhrkontrolle* (BAFA – Federal Office for Economic Affairs and Export Control), the supervisory and enforcement authority for the German LkSG**,** has issued a range of FAQs and guiding

[33] See Scott, J.S. & Thomadakis, A. (CEPS), 2025, Reporting Obligations, (accessed 21 August 2025).
[34] See German Environment Agency, 2024, Corporate environmental reporting: Compatibility of Due Diligence laws and the European Sustainability Reporting Standards (ESRS), (accessed 20 August 2025).
[35] See Simon, L. & Tietmeyer, R. (Climate & Company), 2025, Simplification and policy coherence: How to reap the benefits of the EU 'Omnibus Simplification Package', (accessed 21 August 2025).

documents to support companies with the law's implementation.[36] It is important that the guidance documents are issued well in advance of the application deadlines to allow companies enough time to prepare and align internal systems and responsibilities. Furthermore, the EU Commission should publish guidelines to align definitions of key terms that currently have ambiguous definitions across the different pieces of legislation (see above).

Recommendation: The EU Commission should publish timely and user-friendly implementation guidelines clarifying the coherence and interoperability between CSDDD and CSRD and other relevant Green Deal legislation to ensure effective and clear implementation.

Creating an EU-wide business and human rights single helpdesk

The CSDDD establishes the creation of a single helpdesk in Article 21 'through which companies may seek information, guidance and support with regard to fulfilling their obligations.' The creation of a similar helpdesk is unfortunately not envisaged by other Green Deal legislation, despite the overlaps and complementarities of the laws. The single helpdesk should take a comprehensive approach to address not just the CSDDD, but all Green Deal legislation related to business and human rights (such as CSRD, EUDR, CMR, Taxonomy, EUBR). In Germany, the '*Helpdesk Wirtschaft und Menschenrechte*' was established in 2017 to provide practical support, free of charge and on a confidential basis, for businesses to assist them in implementing corporate due diligence and respecting human rights. With a multidisciplinary team of lawyers, political scientists, and economists, the help desk supports companies of all sizes and from all industries in implementing due diligence and reporting obligations related to the German LkSG, CSDDD, CSRD, and EUDR. The support is not limited to a single piece of legislation, ensuring that complementarities among them are integrated into the guidance given to companies. The different tools, workshops, and advisory services offered by the helpdesk have been well received and welcomed by German companies. By providing interpretative advice and aligning with both national and EU laws, a similar EU-wide helpdesk could support greater regulatory certainty, helping companies adapt to rapidly evolving human rights requirements and promoting harmonised implementation.

Recommendation: The Commission should consider establishing an EU-wide single helpdesk covering all of the EU's relevant business and human rights legislation, ensuring coherent and practical implementation guidance for companies.

3.2 Learning from existing legislation: towards clearer and more effective obligations vis-à-vis business partners

The application of existing due diligence legislation, notably the French Duty of Vigilance Law and, even more so, the German LkSG, demonstrates that there is potential, in particular, to clarify obligations relating to the identification of risks and the approach towards business partners at different tiers of a company's value chain (or, as in the CSDDD, 'chain of activities'). We suggest putting in place measures to a) prevent the shifting of obligations and excessive information requests to suppliers, b) clearly prescribe a risk-based approach. Some of these measures would best be put in place at the implementation stage, while others would benefit from being included in primary legislation.

[36] See BAFA, 2025, Handreichungen, (accessed 20 August 2025).

Preventing the shifting of obligations and excessive information requests

An important dynamic that early due diligence legislation like the LkSG has largely neglected is the uneven power distribution between the big lead companies in the scope of the law and their (frequently small and medium-sized) suppliers. In practice, this has meant that companies have attempted to shift their obligations almost entirely to suppliers by making them sign far-reaching contractual clauses. In addition, suppliers often receive extensive requests to provide information about their involvement in human rights or environmental risks. After the German supervisory authority published guidance to clarify that such practices were not in accordance with the LkSG and could potentially be sanctioned,[37] the situation for suppliers appears to have improved.

Recommendation: Both the CSRD and CSDDD are already much more sensitive to SME concerns than the LkSG. When it comes to contractual cascading, the CSDDD prescribes that the terms of contracts entered into with SMEs should be 'fair, reasonable, and non-discriminatory.'[38] Recital 46 of the directive further states that contracts 'should be designed to ensure that responsibilities are shared appropriately.' While these are important provisions, the CSDDD could go further and positively spell out certain malpractices that are not considered fair or reasonable (e.g. simply passing on legal obligations to suppliers). The CSDDD text could also make it even clearer that companies should only make use of contractual clauses if and when a concrete risk has been identified at the risk analysis stage. To avoid unintended consequences similar to those of the LkSG, the CSDDD should not leave it to national supervisory authorities to make such clarifications. In addition, the model contractual clauses to be developed under Article 18 of the CSDDD should be ready and available when the application period for the CSDDD begins.[39]

Clearly prescribe a risk-based approach and create a single database

As regards information requests to suppliers, both the CSDDD and CSRD already include clauses to restrain excessive information requests in Article 8 (4) of the CSDDD and Article 29(b)4 of the CSRD. While adding additional restrictions could be useful to further reduce the risk of SME suppliers being flooded with unspecified information requests, as mentioned above in section 2, we are not convinced that using the VSME as the value chain cap introduced by the Omnibus Commission proposal adequately serves this goal.

Recommendation: To avoid abusive information requests, the CSDDD and CSRD should require companies to indicate the specific legal basis upon which they make an information request to their supplier. Secondly, German SMEs have proposed the creation of a publicly maintained one-stop shop database for sustainability-related information.[40] This database could be based on the LSME; suppliers would have to enter the respective information only once (and regularly update it). Business partners could directly retrieve the information from there and would only need to approach suppliers directly for the few very specific questions not addressed in the database. Such a system could also replace the costly private sustainability rating schemes that large companies frequently demand of their suppliers. Ideally, the database would be adapted specifically to the typical risks of different sectors.

[37] See BAFA, 2025, Zusammenarbeit in der Lieferkette, (accessed 10 August 2025).

[38] See Articles 10(5) and 11(6) of the CSDDD.

[39] The European Model Clauses currently being developed by the European Working Group of the Responsible Contracting Project aim to serve as a key reference for the European Commission as it prepares the guidance on model contractual clauses contemplated under Article 18 of the CSDDD.

[40] See KMU-Statement zum Lieferkettengesetz: Praxisnahe Regeln zur Entlastung kleiner und mittlerer Unternehmen schnell umsetzen, (accessed 10 August 2025).

4 Conclusion

Improving regulation is a continuous, iterative process. This process should take on board various stakeholders, be informed by evidence, and follow strategic objectives for the benefit of society, nature, and economic resilience. In the context of sustainable finance and due diligence legislation, we maintain that efforts to 'simplify' legislation are possible without compromising human rights and environmental protections. Based on this, we propose the following ten recommendations for the Omnibus process:

CSDDD & CSRD:

1. **Retain the Directives' original scopes to ensure effectiveness.** Narrowing the scopes of both the CSDDD and CSRD will take from them a tool of transformation, access to finance, and more resilient business models. Instead of leading to significant financial savings for companies or enhancing their sustained competitiveness, it will greatly diminish the Directives' effectiveness at protecting human rights and the environment and providing transparent and standardised sustainability disclosures.
2. **Maintain the existing CSRD value chain cap and apply it to the CSDDD.** The ESRS/LSME mechanism already exempts requests that are unfeasible, disproportionate, or unreliable. Replacing this with VSME or narrowing the scope to the 'chain of activities' would reduce data completeness without true simplification.
3. **Increase legislative coherence by streamlining key definitions and standards.** There is significant potential to increase coherence between the CSRD and CSDDD by streamlining auxiliary definitions and issuing timely implementation guidelines clarifying the interoperability between the two. Across the CSRD and CSDDD, the risk-based approach and materiality-based approaches should be aligned. The obligation to adopt and implement climate transition plans should be retained, and guidance documents should be harmonised across the CSRD and CSDDD.
4. **Create a single EU helpdesk for business & human rights.** The Commission should establish a single helpdesk that provides integrated guidance on all relevant Green Deal and business and human rights legislation (e.g., CSDDD, CSRD, EUDR, CMR, Taxonomy, EUBR). Building on the successful German model, such a helpdesk would ensure coherence across laws, offer practical support to companies of all sizes, and enhance regulatory certainty for harmonised implementation.

CSRD:

5. **Give mid-caps more time or a simplified standard.** Mid-sized companies (250–750 employees) should be granted either a two-year extension of the 'quick fix' phase-in provisions or a simplified, m ESRS-compatible standard. This would provide genuine breathing space for mid-caps while preserving the integrity of the reporting regime.
6. **Adopt a pragmatic assurance ramp.** Mid-caps should remain under limited assurance, while large companies (>750 employees) transition from limited to reasonable assurance in stages. A clear timeline for assurance guidance and standards is essential for predictability and an eventual transition to verified data.

CSDDD:

7. **Maintain and clarify the risk-based approach covering the entire value chain.** Companies should be required to prioritise the most severe and likely risks across the entire value chain, not just with direct suppliers. The Directive should require companies to first

collect information internally before reaching out to suppliers, avoiding blanket questionnaires to all suppliers regardless of risk. Only in cases where significant risks have been identified should companies contact their business partners for further information. This approach would sharply reduce supplier questionnaires and create a more proportionate system.

8. **Maintain a harmonised, EU-wide civil liability regime.** EU policymakers should retain the CSDDD's harmonised civil liability regime to ensure victims' access to justice and provide companies with legal certainty, avoiding fragmented rules and increased litigation risks for companies.
9. **Maintain and clarify CSOs to be consulted in stakeholder engagement.** Stakeholder engagement duties should clearly include CSOs and remain in force when business relationships are suspended or terminated.
10. **Ensure effective simplifications for SMEs.** The CSDDD should explicitly prohibit unfair contractual cascading of due diligence obligations, require companies to justify information requests with a clear legal basis, and establish a centralised EU database for sustainability-related disclosures. This would prevent abusive practices, reduce unnecessary burdens on SMEs, and promote fair, efficient compliance across supply chains.

Germanwatch

Following the motto of *Observing. Analysing. Acting.* Germanwatch has been actively promoting global equity and livelihood preservation since 1991. We focus on the politics and economics of the Global North and their worldwide consequences. The situation of marginalised people in the Global South is the starting point for our work. Together with our members and supporters, and with other actors in civil society, we strive to serve as a strong lobbying force for sustainable development. We aim at our goals by advocating for prevention of dangerous climate change and its negative impacts, for guaranteeing food security, and for corporate compliance with human rights standards.

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