

SIMPLIFYING THE EU SUSTAINABILITY AGENDA



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Too many rules, really?

According to the legend, the Austrian Emperor Leopold II is said to have told Mozart that his opera “Die Entführung aus dem Serail” contained “too many notes”. Are there really too many rules in the *European Green Deal*?

In democracies, legislations should be as simple and understandable as possible, this is a fair point. The competitiveness of our companies matters as well, so rules should be well calibrated. However, we should not elude ourselves. EU rules are very specific as they are negotiated by 27 governments with different political colours and a supranational Parliament. Furthermore, they are supposed to strengthen the EU single market, which gathers countries with very diverse economies. Evil is in the details. For example, not all “SMEs” have the same size: in some countries they are very small, while in others, they are quite large. Moving some thresholds means - consciously or not - fragmenting the single market along national lines.

The complexity of rules also has to do with their purpose, and in particular

with the magnitude of change they are supposed to trigger. For decades, at least since the Rio 1992 UN-Summit, greening has been delayed, in particular because it requires huge efforts and costly measures. Some people criticising these rules are not seeking simplification, they just do not accept to change. To postpone greening will not make us more competitive. On the contrary, it may increase mitigation and adaptation costs in the future, as acting ex-post to repair nature, if even feasible, is more expensive than preventing damages.

I see personally six reasons to be worried if the “Omnibus” discussion leads to over-simplification.

Firstly, science. Scientists tell us that climate change and biodiversity loss are accelerating, reaching levels that put life on earth in danger. The IPBES established recently that there is a “nexus” between biodiversity, water, food, health and climate change. Since the beginning of the industrial revolution, we have been producing and consuming on the false assumption that natural resources are unlimited. The problem we try to solve is man-made and systemic. It cannot be solved without reliable data (as required by the CSRD).

Secondly, business. Many value chains are already at risk due to rising temperatures, water scarcity, or climate events. A simple example is coffee or cacao, two products we all enjoy and whose prices are increasing dramatically. Companies - not NGOs and activists - are already expressing concerns for their own business models. That is why we need to be able to look at impacts and dependencies. One can get rid of “double materiality” as a kind of luxury, the problem will not disappear. It is like burying our heads in the sand.

Thirdly, finance. How could insurance companies and banks analyse risks and allocate capital if corporates do not provide reliable data? The ECB already stated that 75 % of the loans distributed in the euro area go to companies that are dependent or highly dependent on ecosystem services. By weakening the taxonomy (and its smart “do not harm” logic), we risk wasting money and increasing the costs of future transition and adaptation. Some climate-friendly measures have negative effects on nature, for example. We should not lose sight of the bigger picture.

Fourthly, incoherence. Proportionality is a good thing but, in any case, SMEs that are enshrined in large companies’ supply chains will still have to supply data for “scope 3” reason.

Fifthly (paradoxically), the concept of simplification itself. The first year you implement new rules, they always seem more complex and burdensome. Changing them now, after little time to adapt will create more uncertainty and complexity. Companies, financial institutions, lawyers, accounting firms already invested in implementing the Green Deal rules, or assuring that disclosure is properly done. Has anyone in the EU institutions and capitals made an impact study on the costs of “undoing”?

Sixthly, sovereignty. Keeping in mind the global level playing field is key. However, true leaders are not followers. When some regimes are putting science into question and banning words (such as diversity) should we approve? Europe should remember that centuries ago it invented universities and put rational thinking at the heart of its culture. It should follow its own path. The CBAM was meant to safeguard our competitiveness in a world that does not always share our preferences. And beyond technicalities, there is an ethical question. If tomorrow some competitors were to reintroduce slavery - which would certainly lower labor cost - should we “simplify” our social rules as well?



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Can taxonomy incentivise private investment in the EU defence industry?

To give European companies a competitive edge, European Commission just recently has adopted a new package of proposals initiating legislative changes to existing rules on green reporting. Some refers to that as “deregulation omnibus” some argue that “simplification is not deregulation” asking for efficient and responsive regulatory environment for our citizens and businesses. Proposed changes come in very challenging geopolitical context with fragile transatlantic relations. Besides the challenge for Europe to remain dynamic, innovative and competitive, there is a growing need for public and private investments in the defence and security industry to adequately respond to security threats.

The link between ESG related framework and defence industry activities is not yet clearly defined as regulatory and technical standard covers exposure only to four categories of controversial weapons (anti-personnel mines, cluster munitions, chemical weapons, and biological weapons). It is not forbidden to invest in them, but most investors have an exclusionary approach as they have

defined their own specific exclusion policy or criteria with regards to defence industry.

European Council’s conclusions from March 6 underline the importance of mobilising private financing for the defence industry and call for action in this regard, including by signalling to private investors the importance of the defence industry for Europe at large. Channelling savings to markets within the EU is not in itself an easy task. Signalling the importance could be accompanied by EU measures that incentivise private investments in the EU defence industry.

It is safe to say that there can be no sustainability and development without security. Indeed, the defence and security industry are a key pillar of Europe’s strategic autonomy, peace, democratic values, the future of our nations and territorial integrity. This is where sustainable finance, the ESG framework and taxonomy can play a critical role in achieving the common good.

The environmental taxonomy does not mention the defence sector (nor as compatible or incompatible with sustainability goals), but in practice it faces a lot of stigmatisations. Without clear guidance at EU level, it is challenging for the industry and its funding sources (banks, investment funds) to navigate the ESG compliance space. While the ESG taxonomy has a strong environmental focus and is based on clear principles, the social aspect of it is still less studied and more open concept. Security clearly contributes to social objectives as it is one of basic needs.

Boosting access to financing would require a paradigm shift from focusing solely on the industry’s harmfulness to emphasising its strategic importance for the EU’s security and sustainable development.

**It is safe to say that there
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Access to financing becomes even more difficult for small and medium-sized companies, while large companies most often suffer the consequences indirectly, caused by problems in their supply chain. SMEs operating in the defence sector face higher barriers to accessing finance. If we assume a large increase in demand, ensuring production capacity

becomes financially demanding in the whole supply chain.

The efforts could be targeted to create new and better conditions for raising capital at lower cost. This would provide higher returns on investment and higher valuation, while long-term public contracts would ensure the sustainability of investments and mitigate some of the long-term investment risks. Such investment, especially in R&D, would contribute to the EU’s competitiveness. The question of whether new labels or tools should be developed to help channel investment in the defence industry, or whether existing ones (ESG taxonomy and sustainable finance) should be adapted, remains open.

Ongoing efforts to better streamline reporting requirements and lighter reporting regime for SMEs could also benefit the defence industry and its supply chain, where SMEs play a crucial role. Industry specifics may require more tailored reporting and due diligence requirements, while maintaining an appropriate level of transparency and investor protection.

The interpretation and possible revision of “Do No Significant Harm” principle embedded in sustainable finance regulations is only one piece of the puzzle. A more horizontal approach and the development of a coherent and consistent policy on the future of defence financing in the EU is welcomed.

Not to forget about the retail demand side – simple and easy to understand investment products for the retail investors and a pleasant investor journey are key elements to promote retail participation in joint financing efforts for the common good of the EU.



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Europe's path to a net-zero future: The role of sustainability reporting

Europe must navigate a period of significant political and economic challenges to our competitiveness. Regulators in the world's largest capital market are turning their backs on transparency when it comes to sustainability-related information. Europe must find an adequate response to the changing environment by recalibrating the European approach towards sustainable finance through the lens of enhancing competitiveness without compromising our goals.

An important pillar of our competitiveness is our ability to deepen the Capital Markets Union to effectively mobilize private investment from within and outside Europe into innovative companies and technologies, and successfully lead the digital and green transition. A clear, proportionate and pragmatic sustainability reporting framework can play a key role in providing investors with the information needed to fully assess companies' impacts, physical risks and opportunities.

In this context, the European Commission has demonstrated leadership by listening to the diverse voices of member

states, stakeholders, and industry experts, culminating in the ambitious first omnibus package unveiled in February to simplify sustainability reporting and due diligence requirements.

In my view, there are three essential elements to ensure that our reporting framework remains fit for purpose in this rapidly changing environment: coherence with international standards, a clear focus on relevant, decision-useful data points, on larger companies beyond midcaps and SMEs, and the avoidance of duplicative reporting requirements. What matters now is that the package is finalised quickly so that European industry has certainty.

European companies need to attract European and international investors, while European investors also seek opportunities beyond the EU's borders. The effective functioning of global capital markets depends on the consistency and comparability of financial and non-financial data. This includes incorporating physical and climate risks and innovative opportunities in investment decisions. For this reason, European sustainability reporting must be further aligned with international standards to meet the expectations of global investors and provide a level playing field.

One of the most significant initiatives in this regard is the International Sustainability Standards Board (ISSB) which has emerged as the key global standard-setter for sustainability reporting. The ISSB's standards are becoming the foundational framework for corporate sustainability reporting worldwide. This shift benefits both investors and companies, simplifying reporting requirements and ensuring that sustainability data is globally relevant and comparable.

**Europe's approach
to sustainability
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and pragmatic.**

While coherence with international standards is essential, it is equally important that the sustainability reporting framework remains focused on the most relevant and material data points. Investors need clear, concise, and actionable insights into the sustainability performance of companies, and businesses must not be overburdened with disproportionate reporting requirements.

To avoid information overload and ensure relevance, the reporting framework must be designed with clarity and precision. The EU's reporting framework should be flexible enough for companies to focus on material information, avoiding unnecessary complexity. And it should sensibly align across the different levels of rule-making, so that laws, standards and guidelines coherently fit together.

Another key principle for successful sustainability reporting is the avoidance of duplicative reporting requirements. On the global level we can achieve this by better aligning with international standards and on the European level we can achieve this by eliminating redundancies between different legal texts. Reducing duplication not only simplifies the reporting process but also reduces the administrative burden on companies.

A critical part of this effort is ensuring that the EU taxonomy, which sets out the criteria for determining whether an economic activity is environmentally sustainable, is not used as a separate reporting standard, but a classification tool and reference framework. By ensuring alignment between the EU taxonomy and the broader reporting framework, we can reduce the heavy administrative burden on companies and improve the quality of sustainability disclosures.

As we move forward, Europe's approach to sustainability reporting must be clear, proportionate and pragmatic. We need a framework that encourages transparency, drives investment and supports our transition to a competitive economy, while also minimizing unnecessary complexity and duplication.



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Omnibus – A regulators' perspective

In the financial market sector, the last few years have been primarily dedicated to the topics of sustainability and digitalisation. Numerous legal acts have been created in the area of sustainability, including the central legal act on taxonomy, but also the SFDR, CSDDD, Green Bond and CSRD. The complexity of this framework increased with each legal act, especially as these frameworks were often accompanied by delegated acts. It was particularly striking that the central piece of legislation - the CSRD - was negotiated at a very late stage. Yet it is precisely sustainability reporting with the necessary data points that makes sustainable finance possible in the first place.

First easing of the ESRS and threshold values

The negotiations on the CSRD were not exceptionally controversial, particularly because the CSRD was seen as a successor provision to the NFRD. It was only during the consultation on the ESRS that many stakeholders realised that a new accounting framework was being created here. As a result,

resistance to this reporting has grown, so that the number and scope of the European Sustainability Reporting Standards (ESRS) was reduced when they were issued by the European Commission, contrary to EFRAG's original plans. Furthermore, the European Commission hoped to reduce resistance to sustainability reporting through accompanying measures such as raising the threshold values, postponing the sector-specific ESRS and issuing interoperability guidance between EFRAG and ISSB.

Announcement of further simplification

Under pressure from several stakeholders, the Commission announced in November 2024 that there would be an omnibus legislative act to streamline the CSRD, CSDDD and taxonomy. This announcement has already fuelled the discussion without knowing the concrete content. At national level, such announcements are particularly difficult to address. The directive in force applies with no exceptions. The transposition deadline was and is still to be met by all member states; the obligation of companies therefore arises from national laws. From a legal perspective, the press release – although mostly welcome by many stakeholders - must therefore be ignored.

The rollercoaster ride of the CSRD does not strengthen trust in regulation.

Finally: Omnibus proposal

On 26 February 2025, the European Commission presented the omnibus package, which provides for a postponement ('Stop the Clock') and simplification ('Simplification') of the CSRD and CSDDD, among other things. This proposal has further increased legal uncertainty. Should companies continue to pursue sustainability reporting projects as provided for under the current legal situation? We must not forget that the omnibus is not a new piece of legislation that can be finalised in peace. There is an existing legal situation, whereby thousands of companies are left in uncertainty as to what the final scope of application will look like. In particular, companies that have previously reported in accordance with the NFRD cannot be sure whether they will ultimately still be within the scope of application.

The regulatory perspective

Regulation is not the result of negotiating stakeholders that is moulded into a law. Regulation itself must fulfil certain criteria. For example, laws must be in line with the EU Treaty or fundamental rights. The principle of legal certainty must also be adhered to. Legal certainty requires clarity, stability of legal norms, predictability of its implementation, so that the result of applying the norm will be foreseeable and the person can predict the outcome of her legal actions with the desired certainty. The key idea of legal certainty is predictability based on the legal provisions, that is achieved by the demands to the quality of legal acts. According to the legitimate expectation doctrine, those who act in good faith on the basis of law as it is, should not be frustrated in their legitimate expectations. However, new situations may justify legislative changes going frustrating legitimate expectations in exceptional cases.

Timing is another key element of regulation. The sequence of legal acts and the transitional phase, including the corresponding penalty provisions, is essential for legal certainty and confidence in the legal act itself and in its enforcement.

Conclusion

The discussion about which companies should provide which ESG data should have been at the very beginning of the sustainability debate. This data should then have been used to create the Sustainable Finance Universe. Similarly, the fact that sustainability reporting is no longer legally prescribed for most companies, but is to be implemented as a business standard, does not contribute to clarity and predictability.

Thousands of companies have placed their trust in the legislation and have already invested a lot of money. From a regulator's point of view, the greatest damage has already been done: the damage to trust in regulation.



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Why is the green transition such a hard nut to crack?

Scientists and academia, investors and businesses, NGOs and citizens all call out for more urgent action to address the worsening challenges of climate change and biodiversity loss. There are no economic or technical constraints in solving these challenges: we know exactly what the problem is, have the technical capacities and skills to solve them through energy efficiency, renewable energy and cleantech - and we even have the capital.

So why is the green transition such a hard problem to solve?

Clearly, one of the major issues lies in failed political support. Climate action, tackling biodiversity loss or promoting circular economy are seen deliberately by some political actors as an administrative burden - even as irrelevant or redundant - instead of the existential crises they are.

In part this is due to the origins of our modern decision-making. Our regulation was born in a world where knowledge of these challenges didn't exist and neither politicians nor businesses needed to take into account the externalities of their actions. What follows logically from this, is that our

incentives and rewards are not neutral but targeted incorrectly, slowing down the change. And unfortunately, we do not have time to wait for a hundred years for the cycle to turn naturally.

However, economic actors need legal certainty today for the future to make the necessary investments so we need to change the framework to support decarbonisation and sustainability. The European Green Deal is a good and necessary concept that takes into account resource efficiency, decarbonisation, competitiveness as well as a just and inclusive transition - but in practice, the package came with many challenges.

So how could we keep these objectives but make them better?

We need to believe what science says and instructs us to do. Our decision-making should be founded on science-based and harmonised indicators and our economic guidance in the form of the European Semester needs to include also measures beyond the GDP and the economy. The reporting requirements should also be the same for both public and private actors.

Life cycle assessments need to be also based in a robust and transparent analysis. Regulation can speed this process or it can instead support a type of pseudo-reporting and sustainability washing. For example, looking at the changes proposed by the European Commission in the Corporate Sustainability Due Diligence Directive, guiding sustainability analysis in large companies, the proposals include restricting the implementation scope only into tier 1 partners in the value chain.

We need to set the bar right: we need to raise our level of ambition and speed up the transition.

It is evident that to understand sustainability, we need to understand and report the whole supply chain coherently and with a harmonised framework throughout the different ESG regulation. Take for example a clothes retail brand - their own operations include offices and stores with staff. The environmental and social footprint can be very minimal consisting of low energy usage and the staff's transport to work. If the brand buys their clothes from a wholesale operator, they equally

have offices, staff and a bit of logistics from the ports to the stores - again with quite a small impact.

What are missing with this way of measuring are the true effects on climate, environment and people. Without a true life cycle assessment from cradle to the grave, the impacts from growing the fibres into the garments to how quickly the clothes end up in landfills or as incinerated waste are easily missed.

It is important also to have the same way of measuring and same units for all operators, so all the data is also comparable. It should be like calculating ROI with the IFRS system: all businesses count it exactly the same with exactly the same data. Therefore, the results are always easy to compare between companies.

We fought hard to bring the true environment and social effects of large corporations visible with legislation during the last Parliamentary term. And we shouldn't lose sight of this. We get what we measure and if our focus is on doing the right things, we will get it. So when we pay attention to lowering carbon emissions, mitigating the effects or climate change or enriching biodiversity - that is what we will get.

The long-term perspective is that we should be carbon neutral by 2030 if we want to curb global warming and by 2040 our carbon sinks should be larger than our emissions. So we need to set the bar right: we need to raise our level of ambition and speed up the transition. Incremental adjustment is unable to reach the level of change that we need and on top of it all, we need room for flexibility in case science shows that we need to adjust or speed up something. If we fail in this, we won't have the time or money to try again. With stepping back, we are increasing the amount of reporting - also for SMEs - and we end up with unimpactful data for environment and people.



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Greening industry, securing Europe: A new blueprint for climate and competitiveness

Globally, the clean energy transition has gained momentum, propelled by robust government policies and a compelling business case for renewables. In the EU alone, newly installed wind and solar capacities reached record levels of 78 GW in 2024, bringing renewables generated electricity to 48% of total electricity generation. At the same time, the EU is facing increasing energy costs that are affecting citizens and industries with prices for a medium-sized industrial consumer in 2023 remaining 97% above their 2014-2020 average¹.

Yet, current geopolitical uncertainties and tensions have brought significant challenges for the energy sector – from short-term instability to policy uncertainty. Russia's war of aggression against Ukraine and escalating conflict in the Middle East have highlighted the vulnerability of energy markets, bringing energy security back on global and national agendas as an imperative not only for strategic independence, but also for economic competitiveness and a just transition. What does this mean for the EU's climate neutrality and resilience

objectives? Are energy security and affordability objectives at odds with the European Green Deal?

Clearly not. In fact, decarbonisation efforts can bolster energy security and economic competitiveness.

The EU Competitiveness Compass² and the Clean Industrial Deal³ put forward the necessary steps to turn decarbonisation into an engine of growth, ensuring economic competitiveness and a just transition while addressing the urgent climate crisis.

Together with the broader set of EU policies and objectives, this will help address three interconnected challenges: the climate crisis, competitiveness concerns and economic resilience. One of the key ingredients is the mobilisation and catalysing of finance at scale. The EU needs to increase its annual investments in energy, industry and transport systems by around EUR 480 billion compared to the previous decade. This requires targeted EU funding, private sector involvement and robust financial frameworks that encourage sustainable investments.

With the Clean Industrial Deal, the EU will focus on three pillars to support industry.

First, strengthening EU level funding. Based on the experiences of the Innovation Fund, the EU will propose an Industrial Decarbonisation Bank, which aims to provide EUR 100 billion in funding for industrial decarbonisation.

Second, leveraging private investment through EU funding instruments. The EU has taken steps in this direction through initiatives like the NextGenerationEU recovery plan. InvestEU will be revamped and several additional guarantee and lending systems will be developed with the EIB to derisk investments related to clean tech manufacturing and industrial decarbonisation.

Third, working on supporting instruments, including a new Clean Industrial Deal State aid Framework that enables quick approvals of State aid that supports EU industrial decarbonisation priorities, and new tax policy recommendations.

The Savings and Investment Union is expected to also enhance the EU's financial competitiveness. Investments from private entities, such as venture capitalists, private equity firms, and institutional investors, are critical for injecting the capital necessary to scale up green technologies, thereby driving competitiveness in the green tech industry.

In addition to more targeted use of EU funds and fit-for-purpose policies,

private capital mobilisation and catalysis requires long-term regulatory stability, public incentives for decarbonisation, and effective policy coordination. Developing sectoral transition plans and pathways can have a pivotal role in this respect: each industrial sector has distinct characteristics and challenges; hence, companies need tailored strategies for credibly transitioning to enhance their attractiveness to investors.

Finally, the proposals to simplify the EU sustainable finance framework are expected to boost competitiveness and unlock additional investment capacity, in particular for SMEs, while focussing our regulatory framework on the largest companies which are likely to have a bigger impact on the climate and the environment, ensuring transparency and encouraging investor confidence.

On the global stage, the EU's competitiveness for decarbonisation calls for strong international partnerships. The EU aims to work closely with international partners and financial institutions to support industrial transformation beyond Europe, ensuring that the benefits of the Clean Industrial Deal are realised on a global scale through Clean Trade and Investment Partnerships. By aligning financial resources and efforts across public, private, and international spheres, the European Commission seeks to pave the way for a sustainable industrial transition.

In conclusion, competitiveness and climate change objectives can be mutually reinforcing: through carefully crafted policies and incentives, the existential crisis of climate change can be addressed, while ensuring economic competitiveness and a just transition for all. Initiatives such as the Clean Industrial Deal take the EU Green Deal to the next level, operationalising it as the EU's growth strategy for future-proof and socially just competitiveness, while fostering mutually beneficial partnerships. With climate change a global challenge, a collective response is needed – blending ambition with pragmatism to forge a sustainable future for all.

1. European Commission (2025), *Action plan for affordable energy: unlocking the true value of our Energy Union to secure affordable, efficient and clean energy for all Europeans* (COM(2025) 79 Final), https://energy.ec.europa.eu/strategy/affordable-energy_en
2. European Commission, *a Competitiveness Compass for the EU*, COM(2025) 30 final, https://commission.europa.eu/topics/eu-competitiveness_en
3. European Commission, *The Clean Industrial Deal: a joint roadmap for competitiveness and decarbonisation*, COM(2025) 85 Final, https://commission.europa.eu/topics/eu-competitiveness/clean-industrial-deal_en



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Balancing growth and sustainability: The EU Green Deal and the role of finance

The world is at a tipping point. In 2024, global temperatures exceeded the critical 1.5-degree threshold for the first time, marking the hottest year on record. Amid growing scientific consensus, escalating physical impacts, and heightened risk exposure, diminishing alignment threatens to slow global momentum — potentially disrupting coordinated efforts and long-term value pathways. What role and responsibility should the EU assume in addressing this challenge?

The purpose of the Green Deal is to “transform the EU into a modern, resource-efficient and competitive economy”. This purpose is intact – and perhaps as urgent as ever – in the wake of the increased focus on strengthening European competitiveness. However, the “how” should continually be reviewed, assessed and adapted. Balancing growth with sustainability is the only pragmatic and realistic strategy for achieving this comprehensive mission of the 21st century. This balance is now being reflected in the EU Green Industrial Deal.

Amid this changing landscape, what insights can we carry forward? Sustainability and economic competitiveness must reinforce – rather than contradict – each other. A clear and level playing field with reasonable regulations is important, yet it is the players on the field that can make real and long-lasting differences. And this is where the financial sector plays a crucial role.

Implemented and planned policies of the Green Deal have improved the outlook for EU emission levels. Yet, the pace of change is too slow. The past years have exposed vulnerabilities. We have seen record-breaking wildfires in Southern Europe, catastrophic floods in Germany and Spain, and an ongoing energy crisis fuelled by geopolitical instability. Europe’s energy import dependency exceeds 60 percent. And its dependence on fossil fuels, particularly gas, highlights the urgent need for accelerated investments in the energy transition. In this context, platforms such as the EU Commission’s initiative to establish the European Energy Efficiency Financing Coalition can play an important role.

In short, the energy transition is crucial for making the EU a net-zero economy by 2050.

The EU’s commitment to the Green Deal must be unwavering.

European efforts cannot be seen in isolation – global competition is intensifying. The U.S. Inflation Reduction Act (despite paused funding) has triggered a subsidy race for clean technology, threatening to draw green investments away from Europe. China continues to dominate solar panel, battery and EV production, raising concerns about European competitiveness and supply chain security.

The EU cannot afford to fall behind. Instead, we must act decisively – reducing regulatory bottlenecks, increasing financial incentives for green industries, and ensuring energy independence through diversified clean energy sources.

This is where the financial sector comes into play, as enabler of the transition. Banks, investors, and capital markets must scale up sustainable finance to eventually meet objectives. Capital deployment – putting money to work

– is the way of turning ambitions into reality. The EU needs an investment surge into climate resilience projects, sustainable infrastructure, and green innovation. The business case is clear and will become increasingly evident. Where money flows, change follows. The Green Deal should be seen as a catalyst in this larger context.

Going forward concrete financial mechanisms on carbon pricing and clear national strategies which explains how the member states will meet the goals in the Green Deal are of topical importance. Also, regulatory reporting requirements must be efficient with the aim to support the transition.

The EU’s commitment to the Green Deal must be unwavering. While political headwinds and economic pressures create challenges, the long-term cost of inaction is far greater. Natural disasters, energy insecurity, and stranded assets in carbon-intensive industries will far outweigh any short-term economic concerns. Europe must be steadfast in its position and lead by example, showing that climate leadership and economic strength go hand in hand.

The financial sector has a unique responsibility. It must move beyond incremental changes and actively drive the transition through bold capital allocation, innovative financial tools, and risk-sharing mechanisms. Policymakers, investors, and businesses – on European and national level – must align on one key message: achieving sustainable growth is non-negotiable.

We stand at a crossroads. Now is the time for acceleration, not hesitation.



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A sustainability framework that supports growth and competitiveness in Europe

Europe's number one priority is, rightly, to improve its competitiveness and increase economic growth. Without higher growth, all the challenges the European Union faces – the need to transition to a green economy, supporting an ageing population, the need to spend more on defence – become that much harder. Banks are part of the solution as enablers – powering growth through finance. That's the case generally, but especially as regards the green transition.

The approach to the transition must be aligned with industrial policies and regulatory frameworks that support growth. The Clean Industrial Act and the recent adjustment of requirements for the automotive sector are good examples of policy approaches that do this. And the simplification underway of the sustainability regulatory framework, the so-called Omnibus package, is a welcome acknowledgement that we need to eliminate excessive requirements and complexities which place a great burden on companies – of all sizes.

We welcome the recent Omnibus proposal which addresses a number of

concerns – but more work is needed to achieve the competitiveness and simplification objectives. Three points that still require action to be taken:

1. The changes to the Corporate Sustainability Due Diligence Directive (CSDDD) provisions on transition plans still do not reflect the fact that any **transition plan** obligation cannot go beyond the underlying science, market practice and applicable regulations in every jurisdiction on which companies operate. Alignment with 1.5° depends on external factors such as the IEA STEPS (Stated Policies Scenario) and APS (Announced Policy Scenario). Any corporate, financial or non-financial, with presence in different jurisdictions needs legal flexibility, for example to carve out of the plan subsidiaries where the relevant local rules or market practices are evolving differently. We agree with EU member states who have called for an indefinite postponement of this directive until this fundamental point has been addressed.
2. **Reporting requirements** under the Corporate Sustainability Reporting Directive (CSRD) need to be streamlined. Both the CSRD and the European Sustainability Reporting Standards (ESRS) are too ambitious, imposing requirements that companies cannot fulfill today. Sustainability reporting requires time to mature. Instead of an all-encompassing and aspirational approach, reporting requirements should be targeted focusing on climate (E1), own workforce (S1) and business conduct (G1). This approach would reflect companies' abilities to address these key issues, where effective action can have a meaningful impact.
3. **Taxonomy and Green Asset Ratio.** The current taxonomy is too complex to be a useful tool, and the current proposal does not address the need for a fundamental simplification. While there is a good intention to reduce the number of KPIs by introducing materiality

thresholds, the process that banks will have to follow to assess whether they can apply the threshold or not is complex (from initial analysis of the proposal). We should be striving for pragmatic solutions that meaningfully remove the burden on companies: companies should be able to use the taxonomy on a voluntary basis if it helps them to portray their green activity.

The Omnibus proposal must go further, ensuring its intent is fit for growth and competitiveness.

Furthermore, the Green Asset Ratio does not provide meaningful information to the market, while it requires extensive explanation from the banks on what the metric means. Given the limited value, it should be removed. If it is not, an immediate suspension of the reporting requirement is needed (including upcoming GAR in Pillar 3 this summer) until the whole review process of the Taxonomy KPIs, reporting templates and DNSH criteria has been completed and changes adopted. It is inefficient to work, and report, a metric that is under review and subject to changes over the next years.

By taking a pragmatic approach, we have the opportunity to all work together to shift Europe's focus from regulation and reporting to supporting the transition, so that going green is truly a source of growth and competitiveness for Europe.



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A robust EU sustainability framework: Simplification without lowering ambition

The European Commission's ESG Omnibus proposal represents a significant step towards simplifying sustainability reporting and due diligence while reinforcing the EU's commitment to environmental and social responsibility. At SMBC, we welcome the effort to create a more efficient regulatory framework and believe further refinements can help ensure that ESG regulation remains both effective and practical, supporting economic growth and sustainability.

Since the establishment of our Frankfurt-based subsidiary SMBC EU AG in 2017, our growth and investment in the EU has increased significantly. Owing to this growth, we are enhancing our sustainability disclosures in financial year 2024. Our European and Head Office sustainability teams have been hard at work building our capacity in this regard to produce a meaningful and compliant disclosure, notwithstanding the challenges around regulatory uncertainty and compliance.

The timing of the Omnibus package and its proposed changes help to bring some clarity on the application of Corporate Sustainability Reporting Directive (CSRD) for banks such as ourselves. However, from the perspective of SMBC as both a Japanese and European bank, we identify distinct challenges that highlight the need for careful regulatory alignment:

Regulatory divergence: Differences between the sustainability frameworks in EU, Japan and other jurisdictions require financial institutions to navigate dual compliance regimes, leading to increased complexity and, in some cases, duplication. Greater global coordination and equivalence on ESG reporting could provide much-needed alignment.

Data reporting challenges: The number of ESG data points financial institutions must disclose continues to grow, increasing operational burdens. A more focused approach could enhance transparency while ensuring feasibility.

A well-coordinated regulatory framework can maximise the effectiveness of ESG initiatives.

Operational and cultural adaptation: Aligning sustainability approaches across different regulatory and corporate cultures is an ongoing process that requires flexibility and collaboration.

Promoting greater consistency across ESG regulations

A well-coordinated regulatory framework can maximise the effectiveness of ESG initiatives. To enhance alignment across regulations such as the CSRD, the Corporate Sustainability Due Diligence Directive (CS3D), and the EU Taxonomy Regulation, policymakers could consider:

Harmonising definitions and standards: Establishing a more consistent approach across different pieces of legislation would facilitate compliance and improve clarity for financial institutions and businesses alike.

Enhancing cross-regulatory coordination: More effective coordination between regulatory bodies in the EU and internationally could help to ensure that evolving ESG requirements remain coherent and practical. For example, there remains significant overlap between CRR3 and CSRD from both a prudential risk and reporting perspective.

Optimising ESG data disclosure requirements

Transparency is fundamental to sustainable finance, but ensuring that reporting obligations remain proportionate is equally important. Some areas where refinements could be considered include:

Refining scope 3 emissions reporting: While Scope 3 emissions disclosure is critical to achieving economy wide decarbonisation, a more targeted approach—prioritising high-impact sectors—could make compliance more manageable while maintaining the integrity of sustainability reporting.

Streamlining social and governance data requirements: Reporting on workforce diversity and gender pay gaps is essential, but highly detailed breakdowns by region and role may add complexity without necessarily enhancing transparency.

Simplifying the EU taxonomy framework

The EU Taxonomy plays a crucial role in guiding capital to sustainable economic activity, but its complexity presents challenges for businesses and financial institutions. Potential refinements include:

Shifting towards a principles-based DNSH approach: Rather than requiring rigid technical criteria, a more flexible, high-level framework could allow companies to demonstrate alignment with sustainability goals in a practical manner.

Prioritising high-impact sectors: Focusing DNSH requirements on industries with the greatest environmental risks could enhance efficiency while maintaining robust standards.

Clarifying technical screening criteria: Simplifying key thresholds and definitions would help ensure that the Taxonomy remains accessible and applicable across different sectors and regions.

The EU ESG Omnibus proposal is a welcome development in the evolution of sustainability regulation, offering an opportunity to refine the existing framework to better serve businesses, investors, and society. By fostering greater regulatory consistency, optimising data disclosure requirements, and simplifying key aspects of the EU Taxonomy, policymakers can create an environment that enables financial institutions to support both economic growth and sustainability more effectively.