

As Europe charges ahead with its ambitious Green Deal and Clean Industrial Deal, the financial bedrock required to support this transition is showing signs of strain. A new policy initiative known as the Omnibus threatens to unravel years of progress in sustainable finance by weakening the very rules designed to steer capital towards a low-carbon, resilient economy.

At the heart of the EU's climate strategy lies a staggering challenge: bridging an annual investment gap of up to €800 billion to meet industrial decarbonization and competitiveness goals. To address this, the European Commission developed a robust regulatory framework — including the Corporate Sustainability Reporting Directive (CSRD), the Corporate Sustainability Due Diligence Directive (CSDDD), and the EU Taxonomy — aimed at closing the data gap investors face when trying to channel funds into green and socially responsible ventures.

But the Omnibus proposal, endorsed by the Council on June 24, now threatens to dismantle these crucial mechanisms. While the intent behind the initiative is simplification, critics argue it goes far beyond trimming bureaucratic excess. Instead, it risks gutting the sustainability reporting architecture, excluding vast swaths of companies from disclosure obligations and impairing investors' ability to allocate capital effectively.

Investors Left in the Dark

Under the current direction, the Omnibus could remove up to 90% of EU companies from the CSRD and EU Taxonomy reporting scope by setting a turnover threshold as high as €450 million. This would create a massive blind spot in the availability of reliable, comparable Environmental, Social and Governance (ESG) data — precisely the kind of information that investors depend on to identify risk, opportunity, and compliance with their own legal mandates.

“The EU built these frameworks not as box-ticking exercises but as real, practical tools to guide capital allocation and risk management,” noted one sustainability analyst. “If we strip those away, we’re essentially telling investors to fly blind.”

With such data gaps, investors may be forced to concentrate funding only on large firms still subject to CSRD requirements, leaving smaller and mid-sized enterprises — many of which are crucial to Europe’s green industrial base — starved of financing. That could stifle innovation, narrow the availability of sustainable investment products, and run counter to the EU’s own objective of mobilizing private capital to drive the green transition.

Due Diligence Diluted

The damage doesn’t stop at reporting. The CSDDD — originally envisioned as a landmark tool for identifying and mitigating human rights and environmental risks throughout company value chains — is also under threat. Under current Omnibus suggestions, due diligence obligations would be limited to Tier 1 suppliers, undermining the directive’s effectiveness and deviating from international norms like the OECD Guidelines and the UN Guiding Principles on Business and Human Rights.

Crucially, the requirement for companies to adopt science-based climate transition plans, aligned with CSRD disclosures, is also at risk of being scrapped. Yet these transition plans are key to giving investors a forward-looking understanding of how companies intend to meet climate targets.

“If these provisions are weakened, the directive risks becoming a hollow formality,” said one ESG investment advisor. “It would lose its value for both businesses and financial institutions trying to align with long-term decarbonization goals.”

Moreover, raising the threshold for CSDDD applicability to companies with more than 5,000

employees would mean fewer than 1,000 companies across the EU would be covered — a drop that critics say neuters the directive's reach and purpose.

A Fragile Moment for EU Leadership

The EU has long been hailed as a global leader in sustainable finance, with its regulatory frameworks serving as blueprints for markets worldwide. Now, that reputation hangs in the balance.

While businesses and investors alike support simplifying regulation to reduce administrative burdens, there is consensus that simplification must not come at the expense of substance. Voluntary ESG reporting, which some have suggested as a fallback, is widely viewed as insufficient. History shows that without regulatory teeth, reporting becomes fragmented, incomplete, and difficult to verify — leaving investors without the data they need.

"This is not the time for another reset," said one policy expert. "It's time for stability, consistency, and smart technical adjustments — not for pulling the rug out from under those already investing in the transition."

Parliament Holds the Key

With the Council's position now clear, attention turns to the European Parliament, which still has the opportunity to recalibrate the Omnibus initiative. Observers say the path forward must focus on preserving the integrity of Europe's sustainability framework while addressing genuine implementation challenges through guidance and proportionality.

Ultimately, the stakes go beyond bureaucratic efficiency. They strike at the heart of Europe's economic future — whether the continent will continue to lead in sustainable growth, or allow

EU's Sustainability Framework at Crossroads as Omnibus Risks
Undermining Green Investment

a policy rollback to undermine its green ambitions just as global investment momentum reaches a tipping point.

In the words of one investor advocate: "Europe built something visionary. Now is not the time to tear it down."