

## CLIENT ALERT

# EU Council's Position on the Omnibus Package: Key Takeaways, Interplay with the Defence Readiness Omnibus Bill, and the Evolving Sustainability Framework

June 30, 2025

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On June 23, 2025, the Council of the European Union (the “**Council**”) formally adopted its negotiation position on the European Commission’s (the “**Commission**”) Omnibus Package, which proposes significant amendments to the Corporate Sustainability Reporting Directive (“**CSRD**”) and the Corporate Sustainability Due Diligence Directive (“**CSDDD**”). The Council’s approach broadly confirms the Commission’s direction, while further limiting the scope and softening key obligations under both Directives.

This client alert provides an overview of the Council’s key takeaways, examines the interplay between the Defence Readiness Omnibus Bill, and the sustainable finance framework, and highlights the next steps in the legislative process, including the pending inquiry before the European Ombudsman concerning the Commission’s preparation of the Omnibus Package.

## 1. Key Take-aways

As outlined in our May 2025 Client Alert<sup>1</sup>, on February 26, 2025 the European Commission introduced a set of proposals to amend the following legislative texts: the CSRD and the CSDDD (together, the “**Omnibus Package**”). These proposals form part of the Commission’s broader effort to streamline EU sustainability legislation and reduce compliance burdens for companies operating in the EU. As part of the ongoing legislative process, the Council has now formally agreed on its negotiation position on the Omnibus Package. Given the far-reaching implications for the business community, the Council has treated this file as a priority, aiming to provide EU companies with the necessary legal certainty regarding their sustainability reporting and due diligence obligations.

The Council’s position on the Omnibus Package outlines several key changes:

- **Scope of the CSRD and CSDDD:** the Council has endorsed the Commission’s proposals to limit the scope of application of both the CSRD and the CSDDD and gone further by proposing amendments to significantly reduce the number of companies within scope as follows:
  - The CSRD would apply only to companies with at least 1,000 employees and EUR 450 million net turnover (as against a previous EUR 50 million turnover threshold); and
  - The CSDDD would apply only to companies with more than 5,000 employees and EUR 1.5 billion net turnover.

According to the Council, this proposed reduced scope would still ensure that the largest companies, which are considered to have the greatest capacity to influence their value chains and to absorb the costs associated with due diligence, remain within the scope of the relevant reporting and diligence obligations<sup>2</sup>.

- **Due Diligence Requirements:** the Council’s position proposes to significantly reshape the due diligence framework by shifting from an entity-based approach to a risk-based model, focusing companies’ efforts on areas where actual or potential adverse impacts are most likely to occur. Under this revised framework, companies would no longer be required to carry out a comprehensive mapping of their entire value chain. Instead, they are expected to conduct a more general scoping exercise, concentrating on their own operations, subsidiaries, and direct business partners (so-called “tier 1” partners). This adjustment is intended to provide substantial relief from administrative burdens, as companies need rely only on reasonably available information when conducting their assessments. The due diligence process is structured as a three-step assessment:

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<sup>1</sup> Client Alert, “The EU’s Omnibus Package introduces substantial changes to EU sustainability legislation including the CSRD and CSDDD”, May 6, 2025, available on: <https://www.willkie.com/-/media/files/publications/2025/05/theeusomnibuspackageintroducessubstantialchangestoeusustainabilitylegislationincludingthecsrdandcsdd.pdf>.

<sup>2</sup> <https://www.consilium.europa.eu/en/press/press-releases/2025/06/23/simplification-council-agrees-position-on-sustainability-reporting-and-due-diligence-requirements-to-boost-eu-competitiveness/>.

- Companies must first identify potential areas of impact based on accessible information;
  - Following the initial assessment, companies must carry out a detailed analysis of the areas identified as presenting the highest risk or potential for severe adverse impacts;
  - With regard to indirect business partners, companies are only required to extend their due diligence efforts if they have objective and verifiable information suggesting potential negative impacts beyond their direct relationships.
- **Climate Transition Plans:** the Council's position proposes to postpone the obligation for companies to adopt climate transition plans by an additional two years (until July 26, 2031), providing businesses with more time to prepare and easing the immediate compliance burden. During this transition period, companies are encouraged to voluntarily develop climate transition plans and to engage with supervisory authorities to ensure adequate preparation for when the obligation becomes mandatory. The Council also removes the requirement to put these plans into effect, instead requiring companies only to outline the implementing actions they plan to take (or have already taken) in relation to climate change mitigation.

While the obligation is removed, international standard-setting continues to evolve. In June 2025, the International Financial Reporting Standards ("**IFRS**") Foundation issued new guidance on disclosures related to climate transition plans under IFRS S2<sup>3</sup>. Although these standards are not legally binding, they emphasize that companies with such plans should still provide high-quality, consistent information about their strategic goals and actions in transitioning towards a more climate-resilient economy. This development further supports a voluntary, but structured approach to transition planning and disclosure, aligned with global best practices, but remains outside the scope of mandatory EU requirements.

- **Civil Liability:** the Council confirms the removal of the harmonized EU civil liability regime. The Council also supports the suppression of the requirement for Member States to ensure that their national liability rules apply as overriding mandatory provisions when the applicable law is not that of the Member State concerned. This change substantially limits the ability of claimants to rely on more favorable national regimes, as they would no longer be able to systematically invoke the law of the Member State where the company is established. The Council's position also further narrows access to justice by removing the possibility for representative actions to be brought by civil society organizations and trade unions in this context.

## 2. Interplay with the EU Defence Readiness Omnibus Bill

As discussed in our June 2025 Client Alert<sup>4</sup>, the European Commission's proposal of June 17, 2025 – the Defence Readiness Omnibus Bill ("**DRO**") – and the Council's position adopted on June 23, 2025 on the Omnibus Package

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<sup>3</sup> <https://www.ifrs.org/content/dam/ifrs/supporting-implementation/ifrs-s2/transition-plan-disclosure-s2.pdf>.

<sup>4</sup> Client Alert, "The EU Defense Readiness Omnibus Bill: Key Takeaways for Industry Stakeholders and Investors", June 23, 2025, available on: <https://www.willkie.com/-/media/files/publications/2025/06/the-eu-defense-readiness-omnibus-bill-key-takeaways-for-industry-stakeholders-and-investors.pdf>.

both contribute to the EU's evolving legislative strategy relating to sustainable finance. These initiatives are closely aligned in their objective to simplify EU regulatory frameworks and boost the EU's competitiveness and strategic resilience.

Importantly, as we highlighted in our previous client alert, the DRO also contains proposals that directly impact the EU's sustainability legislation:

- **Regulatory Derogations** (Environment and Chemicals): the DRO clarifies that defence projects can leverage existing exemptions in EU environmental and chemicals laws when critical for security. For example, defence-related activities may invoke “overriding public interest” derogations under environmental legislation (such as Natura 2000 or habitat rules) to proceed with vital projects. Likewise, the Commission is urging a balanced approach in chemicals regulation so that essential substances for defence manufacturing can be exempted when necessary. These clarifications give Member States a clear mandate to prioritize defence readiness in the application of environmental and health standards, preventing regulatory compliance from stalling key defence investments.
- **Sustainable Finance Integration**: in a significant policy shift, the DRO integrates defence into the EU's sustainable finance<sup>5</sup> and ESG framework. In view of improving access to finance for the defence sector, it was deemed necessary to mobilize the full potential of EU financial instruments, in particular InvestEU, as these are key in de-risking financing. Considering this, the Commission will adjust InvestEU eligibility criteria and issue guidance to ensure that defence projects (excluding only those involving weapons banned by international conventions) are not automatically barred from sustainable investment funds and indices. The defence industry will as such not be in conflict with ESG principles provided certain safeguards are met (e.g. exclusion of controversial products like cluster munitions). This is a notable rebalancing of the EU's stance on defence in ESG, aiming to unlock private capital for defence projects.

### 3. The Commission's Notice on the Application of the Sustainable Finance Framework and the Corporate Sustainability Due Diligence Directive to the Defence Sector<sup>6</sup> (the “Notice”)

The Notice, published alongside the DRO, provides helpful guidance on the applicability of the EU sustainable finance framework to the defence industry. This is relevant to financial market participants and investors, ESG rating providers and others. The Notice confirms that the EU sustainable finance framework – including, among others, the CSRD and its European Sustainability Reporting Standards (“**ESRSs**”), the SFDR<sup>7</sup>, the Taxonomy Regulation, and the CSDDD – does not exclude the defence sector from its scope. The Commission underlines that

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<sup>5</sup> As defined by the Commission: “Sustainable finance refers to the process of taking environmental, social and governance (ESG) considerations into account when making investment decisions in the financial sector, facilitating a better appreciation of sustainability-related risks and more investments in sustainable economic activities and projects”: see [https://defence-industry-space.ec.europa.eu/document/download/ac79ebc7-d2f1-4e7a-a79c-71a06a5fdbf8\\_en?filename=notice-application-sustainable-finance-framework-and-corporate-sustainability.pdf](https://defence-industry-space.ec.europa.eu/document/download/ac79ebc7-d2f1-4e7a-a79c-71a06a5fdbf8_en?filename=notice-application-sustainable-finance-framework-and-corporate-sustainability.pdf).

<sup>6</sup> [https://defence-industry-space.ec.europa.eu/document/download/ac79ebc7-d2f1-4e7a-a79c-71a06a5fdbf8\\_en?filename=notice-application-sustainable-finance-framework-and-corporate-sustainability.pdf](https://defence-industry-space.ec.europa.eu/document/download/ac79ebc7-d2f1-4e7a-a79c-71a06a5fdbf8_en?filename=notice-application-sustainable-finance-framework-and-corporate-sustainability.pdf).

<sup>7</sup> Regulation 9EU) 2019/2088.

sustainability disclosure requirements apply horizontally across all industries and that the framework sets no restrictions on financing any sector, including defence. Defence sector investments, like those in other sectors, should be assessed on a case-by-case basis.

The Notice also clarifies that the ESRs under the CSRD do not restrict investment in the defence sector but simply require the disclosure of sustainability-related information. The Notice provides guidance for financial market participants investing in the defence industry on disclosures under the SFDR in particular relating to the assessment of principal adverse impact indicators and how such investments might contribute to environmental or social objectives and alignment with the Taxonomy Regulation.

With respect to the CSDDD, the Notice specifies that the defence sector is covered in the same way as other industries, except that due diligence obligations do not apply to the activities of downstream business partners relating to products subject to export control by a Member State, once the export has been authorized.

#### **4. Green Claims Directive**

In the broader EU sustainability landscape the European Commission has now confirmed its intention to withdraw the Green Claims Directive which was proposed in March 2023, just days before trilogue negotiations were due to begin. The Green Claims Directive aimed to protect consumers from greenwashing claims about the environmental attributes of products and services, by requiring companies to substantiate these claims with reliable and verifiable information.

#### **5. Next Steps**

##### **a. Legislative Timelines**

The next phase of the legislative process will begin with the European Parliament finalizing its negotiating position. These negotiations are currently expected to start in late 2025, with the objective of reaching a final agreement by the end of the year.

The Council's position also proposes to postpone the transposition deadline for the CSDDD by one year, from July 26, 2027 to July 26, 2028. It is important to emphasize that the Council's position does not represent the final EU position and may still be subject to significant changes as the negotiations progress<sup>8</sup>.

On the above-mentioned Green Claims Directive, although following a separate legislative process, its withdrawal takes place in the same broader context of shifting legislative priorities and a scaling back of the EU's sustainability agenda. This development, alongside the Omnibus Package, illustrates a broader pullback from the EU's climate

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<sup>8</sup> Under the ordinary legislative procedure, the European Parliament and the Council act as co-legislators and must ultimately agree on a common text. Once the Parliament has adopted its position, the file will move to trilogue negotiations, which are informal interinstitutional discussions between representatives of the Parliament, the Council, and the European Commission. The aim of a trilogue is to reach a provisional agreement that is acceptable to both co-legislators. The Commission participates in the trilogue as a mediator. The provisional agreement must then be formally approved by both the Parliament and the Council through their respective internal procedures before the legislative act can be adopted.

and sustainability ambitions that had initially characterized the European Green Deal. It also underscores the fact that the EU's sustainability legislative landscape remains highly dynamic and politically sensitive, with future developments likely to evolve in an uncertain and rapidly changing environment.

## **b. Formal Complaint to European Ombudsman**

In parallel to the legislative process, a formal complaint is currently pending before the European Ombudsman regarding the European Commission's preparation of the Omnibus I package<sup>9</sup>. The complaint was submitted on April 18, 2025 by several NGOs, including ClientEarth, who alleges that the Commission's proposal amounts to maladministration. Specifically, the complainants argue that the Commission failed to conduct an impact assessment, did not carry out a public consultation, and provided no adequate justification for these omissions. According to the NGOs, this approach breaches the principles set out in the Treaty on European Union, the Better Regulation Guidelines<sup>10</sup>, and the European Climate Law. They claim that bypassing these procedural safeguards constitutes mismanagement in the preparation of the legislative proposal. The complaint lodged by the NGOs also raises concerns about the lack of a climate consistency assessment, as required under the European Climate Law. Following an initial analysis of the complaint, the European Ombudsman opened an inquiry in May 2025, requesting that the Commission provide further clarification on the stakeholder consultations referenced in its explanatory memorandum. In particular, the Ombudsman has asked the Commission to detail which companies and stakeholders were consulted in early February 2025, the criteria used for selecting them, and the reasons for not conducting a broader public consultation. The inquiry is currently ongoing<sup>11</sup>.

## **c. Key Takeaways**

Together, these packages signal a shift in the EU's legislative approach, which – mirrored by several EU member states<sup>12</sup> – appears to be recalibrating regulatory complexity in favor of strategic priorities and streamlined compliance across key policy areas such as sustainability and the defence sector.

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<sup>9</sup> <https://www.ombudsman.europa.eu/en/news-document/en/205297>.

<sup>10</sup> The Better Regulation Guidelines set out the principles that the European Commission follows when preparing new initiatives and proposals and when managing and evaluating existing legislation. The guidelines apply to each phase of the law-making cycle. See: [https://commission.europa.eu/law/law-making-process/better-regulation/better-regulation-guidelines-and-toolbox\\_en](https://commission.europa.eu/law/law-making-process/better-regulation/better-regulation-guidelines-and-toolbox_en).

<sup>11</sup> Although the European Ombudsman does not have enforcement powers, it may issue recommendations to the Commission that could influence the conduct of future legislative processes. Indeed, NGOs have urged the European Ombudsman to recommend that the Commission provide detailed and transparent justifications for any future deviations from the Better Regulation Guidelines, particularly regarding the absence of public consultations or impact assessments. They have also urged the European Ombudsman to recommend that new evidence-gathering tools, such as the so-called "reality checks," which are not based on transparent stakeholder selection and do not disclose participants, agendas, or opinions expressed, should not replace proper public consultations grounded in the principles of openness, transparency, and diversity of views set out in the Better Regulation Guidelines. While the outcome of the inquiry remains to be seen, the complaint highlights the increasing scrutiny over the Commission's adherence to procedural safeguards in the preparation of major legislative proposals.

<sup>12</sup> *Statement by President von der Leyen with Friedrich Merz, Federal Chancellor of the Federal Republic of Germany*, May 9, 2025, available on: [https://ec.europa.eu/commission/presscorner/detail/da/statement\\_25\\_1173](https://ec.europa.eu/commission/presscorner/detail/da/statement_25_1173).

If you have any questions regarding this client alert, please contact the following attorneys or the Willkie attorney with whom you regularly work.

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