An effective ESG framework:

Enabling innovation and competitiveness in the automotive supply industry

CLEPA
European Association of Automotive Suppliers

Supporting sustainability while reducing regulatory complexity

CLEPA supports the EU's goals on climate action, circular economy, responsible supply chains, human rights protection and a just transition. European ESG (Environmental, Social, and Governance) regulatory frameworks should empower companies to actively drive progress toward these objectives. However, the current regulatory approach places excessive emphasis on reporting requirements and legal liability, creating administrative burdens and legal uncertainty that hinder innovation and competitiveness.

Currently, EU policies contrast sharply with other regions that foster innovation through targeted incentives such as tax benefits or voluntary compliance frameworks. The ESG framework should offer companies more flexibility to prioritize sustainability objectives according to where they can have the biggest impact, for instance, through a relentless focus on sustainable innovation. Automotive suppliers invest €30 billion annually in research and development, to reduce emissions, enhance circularity, consumer experience and safety. Regulatory simplification can help unleash this innovation potential, allowing Europe to compete effectively with other regions.

Unlocking innovation: A call for streamlined ESG policies

CLEPA urges the European Commission to take bold action with the upcoming ESG omnibus package to streamline reporting requirements and significantly reduce the administrative burden. In principle, CLEPA supports a regulatory framework for sustainability reporting and due diligence requirements that can help industry to drive positive change, improve contributions to societal wellbeing and reduce environmental impact. However, the current patchwork of directives and regulations has shifted significant resources to data collection across supply chains, the preparation of audits, and efforts to ensure compliance with often contradictory or duplicate requirements.

We welcome the Commission's ambition to cut reporting obligations for firms by 25%, as expressed in the Competitiveness Compass. This reduction must be implemented effectively to free up capacity for companies to innovate, implement strategies to bring down emissions, increase circularity, and create positive social impact.

Reforming the current framework should focus on the removal of reporting obligations rather than the reformulation of reporting requirements in CSRD and taxonomy and fast track changes that can have an immediate impact. The European Commission should also provide companies with more time to comply with mandates to collect value chain data. Businesses that have already prepared to comply with certain reporting standards should not suddenly face shifts in reporting standards and requirements that create additional complexity and costs.

CLEPA's key recommendations for ESG Omnibus approach

- **Adopt targeted amendments** to align definitions, remove duplications or highly ineffective provisions, and introduce and/or increase effective de-minimis exemptions across primary legislation.
- **Review and simplify secondary legislation**, particularly inconsistencies and duplications across ESRS accounting standards and value chain data collection requirements. The European

Commission should instruct the European Financial Reporting Advisory Group (EFRAG) to revise materiality assessments guidelines to help companies prioritise a significantly smaller set of data points.

- **Introduce a "bureaucracy check"** for new legislation to prevent further overlapping regulatory requirements. A priority should be simplifying the Green Claims Directive, on which no political agreement has been reached yet.

CLEPA's specific recommendations on legislation

The ESG-omnibus should prioritise concrete actions to drastically reduce reporting requirements across the following regulations:

- **Corporate Sustainability Reporting Directive (CSRD):** The CSRD should be the single legislation imposing reporting requirements, with a phase-in for value chain data collection extended from three to five years. Non-quantitative reporting should be voluntary. Reporting should be done on production material, focusing on the most relevant and impactful materials for sustainability. Companies should be explicitly allowed to focus the first three years on a limited set of five topical reporting standards. Duplications across standards should be significantly reduced in a second stage. Sector standards should be of voluntary guidance, focused on helping companies limit the number of KPIs to report on.

- **EU Taxonomy Regulation:** The regulation should be simplified to function as a classification scheme that allows investors to allocate capital to activities that contribute to environmental objectives. Requirements to classify capital and operational expenditures under the Taxonomy should be voluntary. "Do No Significant Harm" criteria should align with existing regulations such as REACH. The Taxonomy regulation should focus on economic activities and should not impose additional reporting obligations on unrelated corporate conduct, as this is regulated under CS3D and other regulations. The EU Taxonomy Minimum Safeguards should therefore be deleted from the regulation.

- **De-minimis exemptions**: Administrative requirements should focus on areas with the highest impact. The priority would be to include a clear de minimis in the **EU Deforestation Regulation** and replace the €150 threshold in the **Carbon Border Adjustment Mechanism (CBAM)** with a weight-based criterion. Furthermore, companies should be allowed to submit CBAM reports every six months rather than quarterly and extend the deadline to upload CBAM reports by up to two months after the end of each reporting period.

Ensuring a balanced approach to Due Diligence

The European Commission must reassess the impact of the Corporate Sustainability Due Diligence Directive (CS3D) on competitiveness and propose concrete changes to limit the administrative burden related to non-reporting **due diligence requirements**. Furthermore, its implementation across EU member states should not lead to fragmentation or gold-plating.

Policymakers should aim to include targeted amendments to the **CS3D.** Overlapping due diligence rules—such as those in the **Battery Regulation** and **EU Deforestation Regulation—**should not undermine the risk-based approach outlined in the CS3D. Currently, these regulations impose administrative obligations, even when actual risks are minimal. Further simplifications will be possible in the frequency with which companies need to update their risks assessments and conduct engagement with stakeholders under CS3D.

A fundamental challenge of the CS3D is that supply chains are deep, and risks can be found at many levels often among indirect suppliers. This is both true for the identification of risks as well as the prevention or termination of an adverse impact. While the CS3D framework allows companies to prioritise risks, in practice, it is difficult to determine when a risk can be deprioritised without facing legal liability.

CLEPA urges policymakers to assess how we can ensure that due diligence obligations remain manageable. Due diligence requirements should contribute to an improvement of working conditions across supply chains and reduce risks of adverse impacts on human rights and environment. A framework that drives industry collaboration may have a bigger impact in this regard than a framework that puts too much emphasis on a company's individual liability over its supply chain. Safe harbour clauses or a similar mechanism could be an option. Such provisions could mean that companies effectively are considered to have fulfilled their due diligence obligations in case of participation in a certified industry initiative.

About CLEPA

CLEPA, the European Association of Automotive Suppliers based in Brussels, represents over 3,000 companies, from multi-nationals to SMEs, supplying state-of-the-art components and innovative technology for safe, smart and sustainable mobility, investing over €30 billion yearly in research and development. Automotive suppliers in Europe directly employ 1.7 million people in the EU.

Interested in more information?

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