Left Behind

How the Omnibus Package Fails Vulnerable Workers from Informal Economies

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The European Commission (EC) announced in November 2024 its intent to reduce administrative burdens for businesses as a response to regulatory complexity outlined in Mario Draghi's 2024 report and to benefit European competitiveness. On 26 February 2025, it introduced the Omnibus Package, a regulatory reform aimed at "simplifying" corporate sustainability reporting and due diligence requirements envisaged under the European Green Deal.

This article aims to reflect on the issues in the Omnibus process, and its impact on legislation that was once hailed as a groundbreaking regulatory framework to enforce mandatory Human Rights and Environmental Due Diligence (mHREDD) across Global Value Chains (GVCs), i.e., the CSDDD, and the resulting wider effects on sustainability and human rights for the Global South.

A non-transparent regulatory overhaul

The Omnibus package proposes amending the Corporate Sustainability Reporting Directive (CSRD), the Corporate Sustainability Due Diligence Directive (CSDDD), the Carbon Adjustment Mechanism (CBAM), and the InvestEu Regulation. The EC also issued a draft Delegated Act to propose changes to the EU (European Union) Taxonomy Regulation. However, these revisions raise serious concerns about the dilution of corporate accountability, the transparency of the legislative process, and the broader implications for sustainability, particularly for rightsholders in the Global South.

One of the most contentious aspects of the Omnibus Package is its rushed, severely limited and opaque development – as no formal draft was made available for public consultation before its introduction. A short notice closed-door consultation was held on 6 February 2025 involving 58 corporate entities with substantial presence of oil and gas companies and merely 10 Non-Governmental Organisations (NGOs).

The whole legislative process lacked transparency, which was widely criticised by NGOs and trade unions. It violates the EC's Better Regulation Guidelines and weakens the EU democratic principles. By prioritising speed over inclusive stakeholder engagement, the EC risks regulatory instability, weakening enforcement mechanisms, and a shift towards favouring corporate interests over environmental and human rights protections.

The Omnibus-led CSDDD

The Omnibus proposal, by postponing the transposition deadline to 26 July 2027, limits the legal mandate to conduct mHREDD to Tier-1 suppliers only, i.e., those directly supplying manufacturers or businesses. This shift significantly weakens corporate responsibility, restricting accountability to direct business partners (own operations, subsidiaries, and direct relationships) rather than the full extent of GVCs. Since the most severe human rights and environmental violations typically occur further upstream, beyond Tier-1 suppliers, in raw material extraction and lower-tier production, this provision incentivises companies to overlook deeper supply chain risks. In contrast, the original approach taken by the CSDDD was regarded as a major step forward – an ambition that also distinguished it from Germany's *Lieferkettengesetz* (LkSG).

In-scope companies will only be required to conduct mHREDD in their GVCs beyond their direct business partners when "plausible information" indicating adverse impacts arises – a threshold similar to the "substantiated knowledge" caveat under the German LkSG. Rarely are any energy or solar, electron-

ics or automotive, cocoa or coffee, and clothing or supermarket companies unaware of the human rights and environmental issues involved in their GVCs on a general level, especially in their upstream value chains. It eventually boils down to whether they take cognisance and remedial actions concerning concrete violations that are directly flagged. However, there is no longer an ongoing obligation to track risks, because it is now proposed as a one-time exercise every five years, disincentivising real-time improvements in GVCs. Hence, this qualifier barely makes any difference.

By stripping away the original financial penalties (5% of global turnover) and removing EU-wide civil liability, it has been raised that the CSDDD's enforcement mechanism will be severely weakened, making it virtually toothless, and thereby reducing it to little more than a voluntary framework. This means victims of corporate harm will now have to rely on individual Member States to act, creating an uneven patchwork of protections. When companies violate laws, they often do so knowingly because the financial benefits exceed the tentative fines. Giving Member States such wide discretion in setting penalties increases the risk of weak enforcement and encourages them to continue having limited rules to attract businesses. Instead of holding companies accountable, this diluted framework risks turning corporate responsibility into little more than a box-ticking exercise, leaving those affected by corporate abuses without real recourse.

The Omnibus also proposes to remove the obligation to "put into effect" the climate transition plan, providing a major opportunity for greenwashing. Once companies have drafted their plans, they will no longer be obliged to work on executing them. This move triggers the European Green Deal, especially, the European Climate Law, which mandates designing and implementing a transition plan to achieve climate neutrality by 2050.

Negative consequences for the Global South

Before the Omnibus, the CSDDD had already been criticised for its unintended consequences and lack of meaningful engagement with rightsholders (distinct from stakeholders) in the Global South. Though designed to regulate in-scope EU companies, its envisaged mHREDD framework inevitably impacts Global South suppliers in GVCs. The EC's Regulatory Scrutiny Board (RSB) flagged its impact, stating that it should "better account for potential negative impacts in third countries, notably in developing countries."

For many economies in the Global South, globalisation has been a double-edged sword, driving foreign investments while exacerbating socio-economic vulnerabilities. The informal sector, prevalent in industries like apparel, street vending, small-scale agriculture, and day labour, emerged due to limited access to formal jobs, inadequate infrastructure, and weak social safety nets. As governments fail to ensure a credible rule of law, enforcement, or institutional support, informal workers face the highest exposure to the gravest human rights and environmental violations. They continue to work in precarious conditions – deprived of income security, healthcare, access to legal remedy, formal training, and a safe workplace.

The informal economy and its interdependence with the formal economy

The Omnibus-led CSDDD overlooks the realities of informal economies even though they play a crucial role in sustaining local economies. It did not holistically include the voices of the Global South rightsholders in its consultative process. Their plight will go unnoticed as the CSDDD will lead companies to put a blind eye to their informal suppliers, which usually exist beyond Tier-1 of their GVCs. For genuine progress, the EU must integrate the perspectives of those who bear the brunt of exploitation and acknowledge the deep connection between formal and informal economies.

The ILO defines the informal economy as "all economic activities by workers and economic units that are either not covered or are insufficiently covered by formal arrangements, whether by law or in practice". The informal sector, a subset of the informal economy, consists of legitimate businesses not registered with government authorities. It estimates that 2 billion workers (over 60% of the world's adult labour

force) operate in the informal sector (at least part-time). In the Global South, informal employment accounts for 70% of total jobs, reaching even higher levels in sub-Saharan Africa and South Asia.

The informal sector, comprising small-scale farmers, informal workers, unregistered petty contractors, small, medium and unregistered enterprises, is critical to the functioning of the formal economy. They provide essential services and supply necessary goods and services by forming a symbiotic economic relationship. They also offer a safety net for those who cannot access formal employment. They lack formal documentation, institutional support, financial resources and legal protections to comply and uplift themselves from the cycle of informality.

The Omnibus-led CSDDD directly excludes informal sector rightsholders. Without adequate support mechanisms, it risks marginalisation of approximately 450 million people in jobs linked to GVCs across both formal and informal sectors. It threatens disrupting vital linkages, destabilising local economies, and undermines the EU's sustainability objectives.

Towards an inclusive approach

Nada Al-Nashif, UN Deputy High Commissioner for Human Rights, emphasises that "a human rights economy puts people and the planet at the centre of economic decisions." Volker Türk, UN High Commissioner for Human Rights, recently reinforced this vision at the 13th UN Forum on Business and Human Rights calling for economies where "economic and social decision-making are guided by and invest in human rights." These calls highlight the pressing need to address the persistent exploitation within GVCs, which disproportionately impacts workers and communities in the Global South.

The EU's responsibility to drive responsible business conduct stems from legal obligations and policy commitments under EU and international law. The Omnibus move undermines the UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises, and the ILO Declaration on Fundamental Principles and Rights at Work, which establish corporate due diligence responsibilities, particularly in GVCs. Within the EU legal framework, Article 3(5) of the Treaty on European Union commits the EU to uphold and promote its values, including sustainable development, in its relations with the wider world.

Human rights challenges in GVCs remain systemic, so any corporate due diligence legislation at its core should address the protection of rightsholders – informal workers, small producers, and marginalised communities that form the backbone of GVCs. Instead of integrating them into a fairer economic system, the Omnibus-led revisions to the CSDDD risk shutting them out entirely from being taken into consideration and exacerbating inequalities by failing to provide pathways for informal businesses to transition toward compliance.

As the Omnibus Package proceeds to the EU Parliament and the Council of the EU, the world awaits them to deliberate on a regulatory environment that promotes inclusive responsible business conduct. The EU should integrate "do no harm" principles with "do good" strategies, ensuring that regulatory frameworks foster inclusion rather than exclusion. The EU needs to reflect upon the realities of the informal economies and adopt the following five measures to have a more inclusive approach, to begin with:

First, flexible reporting requirements should encourage different industries to acknowledge the presence of informal suppliers beyond Tier-1 and flag the complexities of GVCs. An example is the Anti-Slavery Chocolate company Tony's Chocoloney which voluntarily admitted that 1,700 child labourers were involved in making its confectionery in 2022.

Second, companies reliant on informal suppliers should be provisioned to gradually create a structure and time-bound plan to help informal suppliers meet due diligence standards rather than immediately disengaging from them.

Third, the EU and multinational companies must provide real financial, technical and capacity-building support for the most vulnerable, like training programs or access to credit.

Fourth, informal workers, small-scale farmers, and vulnerable suppliers from the Global South must have a say in shaping the rules that affect them.

Fifth, the EU should work closely with governments, unions, and NGOs in the Global South to co-develop solutions that balance sustainability with economic justice rather than pursuing a top-down mandate.

Regulatory simplification must not come at the expense of vulnerable economic rightsholders. Informal economies are expanding particularly in the wake of COVID-19. The Omnibus Package diminishes the EU's credibility as the global forerunner for corporate governance. If the EU truly wants to lead on sustainability and human rights, it cannot afford to look away from the informal workers and businesses in the Global South that form the foundation of GVCs. Without this, the Omnibus Package risks reinforcing historical inequalities rather than rectifying them.

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