Institut européen
European Institute

LUISS
School of Government

Joint Master in Global Economic Governance and Public Affairs

From Sustainability to Security: How Multinational Corporations Reshape ESG under Geopolitical Shocks and Rearm EU

Supervised by Stefano Frascani

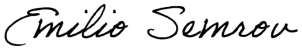
Emilio Semrov

2025/2026

Co-funded by
the European Union

STATUTORY DECLARATION

I hereby declare that I have composed the present thesis autonomously and without use of any other than the cited sources or means. I have indicated parts that were taken out of published or unpublished work correctly and in a verifiable manner through a quotation. I further assure that I have not presented this thesis to any other institute or university for evaluation and that it has not been published before.
The author acknowledges the use of Claude, an artificial intelligence system created by Anthropic (Anthropic, 2026), in the preparation of this work. Specifically, AI-generated assistance was limited to language refinement and organizational editing of written content, on the basis of analysis, reasoning, and sources independently gathered and elaborated by the author. The intellectual ownership of all conceptual frameworks, empirical results, bibliographic references, and final conclusions rests entirely with the author.



Emilio Semrov
July 10th, 2026

Thesis Pitch:
https://youtu.be/BZxLfUFMjUY

From Sustainability to Security: How Multinational Corporations Reshape ESG under Geopolitical Shocks and Rearm EU

Abstract

This thesis examines how European ESG regulation has been reshaped under the combined pressure of geopolitical shocks and corporate political activity between 2019 and 2026. The central argument is that ESG frameworks have functioned as contested terrain in which the boundary between sustainability and competing political priorities, energy security, strategic autonomy, and defence readiness, has been progressively redrawn, with multinational corporations playing a constitutive rather than merely reactive role in that process.

The thesis develops this argument across four chapters. The first establishes that ESG operates simultaneously as a disciplinary mechanism and a strategic resource, whose structural reliance on disclosure rather than enforceable outcomes creates systematic advantages for firms with the capacity to manage technical complexity. The second traces how a sequence of geopolitical shocks, the Covid-19 pandemic, the Russian invasion of Ukraine, the Israeli-Iranian conflict, and the Omnibus simplification package, actively reconstructed the normative hierarchy on which the Green Deal rested. The third focuses on ReArm EU as an ESG stress test, documenting the normative incoherence produced when defence activities were reframed as contributors to social sustainability. The fourth examines the micro-level mechanisms of corporate influence through two case studies: the EU Taxonomy Complementary Delegated Act of 2022 and the Omnibus I package of 2025 - 2026.

The thesis concludes that ESG has evolved into a shared governance language flexible enough to accommodate competing political imperatives, but increasingly decoupled from its original disciplinary function.

Introduction

Ethical investing has a long history that dates back to the 17th century when social and responsible investing (SRI) emerged as the Religious Society of Friends, a Christian movement, shunned companies that profited from slavery and war. Following their lead, various religious groups admonished their members from investing in enterprises that promoted gambling, alcohol, and usury in the early 20th century. The first-ever SRI fund was pioneered in 1928 (Pioneer Fund) and featured negatively screened stocks.

Meanwhile, the history of corporate social responsibility (CSR) and its impact on business practices can be traced back to the dawn of the Industrial Revolution when negative public opinion about the exploitative factory regime, poor working conditions, and child labour emerged. It was believed that such practices as employment of women and children underlocked the rate of poverty and caused social unrest.

The late 19th century marked the rise of philanthropy. The industrialist and steel magnate Andrew Carnegie, who made most of his fortune in the steel industry, is reported to have donated a significant portion of his wealth to charitable causes, including education and science. In 1953, American economist Howard Bowen published "Social Responsibilities of the Businessman," in which he articulated the need for businessmen to adjust their practices and meet social expectations. Notably, the idea of corporate social responsibility gained ground in the 1960s-1970s and has been actively institutionalized and regulated in the twenty-first century.

The first one being introduced was the GRI (Global Reporting Initiative), which is probably the most well-known and widely used framework. It was created back in 2000, originally as a response to the Exxon Valdez oil spill. What makes GRI stand out is that it is free to use and focuses on how organizations impact the world around them and offers a multi-stakeholder process, which is different from other frameworks. In 2017, they added guidance on SDGs' corporate reporting.
The first global index to track leading sustainability-driven public companies was the Dow Jones Sustainability Indices. Inclusion in the index, as a leading sustainability-driven company, is considered to be a badge of honor for companies, as it attracts more attention from financial analysts and long-term equity investors

Then there's the CDP (Carbon Disclosure Project), founded in 2000, which specifically targets environmental disclosures, such as climate change, water security, and deforestation. Companies fill out questionnaires and get feedback on how to improve.

The Climate Disclosure Standards Board (CDSB) is a framework for reporting environmental and climate change information in mainstream corporate reports, annual reports, or the Form 10-K[1]. It enables organizations to comply with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommendations by disclosing environmental and natural capital information. The TCFD was established in 2015 by the Financial Stability Board. It's specifically about climate-related financial risks, and its reporting structure revolves around governance, strategy, risk management, and targets. It's voluntary, but given that it's backed by G20 countries and chaired by Michael Bloomberg.

The Global Real Estate Sustainability Benchmark (GRESB), instead, was founded in the Netherlands in 2009. It is focused on the performance of global commercial real estate portfolios, real estate investment trusts (REITs), funds, asset managers, and developers utilizing ESG.

There is the International Integrated Reporting Council (IIRC) is a coalition that includes a variety of different entities from policy makers, academia, regulators, exchanges, providers of financial capital, accountants, businesses, and other broad global communities for the adoption of Integrated Reporting and value creation, to improve sustainability and financial stability. In 2020, the IIRC announced its plans to merge with the SASB in 2021.

The Global Initiative for Sustainability Ratings (GISR) is to direct the financial, human, social, and natural capital of organizations toward sustainable development. It is a ratings framework that measures excellence in sustainability performance by utilizing ESG data to produce ratings. The GISR framework is made up of principles, performance, weights applied to indicators, and quality corporate strategy, management, and culture relative to sustainability. The Ratings Hub provides sustainability ratings, ranking, and indexes that can be used by investors, companies, governments, and academics for investment, strategy, and policy.

Although SASB is a relatively young standard compared to others, it has been gaining increasing attention due to the developed industry-specific sustainability accounting standards. They were endorsed by big companies like BlackRock, which made it more popular among other organizations. Compared to the Global Reporting Initiative (GRI), the accounting standard of SASB is more focused on the impact on investors and is primarily used by American companies. Moreover, the SASB standards are connected with the specificities of materiality, which allows investors to assess the risks accurately. Their R-factor ("responsibility factor) is an ESG score, which is based on the SASB Materiality Map, providing insight into the financially material risks associated

[1] It is a comprehensive annual report required by the U.S. Securities and Exchange Commission for public companies, detailing financial performance, business operations, risks, and audited financial statements. Unlike the glossy annual report to shareholders, the 10-K provides in-depth, technical, and standardized data.

with a company. It has also been announced that SASB will merge with the IIRC, which happened in 2021.

To conclude, although there is overlap between these reporting frameworks, the differences in their primary audiences are evident. The GRI is geared toward more general audiences, whereas TCFD and SASB are primarily for investors. This is essential to understand while reviewing companies' sustainability reports. ESG frameworks do more than enhance an enterprise's reputational credibility; they are essential in the increasingly regulated European market. Infact, there is a dense regulatory ecosystem created under the umbrella of the European Green Deal where multiple legal instruments intersect each other. Each of these instruments targets various stakeholders, be it corporations or financial market participants, and integrates ESG indicators differently. To grasp this regulatory architecture, one needs to delineate the key pillars.

First, it should be noted that the Corporate Sustainability Rreporting Directive (CSRD) is the main instrument for corporate disclosure of ESG-related information. It is targeted at a variety of firms active on the territory of the EU, namely those whose consolidated revenue exceeds 150 million euros and all listed SMEs.They are obliged to prepare sustainability statements reporting on ESG performance, including social matters. The CSRD compliance actually promotes more extensive, standardized, and verifiable ESG reporting.

Second, the essential element of the regulation framework is the EU Taxonomy Regulation, which actually complements the CSRD and the SFDR. The CSRD-regulated companies should disclose their turnover, capital expenditures (CapEx), and operating expenditures (OpEx) in line with the EU Taxonomy for sustainable activities. The regulation introduces more formal criteria for ESG reporting, particularly concerning the climate change-related impacts. The SFDR actually addresses ESG integration in investment decisions. It requires asset managers and advisers, as well as portfolio investees, to disclose the ESG-related risks and impacts of their investment strategies. Its fundamental objective is to standardise the Principal Adverse Effects (PAEs) across financial institutions and establish a harmonized framework for ESG-labeled financial products within the EU. SFDR was actually designed to work in tandem with the CSRD, offering the ESG data on financial assets and products to complement the ESG reporting of enterprises issued by the CSRD.

Third, there is CS3D, the Corporate Sustainability Due Diligence Directive, which was adopted in 2024. Unlike the CSRD, SFDR, and Taxonomy, which mostly addressed ESG reporting requirements, CS3D imposes certain due diligence obligations on EU companies, particularly large enterprises. The main goal of the CS3D is to ensure that businesses respect human rights and the environment throughout their supply chains. Thus, the due diligence under CS3D covers social and environmental concerns, whereas the CSRD's double materiality encompasses both the impacts of the business on the

environment and its business processes. At any rate, CS3D actually marks a paradigm shift towards the EU sustainable development, moving beyond just the disclosure to take responsibility. The companies, which are obliged to comply with the CS3D, may actually face direct litigation under the national laws if specific adverse impacts are not detected and remedied.

There are also various other regulations and directives addressing ESG concerns. For instance, the Climate Benchmarks Regulation, which relates to the disclosure of ESG indicators of climate-linked benchmarks, was enacted. Additionally, prudential regulations for climate change, which affect the financial sector, are also being introduced.

Literature Review

The scholarly literature most relevant to this thesis lies at the intersection of three fields: the political economy of ESG and sustainable finance, corporate political activity and regulatory capture, and the broader study of geopolitics and economic governance. Each provides essential analytical tools, yet none individually addresses the specific question examined here: how multinational corporations exploit geopolitical shocks to reshape the regulatory content of ESG frameworks. Mapping these fields, and identifying their points of convergence and limitation, is therefore a necessary starting point.

The most foundational contribution to the first field is the empirical work on ESG rating divergence by Berg, Kölbel, and Rigobon (2022), which demonstrates that ratings across major ESG providers correlate at an average of only 0.54, significantly lower than the near-unity correlations observed among credit rating agencies. This is not merely a technical issue of measurement inconsistency but, as this thesis argues, a structural feature of ESG governance that firms can exploit by selecting frameworks or providers whose methodologies best accommodate their existing practices. Friede, Busch, and Bassen (2015), through their meta-analysis of nearly two thousand empirical studies, find that most report non-negative relationships between ESG performance and financial returns, supporting the argument that sustainability and profitability can be compatible. Amel-Zadeh and Serafeim (2018), however, show that investor adoption of ESG criteria is driven mainly by financial materiality rather than normative commitments, raising questions about the durability of ESG adoption under economic pressure. Larcker and Watts (2020) further challenge the financial logic of green finance by finding no price premium for green bonds, while Flammer (2021) argues that reputational signalling value may persist despite limited direct financial benefits.

Together, these contributions establish ESG as an ambiguous and contested market phenomenon, but they provide limited explanation of how this ambiguity is politically produced and maintained. The literature on corporate legitimacy and sustainability reporting offers a complementary perspective. Suchman (1995) develops the concept of legitimacy as a resource that is postulated to be controlled by the organizations through their public behaviour, whereas Aguilera et al. (2007) provide an insight into the source of pressures on corporations while discussing the determinants of corporate social responsibility. Eccles, Ioannou, and Serafeim (2014) demonstrate that early movers have obtained significant advantages of being ahead of the pack, although their research precedes the mandatory expansion of ESG due to the European Green Deal. Christensen, Hail, and Leuz (2021) highlight the various impacts of mandatory Corporate Social Responsibility reporting, thus proving that the differences between disclosure and corporate change remain significant. Finally, Hess (2008) offers the critical review and differentiation between the disclosure-based approaches,

emphasizing transparency, accountability, and participation, highlighting that, in practice, reporting often tends to formalize the first and undermine the last two. This conclusion closely follows the analysis presented in Chapters 2 and 4, which provides the reader with a better understanding of the topic.

The second field, corporate political activity and regulatory capture, provides the theoretical tools to understand how firms actively shape regulatory frameworks rather than simply respond to them. Hillman, Keim, and Schuler (2004) offer a foundational taxonomy distinguishing direct lobbying, coalition-building, and structural access to regulatory processes. Pagliari and Young (2014) demonstrate that corporate power operates not only through lobbying but through shaping the terms of regulatory debate itself, a form of structural influence that is effective precisely because it is difficult to identify and challenge. Their analysis of post-2008 financial regulation anticipates similar dynamics in the ESG context. Carpenter and Moss (2014) extend this perspective through the concept of "soft" or "cultural" capture, showing how regulators can become aligned with industry preferences through repeated access, expertise dependence, and favourable framing of policy options without requiring explicit takeover. Rasmussen (2015) adds an institutional dimension, demonstrating that business groups are particularly influential in European Parliament technical committees, where many consequential ESG standards are developed. Nevertheless, an important gap remains. Although corporate influence over financial regulation has been extensively studied, its application to ESG classification systems, particularly the EU Taxonomy as a contested site of regulatory boundary-setting,remains underdeveloped. The Policy and Society analysis of power struggles within the Platform on Sustainable Finance (2025) represents a partial exception, but focuses on a single policy sequence rather than the broader geopolitical transformation examined here.

The third field, geopolitics and economic governance, provides the framework for understanding how external shocks reshape the conditions in which corporate influence operates. Blyth's (2013) argument that crises create ideational vacuums into which new narratives emerge is particularly relevant, as it explains why geopolitical shocks amplify corporate lobbying by disrupting existing institutional consensus and creating opportunities that organised interests are better positioned to exploit. Tooze (2018) applies a similar logic to post-2008 financial governance, showing how reform narratives persisted while underlying structures were gradually restored, a pattern that Chapter 4 identifies within ESG governance.

Recent research on European strategic autonomy, including Schmitz and Seidl (2023) and Vezzoni (2025), traces the movement of EU industrial policy from market-based coordination toward greater state intervention, but has not fully examined the consequences of this shift for ESG governance as a regulatory field. This represents one of the central gaps addressed by this thesis. Gabor's (2021) analysis of the "Wall Street Consensus" provides an important theoretical counterpoint, arguing that the adaptation of sustainability objectives to financial market priorities reflects a structural feature of

contemporary capitalism rather than a temporary policy choice. Her framework helps explain why the expansion of the meaning of sustainability analysed in Chapter 4 tends to accommodate rather than challenge financial and corporate interests.

Two further gaps in the literature require emphasis. First, although extensive research examines the political economy of EU climate policy, relatively little attention has been given to multinational corporations as regulatory co-producers within ESG governance, rather than merely as subjects of regulation. Existing literature often treats corporate influence as an external pressure on regulatory systems; this thesis instead advances a more constitutive account in which firms are embedded within the regulatory process itself.

Second, research on geopolitical shocks and ESG remains largely descriptive and event-focused, lacking a framework for explaining how crises translate into regulatory outcomes. This thesis contributes by applying insights from corporate political activity and regulatory capture literature to ESG governance, providing an analytical framework for understanding how geopolitical disruption can facilitate corporate-driven regulatory change.

Research Methodology

This thesis implements a qualitative research design that is based on an analysis of primary and secondary sources. The choice of this particular method stems from the nature of the posed research question: explaining how multinational corporations have determined the EU's ESG regulation through geopolitical channels. In this case, studying the connection between corporate lobbying/politics and regulatory outcomes involves understanding the mechanisms and processes leading from the input to the output. This is why a qualitative research design has been chosen for this study.

In particular, the thesis makes use of the method of process tracing that employs a comparative case study design. According to Beach and Pedersen (2013), process tracing is used to "explore the mechanisms that connect an independent variable to a dependent variable by highlighting implications that are to be found in the proposed causal mechanisms and then examining whether the evidence at hand supports these implications." In other words, the essence of this method is tracing back the process leading from input (the independent variable) to output (the dependent variable) in order to find out what exactly connects them (the mechanism).

Two cases are used for the analysis. The first one is the inclusion of natural gas and nuclear energy in the EU Taxonomy that was accounted for in the Complementary Delegated Act of March 2022. The second case concerns the adoption of Omnibus I simplification package between February 2025 and early 2026. Both cases represent significant regulatory changes within the scope of the EU's ESG policy. In addition, they both involve active corporate lobbying on the part of corporations as well as provide evidence of the mechanisms through which this lobbying affected the policy outcomes.

There are three types of evidence used for process tracing in this thesis. The first concerns documents produced by the Commission, including delegated acts, impact assessments, responses to consultations, etc. These documents allow to track what influence lobbying efforts have had on the adoption of policy outcomes (the changes suggested by industry groups have been incorporated). For example, as the Impact Assessment for Omnibus I confirms, the responses of various stakeholders to the proposal provided useful insight for the final decision. Next, there are position papers published by corporations, as well as documents produced by the EU Transparency Register, BusinessEurope and Competitiveness Roundtable. This information allows to track what precisely corporate actors were arguing when engaging with policymakers and how these arguments interacted with the final policy outcomes.

Finally, reports produced by third-party organizations such as Reclaim Finance and SOMO serve as evidence of lobbying efforts on the part of corporations as well as the nature and extent of their informal political involvement. The rest of the thesis (chapters 1-3) primarily relies on secondary sources of information. In particular, documentation produced by the European Commission, EU Council, Parliament, the

BusinessEurope/Competitiveness Roundtable constituency, think tanks (Bruegel, RUSI, the IEA), financial market observers, as well as academic research publications were used. Additionally, data and report concerning geopolitical events, ESG ratings and Morningstar Sustainalytics, and the defense-industrial sector can be found in chapter 3.

There are several limitations imposed upon this study that are worth mentioning. First of all, the nature of this study is such that it has to rely on readily available information. It is impossible to know for certain what exactly has happened behind the scenes, which is why the publicly available information may only represent a snapshot of a more complex reality. According to Pagliari and Young, "researchers concerned with political action often find themselves in a position where they have to rely on indirect evidence about hidden interactions because formal channels of communication are secretive or non-existent." This is why this thesis primarily relies on open, but not necessarily comprehensive, sources of information.

Additionally, some of the events analyzed in this thesis occurred recently and, therefore, it is too early to tell what long-standing consequences, if any, they may have. In particular, the future of Omnibus I and ReArm EU, both of which have been subjected to this study, remains to be seen. Finally, there are certain aspects of this study, such as conducting interviews, which were beyond the practical reach of the author. However, it should be noted that this thesis provides extensive qualitative information, including the discussion of lobbying practices employed by corporations (as described in the SOMO report).

Overall, the described factors do not detract significantly from the aims of this study. At the same time, it is important to recognize that this thesis does not seek to quantify the extent to which corporations have influenced the EU's ESG regulation indirectly. Instead, it focuses on analyzing how exactly corporations have engaged in EU geopolitics and what outcomes have these engagements produced for corporate political activity more broadly.

1. ESG as a Constraint and a Strategic Resource for Multinational Corporations

The relationship between multinational corporations and ESG frameworks is more complex than it might initially appear. At first glance, ESG can seem like a straightforward set of constraints imposed on firms by regulators, investors, and civil society. In reality, however, the picture is considerably more nuanced. ESG operates simultaneously as a disciplinary mechanism and as a strategic resource, a field in which corporations are not merely rule-takers but active participants who shape, interpret, and at times exploit the very standards that nominally govern their behaviour. This chapter develops that argument across four interconnected dimensions: the relationship between ESG and capital market access, the reputational logic underpinning corporate ESG adoption, the structural softness of ESG as a regulatory instrument, and the role of business actors in co-producing the standards themselves.

As discussed in the introduction, ESG frameworks have proliferated significantly since the early 2000s, ranging from the broad multi-stakeholder orientation of the GRI to the investor-focused disclosure standards of SASB and the climate-specific recommendations of the TCFD. This proliferation has produced a fragmented and often inconsistent regulatory environment, one in which the absence of a single authoritative standard creates significant room for interpretation. Berg, Kölbel, and Rigobon (2022) have documented this divergence empirically, showing that ESG ratings from different providers correlate only weakly with one another, with correlation coefficients averaging around 0.54. This measurement inconsistency is not merely a technical problem; it is also a structural feature of the ESG landscape that, as this chapter will argue, corporations have learned to navigate strategically.

1.1 ESG and Access to Capital and Financial Markets

One of the main avenues through which ESG became influential as an actor has been its integration into financial markets. Over the past twenty years, ESG criteria have become integral to the decision-making process for institutional investors when considering whether to invest and under what conditions as shown in Figure 1. The resulting financial incentives for improved ESG performance have played an important role in the spread of ESG among firms. The study of this particular dynamic of the ESG ecosystem is therefore critical to understanding the thesis as a whole. The basic premise of this strand of literature is that good ESG performance reduces information asymmetries between the firm and the investor, leading to cheaper capital.

Figure 1

Growth of sustainable investing assets by region in local currency, 2014 – 2022

						GROWTH PER PERIOD				COMPOUND ANNUAL GROWTH RATE (CAGR) 2014-2020
	2014	2016	2018	2020	2022	2014-2016	2016-2018	2018-2020	2020-2022	
Europe (EUR)	€9,885	€11,045	€12,306	€10,730	€12,401	12%	11%	-13%	31%	4%
United States (USD)	$6,572	$8,723	$11,995	$17,081	$8,400	33%	38%	42%	-51%	3%
Canada (CAD)	$1,011	$1,505	$2,132	$3,166	$3,014	49%	42%	48%	-5%	15%
Australia & New Zealand (AUS)	$203	$707	$1,033	$1,295	$1,680	248%	46%	25%	30%	30%
Japan (JPY)	¥840	¥57,056	¥231,952	¥310,039	¥493,598	6692%	307%	34%	59%	122%

NOTE: Asset values are expressed in billions. All figures are in regional currencies. New Zealand assets were converted to Australian dollars.

Source: Global Sustainable Investment Review 2022

Companies that perform well in ESG terms are seen as being better run, having better preparedness for regulatory shocks, regulatory and reputational incidents, and less prone to tail-risk events, such as environmental catastrophes or labor violations, which would severely impair their value. In perhaps the most comprehensive meta-analysis of the ESG-financial performance relationship, Friede, Busch, and Bassen (2015) analyse almost 2,000 empirical studies on the topic and find that about 90 percent of them report non-negative correlations between ESG and financial performance, with a substantial share of the studies showing a positive correlation. These findings have been used to demonstrate the compatibility of sustainability and profitmaking. In contrast, Amel-Zadeh and Serafeim (2018) investigate why investors actually rely on ESG information. Based on their survey data, financial reasons seem to be the prime motivation: investors use ESG criteria because they consider it to be material for their decisions in terms of risk and return. As noted above, the investor-driven rationale behind ESG has played an important role in its adoption because, as a financial criterion, ESG becomes much more manageable in current asset management processes than a moral concept. Moreover, it implies that the decision of firms to incorporate ESG into their operations is made mainly due to the preferences of investors, rather than as an obligation. These dynamics of ESG have had very specific consequences for multinationals. As mentioned in Section 1.1, the market-driven nature of the discipline led to the proliferation of ESG-labelled investment products. As reported by the Global Sustainable Investment Alliance, total assets under sustainable management grew past 35 trillion US dollars by the early 2020s. Leading asset management firms such as BlackRock, whose portfolio was estimated at over ten trillion dollars by the same time, have adopted sustainability criteria and integrated ESG into the investment process. Therefore, being excluded from ESG indices or labelled as low performers by ESG agencies can pose a serious threat to large publicly-listed firms.

However, the ESG market approach also has several drawbacks that should be taken into account when discussing the potential of ESG as a disciplining actor. First, while there is empirical evidence of the positive effect that green bonds have on the issuer's ESG performance, Larcker and Watts (2020) argue that there is no price premium for the securities issued in this fashion, thus rendering their financial benefit somewhat dubious. As noted by Flammer (2021), even in the absence of any actual economic gain,

issuing green bonds sends a signal to the market regarding the firm's sustainability credentials, potentially generating reputational rewards. Nevertheless, this discrepancy between the rhetoric and actual market performance is a frequent phenomenon in ESG research. Another aspect that complicates the picture described above is the variability and discretionary character of ESG implementation, as highlighted by Boffo and Patalano (2020). In the OECD review, these authors stress that the degree to which investors integrate ESG considerations depends significantly on geographical, asset class, and institutional factors. As a result, many investors continue to prioritise traditional financial metrics and are suspicious of ESG products as prone to greenwashing and inconsistency in reporting. According to Berg et al. (2022), ESG assessments performed by independent third-party organisations may diverge widely, with a firm receiving a highly favourable assessment from one evaluator and a mediocre one from another. Under these circumstances, there is a great deal of flexibility in adopting ESG practices that should not be ignored.

1.2 ESG as a Reputational Asset for Multinational Firms

Apart from the financial dimension, multinational corporations have come to see ESG as a source of legitimacy and reputational capital. Unlike the market-based mechanism discussed above, this aspect relates to how the corporation engages with civil society and regulators, presenting itself as a good member of the community. While the financial incentive to adopt ESG practices may be relatively straightforward, this second dimension is critical for large firms with international operations that must cope with different national regulatory environments. From the analytical perspective, the reputational component of ESG differs markedly from the previous one, focusing on the social rather than the economic side of the corporation. In the theoretical framework of this dimension, legitimacy is defined as a generalised perception that the entity's actions are desirable or appropriate within a socially-constructed system of norms and values. According to Suchman (1995), being considered legitimate by various stakeholders brings corporations several tangible benefits: reduced regulatory oversight, smoother civil society interactions, and increased ease of recruiting new employees and forming partnerships with other firms. As ESG performance becomes part of this process, firms need to adopt a certain mode of engaging with society, based on signals sent by sustainability-related measures. As stated by Aguilera et al. (2007), a comprehensive analysis of CSR practices needs to be multilevel: individual, organisational, and institutional forces affect the corporation simultaneously, creating conflicting pressures that may vary considerably. The institutional pressures come from regulators' requirements and societal expectations of corporate behaviour, but, according to the authors, firms are able to exercise agency in choosing how to comply with these pressures. Importantly, Aguilera et al. point out that firms are able to choose the exact mode of compliance, balancing commitment to sustainability goals with impression management. The implication here is clear: if ESG adoption is predominantly reputation-based, firms have strong incentives to focus on appearance over substance. From the perspective outlined above, it is not surprising that ESG adoption exhibits

both genuinely sustainable practices and impression management. As demonstrated by Eccles, Ioannou, and Serafeim (2014), early voluntary adopters of sustainability practices had noticeably better financial performance and improved performance on various dimensions. This indicates that at least some firms that began working on their sustainability initiatives did so out of conviction. At the same time, as ESG practices have been growing in popularity and institutionalisation, the situation seems to have changed: a widespread expectation of ESG reporting generates strong pressures to selectively disclose data and frame it in a certain way, thus satisfying various audiences. In the case of multinational firms, this trend acquires another facet. Due to the fact that such firms are active in numerous jurisdictions where there are different regulatory regimes, societal attitudes, and pressures from civil society, MNCs have the incentive to create and disseminate a narrative that would work in multiple settings. In this regard, ESG practices that follow internationally recognised frameworks (such as GRI, TCFD, SASB) become an attractive option not because they are necessarily the best practices but simply because they allow for creating a coherent picture of ESG that satisfies various stakeholders. This is discussed further in Section 1.3 below. Last but not least, MNCs have the incentive to use ESG as a form of political risk insurance. In a sector that attracts particular attention from civil society and governments due to its controversial character (finance, pharma, energy, extractive industries, etc.), being able to demonstrate its sustainability credentials provides an MNC with several advantages, especially in the European setting with increasingly strict regulations. An example in point is access to government funding for sustainable projects, as discussed in Section 1.4.

1.3 ESG as a Soft Regulatory Tool Rather Than an Institutionalized Framework

Having analysed the financial and reputational aspects of ESG adoption in this paper, we now proceed to the structural one. In particular, in this section, we will demonstrate that despite being extensive and detailed, ESG, as a regulatory framework, is mainly geared towards disclosure, voluntary adoption, and technical assessment, thus leaving ample space for discretion and even selective implementation. Put differently, the design of ESG regulation is deliberately "soft" to accommodate the needs of the same corporate actors that ESG is supposed to govern. First of all, it is necessary to distinguish between disclosing information about ESG-related performances on the one hand and establishing binding targets and standards on the other. In other words, ESG regulation is not designed to impose certain outcomes; instead, its main goal is to make sure that companies report their ESG performance following specific formats and standards. For instance, according to the TCFD framework, firms are encouraged to disclose how their climate-related risks are governed and evaluated without having particular targets for emissions reductions established. Similar observations can be made in relation to CSRD, which, despite being one of the most comprehensive rules governing ESG reporting, focuses on collecting information rather than imposing

concrete requirements. In fact, Christensen et al. (2021) demonstrate that the impacts of mandatory CSR reporting on corporate practices are far from being uniform.

The "softness" of ESG-related regulations originates from several critical factors. First, as mentioned above, they do not impose concrete targets or standards but only require firms to report certain information. This information can pertain to a variety of issues and can be measured in different ways. For instance, while carbon neutrality is often associated with making reductions in Scope 1 and Scope 2 emissions, there is no specific guidance as to how Scope 3 should be treated. As a result, companies can take advantage of the lack of clarity and transparency regarding sustainability-linked accounting standards. Second, ESG regulation is fragmented, which means that firms can choose which standard to follow and which to ignore. Third, many ESG-related frameworks feature self-reporting, which makes it possible for organisations to report the information they deem necessary and report it in a way they find favourable.

In the European Union, the concept of "soft" regulation is particularly relevant because, despite being mandatory, ESG reporting standards were implemented gradually and sparingly, subject to numerous industry-specific modifications. For instance, despite being comprehensive, CSRD was significantly reduced when it was time to actually adopt it and transform it into practice. On the other hand, the European Financial Reporting Advisory Group, tasked with producing implementing regulations, is forced to update its rules constantly in response to industry demands. Furthermore, the inclusion of natural gas and nuclear energy in the ESG taxonomy was a controversial issue that has been subject to conflicting arguments for months. From this, it could be inferred that ESG regulation indeed follows the same pattern identified by Hess (2008). By and large, social and environmental reporting rules only meet the lowest standard of transparency. Although they hold the critical information-generating function, ESG reporting rules do not establish any accountability and participation mechanisms.

At the same time, the "softness" of ESG reporting rules derives its significance from the fact that they create a playing field advantage for multinational corporations. In other words, even though ESG regulations are imposed on all companies regardless of their size, multinational corporations can use their vast resources to influence the rules' design and make the most of the loopholes that exist. At all levels and stages of the ESG reporting cascade, big business has opportunities to affect outcomes and obtain benefits. Therefore, from one perspective, ESG reporting rules are indeed equal for all companies, but, from another perspective, they serve as an instrument that empowers bigger corporations to gain an advantage over smaller competitors in terms of meeting ESG reporting requirements. In this regard, it is reasonable to conclude that in relation to ESG, practice fails to live up to theory.

1.4 Multinational Enterprises' Role in Co-producing ESG Standards

The above analysis proves that ESG serves as a mechanism for financing businesses, providing legitimacy, and functioning as a soft constraint. In this section, the focus shifts to discussing how multinational enterprises and their industry associations are instrumental in shaping ESG standards and norms. To put it differently, in this paper, it is argued that MNEs and industry lobbies are actively involved in the co-production of ESG standards. A good starting point to analyse the above-mentioned process can be found in the literature on corporate political activity (CPA). Following Hillman et al. (2004), we can define CPA as the set of actions aimed at changing the legal environment in favour of the firm's interest. Specifically, according to the cited authors, CPA emerges in cases when the regulatory environment is uncertain or changes are expected that might lead to a negative impact on firms' profitability. Obviously, in the context of growing ESG regulations, multinational enterprises face such situation. As Pagliari and Young (2014) explain, the term "corporate political activity" should be used cautiously since there is a crucial difference between direct influence and the exercise of structural power. In the second case, firms do not intervene in particular political events but rather shape the terms of debate through their activities. When applied to the context of ESG regulation, the above-mentioned definition implies that the role of firms is not to resist ESG but to frame it in a particular way. Thus, it can be assumed that there exist industry alliances that participate in ESG consultations in order to shape the relevant standards and criteria. Indeed, Business Europe, for instance, played a certain role in shaping the EU taxonomies, SFDR, and CSRD (BusinessEurope, 2021). However, these industrial alliances do not aim to oppose to the ESG trend, on the contrary, they try to adapt it to the needs of their members. The process of standards development is another arena for exercising corporate power. Many ESG standards are developed using the multi-stakeholders consultation approach, which involves active participation of business representatives in the process. In fact, business groups are most influential in committees dealing with issues of a more technical nature (Rasmussen, 2015). For example, SASB standards have been developed based on the industry-by-industry approach involving intensive consultation of corporate practitioners, resulting in the creation of materiality frameworks corresponding to current business reporting. The International Integrated Reporting Council (IIRC) also relied heavily on input provided by business representatives in developing its reporting framework. Although in Europe the development of ESG instruments is a legislative process, technical standards, such as European Sustainability Reporting Standards under the CSRD, still involve specialised committees and working groups dominated by industry representatives. Using the above-discussed background, we can interpret the ESG development process with Carpenter and Moss' (2014) concept of regulatory capture in mind. In general, the idea of regulatory capture assumes that regulated parties gain enough power to shape the decisions made by regulators to their advantage (ErisFoundation, 2024). Although overt regulatory capture is rather rare, various types of indirect control are prevalent. In particular, this is the revolving door phenomenon, the regulator's dependence on industry expertise and

knowledge, and the framing of options in terms favourable to the industry. The complexity of sustainability accounting standards implies that regulators are dependent on firms when it comes to collecting and interpreting data. At the same time, business representatives have incentives to make sure that the standards are feasible and economically sensible. Consequently, industry stakeholders are in a powerful position when participating in ESG standards development (Priveli, 2025).

2. Geopolitical Shocks and the Reconfiguration of Corporate Incentives

While the previous chapter focused on the adaptability of ESG as a regulatory framework, this one will highlight how the ESG framework is reshaped under the pressure of geopolitical shocks. Such events introduce instability into the previously functioning system while also presenting a set of new circumstances according to which regulation priorities can be established. As a result, factors such as stability, resilience, and security emerge as the new priorities, replacing sustainability or, at least, complementing it with additional requirements. The ability of multinational corporations to take advantage of this situation and impact the development of ESG regulations positively is noteworthy.

The change in priorities can be seen through the prism of three significant geopolitical shocks that shook the EU in the analyzed period. Firstly, the Covid-19 pandemic, as a source of governance shock, helped incorporate resilience as the key priority within the ESG framework, essentially attaching sustainability to the conditions of ongoing economic security. Secondly, Russia's war with Ukraine, which can be classified as an energy security shock, has shown that energy independence is now more important than carbon neutrality, resulting in the so-called "competitive sustainability." Thirdly, rising tensions between Israel and Iran, which have also impacted global energy markets, have added to the list of challenges, forcing the EU to reexamine its ESG priorities.

Overall, the EU's ESG framework has been reshaped by the set of geopolitical shocks, which affected its development in the coming years. The next section will demonstrate how these changes impacted the trends within each of the ESG pillars.

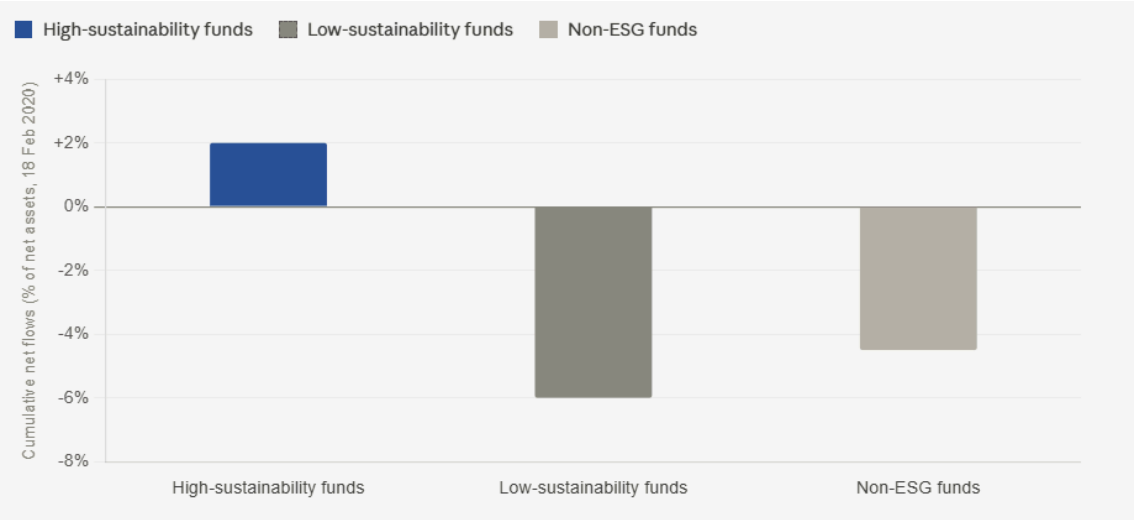
2.1 The Case of the Covid-19 Pandemic: Resilience as the New Regulatory Principle

From the purely financial standpoint, the pandemic can be seen as an unexpected confirmation of the relevance of ESG in investment decisions. Some research demonstrates that firms with strong ESG scores showed lower levels of volatility and higher relative returns compared to their counterparts during the initial market crash of early 2020. As demonstrated in one study, Social and Governance elements of the ESG framework seem to account for this correlation: companies with good relationships with stakeholders and efficient corporate governance systems managed to navigate the crisis better (Scientific Reports, 2024). At the same time, a different study conducted by Glossner et al. (2021) suggests that ESG rating was less correlated with resilience, and the resilience of the portfolio of investments in firms with high ESG scores can rather be attributed to investment in intangibles. The difference in conclusions once again highlights the controversies in ESG measurements raised earlier in Chapter 1. Nevertheless, the more important aspect in terms of this thesis is the role of the pandemic crisis in the realm of economic governance. The coronavirus outbreak led to

an unprecedented expansion of state interventions into economic life, as the government resorted to measures of a fiscal and macroeconomic nature, including fiscal stimulus programs, suspension of debt payments, emergency procurement programs, and the suspension of competition laws. In this context, the concept of resilience came to dominate economic governance and partially replaced the idea of sustainable development and transition that characterized the Green Deal agenda before the crisis. As Adams (2021) notes in analyzing the development of sustainability reporting during the pandemic period, the crisis led to increased pressure on international organizations like IFRS to standardize the ESG framework, partially due to the necessity of obtaining consistent data to plan the post-pandemic recovery. On the European level, the interplay between the needs for crisis management and sustainability was relatively muted but nevertheless present during the period of the pandemic. On the one hand, the European Commission stated that the Green Deal would remain the main driver of the strategy for recovery after the crisis and incorporated the requirement for at least 37 percent of expenditure to be directed to climate-related investments in the Next Generation EU package, a €750 billion recovery fund adopted in 2020. Nevertheless, the requirement was criticized for being overly reliant on the reporting from national governments and having a very broad definition of "climate-related activities." In addition, the idea put forward by Blyth (2013) that crises lead to ideational vacuums into which new narratives can readily flow applies directly to the current situation, as the period of the pandemic facilitated the emergence of resilience as a key regulatory principle.

For multinational corporations, the experience of the pandemic period offered a glimpse of developments that would take place in the future. During this time, corporations succeeded in convincing the regulators that meeting their sustainability requirements amid a crisis would have destabilizing effects on the economies involved, arguing for the need to postpone or loosen regulations in such a context.

Figure 3, Cumulative net fund flows, EU ESG and non-ESG equity UCITS funds, 19 February - 30 June 2020 (as a percentage of net assets as of 18 February 2020)



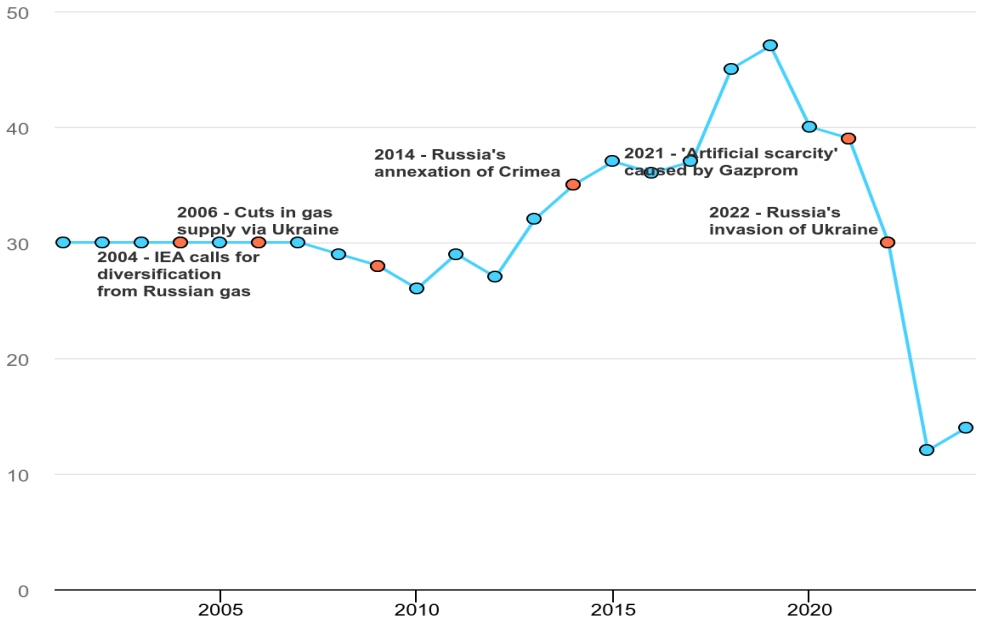
Source: Author's elaboration based on ESMA Working Paper No. ESMA50-524821-3127 (2024), ESG Funds during the 2020 COVID-19 Market Turmoil: Performance and Flows, using Morningstar Direct data. Fund classification follows Morningstar sustainability ratings. The observation period spans the EU equity market crash (19 February / 30 March 2020) and the subsequent recovery phase (April – June 2020). Values represent cumulative net flows as a share of net assets recorded on 18 February 2020.[2]

ESMA (2024) documents the differential at the fund level: between 19 February and 30 June 2020, EU equity funds with high sustainability ratings received net inflows equivalent to roughly 2 percent of net assets, while low-rated funds saw outflows of close to 6 percent over the same period (Figure 2). This divergence aligns with the evidence assembled by Albuquerque et al. (2020), though Glossner et al. (2021) caution that the apparent resilience of high-ESG portfolios may reflect their compositional tilt toward intangible-intensive firms rather than any disciplinary effect of ESG ratings themselves.

2.2 The War in Ukraine: Energy Security and the Conditional ESG Agenda

In contrast to the pandemic, Russia's full-scale invasion of Ukraine in February 2022 posed a highly disruptive force in the realm of governance of sustainability issues in the EU. Although the coronavirus had tested the resilience of European governance arrangements in a way that did not question their very premise, the invasion of Ukraine had exposed a direct contradiction inherent to the European Green Deal, the ambitious climate transition in Europe could only happen in conditions of stability and relatively inexpensive energy imports, which included those from Russia. As the dependency on politically unacceptable suppliers of resources turned into an urgent problem, the sustainability agenda found itself conflicting with energy security imperatives (IEA,2024). Indeed, the disruption involved by the situation was not negligible as per figure 3. *Figure 3, EU gas needs covered by Russia export*

[2] Note: The differential between high- and low-sustainability fund flows is consistent with the findings of Pastor and Vorsatz (2020) and Albuquerque et al. (2020) on the relative resilience of ESG-rated stocks during the crash period. Glossner et al. (2021), however, attribute this outperformance at least in part to the compositional bias of high-ESG portfolios toward firms with greater intangible asset intensity, rather than to the disciplinary effect of ESG ratings as such. The divergence in findings reflects the broader measurement controversies discussed in Chapter 1.



Source:IEA, 2024

While the EU pledged to phase out the use of Russian fossil fuels as soon as possible, it had to address an urgent shortage of energy, which required drastic steps. As Russia's state-run company Gazprom had started sending progressively smaller shipments to the EU even before the full-scale war and the hydropower and nuclear capacity proved insufficient, the EU faced the loss of 160 billion cubic metres of gas in 2022 (Kuzemko et al, 2022). Although the Ukrainian invasion revealed that the continent relied heavily on its geopolitical opponent as an energy supplier and thus opened up an opportunity for accelerating the adoption of renewable sources of energy in Europe, it also complicated and potentially slowed down the efforts to completely switch away from fossil fuels, affecting energy equity both within the region and globally. In response to the situation, the EU developed the REPowerEU plan, implemented in May 2022, aiming at speeding up the process of switching to renewables, while at the same time making sure to diversify fossil fuel supplies to ensure energy security. After Russia invaded Ukraine, the EU opted for the REPowerEU program with the aim of ending Russian gas imports well before the end of the decade with a help of energy efficiency measures, fuel source diversification, and more renewable energy installations. Such decisions were expected to save as much as 155 billion cubic metres of fossil gas that Russia provided to the EU in 2021 and cost at least 296 billion euros. Thus, the official rhetoric of EU policy did not suggest that Ukraine had interrupted the green transition, quite the contrary, the IEA also suggested that this crisis could speed up the end of fossil fuels era (Ah-Voun et al., 2024). However, such framing obscured a number of crucial trade-offs in the ESG area that had been legitimised by the Ukraine crisis. Firstly, Russia's invasion put additional political pressure on the EU, which resulted in accommodation of activities traditionally considered unsustainable according to the sustainability commitments of the Union. For instance, after the invasion, the EU decided to classify the use of natural gas in energy

production as transitional, adopting this decision in February 2022 and highlighting it during the post-invasion period (Knodt et al., 2024). Concerning the problem of nuclear vs solar and wind energy as sustainable options, the energy security issue led to nuclear inclusion in the taxonomy as well. In the context of hydrogen production, some Member States considered nuclear power a solution to reduce dependency on fossil fuels and keep carbon emissions low.

Secondly, the energy crisis revealed in the aftermath of Russia's invasion led to the introduction of a concept of 'strategic tolerance'. In the short term, energy security goals contradicted climate ambitions of the EU. Nonetheless, as the experiences showed by the end of 2022, the decarbonisation strategy ultimately proved itself the optimal choice for securing the energy supply of Europe: gas consumption in the EU fell by 19.3 percent from August 2022 to January 2023 compared to the average consumption levels between 2017 and 2022. While such a result was achieved in part due to changes on the demand side, it is important that decarbonisation proved itself to be the only truly effective solution to the energy crisis. In terms of ESG management, Ukraine served as a powerful lesson for the EU. The crises of the electricity and natural gas markets showed the level of disruption that energy insecurity could cause for the socioeconomic stability, whereas the fragmentation between the climate agenda and industry left the continent vulnerable to an unpleasant transition to renewable energy sources (LSE, 2023).

Thirdly, and finally, regarding the purpose of this thesis, Russia's war initiated processes of changing the EU economic governance strategy to an extent exceeding the immediate energy issues. According to the conclusions in 2024 of the report by Draghi on competitiveness of European businesses in relation to those of the United States and China, regulatory and administrative barriers created in the course of implementation of the Green Deal strategy undermined the competitive edge of EU businesses. Following the findings of the 2024 report by Draghi underlining the negative effect of the regulatory burden on competitiveness of EU companies and the Declaration on the New European Competitiveness Deal from Budapest, the European Commission launched measures to simplify and reduce the ESG reporting and sustainability due diligence rules, as well as reduce the requirements for taxonomy. This shift of focus from sustainability to “Competitive Sustainability” or “Clean Industrial Deal” was driven by the geopolitical situation (Sadeleer, 2026).

With regards to multinational corporations, Russia's invasion made it significantly easier for them to reinterpret their ESG obligations in light of new conditions. In particular, legitimising the continued use of fossil fuels in light of the security problems had laid the ground for similar moves to be taken in the future. It is especially easy to see how it works for the energy sector, but the principle is generally applicable to any other sector and any kind of activities. With the energy crisis caused by Russia, companies in the energy-intensive sectors became strategically important players and could easily present their high-carbon activities as contribution to ensuring energy

security and maintaining the industrial sovereignty of the state. Such reasoning would be further explored in Chapter 4.

2.3 The Middle East Conflict: A Compounding Shock to Energy Markets and Supply Chains

Whereas the Ukraine war had fundamentally changed the conditions of economic governance in the EU, the subsequent changes of ESG-related policies were facilitated by the established momentum of the Green Deal strategy. On the other hand, a further escalation of the Israeli-Palestinian conflict in 2023, as well as the open war between Israel and Iran starting in 2025 and continuing until 2026, has created another shock to the system that is just beginning to influence the governance of ESG issues. The first and most immediately apparent consequence of the Israeli-Iranian war on the ESG governance concerns the energy market. Indeed, the war initiated by Iran on 28 February 2026 disrupted oil and gas flows in the Strait of Hormuz, resulting in the biggest shock to the oil market since its inception. Apart from that, the global supply of liquefied natural gas declined by 20 percent, with the amount of crude and oil products shipped through the strait plunging from approximately 20 million barrels daily to less than 2 million barrels in March 2026 (IEA, 2026). Furthermore, the expansion of the Iranian attack to infrastructure in the natural gas supply chain of the Middle East countries, including attacks on Qatar's Ras Laffan LNG facility, will have lasting consequences for global LNG trade routes and will necessitate more diversification of energy supplies. The impact on the EU energy supply chain would depend greatly on the previous developments, inasmuch as it has increased its reliance on LNG from Qatar and the US (Columbia, 2026).

From the perspective of ESG governance, the impact of the latest crisis can be seen in multiple layers. Primarily, just like the Ukraine war, the Israeli-Iranian war forces the governments to reconsider their fiscal priorities, including sustainability and energy security. For example, Russia's invasion had already led many European states to increase their defence budgets at the cost of cutting funding for climate change policies and social programmes. If the situation with Israel and Iran escalates, the defence budgets are likely to continue increasing in detriment of investments in sustainability. This observation captures the essence of the Rearm EU concept developed in Chapter 3: geopolitical shocks create pressure on the government's budgets and limit investments in sustainability; security-related expenses become politically legitimate and therefore unavoidable (New Lines Institute, 2026). Apart from its immediate effect, the Middle East crisis also undermines the institutional momentum of ESG regulatory policy development, which is already weak and fragile. The Simplification Packages mentioned below were being actively considered prior to the conflict in the Middle East. First of all, there are geopolitics at play in the context of Simplification packages: the competitiveness-oriented approach of the EU suggests the idea of competition among nation-states in economy, and the main geopolitical opponents of the EU obviously approve of its approach but find it not radical enough. In particular, the

United States and Qatar issued an open letter to Brussels, urging it to take further measures to weaken the CSDDD and threaten the LNG supply to the EU (Ouyang, 2025).

2.4 From the Green Deal to Competitive Sustainability: The Omnibus as Institutional Expression

The sum total of all these overlapping shocks is perhaps best expressed in the legislative form of the Omnibus directive, marking clearly the point at which the initial Green Deal regime has shifted towards one more concerned with competitiveness. In order to understand the full significance of the Omnibus as a response to geopolitical and economic strain, as opposed to a mere technical revision of existing regulations, is key to comprehending the entire argument of this thesis.

The EU Omnibus I Package, presented by the European Commission on 26 February 2025, sought to lighten the regulatory burden on business by revising or even removing certain corporate sustainability measures. The result includes a dramatic reduction in the number of ESRS data points from 1,073 to just 320, a reduction of 70 percent, with better guidance on the criteria of double materiality and allowance for undue cost or effort. Similarly, the scope of application of the CSDDD is restricted such that only large businesses with more than 5,000 employees and net turnover exceeding 1.5 billion euros a year are subject to due diligence requirements. The passage of the Omnibus cannot be understood as simply a victory of corporate lobbying efforts, although corporate pressure surely played a role. (Uhlig, 2025)[3] Rather, it was the result of a wider political reconsideration of the balance between sustainability ambitions and economic competitiveness, precipitated by the series of shocks detailed above. While the Green Deal spans the period from 2019 to 2024, the Clean Industrial Deal, following the release of the Draghi report, defines the programme of the newly formed Commission, leaving open the possibility that the achievements of the Green Deal, which placed Europe at the forefront of corporate sustainability, could be undone. This is the essence of the current regulatory moment: Europe seeks to maintain its status as sustainability leader while under acute political and economic pressure to lighten its regulatory load. (Scialom, 2025)

The European Green Deal has had to contend with many external and internal threats since its adoption. Although the ambition of the Green Deal was not affected during the outbreak of the Covid-19 pandemic, it has recently been reduced as part of EU policy formulation. Among other reasons, competing social and economic interests have played a role, and EGD policies have become more and more controversial with certain stakeholders. As far as this erosion of political will regarding the Green Deal's ambition is concerned, it is the story of how cumulative geopolitical and economic strain has changed the nature of political feasibility, opening up the possibility of framing deregulation as competitiveness policy. (Kappe et al., 2025)

[3] Check annex a for a more detailed table

3. Rearm EU as an ESG Stress Test for Multinational Corporations

The previous chapter illustrated how the combined pressures of a number of geopolitical shocks led to the erosion of the institutional consensus around the European Green Deal, with policy attention being redirected towards addressing security and economic stability concerns. The current chapter will discuss the most prominent manifestation of this development, namely, the readjustment of the EU's defense capabilities that was launched by the European Commission in March 2025 under the name "Readiness 2030." For this purpose, the present chapter will analyze ReArm EU as a political economic shock, one that goes beyond the pressures outlined in Chapter 2 by testing the very fundament of ESG, thus creating a dilemma for governments, financial markets, and individual firms that have to reconcile divergent ESG priorities. Specifically, the chapter will discuss the impact of ReArm EU on the economy and governance first, then turn to the normativity issue, and finally analyze the implications of this security-driven initiative for the ESG performance of firms.

3.1 ReArm EU as a Political Economic Shock

ReArm EU did not emerge from a vacuum. It is the product of a sequence of recalibrations that began with the Ukraine war and accelerated through energy insecurity, competitive pressure from the United States and China, and the breakdown of the transatlantic security relationship under the second Trump administration.

In March 2025, the European Commission unveiled the ReArm EU programme, aiming to mobilise 800 billion euros for European defence over the current decade. The plan included 150 billion euros in EU-backed loans covering air and missile defence, artillery, drones, cyber defence, and military mobility, alongside a proposal to exempt defence investments from deficit limits, potentially unlocking a further 650 billion euros in national spending over four years. By any measure, this is not a marginal policy tweak. It is the largest financial commitment to defence in EU history and signals a fundamental reorientation of European industrial priorities (Ricciardelli 2025). For the first time, a Commissioner has been appointed with an exclusive defence portfolio, a symbolic but operational shift acknowledging the need for central coordination. This has been accompanied by substantive proposals. The White Paper on European Defence Readiness 2030, launched simultaneously, sets out a geostrategic roadmap to rearm Europe, reduce dependency on non-European suppliers, promote joint procurement, and accelerate the integration of Ukraine into the EU defence industrial base (Arnal, 2025).

The legal mechanism chosen for SAFE, the Security Action for Europe instrument, is itself telling. The proposal rests on Article 122 TFEU, an emergency instrument requiring only a Council decision, which cuts the European Parliament out of the process. Article 122 was also used for Next Generation EU during the pandemic. The recourse to emergency legal architecture is not coincidental. It reflects the same

governance logic seen during Covid-19: extraordinary circumstances justify extraordinary measures, and normal procedural safeguards can be compressed when security demands speed. For ESG governance, this matters, it normalises expedited, parliament-bypassing procedures for large-scale public expenditure in strategic sectors, creating a precedent likely to be used again, instead of relying on Article 173[4] TFEU (EU Parliament 2025). If REPowerEU was the first major policy expression of open strategic autonomy in the EU climate agenda, ReArm Europe is the third and final act: an explicit pivot toward rebuilding Europe's military industrial base. Seen in sequence, the trajectory from the Green Deal to REPowerEU to ReArm EU represents a progressive shift in governing rationale, from climate transition as the organising principle of economic policy, through energy security as a co-equal priority, to defence and strategic autonomy as the dominant frame. Each step has involved accommodating activities or priorities that the previous step had treated as incompatible with sustainability (Intereconomics 2025). Since 2022, the Commission has launched five flagship programmes to expand defence production capacity and promote collaborative procurement under an unprecedentedly dirigiste political economy. Collectively, these initiatives have unlocked over 802 billion euros through grants, loans, and extraordinary fiscal flexibility, with the ReArm Europe Plan alone representing the most ambitious financial package for defence in EU history. The scale is comparable to the original Green Deal, but the logic is fundamentally different. Where the Green Deal sought to redirect capital through market mechanisms and disclosure requirements, ReArm EU relies on direct state intervention, public lending, and fiscal flexibility. This shift from market-based to state-led industrial policy has deep implications for how ESG operates as a governance instrument, since the mechanisms ESG was designed to influence, investor preferences, capital costs, disclosure incentives, behave very differently in an environment dominated by public procurement and emergency fiscal tools (Genini 2025).

3.2 Defence and Strategic Industries: ESG-Negative Activities or Socially Necessary Goods?

ReArm EU has forced a reckoning with a question that ESG frameworks had previously avoided through the relative marginality of defence investment in European capital markets: can activities related to weapons and military equipment be compatible with sustainable investment, or even constitutive of it? The answer is less straightforward than either the traditional exclusion approach or the emerging security-first framing would suggest. Until recently, the dominant position in the European sustainable finance community was to treat defence as an ESG-negative sector, subject to exclusion from sustainability-labelled portfolios. This rested primarily on the social dimension of ESG: weapons production was categorised as harmful to human wellbeing, and firms

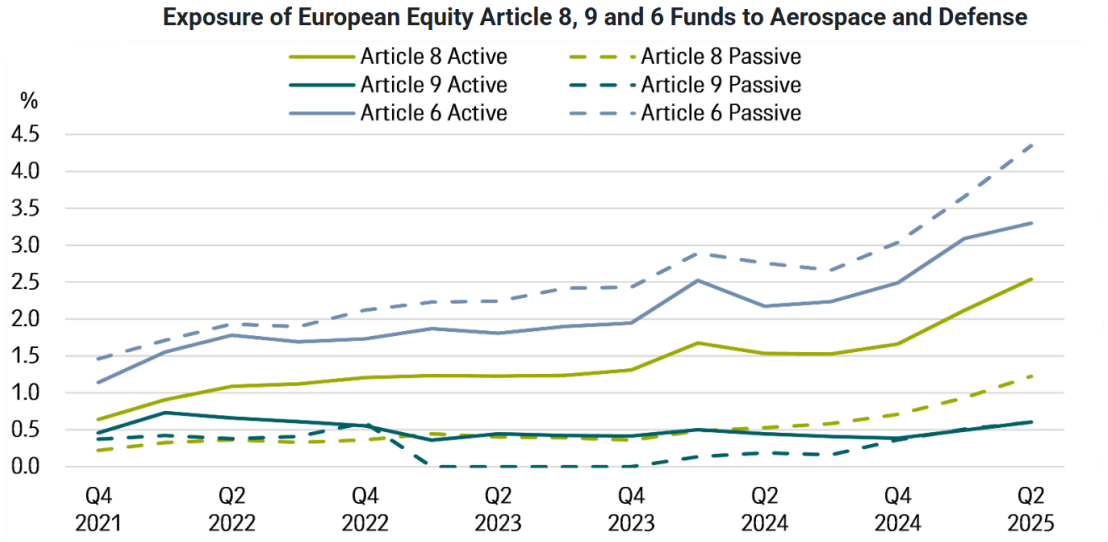
[4] Article Article 173 TFEU mandates that the EU and Member States ensure industrial competitiveness by fostering an environment favorable to enterprise, innovation, and cooperation. It empowers the Commission to coordinate national actions, supporting structural adjustments without harmonizing laws or distorting competition. Given the characteristics of SAFE as long term industrial policy, competitiveness regulation should be applied instead.

involved in controversial weapons were systematically excluded from Article 8 and Article 9 funds under the SFDR. Restrictions on defence sector investment penetrated massively across European investment funds between 2015 and 2021 (Merler 2025). By 2021, 14 percent of all retail assets under management in Europe carried some form of weapons-related investment restriction, a trend with no equivalent in the United States. Under ESMA rules, funds with sustainability-related terms in their names were barred from investing in companies involved in controversial weapons.

This exclusionary approach has faced intense pressure since the Ukraine war, accelerating sharply with ReArm EU. The pressure has come from multiple directions. Governments in the EU and UK have actively worked to normalise defence investment, arguing that security aligns with sustainability goals and that additional funding streams can help re-industrialise Europe. NATO Secretary General Rutte stated bluntly that banks and pension funds should be told by citizens that refusing to invest in the defence industry is simply unacceptable, framing defence investment as investment in security (IISS 2025). At the regulatory level, the Commission has moved to formally clarify the relationship between defence activities and the EU sustainable finance framework. Section 3 of the European Defence Industrial Strategy recognises the defence industry as a crucial contributor to the resilience and security of the Union, and therefore to peace and social sustainability. A June 2025 Commission Notice clarified that the SFDR definition of activities contributing to social objectives does not contain a closed list of sectors, encouraging operators to take a case-by-case approach to exclusion policies. This is significant. It does not simply permit defence investments under SFDR, it affirmatively frames them as potential contributors to social sustainability, a category previously understood to cover health, education, and social inclusion, not security and rearmament (EU commission 2025). Between 2022 and 2025, the EU's approach to defence within its sustainable finance framework shifted from categorical exclusion to conditional acceptance. Initially labelled socially harmful in early Platform on Sustainable Finance reports, defence-related activities were excluded from ESG-aligned portfolios. The Ukraine war and the reassessment of European security priorities triggered a regulatory and political shift. By 2024 and 2025, the Commission, ESMA, and the European Investment Bank had clarified that conventional defence investments are not prohibited under the taxonomy or SFDR, provided they respect international law and exclude banned weapon systems (Defence Finance Monitor 2025).

The investment industry has responded quickly. End investors have adopted the European case for defence stocks faster than ESG funds have adjusted their allocations. Rheinmetall, the largest German arms manufacturer, was up 138 percent as of November 2025, compared to 12 percent for the Bloomberg 500 European index. One senior investment professional noted that clients with their own convictions on defence are simply not asking whether it is ESG. That observation matters analytically, it suggests that ESG as a determinant of investment legitimacy is being bypassed rather than formally revised, with investor preference overriding sustainability criteria in ways that erode ESG's disciplinary function (Merculiari 2025).

Policymakers have clarified that financing defence-related activities is compatible with EU ESG regulations including the SFDR. The proportion of Article 8[5] funds explicitly excluding controversial weapons has grown from 76 percent in 2022 to 92 percent as of June 2025, yet simultaneously, exposure to aerospace and defence in ESG European equity funds has increased by a factor of 2.7 since the invasion of Ukraine. These two data points in tension reveal a structural incoherence in how ESG is currently being applied: formal exclusion criteria are tightening while actual defence exposure is growing. The reclassification of defence as socially necessary is proceeding through portfolio practice and regulatory clarification, not through any coherent revision of ESG principles (Morningstar 2025).



Source: Morningstar Direct. Data as of June 2025. For informational purposes only.

This normative ambiguity is not merely a technical headache for fund managers. It reflects a deeper contest over what ESG is actually for. If the framework is primarily a tool for aligning investment with universal social and environmental values, including weapons production is genuinely problematic, the claim that security spending serves collective wellbeing rests on contested geopolitical assumptions rather than measurable social outcomes. If ESG is instead a flexible governance vocabulary that evolves with prevailing political priorities, then reframing defence as socially necessary is exactly the kind of adaptation that the framework's inherent ambiguity enables. The argument of this thesis is that both interpretations are simultaneously operative, and that this ambiguity is itself a structural feature of ESG that multinational corporations, including defence primes and dual-use technology firms, are actively exploiting.

[5] According to the SFDR's classification system, a fund will either be classified as an article 6,8 or 9 fund depending on their characteristics and level of sustainability:

- Article 6: Funds without a sustainability scope
- Article 8: Funds that promote environmental or social characteristics (light green)
- Article 9: Funds that have sustainable investment as their objective (dark green)

3.3 Corporate-Level Implications: Environmental, Social, and Governance Dimensions

Having established ReArm EU as a political-economic shock that has triggered a normative reclassification of defence within ESG frameworks, this section examines the concrete corporate implications for multinationals operating in or adjacent to the defence sector. These implications are organised across the three ESG dimensions, although they interact in ways that resist clear separation.

The environmental dimension posed by large-scale rearmament is the most straightforward. Defence production is resource-intensive and emissions-generating. Manufacturing weapons systems, armoured vehicles, naval vessels, and aerospace equipment requires significant quantities of steel, aluminium, rare earth elements, and other energy-intensive materials. The expansion of production capacity implied by ReArm EU will inevitably increase industrial emissions at a time when the EU remains committed to reducing them. The shift from climate to military priorities, symbolised by ReArm Europe as a once-in-a-generation surge in defence investment, is also deepening the EU's links with the fossil-fuel regime of the United States. In this context, alternative approaches based on non-military security strategies and ecological transition are increasingly marginalised within the policy space. This highlights a structural issue beyond the direct emissions of defence production: the political economy of rearmament risks crowding out the long-term investments required for decarbonisation (Edwards 2026). When fiscal resources are absorbed by emergency defence commitments, climate investment competes for what remains (Vezzoni 2025). The environmental implications also extend through supply chains. Expanding European defence capacity requires increased production of steel, chemicals, energetics, and advanced materials, all of which have substantial environmental footprints. The Environmental Omnibus package published by the Commission in December 2025, proposing simplified industrial emissions legislation and streamlined permitting procedures, can be interpreted within this context as creating regulatory space for the industrial expansion required by rearmament. The simultaneous relaxation of environmental standards and expansion of heavy industry reflects a broader political economy logic in which competitiveness and security objectives justify reduced regulatory constraints. For multinationals in energy-intensive sectors, this environment is strategically favourable. Firms previously pressured by ESG frameworks to reduce their industrial footprint can now present expanded production as a contribution to European strategic autonomy, gaining access to public funding and regulatory flexibility that would have been unavailable under the original Green Deal framework.

The social dimension is where the normative ambiguity between defence and ESG becomes most evident. Traditional ESG approaches treated defence as socially negative because weapons production was associated with harm (SIPRI 2024; Brzoska 2022). The current reframing argues that, under conditions of existential security threats, defence generates social benefits through employment, deterrence, and collective

security (European Commission 2025a; Andersson & Britz 2025). Both perspectives have empirical foundations, and their tension cannot be resolved through ESG methodology alone (Brzoska 2022; Terhorst 2025). Regarding employment, the expansion of European defence production creates measurable social benefits within conventional ESG frameworks. Defence manufacturing is generally characterised by high-skill, high-wage employment concentrated in regions such as Germany, France, Poland, and the Nordic countries, where industrial firms have historically played an important economic role (Hartley 2022; European Commission 2025b). ReArm EU's ambitions imply a significant expansion of this industrial base, allowing defence companies to promote narratives of job creation, skills development, and regional resilience among policymakers and ESG investors (European Commission 2025b; Andersson & Britz 2025).

The security argument operates at a different level, focusing on collective goods rather than firm-level employment. The Commission's June 2025 Notice frames defence industries as contributors to peace and social sustainability by providing the security conditions necessary for social development (European Commission 2025a). This represents a significant expansion of the ESG social category, suggesting that activities may qualify as socially sustainable not only through direct impacts on human wellbeing, but also through their geopolitical role in maintaining security conditions.

While this reasoning is coherent, its broader acceptance would fundamentally transform ESG's social dimension by allowing many activities to be justified through claims of national or collective security, provided they comply with export controls and international law (Brzoska 2022; Terhorst 2025). Moreover, despite policymakers' insistence that ESG rules do not restrict defence funding, many investors continue to avoid defence companies, meaning that the ESG stigma remains present in practice (Terhorst 2025; UBS Asset Management 2025). This gap between formal regulatory positions and investor behaviour indicates that the reframing of defence as socially necessary remains contested. Defence firms and industry groups have recognised this challenge and have actively sought greater acceptance through engagement with ESG rating agencies, standard-setting bodies, and institutional investors (Bruegel 2025).

The governance dimension of ReArm EU may ultimately have the greatest impact on the future of ESG in Europe. Its governance architecture has three key features with direct implications for multinational corporations: exceptional public funding, regulatory flexibility, and accelerated approval processes. The scale of ReArm EU's financial commitments alters incentives for firms operating in defence and dual-use sectors (European Commission 2025a; Mazzucato 2013). When public institutions commit €800 billion to a specific industrial trajectory, private ESG investment becomes relatively less important as a source of capital and legitimacy. Companies able to access SAFE instrument loans, increased national defence budgets, and European Investment Bank financing become less dependent on ESG-screened investors, potentially reducing ESG's disciplinary influence (Mazzucato 2013; Terhorst 2025). The activation of

National Escape Clauses is particularly significant, as it provides a mechanism for exceeding fiscal limits under extraordinary circumstances and removes constraints that have historically limited defence spending (European Commission 2025a; European Council 2025).

Regulatory flexibility represents another important consequence. The ReArm EU initiative has already produced proposals for simplifying defence-related regulations. The White Paper outlined plans for a Strategic Dialogue with the defence industry and the Defence Omnibus Simplification Proposal, including procurement flexibilities to accelerate common purchases under SAFE (European Commission 2025b). Similar to the Sustainability Omnibus discussed in Chapter 2, this reflects a broader political economy approach in which competitiveness and strategic autonomy are used to justify reducing regulatory burdens introduced for sustainability purposes (Posner 2009; De Ville & Vermeiren 2016). Finally, accelerated approval processes raise governance concerns. The use of Article 122 TFEU as the legal basis for SAFE, bypassing standard European Parliament co-decision procedures, establishes a precedent with implications beyond defence policy (Fabbrini 2022; European Parliament 2025). Some Members of the European Parliament warned that increased defence spending should not undermine green, social, and research priorities, expressing concern about reduced parliamentary involvement and reliance on emergency measures (European Parliament 2025). These concerns reveal a broader governance tension: while European security needs create legitimate pressure for rapid action, emergency procedures may reduce democratic deliberation and weaken the stakeholder participation on which ESG governance depends (Fabbrini 2022; White 2015; Scharpf 1999).

Considered together, the three governance characteristics of ReArm EU's, exceptional public funding, regulatory flexibility, and shortened approval timelines, each serve to benefit multinational companies that are able to exploit the ESG transition for their own ends. These firms smooth their transitions towards more sustainable business models by securing their access to public funding, regulatory support, and political legitimacy, thus shielding them from markets' pressures to adapt their practices in line with ESG norms (Mazzucato, 2013; Terhorst, 2025). The ways in which different firms engaged with the process to influence it are discussed in Chapter 4.

4. Lobbying, Regulatory Capture and the Reshaping of ESG

The previous chapters have demonstrated how ESG governance, which is characterised by its fluid and vague formulation, has been further relaxed under the pressure of geopolitical shocks. However, the role of business in this process has not yet been discussed. This chapter aims to demonstrate how corporate political activity has contributed to the changes in the regulation of ESG. Not only have corporations taken advantage of ambiguity to promote their interests, but they have also invested in making ESG governance more vague and expansive. The pressures exerted by firms on governments were not diminished by geopolitical shocks, but rather gained new legitimacy and support from policymakers: “While the corporate sector is not immune to geopolitical developments, the impact of these shocks was largely instrumental in shaping new avenues for corporate political engagement by affirming the legitimacy of existing approaches” (European Parliament 2022). In particular, the chapter will discuss four ways in which businesses have engaged with the EU’s ESG governance to advance their geopolitical objectives.

First, the chapter will demonstrate how corporate lobbyists pushed the government to adopt a more-lenient approach to gas and nuclear energy by including them in the EU Taxonomy. Second, the chapter will show how businesses managed to simplify ESG regulations and weaken their accountability by influencing the creation of the Omnibus regulation. Third, the chapter will analyse how transition and other concepts related to sustainability have been reinterpreted to include not only environmental goals but also security and strategic autonomy. Finally, the chapter will conclude by discussing ESG governance as a common language in which firms and policymakers negotiate trade-offs and compromises.

4.1 Influence on Green Taxonomies: The Politics of Classification

The EU Taxonomy Regulation, adopted in 2020, was designed as a science-based classification system for environmentally sustainable economic activities, intended to redirect capital flows toward activities compatible with the EU's climate neutrality objective. In principle, its criteria were to be determined by scientific evidence, applied through the Platform on Sustainable Finance, an independent expert body established for this purpose. In practice, the Taxonomy quickly became a site of intense corporate and political contestation, and its evolution offers one of the most instructive available case studies of how regulatory capture operates in the ESG domain. The most consequential episode concerned the inclusion of natural gas and nuclear energy in the Taxonomy's list of transitional activities. Both sectors had initially failed to meet the "do no significant harm" criteria, and the Platform's technical expert subgroups had not recommended their inclusion. The reversal of that position culminating in the adoption of the Complementary Climate Delegated Act in February 2022, and its ratification by the European Parliament in July, was the direct result of sustained lobbying by energy industry associations, member state governments with strong stakes in these sectors,

and the geopolitical context created by the Ukraine war. The scale of the lobbying effort was substantial. Research by Reclaim Finance documented that gas-related companies and industry groups collectively employed 776 staff across 182 organisations to lobby the EU on taxonomy-related matters, spending up to 78 million euros per year. Oil majors including Shell, BP, ExxonMobil, and TotalEnergies were among the most active participants (Reclaim Finance 2021a). The nuclear industry, smaller in lobbying scale at approximately 7.9 million euros annually and 119 staff from 27 organisations, pursued a more surgical approach, concentrating resources on key decision-makers and exploiting access to technical expert processes within the Commission's Joint Research Centre (Reclaim Finance 2021b).

The institutional response to this pressure illustrates what Carpenter and Moss describe as a subtler form of regulatory capture: not the outright takeover of regulatory agencies, but the progressive alignment of regulatory framing with industry preferences through the accumulation of access, expertise dependency, and political negotiation (Carpenter and Moss 2013). BusinessEurope publicly defended the inclusion of nuclear and gas, urging Members of the European Parliament to vote in favour of the Complementary Climate Delegated Act and emphasising the need to contain the costs of the energy transition for European enterprises, advocating for a competitiveness-enhancing and business-friendly pathway to sustainability (BusinessEurope 2022). This framing, positioning ESG accommodation of high-carbon activities as a matter of economic rationality rather than ideological preference, proved highly effective in the post-Ukraine political context, where concerns about energy costs and supply security provided additional justification for accommodating the gas industry's position. The process by which taxonomy classification was ultimately contested and revised also reveals important features of how corporate influence operates through institutional complexity. Analysis of the Platform on Sustainable Finance across three policy sequences from 2016 to 2024, drawing on semi-structured interviews and longitudinal analysis of its composition, documents how power struggles and expertise conflicts shaped the dismantling of the taxonomy's original scientific integrity. The Commission's decision not to refer the most contentious questions back to the Platform's technical subgroups, relying instead on political judgement, was itself a governance choice that privileged industry and member state interests over independent scientific assessment. Civil society experts subsequently resigned from the Platform in protest, signalling that the participatory architecture of the taxonomy development process had been effectively captured by industrial interests (BirdLife Europe 2022).

The taxonomy episode carries broader implications for understanding corporate influence over ESG in times of crisis. The Ukraine war provided a legitimising context for the gas inclusion decision, framing it as an energy security necessity rather than a capitulation to lobbying pressure, but the groundwork had been laid through years of sustained corporate access to the regulatory process. Pagliari and Young emphasise that it is precisely this combination of long-term structural access and short-term crisis exploitation that makes industry influence over financial and regulatory frameworks so

difficult to contest: the crisis creates the political opening, but the institutional relationships built over years of regulatory engagement determine who is positioned to exploit it (Pagliari and Young 2014).

The taxonomy case also illustrates a dynamic that extends well beyond the gas and nuclear question: the tendency for classification systems, instruments of boundary-drawing, to become sites of permanent contestation in which powerful corporate interests invest heavily in shifting the boundaries to their advantage. The creation of "transitional" categories is particularly significant, because it institutionalises a principle of conditional sustainability that can be extended across sectors and time periods as political and economic conditions change. Once the logic of temporary accommodation for strategic or economic reasons is embedded in a classification framework, the door is open to a potentially unlimited series of future requests for similar treatment, each benefiting from the precedent established by its predecessors.

Case Study A: The EU Taxonomy Complementary Delegated Act (2022)

The inclusion of natural gas and nuclear energy in the EU Taxonomy through the Complementary Delegated Act of March 2022 is one of the clearest illustrations of how corporate and member state pressure can reshape the content of a green classification system. The act, implemented by the Commission on 9 March 2022, classified those activities as transitional activities[6], decisions opposed by environmental groups and a part of the scientific community for years (European Commission 2022a).

The original Taxonomy Climate Delegated Act, adopted in June 2021, had left nuclear and gas outside its scope, partly because the "Do No Significant Harm" assessment for nuclear was still ongoing, and partly because the Commission had signalled that further reflection was needed on gas's role in the EU's decarbonisation economy. What changed between 2021 and March 2022 were not the scientific basis, but the political context. The war in Ukraine had shifted the terms of the energy security debate entirely, providing cover for what had in fact been a sustained lobbying campaign by pro-nuclear member states, led by France, and by gas-intensive industrial sectors across Central and Eastern Europe. The process was widely characterised as plagued by industry lobbying and gas companies' vested interests, compounded by heavy politicisation (Reclaim Finance 2022). The opposition was substantial and crossed the usual political boundaries. The Commission was criticised for ignoring most recommendations by its own experts, including the Technical Expert Group on Sustainable Finance. The Institutional Investors Group on Climate Change, a coalition of investors managing over 50 trillion euros, called on the EU to exclude gas from the delegated act, warning it would undermine the EU's global leadership on green finance (IIGCC 2022). In the European parliament the votation to veto the act did not reach the qualified majority by

[6] At Article 6.1 and 10.2 of the Taxonomy Regulation they are defined as activities for which there is no technologically, economically feasible low-carbon alternative and they substantially reduce their carbon footprint not causing "lock-in" assets that undermine long-term climate goals.

75 votes. Those who did not object were drawn largely from the centre-right and from member states with strong existing or future stakes in nuclear or gas sectors (European Parliament 2022).

What the case demonstrates is precisely the dynamic described in Section 4.1: the "transition" label functioned as a political instrument, enabling an accommodation of industry interests that could not have survived as an openly environmental argument, but which became defensible once wrapped in the language of energy security and managed decarbonisation. The act entered into force on 1 January 2023 without any effective political reversal.

4.2 Influence on ESG Reporting Requirements: From Ambition to Simplification

The second way in which corporate actors had reshaped ESG governance was through the design of disclosure requirements. The evolution of the Corporate Sustainability Reporting Directive (CSRD), from its adoption in 2022 until the simplification omnibus package of 2025-26, provides a prime example of the ways in which political and corporate pressures had combined to weaken ESG reporting requirements during a period of economic and geopolitical strain.

The CSRD, adopted in 2022, represented a significant expansion of non-financial reporting obligations in the EU, extending mandatory sustainability reporting to some 50,000 companies as compared to around 11,000 firms under the previous Non-Financial Reporting Directive, introducing the sustainability "double materiality" principle, and informing the development of the European Sustainability Reporting Standards (ESRS). The process of developing reporting requirements under the CSRD saw disproportionate influence from business associations throughout multiple stages of the drafting process. The consultation for the Omnibus proposal provides a direct insight into the nature of corporate influence on sustainability regulations. According to the European Commission's evaluation, "the main contributors were business associations (84 responses), companies (35 responses), public authorities (23 responses), and NGOs (18 responses)" (European Commission 2025a). Existing regulations were subject to significant modifications before their adoption driven largely by the projected costs for businesses. The CSRD reporting requirements were to enter into force in 2024, but the final text of the CSRD sustainability reporting package indicated that the threshold for reporting entities would increase from 250 to 1,000 full-time workers and 450 million euros net revenue. In addition to changes to the thresholds for reporting, the number of ESRS disclosure points reduced from 1,073 to 320 or 70 percent, and the previously planned sector-specific standards were ultimately removed. The CSDDD threshold, likewise, increased from 1,000 to 5,000 workers and 1.5 billion euros of revenue, compared to 1.5 billion of revenue for the CSRD (Council of the EU 2025). The reduced scope and disclosure requirements were justified by the European Commission as a response to "proportionality" concerns, but they represented

an erosion of sustainability accountability in the field of corporate governance, and significantly reduced the informational value of the CSRD reporting regime.

The political economy of regulatory simplification provides additional insights into the dynamics of ESG governance in the EU. The adoption of the Omnibus I by the Parliament in October 2025 fits within the broader EU Competitiveness and Simplification agenda and responded to a growing perception that the regulatory burdens imposed by the Green Deal were excessively costly to EU businesses, particularly in comparison to the global regulatory environment. The proposed changes to the CSRDD, CSDDD, and EU Taxonomy regulation were driven by the joint efforts of the Commission, the Council, and the Parliament to revise sustainability regulations in line with the Competitiveness and Simplification objectives. During the debates in the European Parliament, the President of the European Council Charles Michel emphasized the need to reduce "regulatory pressure on businesses", while Ursula von der Leyen, President of the European Commission, spoke of the need to "make business easy inside Europe". Overall, the revision of the sustainability regulations represented an attempt to rebalance the EU regulatory environment around the principles of "proportionality", "global compatibility", and "light touch regulation for small businesses" (European Parliament 2025). The ability of corporate lobbyists to frame regulatory review as a competitiveness concern was one of the primary factors enabling their influence on the sustainability regulations.

The general trend in corporate social reporting was well-articulated by Hess who noted a tendency for regulatory change to make reporting "more transparent" while rendering "accountability more elusive" (Hess 2008). The CSRD/Omnibus experience confirmed this trend. In its drive to reduce the regulatory burdens on businesses, the CSRD reporting regime reduced the amount of information available to external stakeholders, including investors, civil society, and regulators, while diluting the sustainability obligations of firms. The reduction in the number of disclosure points, the removal of sector-specific requirements, and the redefinition of thresholds for reporting entities all served to weaken ESG accountability, leaving the impression of disclosure without substantive change. Another important observation concerned the timing of regulatory change. The pattern of adoption, revision, and deregulation seen in the EU sustainability reporting regime was similar to the "political economy of reform under pressure" proposed by Blyth who noted a tendency for "reforms to take place endogenously within a specific institutional set of constraints, [and] then dissipate" (Blyth 2002). In other words, the initial enthusiasm for the Green Deal and its regulatory agenda had given way to deregulatory pressures as the economic and geopolitical realities started to reshape the EU's strategic priorities. While corporate lobbying did not create the conditions for deregulation, it was able to benefit from the changing circumstances to advance its objectives.

Case Study B: The Omnibus I Package (2025 - 2026)

The Omnibus I regulation, adopted by the Commission on 26 February 2025 and formally published in February 2026, represented the largest regulatory retreat in the field of sustainability governance (European Commission 2025b). The adoption of Omnibus I demonstrated both the extent of corporate influence on the EU sustainability regime, as well as the ability of business associations to mobilize across borders in pursuit of deregulatory goals.

While the Commission formally acknowledged the need to revise sustainability reporting obligations in order to respond to "competitiveness" concerns, the actual terms of the Omnibus I indicated that the initial impacts of the CSRD would be felt predominantly by large multinational corporations. Von Der Leyen noted that while the CSRD would impact "42,500 companies", after the Omnibus I came into force, sustainability reporting obligations would only apply to "about 80% fewer companies". The final text of Omnibus I, formally adopted by the Parliament in December 2025, indicated that the threshold of full-time workers for reporting entities under the CSRD would be raised from 250 to 1,000, while the CSDDD threshold would increase from 1,000 to 5,000 workers (Council of the EU 2025). In addition to reducing the scope of reporting entities, Omnibus I removed climate transition plans from the CSDDD, and reduced the stringency of reporting rules for both regulations. At the formal level, the most significant contributions to the Omnibus I process were made by the BusinessEurope network that produced a comprehensive policy brief outlining 68 proposals across 11 policy areas, including the CSRD, to reduce regulatory costs for businesses. Its central argument was that "the CSRD and Taxonomy represent an unreasonable burden and drain of resources for companies and therefore undermine the green and digital transition" (BusinessEurope 2025). At the same time, a separate but related initiative quietly gathered support among multinational corporations to advance broader deregulatory goals. According to the documents obtained by SOMO, "a group of 11 multinational corporations [under the banner of the Competitiveness Roundtable] has funded at least one think tank, the TEHA Group, to a tune of at least €185,000 to produce a report and organise an event echoing the Roundtable's positions on the CSDDD and CSRD, without disclosing the funding source. The funders included ExxonMobil, Koch Government Affairs, TotalEnergies, JPMorgan Chase, Citigroup, and Santander, among others" (SOMO 2025). In addition, the internal documents revealed that within the European Council, the Roundtable has launched a "divide and conquer" strategy to encourage member states to oppose the CSDDD's climate article during trilogue negotiations and secure a blocking minority during the CSDDD negotiations (SOMO 2025). The transatlantic nature of the initiative was reflected in the public statements by the US Ambassador to the EU who accused the EU of pursuing "economic suicide". According to the internal documents, Italy was the preferred option to leverage in favor of the deregulatory agenda. Thus, the lobbying around the CSDDD and CSRD illustrates the ways in which corporate actors can operate across borders in order to advance common goals. At the level of the EU institutional complex, the

deregulatory efforts of multinational corporations intersected with the Union's geopolitical competition with China and the need to adjust the regulatory environment in light of the geopolitical tensions with Russia. Critical accounts of the Omnibus I intervention assumed that corporate lobbying and geopolitical considerations, rather than genuine policy considerations, were the driving forces behind the regulatory revision. This view was supported by the analysis of the EU regulatory framework produced by the legal scholars who noted that "market imperatives [have] increasingly outweighed democratic accountability in EU policy-making" and questioned the "ideological conformity of the EU's corporate governance model" (ECGI 2025). Whether or not the view is accurate, the final outcome of the Omnibus I process was the product of deliberate lobbying efforts that sought to revise the sustainability reporting requirements in favor of businesses.

4.3 Redefinition of "Transition" and "Sustainability"

The third area of corporate transformation of ESG governance concerned the semantic field of the concepts which formed the basis of ESG regulation and disclosure. While the first two areas of transformation, disclosure scope and reporting requirements, were primarily endogenous to the ESG governance system, redefining the concepts of ESG posed a challenge to external stakeholders and regulators. At the theoretical level, the concept of transition represented the central indeterminacy of the ESG paradigm. Transition as it was formally enshrined in the EU Taxonomy for Sustainable Finance predominantly referred to the process of economic decarbonization, and its manifestations included the shift from one energy source to another, notably gas to renewables, the necessary transformations of production to render it carbon neutral or capture its emissions for reuse, and the changes in consumption patterns required to meet the EU's carbon targets. However, the notion of transition has always had an element of temporariness and flexibility about it, and its inclusion in the Taxonomy was implicitly linked to the idea of time-constrained transitional arrangements. The gas lobbying had already demonstrated its ability to exploit this ambiguity to promote natural gas as a "transition fuel", but the concept of transition continued to evolve beyond energy. The EU's recent industrial policy represented a particular manifestation of the concept of transition. It was defined around the themes of resilience, strategic autonomy, and competitive sustainability. It had contradictions at its core: pursuing resilience and strategic autonomy implied that the EU was not fully integrated into the global capitalist economy, a position which did not align with the Union's broader strategic and geopolitical goals. At the same time, by emphasizing competitive sustainability, the EU was formally subordinate to the laws of the market economy. Thus, the EU positioned itself as a sustainability pioneer which was willing to make concessions to the logic of capital in the name of strategic autonomy and general resilience. This perspective represented an expansion of the conceptualization of sustainability which the EU pursued through its ESG governance framework. In other words, the Union's long-standing objective to become a global leader in sustainability was no longer limited to the environmental pillar, but rather increasingly encompassed

social and strategic dimensions. The process of this expansion became more visible when each of the successive Commissioners articulated their take on the EU's unified industrial strategy.

The 2021 updated Industrial Strategy articulated the objective of "competitive sustainability" which implicitly acknowledged the limitations of environmental sustainability as the sole foundation for strategic industrial policy, and explicitly tied environmental, social, and economic performance to the concept of "resilience". The 2024 Draghi report took this perspective even further; it explicitly argued that environmental regulations should be "reviewed with a view to revising them if they negatively affect the Union's international competitiveness", and arguably shifted the locus of regulatory review from environmental goals to economic ones. The ReArm EU program, the expansion of the Defence Innovation Programme, and the Defence Readiness Omnibus represented the latest iteration of this conceptual evolution which now explicitly tied security and strategic autonomy to the concept of sustainability, with the Defence Readiness Omnibus providing a detailed interpretation of how defence spending, production, and investment could contribute to social and environmental pillars of the ESG framework (A&O Shearman 2026). The broadening of the definition of sustainability served a clear strategic purpose for the EU. It allowed for a more flexible regulatory approach to a wide range of economic activities that were either vital to the EU's strategic autonomy or had significant economic importance, but did not directly contribute to environmental sustainability. The steel plant which retools its production to manufacture armoured vehicles can position itself as contributing to the EU's strategic autonomy, the gas pipeline construction company can pivot to promoting energy resilience, and the defence electronics manufacturer can exploit the opportunities created by the expansion of the cybersecurity sector to promote its contributions to the ESG-related goals of digital sovereignty and sustainability. Each of these changes individually may represent a reasonable adjustment to the ESG framework, but collectively, they significantly weaken the EU's ESG governance by diluting the concepts without corresponding adjustments to its substantive foundations. Gabor's analysis of the "Wall Street Consensus" offers one perspective on how this conceptual shift can be compared to market fundamentalism. The "consensus" she describes refers to the tendency of development and sustainability objectives to be reframed in terms of financial market considerations, and ultimately to be subsumed under the overarching objective of profit maximization (Gabor 2021). The evolution of the ESG conceptual framework can be seen as a similar process, wherein the attempt to reconcile the seemingly irreconcilable goals of environmental and economic sustainability has resulted in both being redefined in a way that makes them compatible with the overarching drive toward profitability. In other words, sustainability no longer serves as a constraint on market fundamentalism but rather has been integrated into it. The conceptual expansion of the definition of sustainability represents an attempt to absorb the principles which previously operated as separate systems of logic into a unified one, wherein the primacy of capital remains unchallenged. The evolution of the conceptual basis of ESG was particularly visible in the redefinition of the notion of "just

transition". Initially referring to the need to provide social support to workers and communities most affected by the transition to a net-zero economy, the concept of just transition increasingly began to incorporate the economic costs of reshoring, supply chains restructuring, and expansion of the defence sector. The workers in the defence industry can now be considered to belong to the "just transition" in the same way as the steel workers in the traditional metallurgy sector, and the social pillar of the ESG framework can be used to justify the expansion of the defence industry. The just transition rhetoric enables the EU to pursue its economic and strategic goals while maintaining the appearance of social sustainability, but its impact goes beyond symbolic politics, as it directly informs the assessment of firms' ESG credentials.

Conclusions

The preceding analysis has revealed a pattern whose consequences are difficult to dispute: the governance design based on voluntary disclosures and negotiations, democratically enabled during a specific convergence moment, proved highly vulnerable to the reverse institutional work carried out by the same corporate actors once political consensus weakened. This thesis has contributed to the discussion on ESG governance by illustrating the mechanisms through which business groups appropriated the reversal of ESG-related regulatory expansion.

The analysis has advanced three interconnected arguments. First, the initial "softness" of the ESG framework represented a design weakness, although not necessarily a mistake, as it reflected the distribution of power and compromises reached when the governance model was established. Second, geopolitical shocks fundamentally reframed the meaning of sustainability, replacing universalistic norms with competing geopolitical priorities. Third, multinational corporations were best positioned to exploit the resulting regulatory ambiguity through strategic behaviour and by redefining sustainability in ways aligned with their interests.

The case studies discussed in Chapter 4 demonstrate how the Complementary Delegated Act and Omnibus I reflected opportunities created through corporate lobbying. These efforts, combined with the geopolitical context created by the war in Ukraine, allowed business groups to reshape the ESG taxonomy despite initial parliamentary opposition. The failure of the French parliament to repeal the delegated act after the Senate's rejection of the veto does not indicate a significant change in the underlying pro-business consensus among key decision-makers. Similar strategies were employed throughout the period examined, with gas and nuclear lobbying supported by revolving-door practices and effective framing of these sectors as essential for energy security.

In the case of Omnibus I, business groups succeeded in reducing the scope of CSRD obligations by 80–90% across various metrics before most companies were required to begin reporting. As demonstrated by SOMO's report, the lobbying campaign was multinational in character, involving numerous corporations and international business

associations, including BusinessEurope, Competitiveness Roundtable, and major US-based companies.

Several observations emerging from the analysis require further consideration. First, the discussion highlights a tension between ESG's dual role as a framework for stakeholder communication and the need for ESG regulation to impose meaningful constraints on corporate behaviour. As Chapter 4 demonstrates, ESG commitments have often functioned as a solution to the "free rider" problem, allowing governments to pursue climate objectives while relying on corporate consensus and limiting regulatory intervention. However, when companies retain the ability to interpret ESG requirements in ways that reduce reporting and disclosure obligations, the framework provides limited accountability. Instead, ESG regulation can enable corporations to use their lobbying power to influence implementation and exploit regulatory ambiguity.

Second, the analysis suggests that ReArm EU's use of the emergency procedure under Article 122 TFEU may have broader implications for EU sustainability governance. By adopting the Regulation through emergency mechanisms, the EU departed from traditional decision-making processes characterised by consensus-building and extensive parliamentary involvement. This shift is particularly concerning given the estimated budgetary impact of ReArm EU, ranging between €1 and €1.5 billion, and the limited scrutiny applied to large-scale investments in strategic sectors.

Although the long-term effects of ReArm EU on ESG governance remain uncertain, its adoption weakens the effectiveness of existing regulatory mechanisms. ESG accountability has traditionally depended on the participation of parliaments, experts, and civil society actors. Emergency procedures, by contrast, concentrate decision-making among fewer actors, reducing opportunities for oversight and scrutiny. Therefore, the rapid adoption of ReArm EU risks making European ESG governance more vulnerable to capture, with potentially lasting consequences.

A third observation concerns the expanded understanding of sustainability as encompassing not only environmental and social objectives but also security and strategic autonomy. As discussed in Chapter 4, the security-oriented approach does not necessarily challenge the foundations of the EU Taxonomy. The taxonomy itself is based on the assumption that achieving sustainability requires gradual transition processes shaped by political and economic feasibility. In principle, therefore, security and strategic autonomy could be reconciled with sustainability objectives.

However, the concept of "transition" remains inherently flexible and can be interpreted to include a wide range of activities. Once ESG regulation begins explicitly responding to governmental priorities such as strategic autonomy and resilience, establishing clear limits becomes increasingly difficult, particularly because the category of transitional activities can be expanded accordingly.

Bibliography

- Abbott, Kenneth W., and Duncan Snidal. 2009. "The Governance Triangle: Regulatory Standards Institutions and the Shadow of the State." In *The Politics of Global Regulation*, edited by Walter Mattli and Ngaire Woods, 44-88. Princeton: Princeton University Press.
- Adams, Carol A. 2021. "Connecting the Covid-19 Pandemic, Environmental, Social and Governance Investing and Calls for Harmonisation of Sustainability Reporting." *Critical Perspectives on Accounting* 82: 102309.
- Aguilera, Ruth V., Deborah E. Rupp, Cynthia A. Williams, and Jyoti Ganapathi. 2007. "Putting the S Back in Corporate Social Responsibility: A Multilevel Theory of Social Change in Organizations." *Academy of Management Review* 32 (3): 836-863.
- Ah-Voun, David, Chi Kong Chyong, and Carmen Li. 2024. "Europe's Energy Security: From Russian Dependence to Renewable Reliance." *Energy Policy* 184: 113856. https://doi.org/10.1016/j.enpol.2023.113856.
- Allen and Overy Shearman. 2026. "EU Defence Readiness Omnibus: Security, Industry and ESG Intersections." *Sustainability Outlook 2026*. https://www.aoshearman.com/en/insights/sustainability-outlook-2026/eu-defence-readiness-omnibus.
- Amel-Zadeh, Amir, and George Serafeim. 2018. "Why and How Investors Use ESG Information: Evidence from a Global Survey." *Financial Analysts Journal* 74 (3): 87-103.
- Andersson, J. J., and M. Britz. 2025. "The European Union's Role in European Defence Industry Policy." *European Security* 34 (2): 322-341. https://doi.org/10.1080/14702436.2025.2472694.
- Arnal, Judith. 2025. "Beyond Nostalgia: Making the Most of the EU's Defence Spending Boom." *Intereconomics* 60 (3). https://www.intereconomics.eu/contents/year/2025/number/3/article/beyond-nostalgia-making-the-most-of-the-eu-s-defence-spending-boom.html.
- Bärnthaler, R., S. Mang, and J. Hickel. 2025. "Toward a Post-Growth Industrial Policy for Europe: Navigating Emerging Tensions and Long-Term Goals." *Globalizations* 22 (6): 1124-1148. https://doi.org/10.1080/14747731.2025.2501821.
- Berg, Florian, Julian F. Kölbel, and Roberto Rigobon. 2022. "Aggregate Confusion: The Divergence of ESG Ratings." *Review of Finance* 26 (6): 1315-1344.
- Bird and Bird. 2025. "The Summary of the ReArm Europe Plan/Readiness 2030." March. https://www.twobirds.com.
- BirdLife Europe. 2022. "NGOs Walk Out of Expert Taxonomy Group over Lack of Independence." Press release, 14 September. https://www.birdlife.org/news/2022/09/14/press-release-ngos-walk-out-of-expert-taxonomy-group-over-lack-independence/.
- Blyth, Mark. 2002. *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century*. Cambridge: Cambridge University Press.
- Blyth, Mark. 2013. *Austerity: The History of a Dangerous Idea*. Oxford: Oxford University Press.
- Boffo, Riccardo, and Robert Patalano. 2020. *ESG Investing: Practices, Progress and Challenges*. Paris: OECD.
- Bowen, Howard R. 1953. *Social Responsibilities of the Businessman*. New York: Harper and Row.
- Bruegel. 2025a. "Sustainability Rules Are Not a Block on EU Defence Financing, but Reputational Fears Are." Brussels: Bruegel Institute. https://www.bruegel.org/analysis/sustainability-rules-are-not-block-eu-defence-financing-reputational-fears-are.
- Bruegel. 2025b. "The Governance and Funding of European Rearmament." Brussels: Bruegel Institute.

- Brzoska, M. 2022. "Defence and Security in ESG Investing: Between Exclusion and Sustainability." PRIF Report. Frankfurt: Peace Research Institute Frankfurt.
- BusinessEurope. 2021. "Corporate Sustainability Reporting Directive." Position paper, July 14.
- BusinessEurope. 2022. *Position on the Complementary Climate Delegated Act of the EU Taxonomy*. Brussels: BusinessEurope.
- BusinessEurope. 2025. *Omnibus I: CS3D, CSRD and Taxonomy, A BusinessEurope Position Paper*. Brussels: BusinessEurope. https://www.businesseurope.eu/publications/omnibus-i-cs3d-csrd-and-taxonomy-a-businesseurope-position-paper/.
- Carpenter, Daniel, and David A. Moss, eds. 2014. *Preventing Regulatory Capture: Special Interest Influence and How to Limit It*. Cambridge: Cambridge University Press.
- Center on Global Energy Policy at Columbia University SIPA. n.d. "Live Updates: US-Israeli Attacks on Iran and Global Energy Impacts." Accessed May 14, 2026. https://www.energypolicy.columbia.edu/us-israeli-attacks-on-iran-and-global-energy-impacts/.
- Christensen, Hans B., Luzi Hail, and Christian Leuz. 2021. "Mandatory CSR and Sustainability Reporting: Economic Analysis and Literature Review." *Review of Accounting Studies* 26 (3): 1176-1248.
- Council of the European Union. 2025. "Council and Parliament Strike a Deal to Simplify Sustainability Reporting and Due Diligence Requirements and Boost EU Competitiveness." Press release, 9 December. https://www.consilium.europa.eu/en/press/press-releases/2025/12/09/.
- De Sadeleer, Nicolas. 2025. "The European Green Deal: Greenwashing Compounded by Deregulation (Omnibus Law) or a Genuine Paradigm Shift?" *European Journal of Risk Regulation* 16 (4): 1343-1374. https://doi.org/10.1017/err.2025.20.
- De Ville, F., and M. Vermeiren. 2016. "The Eurozone's First Decade and the Competitiveness Agenda." *Journal of European Public Policy* 23 (10): 1499-1516.
- Dolan, Cristina, and Diana Barrero Zalles. 2021. *Transparency in ESG and the Circular Economy*. Business Expert Press.
- Draghi, Mario. 2024. *The Future of European Competitiveness*. Brussels: European Commission.
- Eccles, Robert G., Ioannis Ioannou, and George Serafeim. 2014. "The Impact of Corporate Sustainability on Organizational Processes and Performance." *Management Science* 60 (11): 2835-2857.
- Edwards, Nico. 2026. "The Military Green Transition: Decarbonisation as Warfighting Opportunity." *Political Geography* 129: 103573. https://doi.org/10.1016/j.polgeo.2026.103573.
- European Commission. 2022a. Commission Delegated Regulation (EU) 2022/1214 of 9 March 2022 amending Delegated Regulation (EU) 2021/2178 as regards public disclosure of information in relation to gas and nuclear energy economic activities. *Official Journal of the European Union*, L 188, 15 July 2022.
- European Commission. 2022b. "EU Taxonomy: Commission Welcomes the Result of Today's Vote by the European Parliament on the Complementary Delegated Act." Press release, 6 July. https://commission.europa.eu/.
- European Commission. 2022c. *REPowerEU Plan*. COM(2022) 230 final. Brussels: European Commission.
- European Commission. 2025a. *Commission Notice on the Application of the Sustainable Finance Framework and the Corporate Sustainability Due Diligence Directive to the Defence Sector*. C/2025/4950. Brussels: European Commission.
- European Commission. 2025b. *Future of European Defence*. Brussels: European Commission.
- European Commission. 2025c. *Joint White Paper for European Defence Readiness 2030*. Brussels: European Commission.

- European Commission. 2025d. *Proposal for a Directive Amending Directives as Regards Corporate Sustainability Reporting and Corporate Sustainability Due Diligence (Omnibus I)*. COM(2025) 80 final. Brussels, 26 February.
- European Commission. 2025e. *Commission Staff Working Document: Impact Assessment. Accompanying the Proposal for an Omnibus Directive*. SWD(2025) 80-81 final. Brussels, 26 February. https://commission.europa.eu/document/download/1da93ca2-7911-4e1f-9ce6-cecd09a85250_en.
- European Commission. 2025f. *ReArm Europe Plan/Readiness 2030*. Brussels: European Commission.
- European Corporate Governance Institute (ECGI). 2025. "ESG at a Crossroads: Where to Next?" ECGI Newsletter, February. https://www.ecgi.global/publications/newsletters/the-future-of-corporate-governance/esg-at-a-crossroads-where-to-next.
- European Council. 2025. *European Council Conclusions on European Defence and Security*. Brussels.
- European Parliament. 2022. "Taxonomy: MEPs Do Not Object to Inclusion of Gas and Nuclear Activities." Press release, 6 July. https://www.europarl.europa.eu/news/en/press-room/20220701IPR34365/.
- European Parliament. 2025. *Debates of the European Parliament on the Security Action for Europe (SAFE) Instrument and Article 122 TFEU*. Strasbourg, March 2025.
- European Parliament Research Service. 2023. *EU Energy Security and the War in Ukraine: From Sprint to Marathon*. Brussels: European Parliament.
- European Parliament Research Service. 2025a. *ReArm Europe Plan/Readiness 2030: Financing EU Defence*. PE 769566. Brussels: European Parliament.
- European Parliament Research Service. 2025b. *Defence Financing and Spending under the Economic Governance Framework*. PE 764354. Brussels: European Parliament.
- Fabbrini, F. 2022. *EU Fiscal Capacity and Emergency Governance in Times of Crisis*. Oxford: Oxford University Press.
- Falkner, Robert. 2023. "Weaponised Energy and Climate Change: Assessing Europe's Response to the Ukraine War." *LSE Public Policy Review* 3 (1). https://doi.org/10.31389/lseppr.78.
- Flammer, Caroline. 2021. "Corporate Green Bonds." *Journal of Financial Economics* 142 (2): 499-516.
- Friede, Gunnar, Timo Busch, and Alexander Bassen. 2015. "ESG and Financial Performance: Aggregated Evidence from More than 2000 Empirical Studies." *Journal of Sustainable Finance and Investment* 5 (4): 210-233.
- Gabor, Daniela. 2021. "The Wall Street Consensus." *Development and Change* 52 (3): 429-459.
- Genini, Davide. 2025. "Restructuring the EU's Defence Industrial Base amid Geopolitical Shifts." *Maastricht Journal of European and Comparative Law* 32 (4). https://journals.sagepub.com/doi/10.1177/1023263X251394132.
- Glossner, Simon, Pedro Matos, Stefano Ramelli, and Alexander Wagner. 2021. "ESG Did Not Immunize Stocks during the Covid-19 Crisis, but Investments in Intangible Assets Did." *Review of Finance* 26 (2): 447-483.
- Goldthau, Andreas, and Llewelyn Hughes. 2020. "Protect Global Supply Chains for Low-Carbon Energy." *Nature* 585 (7823): 28-30.
- Hartley, K. 2022. *The Economics of Defence Policy: A New Perspective*. London: Routledge.
- Hess, David. 2008. "The Three Pillars of Corporate Social Reporting as New Governance Regulation: Disclosure, Dialogue, and Development." *Business Ethics Quarterly* 18 (4): 447-482.
- Hillman, Amy J., Gerald D. Keim, and Douglas Schuler. 2004. "Corporate Political Activity: A Review and Research Agenda." *Journal of Management* 30 (6): 837-857.
- Hoess, J., D. Anton, and K. Brodie. 2025. *The Lobbying Effect: How Corporate Influence Shaped the EU's Sustainability Omnibus Proposal*. EIRIS Foundation.

- IEA (2024), Share of European Union gas demand met by Russian supply, 2001-2024, IEA, Paris https://www.iea.org/data-and-statistics/charts/share-of-european-union-gas-demand-met-by-russian-supply-2001-2024, Licence: CC BY 4.0
- IIGCC (Institutional Investors Group on Climate Change). 2022. "IIGCC Publishes Open Letter Calling for Gas to Be Excluded from the EU Taxonomy." January. https://www.iigcc.org/media-centre/iigcc-publishes-open-letter-calling-for-gas-to-be-excluded-from-the-eu-taxonomy.
- IISS. 2025. *Progress and Shortfalls in Europe's Defence: New Ways of Funding Europe's Defence*. London: International Institute for Strategic Studies.
- International Energy Agency. 2026. *The Middle East and Global Energy Markets*. Paris: IEA. https://www.iea.org/topics/the-middle-east-and-global-energy-markets.
- International Energy Agency. 2026. *Russia's War on Ukraine*. Paris: IEA. https://www.iea.org/topics/russias-war-on-ukraine.
- Kappe, Kira, Mikael Allan Mikaelsson, and Ivo Krustok. 2025. *The EU Green Deal in Turbulent Times: Insights from the EU Green Policy Tracker from Sweden and Estonia*. April 8. https://doi.org/10.51414/sei2025.017.
- Khoo, Kenneth, and Roberto Tallarita. 2025. "Expanding Shareholder Voice: The Impact of SEC Guidance on Environmental and Social Proposals." European Corporate Governance Institute Working Paper No. 822/2025. Harvard Law School John M. Olin Center Discussion Paper No. 1121.
- Kincaid, Charlotte. 2026. "The EU Has Reached an Agreement on Omnibus 1: What Are the Key Changes to CSDDD and CSRD?" Sedex, January 15. https://www.sedex.com/blog/eu-omnibus-simplification-package-what-you-need-to-know/.
- Knodt, Michèle, Marc Ringel, and Nils Bruch. 2024. "Secure and Sustainable? Unveiling the Impact of the Russian War on EU Energy Governance." In *The War Against Ukraine and the EU: Facing New Realities*, edited by Claudia Wiesner and Michèle Knodt. Cham: Springer. https://doi.org/10.1007/978-3-031-35040-5_7.
- Kuzemko, Caroline, Mathieu Blondeel, Claire Dupont, and Marie Claire Brisbois. 2022. "Russia's War on Ukraine, European Energy Policy Responses and Implications for Sustainable Transformations." *Energy Research and Social Science* 93: 102842. https://doi.org/10.1016/j.erss.2022.102842.
- Larcker, David F., and Edward M. Watts. 2020. "Where's the Greenium?" *Journal of Accounting and Economics* 69 (2-3): 101312.
- Logeart, Rosanne. 2024. "Lobbying Dynamics and Influence." PhD thesis, Université Panthéon-Sorbonne, Paris I. https://theses.hal.science/tel-05090828.
- Mazzucato, M. 2013. *The Entrepreneurial State: Debunking Public vs. Private Sector Myths*. London: Anthem Press.
- Mercuriali, Etienne. 2025. "ESG 3% Underperformance Ushers Defence Exclusion Rethink." *Global Trading*, December 1. https://www.globaltrading.net/esg-3-underperformance-ushers-defence-exclusion-rethink/.
- Merler, Silvia. 2026. "Sustainability Rules Are Not a Block on EU Defence Financing, but Reputational Fears Are." Bruegel, April 29. https://www.bruegel.org/analysis/sustainability-rules-are-not-block-eu-defence-financing-reputational-fears-are.
- Morningstar Sustainalytics. 2025. "EU ESG Funds' Exposure to Defense Continues to Increase." June. https://www.sustainalytics.com.
- New Lines Institute. 2026. "The Energy Shock: US-Israel War with Iran's Impact on Indian, Chinese, and Global Economies." Washington DC: New Lines Institute. https://newlinesinstitute.org/middle-east-center/the-energy-shock-u-s-israel-war-with-irans-impact-on-indian-chinese-and-global-economies/.

- Oliver Yébenes, Mónica. 2024. "Climate Change, ESG Criteria and Recent Regulation: Challenges and Opportunities." *Eurasian Economic Review* 14 (1): 87-120. https://doi.org/10.1007/s40822-023-00251-x.
- Ouyang, Jie. 2025. "The Omnibus Comeback of the Neoliberal EU." *Verfassungsblog*, November 25. https://doi.org/10.59704/e5ec7d5014f6f578.
- Pagliari, Stefano, and Kevin Young. 2014. "Leveraged Interests: Financial Industry Power and the Role of Private Sector Coalitions." *Review of International Political Economy* 21 (3): 575-610.
- Pirveli, Erekle, Esther Ortiz-Martínez, Salvador Marín-Hernández, and Paul Thompson. 2024. "Influencing Sustainability: The Role of Lobbyist Characteristics in Shaping the EU's Corporate Sustainability Reporting Directive." *Sustainability Accounting, Management and Policy Journal* 16 (2): 415-442. https://doi.org/10.1108/SAMPJ-03-2023-0162.
- Policy and Society. 2025. "Riders on the Delegated Act Storm: Power Struggles and Expertise in the Dismantling of the EU Taxonomy." *Policy and Society* 44 (3): 318-339.
- Posner, E. 2009. "Making Rules for Global Finance: Transatlantic Regulatory Cooperation at the Turn of the Millennium." *International Organization* 63 (4): 665-699.
- Rasmussen, Maja Kluger. 2015. "The Battle for Influence: The Politics of Business Lobbying in the European Parliament." *JCMS: Journal of Common Market Studies* 53 (2): 365-382. https://doi.org/10.1111/jcms.12156.
- Reclaim Finance. 2021a. "Out with Science, In with Lobbyists: Gas, Nuclear and the EU Taxonomy." Report, 22 July. https://reclaimfinance.org/site/en/2021/07/22/out-with-science-in-with-lobbyists-gas-nuclear-and-the-eu-taxonomy/.
- Reclaim Finance. 2021b. "Abandoning Science? How the Gas and Nuclear Lobbies Are Winning the EU Taxonomy Fight." Report, 22 July. https://reclaimfinance.org/site/en/2021/07/22/abandoning-science-how-the-gas-and-nuclear-lobbies-are-winning-the-eu-taxonomy-fight/.
- Reclaim Finance. 2022. "The EU Taxonomy Becomes the New Standard for Greenwashing." Press release, 2 February. https://reclaimfinance.org/site/en/2022/02/02/the-eu-taxonomy-becomes-the-new-standard-for-greenwashing/.
- Ricciardelli, Alfonso. 2025. *Europe Rearms: What Defense Spending Means for Markets*. CFA Institute, April 16. https://rpc.cfainstitute.org/blogs/enterprising-investor/2025/europe-rearms-what-defense-spending-means-for-markets.
- Scharpf, F. W. 1999. *Governing in Europe: Effective and Democratic?* Oxford: Oxford University Press.
- Schmitz, Luuk, and Tobias Seidl. 2023. "As Open as Possible, as Autonomous as Necessary: Understanding the Rise of Open Strategic Autonomy in EU Trade Policy." *Journal of Common Market Studies* 61 (3): 834-852.
- Scientific Reports. 2024. "The Role of ESG Performance during Times of Covid-19 Pandemic." *Scientific Reports* 14: 2445.
- SIPRI. 2024. *SIPRI Yearbook 2024: Armaments, Disarmament and International Security*. Stockholm: Stockholm International Peace Research Institute.
- SOMO (Stichting Onderzoek Multinationale Ondernemingen). 2025. "The Secretive Cabal of US Polluters that Is Rewriting the EU's Human Rights and Climate Law." Report, December. https://www.somo.nl/the-secretive-cabal-of-us-polluters-that-is-rewriting-the-eus-human-rights-and-climate-law/.
- Suchman, Mark C. 1995. "Managing Legitimacy: Strategic and Institutional Approaches." *Academy of Management Review* 20 (3): 571-610.
- Terhorst, L. 2025. *Are ESG Standards the Scapegoat for Stalling Defence Growth?* London: Royal United Services Institute (RUSI).

- Tooze, Adam. 2018. *Crashed: How a Decade of Financial Crises Changed the World*. New York: Viking.
- UBS Asset Management. 2025. "UBS Ditches Weapons Exclusion from Sustainable Investment Criteria." Reuters, 1 April.
- Van de Graaf, Thijs, Indra Overland, Daniel Scholten, and Kirsten Westphal. 2022. "The New Oil? The Geopolitics and International Governance of Hydrogen." *Energy Research and Social Science* 70: 101667.
- Vatiero, Massimiliano, and Flavio Pasini. 2025. "Toward a Post-Growth Industrial Policy for Europe: Navigating Emerging Tensions and Long-Term Goals." *Globalizations* 22 (6): 1124-1148.
- Vezzoni, Rubén. 2025. "From REPower to ReArm Europe: A Lopsided Geopolitics Foretelling Ecological Breakdown." *Intereconomics* 60 (6). https://www.intereconomics.eu/contents/year/2025/number/6/article/from-repower-to-rearm-europe-a-lopsided-geopolitics-foretelling-ecological-breakdown.html.
- White, J. 2015. "Emergency Europe." *Political Studies* 63 (2): 300-318.
- Wiedemann, Simone. 2025. "First Omnibus Package Relaxes Obligations of the CSDDD and CSRD." KPMG-Law, December 11. https://kpmg-law.de/en/first-omnibus-regulation-to-relax-the-obligations-of-the-csddd-csrd-and-eu-taxonomy/.
- Wynsberghe, Axelle Van. 2025. "EU Ready to Sacrifice the Green Deal and Due Diligence in the Name of Competitiveness." Finance Watch, February 18. https://www.finance-watch.org/blog/eu-ready-to-sacrifice-the-green-deal-and-due-diligence-in-the-name-of-competitiveness/

ANNEX

Annex a :

Topic	CSDDD as of 13 June 2024	Change through Omnibus	Effects
Scope of application	EU companies: • More than 1,000 employees AND more than €450m worldwide net turnover Non-EU companies: • More than €450m net turnover within the EU	EU companies: • More than 5,000 employees AND more than €1.5bn worldwide net turnover Non-EU companies: • More than €1.5bn net turnover within the EU	Significantly fewer companies are affected.
Degree of harmonisation	Member States may not deviate from general provisions on identification, prevention and remediation of adverse impacts.	In addition, Member States may no longer deviate from: • provisions on due diligence at group level • provisions on identifying adverse impacts • all provisions on prevention and remediation measures (including contract termination) • provisions on the complaints procedure	Greater uniformity of implementation across Member States. Restriction of Member States' ability to enact stricter rules.
Start of application and Commission guidelines	Start of application for first companies: 26 July 2027.	Start of application postponed for first companies to 26 July 2029.	More time for affected companies to prepare for implementation.
Transposition deadline for Member States	Transposition into national law by 26 July 2026.	Transposition into national law by 26 July 2028.	
Scope of identification of adverse impacts	Identification and assessment of actual and potential adverse impacts relating to: • own business activities • subsidiary companies • business partners in their value chains (direct and indirect)	Scope to be maintained. However, companies may apply the same risk-based approach to direct and indirect business partners, allowing prioritisation of direct partners. Information requests capped at business partners with fewer than 500 employees.	Stronger emphasis on risk-oriented procedures. Protection of smaller companies from excessive information requests.

Duty to terminate contracts	Termination of a contract with a business partner may be required where there are severe potential adverse impacts and no milder means shows promise of success.	No obligation to terminate contracts. Suspension (temporary) instead.	Production-critical supply chains do not need to be interrupted.
Involvement of stakeholders	Involvement required at numerous steps in the due diligence process. Stakeholders include: • directly affected persons • consumers • interest representatives, e.g. human rights and environmental organisations	• Stakeholder involvement only required for information gathering, identification and assessment of adverse impacts, prevention and remediation. • Stakeholder involvement limited to directly affected persons and their representatives.	Significant reduction in the effort required for stakeholder engagement.
Regular monitoring	Review of appropriateness and effectiveness of measures at least every 12 months.	Monitoring measures only every 5 years, or when there are indications of new risks or control weaknesses.	Costs for ad-hoc monitoring will decrease significantly.
Climate plans	Duty to adopt and implement a plan to reduce the consequences of climate change.	No obligation to prepare a climate plan.	Less effort required from companies.
Sanctions	Minimum threshold for sanctions: 5% of worldwide net turnover.	Minimum threshold for sanctions: 3% of worldwide net turnover. The Commission will issue guidelines on the level of sanctions.	Reduction of the maximum sanction level.
Civil liability	Member States shall ensure that companies can be held civilly liable for violations.	This provision lapses at Member State level.	Member States are free to set their own liability rules.
Financial services and investment activities of financial institutions	Commission due by 26 July 2026 to submit a report on whether additional rules for financial institutions are necessary regarding due diligence for financing and investment activities.	Review cancelled.	

Uhlig, T. (2025, 11 dicembre). First omnibus package relaxes obligations of the CSDDD and CSRD. KPMG Law Insights. https://kpmg-law.de/en/first-omnibus-regulation-to-relax-the-obligations-of-the-csddd-and-csrd