

FROM THE DRAGHI REPORT TO THE BALANCE SHEET TURNING SUSTAINABILITY REPORTING INTO A FINANCING LEVER FOR CASTELLÓN'S CERAMICS SECTOR

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ABSTRACT

This paper applies the central diagnosis of the Draghi Report, that Europe's difficulty is not a shortage of private capital but its misallocation away from productive, transition-aligned industry, to the Castellón ceramics cluster. Its argument is that recent regulatory change has not removed the financial relevance of sustainability data but relocated it. The Omnibus reform has lifted the CSRD reporting obligation from almost every ceramics SME; yet prudential banking rules now require lenders to price ESG risk into the cost of credit, and EU carbon policy continues to tighten the sector's cost base without offering it border protection. A strong ESG score therefore operates as a measurable discount on the cost of capital and as a defence of revenue across the value chain. Using the Voluntary Sustainability Reporting Standard for SMEs as the common language between a company and its bank, the paper quantifies that differential, sets out the supporting market and academic evidence, and proposes a governance-led framework through which a chief executive can convert sustainability performance into a financing advantage. In doing so it shows the individual firm performing, in miniature, the capital reallocation Draghi urges at continental scale.

1. DRAGHI'S DIAGNOSIS: EUROPE NEEDS CAPITAL, NOT SUBSIDIES

In September 2024, Mario Draghi delivered an unusually candid assessment to the European Commission: Europe has fallen behind. Closing the innovation gap, decarbonising competitively and reducing strategic dependencies will require additional investment of around 5% of EU GDP, a minimum of €750 to €800 billion every year. No public budget can meet a figure of that magnitude. The report's central question, therefore, is not how much is required, but where it will come from.

Draghi's answer is uncomfortable for anyone expecting subsidies: the money exists, but it is poorly allocated. European households saved more in 2022 than their counterparts in the United States, yet listed equities and investment-fund shares account for 43% of household financial wealth in the US against only 17% in the EU. Europeans save, but they hold those savings in deposits rather than investing them in companies. The report estimates that, in consequence, of the order of €300 billion of European savings flows abroad each year, principally to the United States, because the Union's capital markets remain fragmented. The precise mechanism is debated among economists, some of whom read the figure as under-allocation to equities rather than a literal outflow, but the underlying diagnosis of chronic under-investment in European productive capital is not seriously contested.

2. EUROPE, THE UNITED STATES AND CHINA: THREE MODELS OF INDUSTRIAL FINANCE

The structural weakness Draghi identifies becomes clearer when the European model is set against its two principal competitors. The first contrast concerns how industry is funded. Around 70% of corporate financing in the EU takes the form of bank lending, whereas in the United States roughly 77% is raised through capital markets. The absence of an integrated European capital market leaves the Union markedly behind the US in venture and growth capital, with measurable consequences: of the 147 European "unicorns" founded between 2008 and 2021, 40 subsequently relocated their headquarters abroad, mostly to the United States. Europe's financing structure does not merely cost more; it exports its most promising companies.

The second contrast is strategic. Europe finds itself positioned between a capital-markets-led United States and a state-directed China, increasingly described as being caught between American protectionism and Chinese industrial policy. Bank dependence, in that context, is not simply an inefficiency but a competitive vulnerability, because it constrains the speed and scale at which European industry can be financed relative to rivals who face no such constraint.

The third contrast bears most directly on ceramics, and it concerns the energy transition. In 2024, China invested approximately €580 billion (USD 625 billion) in clean energy, against roughly €345 billion (USD 370 billion) in the European Union and €290 billion (USD 315 billion) in the United States; China's outlay approached that of the EU and the US combined. That investment translates into a structural cost advantage in industrial energy and inputs, with a solar module costing around 15 US cents per watt to manufacture in China, more than 60% below the US figure and roughly half the European one. For a Castellón manufacturer the implication is direct: competitors abroad are decarbonising faster, and with cheaper capital and energy. The rate at which a European producer finances its own transition is therefore not an administrative detail but a central determinant of its competitiveness.

3. THE REGULATORY TURN: THE CSRD EASES, BUT THE FINANCIAL AND CARBON PRESSURES DO NOT

The current position needs stating precisely. The Omnibus package, approved by the European Parliament on 16 December 2025 and adopted as a directive in early 2026, is not a mere postponement of deadlines but a structural change in who must report. The CSRD now requires reporting only from companies that exceed both 1,000 employees and €450 million in net turnover, abandoning the former “two of three” criteria, and the narrowed scope applies for financial years beginning on or after 1 January 2027. Listed SMEs leave scope entirely, and Member States may exempt first-wave companies from reporting for the 2025 and 2026 financial years. For virtually every ceramics company in Castellón, the legal obligation to report under the CSRD no longer applies.

It is precisely here that most firms will draw the wrong conclusion. The regulatory net has narrowed, but the financial requirement has not. Progressively from 2025, credit institutions are subject to the revised Capital Requirements Regulation and Directive (CRR III and CRD VI), which oblige them to identify, measure and manage ESG risk across their loan books. A bank can only do so if it receives consistent ESG data from its clients. The directive that once compelled reporting has been relaxed; the prudential regulation that makes the bank request the data has not. The deadline moved; the financial consequence did not.

It is worth being precise about why the bank asks, because the bank is neither a regulator enforcing a rule nor a disinterested party. The purpose of CRR III and CRD VI is not sustainability reporting for its own sake. The European Central Bank and the European Banking Authority require lenders to understand how climate, environmental and social risks affect the resilience and value of the assets on their own balance sheets. A loan book tilted towards lower-risk, transition-aligned borrowers is a more robust asset; the institution that can evidence it is itself a more attractive counterparty, holds capital more efficiently and may secure better funding conditions in turn. The bank that prices a borrower's ESG risk is, in other words, managing its own. The relationship is therefore not the handing down of a single discount but the alignment of two distinct interests: the borrower lowers its cost of capital by reducing measured risk, and the lender strengthens its own balance sheet by financing that reduction. Neither party obtains the other's advantage; each obtains its own. One consequence follows directly. A strong ESG profile is not, in itself, an automatic reduction in the rate; it establishes the basis on which better terms can be negotiated, but the borrower must still bring the evidence and ask for them.

The same asymmetry runs through carbon policy, and bears on ceramics with particular force. The sector falls within the EU Emissions Trading System: more than 1,200 ceramic installations across Europe are covered, around 80% of them SMEs, and the sector is classified as exposed to a significant risk of carbon leakage. That cost is already being felt: the Spanish sector's purchases of CO₂ allowances tripled to €37 million in 2024, on top of an energy bill of €792 million, and as free allowances are withdrawn it will rise further. On the sector's own estimate, the Commission's proposed reduction of free CO₂ allowances for the period 2026 to 2030 would lift that annual cost for the Spanish tile industry to as much as €163 million. The Carbon Border Adjustment Mechanism, whose obligations begin in 2026 and ramp as free allowances phase out to 2034, is intended to equalise this burden against non-EU competitors, but it currently covers only steel, cement, aluminium, fertilisers, hydrogen and electricity. Ceramics is not yet within its scope and is not expected to be before around 2030. The sector therefore faces the less favourable half of the arrangement: a domestic carbon cost that rises as free allowances fall, without, for now, the border protection that shields other heavy industries from

rivals in Turkey, India or elsewhere who bear no equivalent cost. None of this is touched by the Omnibus. The reporting obligation softened; the carbon-pricing constraint tightened.

The route out of that cost is, for ceramics, increasingly concrete. Firing accounts for the larger part of the sector's thermal demand, and the electrification of the kiln, a technology developed within the Castellón cluster itself, can remove direct firing emissions where it draws on renewable power. The transition is therefore not abstract: it is a specific, capital-intensive programme of plant renewal that the cluster has already begun, and one whose pace is set by how cheaply it can be financed. Independent estimates put the additional electricity the cluster will draw at around 0.5 TWh by 2030 and more than 5 TWh by 2050, requiring in the order of 1,200 to 1,600 MW of new capacity and substantial grid investment alongside it. The point for a chief executive is that the environmental score, the energy bill and the carbon exposure move together: the same electrification that lifts the one lowers the other two, and it is precisely this kind of investment that the cost of capital, examined below, will make either affordable or prohibitive.

What appeared to be an abstract regulatory requirement therefore becomes the language in which a company and its bank price capital. For an SME no longer within mandatory scope, a framework designed for exactly this purpose already exists: the Voluntary Sustainability Reporting Standard for non-listed SMEs (VSME), developed by EFRAG. Its value lies in offering a single framework capable of answering the two data demands a company faces simultaneously, those passed down from large customers under the CSRD and those arriving from the financial sector under the SFDR. The Commission is, in fact, preparing a voluntary delegated act based on the VSME for companies that fall outside the mandatory regime. The mechanism by which this becomes a financing variable is concrete: banks translate the data points of the standard, in particular the energy and emissions disclosures of the basic module and the transition-target disclosures of the comprehensive module, into the internal ESG risk ratings that feed loan pricing. In short, the VSME allows an SME and its bank to speak the same reporting language, and that language has a price.

4. REFRAMING THE PROBLEM: THE ACCOUNTANT SELLS COMPLIANCE, THE COMPANY BUYS CHEAPER CAPITAL

For as long as the CSRD was experienced as a burden, its protagonist was the accountant arriving with ever larger invoices, and the bank lending support by demanding ever more documentation. That framing mistakes what each party is actually offering.

The accountant sells compliance: a correct report, a high cost, a heavy internal demand on time and resources, and no measurable result on the profit and loss account. It is an expense that protects against a penalty. Sustainability, properly conceived, offers something different: cheaper debt and equity, greater shareholder value, at lower cost and with a measurable outcome. It is not a defensive expense but a lever on the cost of capital. Viewed from the treasury function, a strong ESG score is not an environmental cause; it is a discount on the rate of interest.

This is not merely an assertion of advocacy. The empirical literature consistently finds that stronger ESG performance is associated with a lower cost of debt: an international study of more than 25,000 bonds finds that high-ESG issuers borrow at roughly 10 basis points less than low-ESG issuers, an effect driven mainly by the environmental and social dimensions. The effect is documented to be larger in bank-based financial systems, where lending rests on long-

term relationships, than in market-based ones, which is precisely the position of Spanish ceramics. It should be acknowledged that the pure “greenium” on labelled green bonds is small and has narrowed in recent years, to around two basis points in advanced markets. That observation, however, strengthens rather than weakens the argument, because the durable driver of ESG pricing is not investor sentiment, which may ebb with political fashion, but bank prudential regulation, which prices ESG risk into the loan book by law and irrespective of mood.

The objective, accordingly, is not to avoid the penalty attached to a low score but to reach the upper part of the scale, where the cost of capital ceases to be a penalty and becomes an advantage. For a sector preparing to invest the equivalent of a decade of its turnover in decarbonisation, that differential is not a marginal consideration; it determines whether the transition can be financed at all.

5. WORKED EXAMPLE 1: THE VALUE OF A HIGH ESG SCORE IN A DECARBONISATION INVESTMENT

The table below sets out the financing-cost differential as a function of the ESG score, for a reference investment of €10 million over ten years, split €3 million equity and €7 million debt. The spreads are expressed relative to a base cost of debt of the order of 4% to 5% and a base cost of equity of the order of 9% to 10%; the final column is the resulting additional financing cost over base across the ten years, and the full basis is set out in the appendix anexo.

ESG score band	Cost of equity (vs base)	Cost of debt. (vs base)	Ten-year cost on €10m
1–20 (very low)	+ 5% to + 3%	+ 1.5% to + 1.0%	€2.55m to €1.6m
21–40 (low)	+ 4% to + 2%	+ 1.2% to + 0.8%	€2.04m to €1.16m
41–60 (medium)	+ 2% to + 1%	+ 1.0% to + 0.5%	€1.3m to €650,000
61–80 (high)	+ 1% to – 0.5%	+ 0.5% to + 0.2%	€650,000 to €290,000
81–100 (very high)	– 1% to – 2%	– 0.3% to – 0.5%	€350,000 to €170,000

The very high band (81–100) is the only one in which the cost of capital becomes a discount, on both debt and equity. The equity figures should be read as the more illustrative of the two, since the evidence linking ESG performance to the cost of equity is thinner than that for the cost of debt.

A word is warranted on what “cost of equity” means for the typically family-owned ceramics firm that does not raise equity on a public market. It is an opportunity cost rather than a market quotation, but it is no less real: it shapes how retained earnings are allocated, and it crystallises the moment the family seeks an outside partner, a co-investor for a major project, or an eventual sale. A lower cost of equity raises the value of the business at precisely the points where that value is tested.

Applied to a real figure from the sector, the contrast is considerable. Taking the €74 million of a “net zero” electrification project of the kind recently announced by a leading European tile manufacturer, financed in the customary structure of 70% debt (approximately €51.8m) and 30% equity (approximately €22.2m) over ten years:

- **Equity (30%, €22.2m):** a company in the lowest band bears a risk premium of up to 5% on its equity. A company in the very high band not only removes that premium but secures a reduction of between 1% and 2% in its cost of equity.

Debt (70%, €51.8m): against the surcharge of up to 1.5% borne by a very low score, a very high score can convert that differential into a discount of between 0.3% and 0.5% on the rate.

Expressed annually, the gap between the worst and best positions is of the order of €2 million on this single asset, and over the decade, with compounding, it approaches €22 million, close to 30% of the capital invested, relative to an identical company in the green zone. As the Castellón tile sector itself has warned, should Europe not ease the pace it demands, “only the large groups will have the capacity to make the necessary investments”; in that event the financing differential may decide which firms survive the transition.

6. WORKED EXAMPLE 2: THE SUPPLY-CHAIN DISCOUNT

The same ESG data that lowers the cost of investment on the financing side also protects revenue on the customer side, and for an export-oriented, supply-driven sector such as ceramics that second channel may be the more immediate exposure. The major Spanish banks already operate sustainability-linked supply-chain finance programmes, under which a supplier with a strong ESG score obtains better terms while one with a weak score pays a surcharge. This is not prospective; it is in force.

Bank	Programme	Debt spread (low vs high ESG)	Value-chain discount
BBVA	Sustainability-Linked Supply Chain Finance (SSCF)	Low ESG: +0.10% to +0.15% / High ESG: -0.05% to -0.10%	Up to 10% lower rates for suppliers with strong ESG performance (carbon, waste, water).
CaixaBank	ESG Supplier Development (Achilles)	Low ESG: +0.10% to +0.20% / High ESG: -0.05% to -0.10%	5 to 15 basis-point reduction for first-tier suppliers with strong environmental and social standards.
Santander	Sonae Supply Chain Finance Programme	Low ESG: +0.10% to +0.20% / High ESG: -0.05% to -0.10%	Preferential rates for suppliers with high ESG ratings (EcoVadis or equivalent).

Bank	Programme	Debt spread (low vs high ESG)	Value-chain discount
ING	Sustainable Supply Chain Finance	Low ESG: +0.20% to +0.40% / High ESG: -0.15% to -0.30%	Discounted rates for suppliers meeting defined ESG targets (energy efficiency, waste).

Figures are indicative, drawn from confidential market data for a Spanish-based company; where one programme expresses its discount as a percentage reduction in the rate and another in basis points, the units differ and are reproduced as reported.

The reading for ceramics is straightforward. When a manufacturer sells to a large distributor, an international construction group or a public client, that buyer is increasingly subject to its own ESG requirements and passes them down to its suppliers. The supplier with a strong score is paid sooner and finances its working capital more cheaply; the supplier with a weak score finds its position more expensive or loses the contract altogether.

7. THE AGGREGATE STAKE FOR THE CLUSTER

The argument so far has concerned the individual firm, but the figures scale to the cluster, and at that level they become a question of collective survival. The Spanish ceramics sector recorded turnover of €4,819 million in 2024, of which €3,479 million, around 72%, was exported to 186 countries; it produced 416 million square metres and sustained 15,790 direct jobs. Against that annual turnover, the sector's own study of its decarbonisation puts the required investment at €56.6 to €81.6 billion, between ten and fifteen times a single year's sales; that figure is a deliberately maximal estimate, covering a full switch to renewable hydrogen or electrification including the energy generation and distribution infrastructure it would require. On a narrower industrial measure, European ceramics as a whole faces some €27 billion of investment to 2050. Whichever figure is taken, the order of magnitude is the same: an investment burden far larger than the sector could absorb from its own annual cash flow.

An investment programme of that order will be financed largely through the banking system on which the sector depends. A financing-cost differential of even a few hundred basis points, applied across tens of billions of euros of transition investment, therefore translates into a cluster-level cost measured in the billions over the coming decades. The question of ESG performance ceases to be a matter of any one firm's loan and becomes a determinant of whether the Castellón cluster can finance its transition on terms that keep it competitive with producers who decarbonise faster and borrow more cheaply.

8. A FRAMEWORK FOR CEOS: FROM REGULATION TO CAPITAL

If a strong ESG score functions as a discount on the cost of capital, the practical question is how it is earned. A caution is warranted at the outset, because the danger in any framework of this kind is that it reads as a scoring exercise: a search for whichever actions move the rating fastest. That is the wrong way to understand it, and a bank, a customer or an eventual acquirer will see through it; a score that is engineered rather than earned does not survive scrutiny. The score is the consequence of better decisions about energy, risk and capital allocation, not the objective in itself. The exercise is best understood, then, not as a one-off compliance task nor as a route to a number, but as the ordinary discipline of running the business well, set out in a

way that those who finance it can read. It is a deliberate, governance-led progression that a chief executive can present to the board in a single sitting, and five stages describe it.

The first stage is measurement. The company establishes its baseline score, which is almost always low, because nothing has yet been optimised. A baseline that is candid rather than flattering is what makes the subsequent trajectory credible to a bank. This stage, once slow and costly, can increasingly be accelerated by AI-enabled tools. Existing material that the company already holds, ISO management systems, annual reports, procurement policies, codes of conduct, audit reports and publicly available information, can be mapped automatically against the VSME and CSRD data points, and an initial inventory of the firm's impacts, risks and opportunities drawn from it. The effect is to compress the cost and effort of the assessment substantially. It does not, however, remove the need for judgement: the tool proposes; management and stakeholders dispose, deciding which topics are genuinely material and where the real strategic levers lie. The acceleration is in the groundwork, not in the decisions.

The second stage is the one most often skipped, and it is the one that separates a considered programme from a cosmetic one. Before any action is chosen, management examines the business through two lenses at once. The first asks how the company affects the environment and society around it: its energy consumption, its water and material use, its labour conditions. The second asks the reverse: how environmental and social developments bear on the company, from the carbon regulation and border measures discussed earlier to supply-chain disruption, tariffs and the physical effects of a changing climate. Considering both together is what gives the exercise its strategic content. The process can begin internally, on existing documentation and management discussion, but a robust view progressively draws in those outside the room, employees, customers, suppliers, financing partners, local communities and sector specialists, who routinely see exposures and opportunities that management alone overlooks. The purpose here is emphatically not to satisfy a reporting requirement. It is to decide what the company should do. A higher score follows from doing the right things; it is not itself the thing to be done.

The third stage turns that assessment into intent. Once the material impacts, risks and opportunities have been identified and tested with the relevant stakeholders, choices have to be made: a defined set of measurable targets and the indicators by which progress against them will be judged. It is here that the identification of levers belongs, with management determining which environmental and social actions will do most for the underlying business and, in consequence, for the rating. For ceramics the alignment is unusually clean, since the same energy decarbonisation that lifts the environmental score also lowers the energy bill and reduces exposure to rising carbon costs. The targets, not the score, are what management commits to; the score is the reading the outside world takes of them.

The fourth stage is implementation and iteration. The chosen programmes are put into effect, performance against the targets is re-measured, and the cycle repeats. Governance is the thread running through the whole sequence, converting a set of discrete actions into a demonstrable upward trajectory rather than a one-off gesture. The fifth stage is documentation: each cycle is recorded, so that the company arrives at the financing conversation not with a single flattering snapshot but with an evidenced direction of travel, which is what a lender looks for.

Three principles govern the framework. The first is that it is led by the chief executive and the board, not by the finance function or the accountant, because it is a decision about how the company is financed rather than a closing entry. The second is that it requires time: beginning

early, with several cycles in hand, is what separates a very high score from a hurried and expensive correction on the eve of a financing round. Treated as the latter, the exercise yields a report; treated as the former, it yields a discount.

The third is that it need not be carried alone. Few mid-sized companies hold internally the full range of competence the sequence calls for, spanning carbon accounting, life-cycle analysis, sustainable finance, reporting and the engineering of decarbonisation itself, and there is no reason they should, since the need for much of it is cyclical rather than permanent. The effective pattern is to keep ownership of the programme firmly with the chief executive and the board while drawing on specialist external support for defined phases and specific questions: intense for a period, then stepping back. This is the model that specialised sustainability advisers such as Durably are built around, and it is the most economical way to reach a credible position without carrying fixed overhead the business does not need year-round

As Jan Dezutter, Managing Partner of Durably, puts it: the double materiality assessment is what turns reporting into strategy. It is the bridge from regulation to capital, the point at which sustainability stops being a closing entry and becomes a board decision, anchored in data and aligned with the way the company is financed.

9. WHY DELAY IS THE WRONG RESPONSE

It is tempting to conclude that, with the legal obligation no longer pressing, prudence favours waiting. That is precisely the wrong conclusion, for five reasons.

- **Sustainability endures.** Formats change, from the NFRD to the SFDR, the CSRD and the Omnibus, but the underlying principles and obligations remain, and the carbon-pricing constraint is tightening rather than easing.
- **The investment is not wasted.** A company with reporting systems already in place adapts quickly to any change of format and avoids the costly disruption of rushed compliance.
- **Last-minute compliance is expensive.** It brings pressure on internal teams, higher fees for urgent support, a greater risk of error, and the loss of any opportunity to integrate ESG data strategically.
- **Financial stakeholders require the data.** Banks, rating agencies and insurers already use sustainability metrics to set terms. A company that maintains its reporting arrives in a stronger position to secure favourable financing.
- **Value-chain pressure persists.** Large corporations and public clients continue to embed ESG criteria in supplier selection. Those who fail to meet them lose business.

10. CONCLUSION

The argument returns to where it began. Draghi establishes that Europe must mobilise private capital on an unprecedented scale and direct it towards productive, transition-aligned industry. The capital markets and the banking system show that this capital will flow towards enterprises whose risk, ESG risk included, is measured and low. And the VSME provides the instrument with which to demonstrate it, even for an SME no longer obliged to report.

There is a symmetry worth naming. The ceramics chief executive who lowers the cost of capital by improving ESG performance is performing, in miniature, the reallocation Draghi calls for at the continental scale: private savings moving towards productive, decarbonising industry. The firm's self-interested act and Europe's strategic imperative are, on inspection, the same movement at two scales.

The accountant will go on selling compliance and the bank will go on requesting data. The distinction will be drawn by those who understand that such data, properly managed and improved year on year as a decision of the chief executive, is not an invoice but the price at which they will finance their own decarbonisation. The question for each ceramics CEO is not whether to comply, but on which side of the differential to stand when the moment arrives.

11. APPENDIX: METHODOLOGICAL NOTE ON THE COST-OF-CAPITAL SCENARIOS

The figures presented in Section 5 are scenario estimates, constructed to illustrate the financial consequence of ESG performance rather than to predict the terms of any individual transaction. They rest on the following basis.

- **Base rates.** Differentials are applied to an assumed base cost of debt of the order of 4% to 5% and a base cost of equity of the order of 9% to 10%, consistent with the financing conditions facing a mid-sized Spanish industrial company over the period. The bands express movements relative to those base rates.
- **Reference structure.** Each scenario applies a standard financing structure of 70% debt and 30% equity to the stated investment, over a ten-year horizon, consistent with the typical capital structure of a sector investment of this scale.
- **Spread ranges.** The debt and equity differentials associated with each ESG score band are drawn from observed sustainability-linked spread data in the Spanish market. They are expressed as ranges rather than point estimates to reflect the variation across instruments, counterparties and rating methodologies. As an independent check, peer-reviewed studies place the bond cost-of-debt advantage of high-ESG issuers at around 10 basis points, larger in bank-based systems; the ranges used here are consistent with, and at the commercial end of, that evidence.
- **Worked illustration.** On the €10 million reference case, a very-low-score company paying an additional 1.5% on €7,000,000 of debt incurs roughly €105,000 a year in extra interest, while an additional 5% on €3,000,000 of equity represents roughly €150,000 a year in additional required return; the combined annual differential of about €255,000, compounded and aggregated over ten years against a high-score company that instead receives a discount, produces a cumulative gap approaching 30% of the capital invested. Scaled to the €74 million investment, this yields the order of €22 million cited in Section 5.

- **Status of the figures.** The aggregate figures are illustrative and should not be read as published figures for any named company. The €74 million investment and the associated sales figure are presented on an anonymised basis. The supply-chain programme terms in Section 6 are based on real market information for a Spanish-based company.

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