



## Corporate Sustainability Due Diligence Directive (CSDDD)

### Understanding and Implementing the Upcoming CSDDD

The Corporate Sustainability Due Diligence Directive (CSDDD), which came into force on July 25, 2024, is one of the EU's central sustainability laws. It requires companies to conduct thorough due diligence on human rights and environmental impacts across their entire value chain, both upstream and downstream. The aim is to identify, prevent, and eliminate negative effects. The Directive is a crucial aspect of the EU's broader commitment to sustainable development and corporate social responsibility.

With our expertise in sustainability, legal matters, risk management, supply chain management, business strategy, and other key related topics, we are prepared to help companies interpret legislation and prepare for compliance while meeting their broader sustainability and business objectives.

Please read our guide to CSDDD and how to navigate it below.

## Questions and answers in this document

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## Background on CSDDD

### What is the CSDDD (Corporate Sustainability Due Diligence Directive)?

The Corporate Sustainability Due Diligence Directive (CSDDD) is an EU directive that requires companies within its scope to implement a human rights and environmental due diligence process. The Directive requires companies to identify and assess negative impacts on human rights and the environment that are associated with their own operations, the operations of their subsidiaries, and the operations of their business partners in the companies' chains of activity. Business partners include direct partners, those with commercial agreements related to the company's business activities, products, or services, as well as indirect business partners, companies that carry out business activities related to the company's business activities, products, or services. Where necessary, companies should prioritize the most serious risks to prevent, mitigate, and remediate or contribute to remediation, based on shared responsibility.

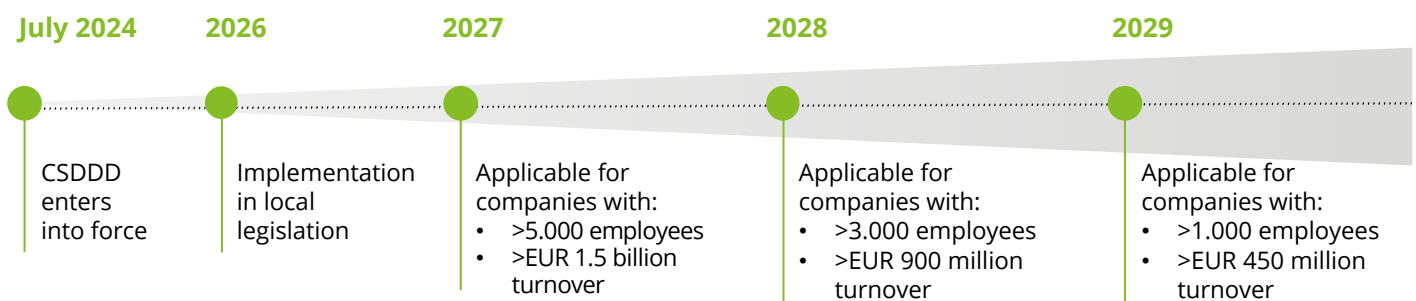
### Who does the CSDDD apply to?

The CSDDD will ultimately apply to:

- Companies in the EU with more than 1,000 employees and a global net turnover above 450 million euros.
- Non-EU companies with a net turnover of over 450 million euros in the European Union.
- Parent companies of a group that meets the above thresholds.
- Companies that have entered into a franchise or royalty agreement in the EU with independent third-party companies or are the ultimate parent company of a group that meets the following criteria:
  - The agreements ensure a common identity, a common business concept, and the application of uniform business methods.
  - Royalties must be more than 22.5 million euros.
  - The company or group has a worldwide net turnover of more than 80 million euros.

### When does CSDDD come into effect?

Implementation of the Directive in local legislation is expected by 2026. Therefore, the CSDDD will come into force gradually based on thresholds.



**How does the CSDDD relate to other existing EU regulations such as the Corporate Sustainability Reporting Directive (CSRD)?**

The CSDDD has strong synergies with and is closely linked to various EU laws related to human rights and value chain due diligence, including the EU Deforestation Regulation (EUDR), the EU Conflict Minerals Regulation (EUCMR), the EU Batteries Regulation (EUBR), and impending legislation banning forced labour. While the due diligence obligations in these regulations are often sector-, commodity-, or topic-specific and vary in scope and obligations, the CSDDD sets a uniform EU-wide standard. It requires both EU and non-EU companies to develop comprehensive due diligence strategies for human rights and environmental issues. However, the data collected and the due diligence implemented in the context of EUDR, EUCMR, and other regulations may be used to support CSDDD compliance, and vice versa.

In addition, the CSDDD is closely linked to the Corporate Sustainability Reporting Directive (CSRD), and the two complement each other in their efforts to enhance value chain sustainability and transparency within the European Union. Both guidelines are consistent with the OECD Guidelines for Multinational Enterprises on Responsible

Business Conduct and are based on the UN Guiding Principles, with the CSRD focusing on reporting and disclosure of social and environmental impacts, risks, and opportunities, while the CSDDD imposes action-oriented obligations, requiring companies to actively examine and address the environmental and human rights impacts of their own operations and supply chain.

It should be noted that CSRD and CSDDD have different application areas. The CSRD applies to a broader range of companies and covers all value chain activities, including companies' own operations, downstream and upstream. The CSDDD, on the other hand, applies to a narrower set of companies and focuses on a smaller group of value chain activities.

Finally, the CSDDD also has strong similarities with the minimum protection criteria of the EU taxonomy. If a company wants to be compliant with the EU taxonomy, it must implement human rights due diligence, which is very similar to the CSDDD due diligence requirements.



## Requirements of the CSDDD

### What are the requirements of CSDDD?

Implementing human rights and environmental due diligence requires companies to carry out the following activities:

	Integrate into Operations	Identify and Assess	Prevent or Mitigate	Remediate	Monitor	Report
Overview	Companies are expected to have clear policies and processes in place to manage human rights and environmental impacts and risks throughout their entire value chain.	Companies must <b>continually identify and assess actual and potential human rights and environmental impacts</b> associated with their operations, with clear prioritization of risks based on severity.	Companies are required to effectively <b>implement mitigation mechanisms to prevent potential negative impacts</b> and minimize actual impacts that have already occurred. These mechanisms <b>must include a complaints procedure.</b>	In the event that the company has caused or contributed to an impairment in the topics covered, the company must provide remedial action.	Regularly monitor and evaluate <b>the effectiveness of the due diligence policies</b> and measures to ensure compliance and continuous improvement.	<b>Submitting due diligence information</b> is part of the due diligence process itself and should provide sufficient information to assess the adequacy of companies' response impact.
Example	The Code of Conduct for Suppliers describes the expectations of business partners to comply with human rights and environmental standards.	Conduct a high-level assessment of the value chain and business partners to understand areas of risk and assess areas requiring attention.	Conduct more detailed supplier assessments for suppliers that conduct activities or work in regions where there is a higher risk of violation of any of the prioritized human rights issues.	Take action – including financial investments – to address environmental damage caused by value chain activities.	Conduct an annual audit of your due diligence processes, review the results, and adjust strategies based on the findings.	Publish detailed information about company policies, risk assessments, and measures taken to prevent human rights violations and environmental impacts in accordance with CSRD guidelines (if applicable).

Meaningful stakeholder engagement is required in each of these processes and is a fundamental element of due diligence as mandated by CSDDD.

In addition, CSDDD requires that companies establish a climate transition plan:

- Companies must adopt and implement a transition plan aimed at limiting global warming to 1.5°C.
- Companies must report progress and update their plans annually.



### What level of responsibility is expected from companies based on the Directive?

While the Directive places responsibility on companies to address negative human rights and environmental impacts throughout their value chain, the proximity to the impact and the influence that the company has on the business partner involved plays a role in determining the level of action expected from the company.



	Cause	Contribute	Directly linked to
	Is the proximate cause of the harm through products or operations.	Support or assist in the commission or wrong-doing by another entity (including state) or individual.	The operations, products or services are linked to a violation. Requires more than just knowledge of impact, but some connection to it.
<b>Action Required</b>	<ul style="list-style-type: none"> <li>Cease or prevent the adverse impact</li> <li>Provide for or cooperate in remedy</li> </ul>	<ul style="list-style-type: none"> <li>Cease or prevent the adverse impact</li> <li>Use or increase leverage to influence causing entity to mitigate the adverse impact</li> <li>Provide for or cooperate in remedy</li> </ul>	<ul style="list-style-type: none"> <li>Use or increase leverage to influence causing entity to mitigate there adverse impact.</li> </ul>

Note that context and leverage should not be a factor in impact prioritisation, as this should be done based on severity and likelihood.

The Directive sets out that companies address high-priority risks with business partners by:

1. Developing and implementing a prevention action plan when necessary.
2. Obtaining contractual assurances from direct business partners, complying with the code of conduct and, if necessary, the prevention action plan.
3. Making financial or non-financial investments, adjustments, or upgrades aimed at preventing negative impacts.
4. Adapting business plans, practices, policies, overall strategies, and operations that contribute to living wages and incomes for their suppliers, and that do not encourage potential adverse impacts on human rights or the environment.
5. Making necessary changes to, or improvements in, their design, distribution, and payment practices to address negative impacts both upstream and downstream in their activities.

6. Providing targeted and proportionate financial and/or non-financial support to business partners who are small and medium-sized enterprises (SMEs) that may need it, especially if compliance with the code of conduct or prevention action plan could jeopardize their viability, for example through bankruptcy.

Companies are expected to address these risks by working directly with business partners and/or working with indirect business partners if necessary, as well as working with affected stakeholders or representatives. However, if these measures do not lead to successfully managing the risks, the company may, as a last resort, choose to temporarily suspend the business relationship until the risk is resolved, or refrain from entering into new or existing relations with the relevant partner, if it has been determined that the situation will not be further affected.

**Which environmental topics are covered by the CSDDD?**

For environmental due diligence under the CSDDD, a specific set of environmental topics is in scope, as outlined in the Directive's appendix and summarised below:

- Negative impact on natural resources:
- Biological diversity
- Endangered species
- Natural heritage sites
- Wetlands
- Seas and oceans (from pollution from ships, dumping, and other sources)

Management of substances that are environmentally harmful:

- Mercury (use and waste)
- Prohibited chemicals (production/use as well as import/export)
- Waste (handling, collection, storage, and disposal as well as export)
- Controlled substances (illegal production, consumption, import, and export)

Environmental degradation that affects people's safety, health, well-being, and access to resources, such as:

- Harmful soil alteration
- Water or air pollution
- Harmful emissions
- Excessive water use
- Land degradation or other natural resources
- Eviction or expropriation of land, forests, and waters through acquisition, development, and use, including deforestation
- Controlled substances (illegal production, consumption, import, and export)

Reducing climate change in line with the Paris Agreement, on the basis of a climate transition plan

**What are the consequences of non-compliance?**

- Fines up to a maximum amount to be determined individually by each Member State (this maximum amount should not, however, be less than 5% of the company's net global turnover)
- Exclusion from public tenders
- Civil liability for the intentional or negligent causing of adverse effects



## Preparing for CSDDD compliance

### What are the benefits of complying with CSDDD?

Compliance with the Corporate Sustainability Due Diligence Directive (CSDDD) can help companies position themselves as leaders in sustainability and ethical business practices and achieve significant operational, reputational, and financial benefits:

- **Improve competitive advantage and reputation** by attracting socially and environmentally conscious customers and building trust with stakeholders through proactive sustainability efforts.
- **Mitigate risk by avoiding future liabilities**, legal issues, and supply chain disruptions by fostering a culture of continuous improvement.
- **Increase operational efficiency** by streamlining supply chains, increasing transparency, and regularly assessing supplier performance.
- **Strengthen long-term resilience** by enabling companies to adapt more efficiently to regulatory changes, market demands, and global challenges.
- **Achieve financial benefits** through efficient use of resources and attracting investment due to meeting Environmental, Social, and Governance (ESG) criteria.
- **Strengthen employee engagement**, improve workplace culture, and help attract and retain top talent by prioritising sustainability.
- **Build trusted relationships with suppliers** through collaboration on capability building and supporting sustainable business practices.

### Why should we start preparing for CSDDD now?

Companies should start preparing for CSDDD now to allow enough time to build the systems and carry out the activities required by the directive. This includes taking enough time to identify risks and mitigate them, including through coordination with partners in the value chain and through contract (re)negotiations if necessary. Companies also need to consider how they can effectively meet these requirements, while taking into account their broader business and sustainability goals.

The requirements of CSDDD are complex, but if addressed carefully, they can be seamlessly integrated into business operations, potentially leading to positive outcomes such as improved reputation, stronger customer relationships, and enhanced risk management. By proactively addressing CSDDD, companies avoid costly reactive measures such as expensive firefighting or penalties and reputational damage due to non-compliance with human rights and environmental standards. Additionally, early preparation allows companies to harmonise CSDDD compliance with other related regulations, thereby minimising inefficiencies and maximising resource utilisation.

### What steps can your organisation take to prepare for CSDDD??

- Determine whether CSDDD compliance will be treated as a compliance-driven activity or integrated into larger organisational transformation efforts to support business objectives.
- Establish a governance structure and identify key stakeholders responsible for ensuring CSDDD compliance and taking responsibility for the required activities.
- Conduct a value chain risk assessment to identify key human rights and environmental risks, prioritise them based on the severity and likelihood of negative impacts, and prepare to take preventive action if necessary.
- Conduct a human rights and environmental value chain risk management assessment across processes, policies, technology/data, organisation, and governance to assess actions required to achieve compliance.
- Ensure that appropriate data management and transparency/visibility systems are in place to enable due diligence activities as well as required reporting.
- If not already started, begin to develop a climate transition plan in line with the Paris Agreement.

Deloitte can support you with each of these key steps.



## Why choose Deloitte as your partner for your CSDDD compliance journey?

- **Extensive Experience:** Deloitte has a strong track record of helping clients design and implement comprehensive human rights and environmental due diligence.
- **Cross-Functional Collaboration:** Our multidisciplinary approach involves collaboration across multiple focus areas, including supply chain, risk management, legal, and sustainability, to provide holistic solutions.
- **Global Networks and Partnerships:** Deloitte's extensive global network ensures access to local expertise and resources, facilitating the seamless implementation of CSDDD requirements across different regions.
- **Advanced Technology and Data Analytics:** Deloitte uses state-of-the-art digital tools and platforms to monitor, manage, and report on human rights and environmental performance, using data analytics to inform decision-making.
- **Tailored Support and Strategic Guidance:** We tailor our services to each client's individual needs and challenges, providing strategic roadmaps and action plans aligned with broader business and sustainability goals.
- **Stakeholder Engagement and Reporting:** Deloitte helps clients develop and implement strategic stakeholder engagement plans and align reporting with the Corporate Sustainability Reporting Directive (CSRD).
- **Expert Advice on Climate Transition Plans:** Our expertise helps clients develop, disclose, and implement credible climate change plans, manage transition risks and financial impacts, and prepare for future changes.

## Connect with us

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**Jille Luijckx**

Partner, Deloitte The Netherlands  
Sustainable Supply Chains

 [jluijckx@deloitte.nl](mailto:jluijckx@deloitte.nl)



**Rozemarijn Bloemendal**

Partner, Deloitte The Netherlands  
Legal country lead for sustainability

 [rbloemendal@deloitte.nl](mailto:rbloemendal@deloitte.nl)



**Nathalie La Verge**

Director, Deloitte The Netherlands

 [NLaVerge@deloitte.nl](mailto:NLaVerge@deloitte.nl)

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