



**CSDDD**

IN 5 STEPS

The EU Corporate Sustainability Due Diligence Directive (**CSDDD**), which was endorsed by European Union (**EU**) Member States on 15 March 2024, requires companies above a certain scale, based in the EU or operating in the EU market, to conduct human rights and environmental due diligence (**HREDD**) on adverse human rights and the environment impacts arising from activities carried out at certain levels of their global value chains. In this regard, responsibility of companies to respect human rights, as enshrined in the United Nations Guiding Principles on Business and Human Rights, is now regulated under EU legislation.



# Which companies are in the scope of the CSDDD?

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- **EU companies** with more than 1,000 employees and a worldwide net turnover of more than €450 million, or parent companies of a group of companies that meet these thresholds, or
  - **Non-EU companies** with a net turnover generated in the EU of more than €450 million or parent companies of a group of companies that fulfil the above thresholds.

**SMEs:** While not directly covered by the CSDDD, SMEs that are subsidiaries or business partners (e.g. suppliers, contractors, subcontractors) of companies covered by the CSDDD will need to indirectly comply with the HREDD requirements regulated thereunder.



# What obligations does the CSDDD impose on companies?

## **HREDD:**

- Integrating HREDD into company policies and operations
- Identifying and assessing adverse human rights and environmental impacts arising from activities
- Prevention and mitigation of potential adverse impacts
- Ending or minimising adverse impacts that have already occurred
- Providing compensatory solutions for adverse impacts
- Effective communication with stakeholders
- Establishing an effective reporting and grievance mechanism
- Monitoring the effectiveness of the measures taken

***Adoption and implementation of a climate change transition plan***

## Scope of the HREDD

- The company's own activities
- Activities of subsidiaries
- Activities carried out by business partners in the "activity chain"

According to CSDDD, parts of the value chain referred to as the "activity chain" for companies should include;

- activities of upstream business partners related to the production of goods or the provision of services by the company, including product design, extraction of raw materials, procurement, manufacture, transport, storage and development of the product or service, and
- activities of a company's downstream business partners related to the distribution, transport and storage of the product, where the business partners perform these activities on behalf of or for the account of the company.



# Supervision and Sanctions

- **Audit Authorities:** Establishment of supervisory authorities in EU Member States (BAFA in the case of Germany) authorised to carry out inspections on companies for compliance with their HREDD obligations, to conduct relevant investigations, and to issue legal orders to remedy or stop violations,
- **Administrative Fines:** Administrative fines of up to 5% of the net global turnover of non-compliant companies,
- **Civil Liability:** Civil liability for companies that breach their obligations to prevent or mitigate potential or actual adverse effects, whether intentionally or negligently, in connection with the resulting damages.



## Gradual Enforcement:

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EU Member States are required to harmonise their domestic laws with the CSDDD within no later than 2 years after the entry into force of the CSDDD.

A gradual approach is envisaged for companies to comply with the CSDDD, starting from the date of entry into force:

- **1st Group:** Companies with more than 5000 employees and an annual turnover of 1.5 billion Euros will have three years;
- **2nd Group:** Companies with 3000 employees and an annual turnover of 900 million Euros will have four years;
- **3rd Group:** Companies with 1000 employees and an annual turnover of 450 million Euros will have five years to comply with the CSDDD.