

ESBA Policy Briefing

The Corporate Sustainability Due Diligence Directive (CSDDD)



AIMS, OBJECTIVES & OBLIGATIONS

Aim: To reduce risks of adverse human rights and environmental impacts within global value chains, mandating due diligence for large companies on their own activities and those of their suppliers.

Primary Targets: The Directive applies to large EU companies and non-EU companies operating in the EU that meet certain thresholds, focusing on those with significant turnovers and employee counts.

Due Diligence Obligations: Large companies will need to identify and address potential and actual adverse human rights and environmental impacts within their operations and supply chains, which includes SME partners.

Civil Liability and Enforcement: While enforcement is at the Member State level, SMEs involved in supply chains may face indirect impacts due to the civil liability and financial penalties that could be imposed on their larger partners for non-compliance.

IMPLEMENTATION TIMETABLE

Current Status: The Directive is in the negotiation phase among EU institutions, with formal adoption expected no earlier than 2024. Member States will then have two years to implement it into national law.

Compliance Timeline: Larger companies are expected to meet new requirements by 2027, with all companies in the scope preparing for compliance by 2029.

INTRODUCTION

The Corporate Sustainability Due Diligence Directive (CSDDD) aims to foster sustainable and responsible corporate behavior, particularly in the context of environmental and human rights impacts.

While the Directive primarily targets larger enterprises, its ripple effects are expected to significantly impact small and micro businesses as well, especially those in supply chains of larger companies.

SMEs need to be aware of the CSDDD's implications, as their business relationships with larger companies will necessitate compliance with the due diligence and sustainability standards set by these entities.

USEFUL LINKS

- [European Commission - Corporate Sustainability Due Diligence](#)
- [Draft Text of the Directive](#)
- [CSDDD Explainer](#)

IMPACT ON SMES

Indirect Inclusion: Although SMEs are not directly in the scope of the CSDDD, they are likely to be affected in their capacity as contractors or subcontractors to larger companies. This indirect inclusion means that small and micro businesses will need to align with the sustainability standards and due diligence processes of their larger business partners.

Supply Chain Compliance: SMEs within the supply chains of in-scope companies will be required to comply with the environmental and human rights standards set by these companies, as part of the larger entities' due diligence processes.

Proactively aligning with these standards can provide SMEs with competitive advantages and opportunities for innovation in sustainable practices. Staying informed and prepared for the trickle-down effects of the CSDDD is crucial for SMEs to maintain and grow their business relationships within the EU market.

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