

Corporate Sustainability Due Diligence Directive

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Large EU companies obliged to pay greater attention to impact of businesses on human rights and the environment

Directive (EU) <u>2024/1760</u> of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence and amending Directive (EU) 2019/1937 and Regulation (EU) 2023/2859

Directive 2025/794 amending Directives 2022/2464 and 2024/1760 as regards the dates from which Member States are to apply certain corporate sustainability reporting and due diligence requirements

Update

In July 2024, the EU published its new Corporate Sustainability Due Diligence Directive. The Directive establishes stricter due diligence obligations for large companies, meaning they must identify, prevent, and bring to an end any adverse impacts on human rights and the environment that arise from their operations. Most non-EU producers and suppliers will not be directly addressed by these obligations. But they will be required to provide more information on production and processing that will help large companies demonstrate that they meet new due diligence obligations.

In February 2025, the European Commission published a proposal to change certain parts of the Directive, reducing the amount of information requested from indirect business partners and recommending that the new requirements apply 1 year later than initially foreseen (from mid-2028). See Review of Corporate Sustainability Due Diligence Directive (CS3D).

In April 2025, the EU agreed to the one-year implementation delay proposed by the European Commission (Directive 2025/794). Discussions on the proposal to change other parts of the CS3D continue.







What is changing?

The aim of due diligence

This Directive sets out rules obliging large companies to identify any potential adverse impacts their business operations may have on human rights or the environment, and take steps to prevent or mitigate and remedy those impacts. This process of managing human rights and environmental adverse impacts is termed "due diligence". Companies must pay attention to adverse impacts that occur along the entire supply chain, both upstream and downstream, including sourcing, manufacture, and supply of raw materials.

The companies that must perform due diligence

The Directive is aimed at larger companies that must comply directly with due diligence obligations. These are:

- EU companies with more than 1,000 employees and a turnover above €450 million (or the parent company of a group that reaches these thresholds)
- non-EU companies with a net turnover above €450 million within the EU in the financial year before the most recent financial year (or the parent company of a group that reaches these thresholds).

Operators who supply large companies will be indirectly affected, as they will be expected to provide information and data to help these companies demonstrate due diligence.

Which rights and obligations?

Companies' due diligence obligations cover the following.

- Rights listed in human rights instruments (including civil, political, social, and economic rights), provided they can be abused by a company (rather than a state), and provided that the company could have reasonably foreseen them in specific circumstances. These include the right to a fair wage/ adequate living wage, rights around child labour and forced labour, rights to freedom of association and collective bargaining, and rights to equal treatment (in line with the International Labour Organization conventions). A detailed list can be found in Part I of the Annex to the Directive.
- Environmental prohibitions and obligations set out in conventions. Companies must not cause any environmental degradation, such as harmful soil change, water or air pollution, harmful emissions, excessive water consumption, or degradation of land or other natural resources. Companies are expected to put in place a transition plan, including targets for reducing greenhouse gas emissions, aimed at limiting global warming to 1.5°C. A detailed list can be found in Part II of the Annex to the Directive.





Key due diligence obligations

Companies that need to perform due diligence (EU companies with 1,000+ employees and €450+ million net turnover; non-EU companies with €450+ million net turnover within the EU) must take the following measures.

- Integrate risk-based due diligence into all corporate policies and develop:
- a long-term approach to due diligence
- a code of conduct
- processes for implementing due diligence/ verifying compliance with code of conduct (Art. 7).
- Identify actual or potential adverse impacts on human rights/ the environment, and prioritise
 these identified impacts based on their severity and likelihood (Arts. 8 and 9).
- **Prevent** potential adverse impacts, and **end** actual adverse impacts (Arts. 10 and 11). Measures will depend on whether the impact is caused by the company and/or its direct or indirect business partners, and on the company's ability to influence its partners. Measures can include:
- implementing an action plan (possibly through an industry/ multi-stakeholder initiative)
- demanding contractual assurances from a direct business partner, or from their partners, to meet the company's code of conduct
- upgrading facilities
- modifying business plans/ purchasing practices
- providing support to SME business partners
- suspending or terminating relations with suppliers who do not comply with the obligations, where doing so does not cause more adverse impacts on human rights/ the environment (this is known as "responsible disengagement").
- **Engage** with stakeholders (employees of subsidiary companies, trade unions, consumers, local communities) to gather information on adverse impacts and formulate action plans (Art. 13).
- Establish a **complaints procedure** to allow stakeholders to submit complaints about adverse impacts (Art. 14).
- Monitor their implementation of due diligence (Art. 15).
- Publish on the company's website an **annual statement** (detail to be defined in later legislation). Companies already reporting on sustainability under Directive <u>2013/34/EU</u> (see <u>New sustainability reporting obligations</u>) do not need to publish this statement (Art. 16).





Managing due diligence

The European Commission will develop guidance and best practice on how to manage due diligence, particularly for identifying and prioritising adverse impacts, adapting purchasing practices, responsible disengagement, remediation, and engaging with stakeholders. Sector-specific guidance will also be developed. These guidelines will be available by mid-2026.

Penalties for companies that fail to respect due diligence obligations

Member States must establish "effective, proportionate and dissuasive" penalties for due diligence infringements, with any fines based on the company's net worldwide turnover (Art. 27). If a company intentionally or negligently fails to end and/or remediate an adverse impact, it will be liable for any such failure that directly leads to damage to individuals (civil liability) (Art. 29).

Why?

The Directive is a response to:

- growing demand from EU citizens to address the impacts of business on human rights and the environment
- the introduction of national laws on corporate due diligence in EU Member States (e.g.
 France, Germany; planned initiatives in Belgium, Luxembourg, Sweden) different national
 approaches create different trading conditions for companies across the EU, potentially
 increasing costs and distorting competition among EU companies
- doubts about the ability of individual initiatives, particularly private voluntary standards, to make significant improvements to the supply chain.

Timeline

The due diligence obligations will apply from mid-2028 to mid-2029, depending on the size of the company (see Table 1 for details).





What are the major implications for exporting countries?

Impacts on non-EU producers and suppliers

In practice, large companies with due diligence obligations will have to map out in detail their operations and those of their business partners. This includes an in-depth assessment of areas where adverse impacts may occur and are likely to be most severe. Where companies identify a higher risk of adverse impact, they will have to provide detailed information. This information can come from public sources or from suppliers. Companies are expected to reach out to business partners in the supply chain closest to where the adverse effects may occur. This means that the information does not necessarily need to be passed sequentially down the supply chain (as required, for example, in food safety traceability).

Companies are expected to engage with non-EU stakeholders (exporters, processors, producers) in order to assess adverse impacts. They should do this every 12 months, or whenever they believe risks may arise, such as when sourcing from a new geographical region. Suppliers should always be prepared to provide the information on human rights and environmental impacts that their business partners require to address this Directive.

Large companies with due diligence obligations must develop their own codes of conduct, and may place clauses in contracts with suppliers that require compliance with their codes. However, these contractual assurances are not enough to demonstrate that a buyer has met due diligence requirements, and stakeholder engagement will still be required.

Participation in third-party voluntary schemes

Voluntary schemes that aim to support social and environmental standards, initiated by governments, industry, or non-governmental organisations, can be used by larger companies to demonstrate that they are taking appropriate measures to identify and manage adverse impacts, provided the scheme is objective and independent of the company. Participating in such schemes is not a guarantee for large companies that they meet due diligence requirements, but can be used as evidence of good practice.

Can due diligence bring improvements for smallholders?

Among the human rights that must be respected is the right "to enjoy just and favourable conditions of work, including a fair wage and an adequate living wage for employed workers and an adequate living income for self-employed workers and smallholders". The recognition of this right has been welcomed by those advocating for fair trade (FTAO 2024).





Recommended Actions

Exporting agri-food sectors will need to work together to ensure they can respond to the demands of the Directive. The precise information required by large companies will become clearer over time (clarified by future Commission guidance), but the following actions will probably be needed (<u>European Commission 2022</u>).

- Engaging with large EU companies to ensure that each human right and labour/ environmental standard has clearly defined and agreed actions for implementation, metrics for measurement and reporting, and the means to meet due diligence requirements.
 Producers and suppliers need to be proactive to control social and environmental priorities and to develop and manage action plans.
- Establishing definitions and systems for the collection, verification, and publication of relevant data. International standards such as OECD's Due Diligence Guidance for Responsible Business Conduct and Guidelines for Multinational Enterprises on Responsible Business Conduct (OECD 2018, 2023) are important reference points.
- Upgrading voluntary standards initiatives. Existing initiatives may not cover the range of economic, social, and environmental issues covered by the new Directive, and users of standards will have to adapt to changing requirements.

Resources

European Commission (2022) <u>Making mandatory human rights and environmental due diligence</u> <u>work for all.</u>

FTAO (2024) A diluted EU due diligence law is still better than none. Fair Trade Advocacy Office, News, 15 March.

OECD (2018) <u>OECD Due Diligence Guidance for Responsible Business Conduct</u>. Organisation for Economic Co-operation and Development.

OECD (2023) <u>OECD Guidelines for Multinational Enterprises on Responsible Business Conduct</u>. Organisation for Economic Co-operation and Development.

OHCHR (2012) <u>Guiding Principles on Business and Human Rights: Implementing the United Nations "Protect, Respect and Remedy" Framework.</u> United Nations Office of the High Commissioner for Human Rights.

Sources

Directive (EU) 2024/1760 on corporate sustainability due diligence





Directive (EU) <u>2025/794</u> as regards the dates from which Member States are to apply certain corporate sustainability reporting and due diligence requirements

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Table & Figures

Table 1 Estimated application date of due diligence obligations			
EU companies		Non-EU companies	Due diligence
Number of employees	AND net turnover worldwide (€)	Net turnover within EU (€)	obligations apply from:
>3,000	>900 million	>900 million	26 July 2028
>1,000	>450 million	>450 million	26 July 2029
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Source: Directive 2025/794

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