

European Commission issues FAQs on the Corporate Sustainability Due Diligence Directive

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Background of the Corporate Sustainability Due Diligence Directive

The [Corporate Sustainability Due Diligence Directive](#) (CSDDD) was entered force on 25 July 2024. The purpose of this Directive is to promote sustainable and responsible corporate behaviour in companies' operations and throughout their global supply chains. Member States must transpose the Directive into national law and communicate relevant texts to the Commission by 26 July 2026. The rules will begin to apply to companies one year later, on 26 July 2029 on a phased basis.

For further background on CSDDD including its scope, please see our alert [here](#).

The FAQs

Following the adoption of the CSDDD, the European Commission has issued a set of [FAQs](#), summarised below, that offer an overview of the CSDDD's contents, explain the reasons behind its adoption and outline the anticipated impacts.

1. General Overview

The FAQs begin by setting out the high-level aim of the CSDDD: the duty imposed on large companies to identify and address adverse human rights impacts and environmental impacts in their operations, activities, subsidiaries and supply chains and highlights the additional obligation for large companies to adopt a transition plan for climate change mitigation.

It goes on to outline the basic due diligence duties for companies including but not limited to the duties to integrate due diligence into the corporate policies and risk management systems, to identify adverse human rights and environmental impacts, to address negative impacts and as a measure of "last resort" to suspend or terminate business relationship should severe impacts be at stake.

- **Objectives**

The FAQs cover the need for the CSDDD, in particular highlighting that despite the existing voluntary frameworks, companies are not sufficiently integrating sustainability aspects into their operations. Even where companies take voluntary action, this tends to focus on the first link only in the supply chain. In addition, as the existing landscape was unclear and fragmented, with Member States's own due diligence laws creating uncertainty, around 70% Member States agreed that a harmonised EU legal framework was necessary. Further, integrating sustainability considerations into business operations and value chains in the view of the European Commission improves risk management, resilience, innovativeness, and overall competitiveness.

The current international standards on corporate sustainability due diligence that the Directive aligns with are set also out, such as the 2011 [United Nations Guiding Principles on Business and Human Rights](#) (UNGPs) and the [OECD Guidelines for Multinational Enterprises](#) (OECD Guidelines).

- **Entry Into Force / Application**

Member States must transpose the CSDDD into their national laws by 26 July 2026. After one year, the rules will start to apply gradually over three to five years after entry into force as follows:

3 years (26 July 2027):

- EU companies with more than 5,000 employees and €1,500 million worldwide turnover; and
- non-EU companies with more than €1,500 million turnover generated in the EU.

4 years (26 July 2028):

- EU companies with more than 3,000 employees and €900 million worldwide turnover; and
- non-EU companies with more than €900 million turnover generated in the EU.

5 years (26 July 2029):

- All other companies in scope

The Commission also confirms that the CSDDD aligns with other EU initiatives and establishes a general horizontal framework for sustainability due diligence for large companies, noting that where there is a conflict, sectoral laws covering the same objectives in a more extensive way will supersede the CSDDD's general requirements.

- **Personal Scope**

The Commission believes that approximately 6,000 EU-based companies and 900 non-EU companies are covered by the CSDDD. A company will be in scope if certain conditions are met for two consecutive financial years, such as for Non-EU companies, "*companies of a legal form comparable to LLCs/partnerships with a net turnover of more than EUR 450 million generated in the European Union (in any sector)*", or for a parent entity that meets the threshold in the group.

It should be noted that while the personal scope covers financial undertakings, financial services provided in the context of relationships with clients are excluded from the scope of the CSDDD.

While SMEs do not directly fall within the scope of the CSDDD, they may be impacted due to their involvement in a chain of activities of those companies in scope. Consequently, they may be required to collect and provide information to support others in their supply chain meet the CSDDD requirements. To reduce such burden on SMEs, the CSDDD safeguards them against the shifting of compliance burdens by larger companies. For instance, an in-scope company must direct information requests at the level of the chain where impacts are most likely.

- **Material Scope**

The CSDDD covers specific human rights that reflect internationally recognised human rights standards and environmental impacts based on multilateral conventions. The FAQs set out that environmental conventions selected were those that were deemed by the European Commission to be sufficiently precise and clear, creating prohibitions and obligations that can be implemented directly by companies.

The cover of the CSDDD extends to those 'chains of activities' where the most adverse human rights and environmental impacts occur. This 'chain of activities' includes both upstream activities relating to the production and provisions of services and downstream activities relating to the distribution, transport and storage of product. For example, a downstream business partner may be a retail store that sells the company's clothing.

The CSDDD stresses that its coverage is "*not limited to a specific product or service and does not depend on where the company operates or where its business partners are located*", therefore the analysis for a 'chain of activities' will be highly specific to each company.

- **Content of Obligations**

The CSDDD places obligations on companies on a risk-based approach. They should identify and assess the actual and potential adverse impacts of their activities and then adopt "appropriate measures" which are "*capable of achieving the objectives of due diligence by effectively addressing adverse impacts in a manner commensurate to the degree of severity and the likelihood of the adverse impact, and reasonably available to the company, taking into account the circumstances of the specific case, including the nature and extent of the adverse impact and relevant risk factors*".

Notably, under the CSDDD, companies should prioritise engagement with business partners in their chain of activities, whilst there are safeguards in place to mitigate the risk of disengagement. For example, disengagement may be used as a "last resort" where there are severe impacts and all other measures have failed.

- **Enforcement**

The CSDDD will be enforced through proportionate injunctions and sanctions, that the European Commission sets should be effective and dissuasive, and implemented in each Member State.

Non-compliance or compliance with CSDDD will qualify as an environmental or social aspect that contracting authorities may take into account as part of awarding public and concession contracts.

A cooperative and coordinated approach will be ensured by a European Network of Supervisory Authorities and allow for information sharing.

The FAQs also set out the civil liability regime that will involve full compensation to a victim (but no punitive damages), as well as enforcement in third-country companies.

- **Burden Limitation & Safeguards**

The Commission has recognised that companies may incur costs related to compliance with the CSDDD. As such, the Commission outlines in the FAQs that a number of measures facilitate compliance and reduce the burden on in scope companies. For instance, no new reporting requirements are placed on companies that already report under the CSRD.

In addition, certain provisions of the CSDDD ensure compliance burdens are not 'offloaded' further down the chain of activities.

- **Impacts of the Directive**

The FAQs end by outlining the benefits of the CSDDD on both individuals and companies. For companies, the benefits are set out to include greater clarity, legal certainty and greater customer and employee trust.

Further, the Commission expects the CSDDD to benefit developing countries in which some chains of activities operate.

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