

# CSDDD

## Supply Chain Due Diligence

---

What the EU Corporate Sustainability Due Diligence Directive means for your business  
A guide for ESG & sustainability teams

Corporate Sustainability Guide Series

## 1. What Is the CSDDD?

The Corporate Sustainability Due Diligence Directive (CSDDD, also called CS3D) is an EU law that requires large companies to identify, prevent, mitigate, and account for adverse human rights and environmental impacts in their own operations and across their value chains.

It was adopted by the EU in 2024 and marks a significant shift from voluntary ESG commitments to legally binding obligations with real enforcement consequences – including financial penalties and civil liability.

### The core obligation

Companies in scope must carry out human rights and environmental due diligence – not just in their own operations, but across their entire chain of activities: suppliers, sub-suppliers, and downstream business partners.

## 2. Who Is In Scope?

The CSDDD applies in phases based on company size. EU companies and non-EU companies operating in the EU are both covered:

Phase	Company Size	Application Date	Note
Phase 1	>5,000 employees + >€1.5bn turnover	2027	Largest companies first
Phase 2	>3,000 employees + >€900m turnover	2028	Mid-large companies
Phase 3	>1,000 employees + >€450m turnover	2029	All large companies

Non-EU companies are in scope if they generate over €450 million net turnover in the EU (matching Phase 3 criteria), regardless of employee count.

### 3. What Does Due Diligence Mean in Practice?

The CSDDD sets out a six-step due diligence process, drawing on the UN Guiding Principles on Business and Human Rights (UNGPs) and OECD Guidelines:

Step	Obligation	What This Involves
1	Integrate into policy	Adopt a due diligence policy covering human rights and environmental impacts; update annually; involve stakeholders
2	Identify impacts	Map your value chain; assess where adverse impacts are most likely to occur; prioritise by severity and likelihood
3	Prevent & mitigate	Take appropriate action to prevent potential impacts and minimise actual ones – through contracts, capacity building, audits
4	Remediation	Establish a complaints and remediation mechanism accessible to affected stakeholders; act on legitimate complaints
5	Engage stakeholders	Consult meaningfully with affected communities, workers, rights-holders, and civil society throughout the process
6	Report	Publicly disclose due diligence activities annually – links directly to CSRD sustainability statement requirements

## 4. The Scope of 'Adverse Impacts'

The CSDDD covers two categories of adverse impacts:

### Human Rights Impacts

Defined by reference to internationally recognised human rights instruments, including:

- Forced labour, child labour, modern slavery
- Freedom of association and collective bargaining
- Safe and healthy working conditions
- Discrimination and equal treatment
- Rights of indigenous peoples
- Privacy and data protection

### Environmental Impacts

Including those causing measurable environmental degradation, defined by reference to international environmental standards:

- Greenhouse gas emissions leading to climate change (links to net zero)
- Biodiversity loss and ecosystem degradation
- Pollution of air, water, and soil
- Hazardous waste and chemical use
- Deforestation and land conversion

### 'Chain of Activities' – How Far Does It Reach?

#### Upstream and downstream

**Upstream:** Design, extraction, sourcing, manufacturing, transport of raw materials and inputs used to make your products or services – including sub-suppliers.

**Downstream:** Distribution, transport, storage, and waste management of your finished products. Does NOT include the end use by consumers (unlike Scope 3 Cat. 11).

## 5. Enforcement & Liability

This is what makes CSDDD fundamentally different from voluntary frameworks. There are two enforcement mechanisms:

### Administrative Penalties

#### Financial penalties

Member states must impose penalties of up to 5% of the company's global net worldwide turnover for non-compliance. Penalties will be publicly disclosed – creating significant reputational risk in addition to financial exposure.

### Civil Liability

For the first time, EU law creates a civil liability mechanism: companies can be sued by affected individuals and communities for damages resulting from a failure to conduct adequate due diligence. Trade unions and NGOs may also bring representative actions.

## 6. How CSDDD Connects to Other Frameworks

Framework	Relationship to CSDDD	Action Required
<b>CSRD / ESRS S2</b>	CSRD requires disclosure of due diligence activities – CSDDD defines what those activities must be	Align your CSDDD process with your CSRD sustainability statement
<b>EU Taxonomy</b>	Taxonomy DNSH criteria include social and governance safeguards	Ensure due diligence covers taxonomy-aligned activities
<b>Forced Labour Regulation</b>	Separate EU regulation banning import of products made with forced labour	Your CSDDD process provides the evidence base for compliance
<b>German LkSG</b>	Germany's Supply Chain Act (in force since 2023) is a predecessor – broadly similar requirements	If already compliant with LkSG, CSDDD build-on is manageable

#### Where to begin

Start by mapping your value chain to Tier 2 at minimum – most companies know their direct suppliers but have limited visibility beyond. Then conduct a risk-based prioritisation using sector, geography, and commodity to focus your due diligence efforts where adverse impacts are most likely. Embed this into supplier contracts and onboarding from now.