



Navigating the EU Corporate Sustainability Due Diligence Directive

EU Member States gave their final stamp of approval to the Corporate Sustainability Due Diligence Directive (CSDDD) on 24th May,¹ marking the end of a drawn-out legislative process and the beginning of a new phase of supply chain diligence requirements for businesses globally.

Adoption of the CSDDD had been a major doubt until March, as several EU Member States including Germany blocked its approval. For weeks it seemed likely that the hold-up would make approval prior to the EU elections impossible, thereby jeopardising the legislation. Ultimately, negotiators found a compromise which raised the threshold for companies in scope and removed requirements on downstream activities, such as disposal and recycling.

By mandating extensive due diligence throughout value chains, the CSDDD aims to integrate sustainability and human rights considerations into the core of operations for all major businesses operating in the EU. Although the Directive is not without its critics, the EU hopes that it will prove to be more than a regulatory requirement, rather signifying a shift towards a more ethical, transparent, and sustainable business landscape.



Summary of Requirements

The CSDDD sets out comprehensive obligations for companies to ensure that their operations, as well as those of their value chains, adhere to high standards of human rights and environmental protection.² Key requirements include:

Due Diligence: Companies must undertake a thorough due diligence process to identify, prevent, mitigate, and account for adverse human rights and environmental impacts. This involves:

- **Risk assessment:** Regular evaluation of potential and actual risks within the company's operations and supply chains.
- **Preventive measures:** Implementation of measures to prevent or mitigate identified risks.
- **Remedial actions:** Procedures to address any adverse impacts that occur.
- **Monitoring:** Ongoing monitoring of the effectiveness of these measures and actions.
- **Public reporting:** Transparent reporting on due diligence practices and outcomes, ensuring accountability and informing stakeholders.

Climate Change Transition Plan: A notable feature of the CSDDD is the requirement for companies to develop and implement a climate change transition plan. This plan must:

- **Alignment with Paris Agreement:** Outline strategies to reduce greenhouse gas emissions in line with the 1.5-degree warming target set out in the Paris Agreement.
- **Concrete actions:** Set specific targets and timelines for achieving these reductions.
- **Integration of climate risks:** Integrate climate-related risks and opportunities into the company’s overall strategy.

Liability: The directive introduces provisions for holding companies liable for harm caused by their failure to conduct proper due diligence. This includes:

- **Civil liability:** Companies can be held legally responsible for damages resulting from their failure to prevent or mitigate adverse impacts.
- **Administrative sanctions:** Regulatory authorities can impose fines and other penalties on companies that fail to comply with due diligence requirements.

Stakeholder engagement: Companies must engage with relevant stakeholders, including affected communities and workers, to inform their due diligence processes. This ensures that the perspectives of those directly impacted by corporate activities are considered and addressed.

Corporate governance: The directive requires integration of due diligence into corporate policies and management systems. This includes ensuring that company directors have a duty to oversee and report on due diligence efforts, aligning corporate governance with sustainability goals.

Support for SMEs: While the directive primarily targets large companies, it also provides for supporting measures to help small and medium-sized enterprises (SMEs) meet due diligence requirements, recognizing their crucial role in global supply chains.

Implementation and Enforcement

Approval by the Council of the EU paves the way for the Directive to be published in the Journal of the EU in the coming weeks. From this point, Member States will have two years to transpose the requirements into national legislation, in time for the first requirements that will target large companies starting from 2027.

The implementation and enforcement of the CSDDD is inherently tied to the political climate and priorities set by the European Union’s leadership. The outcome of negotiations following recent EU elections and politics at a Member State level will be important in shaping the future trajectory of the requirements.

1. **Balancing economic and environmental goals:**

The EU faces the complex task of balancing economic growth with sustainability objectives. The new leadership will need to address concerns from various stakeholders, including businesses worried about the economic impact of the new regulations and environmental advocates pushing for rigorous enforcement.

2. **Global competitiveness:** The directive also plays a part in the EU’s strategy to maintain global competitiveness by setting high sustainability standards that could influence global supply chains. The newly elected leaders will have to navigate international trade relations and potential pushback from non-EU governments and businesses.

3. **Stakeholder influence:** The role of civil society, environmental groups, and businesses in lobbying and advocacy cannot be understated. These stakeholders will likely intensify their efforts to influence the new EU leadership’s stance on the directive, aiming to ensure that their interests and concerns are addressed in the final implementation phase.





Conclusion

The EU Corporate Sustainability Due Diligence Directive represents a landmark in advancing corporate responsibility and sustainability. By embedding rigorous due diligence requirements into business practices, it seeks to foster a more ethical, transparent, and sustainable corporate environment.

To prepare for the implementation of the CSDDD, companies must first assess whether they are in scope and then undertake a comprehensive review of their current due diligence practices, identifying potential human rights and environmental impacts across their value chain. Companies should develop and integrate robust preventive and remedial measures into their corporate policies, ensuring alignment with the directive’s requirements.

Get in Touch

If you would like to learn more about how FTI Consulting can support you in implementing these – and other – requirements, to ensure that your business is ready for CSDDD, please do reach out to our team of experts.

To learn more visit us at fticonsulting.com

— WHAT WE CAN HELP WITH

- Risk assessment, including supply chain mapping, gap analysis and supplier risk management.
- Due diligence, including design and implementation of programmes.
- Monitoring, including third party audits, ongoing supplier monitoring and compliance audits.
- Investigation and remediation, including identification of red flags, whistleblowing investigations and remediation programmes.

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 - 2 https://commission.europa.eu/business-economy-euro/doing-business-eu/corporate-sustainability-due-diligence_en