

SOCIAL ECONOMY & HUMAN RIGHTS

CSDDD: New diligence rules accounting for human rights and environmental impacts apply to EU and non-EU companies

VdA EXPERTISE



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CSDDD – New Diligence Rules apply to EU and non-EU companies with over 1000 employees and 450 million euros turnover

Today, the 24th of April, the European Parliament approved the Corporate Sustainability Due Diligence Directive (CSDDD). This Directive will oblige companies to integrate human rights and environmental impact into their governance and management systems.

Background

This Directive was initially proposed in February 2022 as a response to the pressing need of legislation in the field of corporate accountability and mitigating negative impacts on human rights and the environment. After years of discussion regarding the text, the European Parliament gave its final green light, marking a pivotal step to the EU commitment to sustainability and responsible business.

Scope

The rules will be applicable to:

- EU and non-EU companies, including parent companies, that have a workforce exceeding 1000 employees and a turnover of more than 450 million euros,
- Franchises with a turnover exceeding 80 million euros, provided that at least 22.5 million is generated by royalties.

Risk – based due diligence

Companies will be required to incorporate a risk-based due diligence process within their policies and risk management systems which accounts for actual and potential adverse impacts on human rights and the environment, with respect to their own operations, those of their subsidiaries, and those carried out by their upstream and downstream business partners in their chain of activities, including supply, production and distribution.

Transition Plan

Companies will be required to adopt a transition plan to align their business model and operations with the objective of limiting global temperature rise to 1.5°C, as stipulated in the Paris Agreement.

This transition plan must outline:

- the company's specific time-bound objectives to address climate change;
- detail the strategic measures to achieve these targets;
- provide a financial overview, including investment figures, necessary to execute the plan effectively.



Large EU and non-EU companies will be subject to fines and civil liability in case of non-compliance with the CSDDD which requires them to implement a due diligence process regarding actual and potential adverse impacts on human rights and the environment.

Control Mechanism: Civil liability and fines

Companies that fail to fulfill their due diligence obligations under the CSDDD will be liable and thus obliged to fully compensate their victims.

Member States will designate a supervisory authority in charge of monitoring, investigating and imposing penalties on companies that do not comply. These can include fines of up to 5 % of companies' net worldwide turnover.

Foreign companies will be required to designate their authorized representative based in the Member State in which they operate, who will communicate with supervisory authorities about due diligence compliance on their behalf.

The Commission will establish the European Network of Supervisory Authorities to support cooperation among supervisory bodies.

Next Steps:

- The Directive needs to be formally endorsed by the European Council, signed and published in the EU Official Journal.
- The Directive enters into force twenty days after publication.
- Member States will have two years to transpose it into their national laws.

Compliance Timeline

The CSDDD includes a compliance timeline according to which the new rules will apply:

- From 2027 to companies with over 5000 employees and worldwide turnover higher than 1500 million euros;
- From 2028 to companies with over 3000 employees and a 900 million euros worldwide turnover;
- From 2029 to all the remaining companies within the scope of the directive, including those over 1000 employees and worldwide turnover higher than 450 million euros.

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