

What does the CSDDD mean for the UK?

24 Apr 2024

On 24 April 2024, the European Parliament voted with a majority in favour of the Corporate Sustainability Due Diligence Directive, impacting thousands of companies globally. The Directive puts greater scrutiny on supply chains' impact on both people and planet. Lilly Walstra takes a closer look at this legislation and what it means for UK firms.

The Corporate Sustainability Due Diligence Directive (CSDDD), also called the 'CS3D,' is an EU regulation that will require in-scope EU and non-EU companies to set up due diligence processes to identify adverse human rights and environment impacts that arise in their own operations and those across all tiers of their supply chain.

The Directive was put to a vote in the European Parliament, where it has been formally adopted.

What should UK companies watch out for?

- Examine the size of your EU subsidiaries and/or parent
- Evaluate the amount of turnover generated in the EU to determine if it exceeds the threshold
- UK companies that supply goods or services to large EU companies can expect greater scrutiny and be ready to address more queries, eg, their impact on human rights and the environment, and having certain policies in place, from in-scope chain partners

It's important to note that even if your company isn't in scope, you might still be indirectly impacted by the Directive if your supply chain partners are in scope. In such cases, there would be a greater emphasis on supplier due diligence from the companies that fall under it. This emphasis on supplier vetting and onboarding aligns with broader regulatory trends and best practices, making it essential for companies to anticipate an increase in inquiries and requirements and to ensure that they're sufficiently prepared to respond well.

The CSDDD will be implemented in stages, with companies having different timelines to comply based on their size and turnover.

- Companies with over 5,000 employees and a turnover of EUR 1.5 billion will need to comply three years after the directive takes effect
- Companies with over 3,000 employees and a turnover of EUR 900 million turnover will have four years to comply
- Companies with over 1,000 employees and a turnover of EUR 450 million turnover will have five years to prepare before the directive applies to them

What is the goal of the CSDDD?

The CSDDD's objective is to enhance the protection of human rights and the environment. It imposes responsibilities on companies to identify, prevent, or mitigate, and end or minimise actual and potential adverse impacts on human rights and the environment resulting from their operations, their subsidiaries, and their business partners.

This will result in a dual benefit of minimising and tackling negative impacts on people and the planet, while also enabling companies to mitigate risks that come with an extensive supply chain.

Additionally, the CSDDD aims to standardise due diligence regulations in the EU. Several European countries have previously applied laws that cover similar areas to the CSDDD (such as the Supply Chain Act in Germany), and the Directive will bring a harmonised legal framework for due diligence practices across the EU and minimises legal uncertainty.

A guide to the new requirements

Companies will be required to adhere to the following main points:

- Develop a due diligence policy, describing the company's approach on conducting due diligence on human rights and the environment and integrate this into company policies
- Identify potential and actual adverse human rights and environmental impacts arising in their own operations and across all tiers of their supply chain
- Take measures to prevent or mitigate identified potential impacts
- End or minimise identified actual impacts
- Continuously evaluate the efficiency of due diligence measures
- Publicly report about the due diligence policy, process, and findings
 - Companies in scope of the Corporate Sustainability Reporting Directive (CSRD - see more below) should include this communication in their annual report
 - companies not in scope of the CSRD should publish an annual statement on their website

What is the difference between the CSDDD and the CSRD?

The CSDDD is designed to work alongside the CSRD. Whereas the CSDDD focuses on due diligence and taking responsibility, the CSRD establishes sustainability-related reporting guidelines and focuses on transparency and disclosure. The [CSRD applies to significantly more companies](#) than the CSDDD, as the criteria for turnover and number of employees is lower compared to the CSDDD criteria.

How you can prepare for the new Directive

1 Conduct a supply chain mapping exercise to create an overview of all tiers of your supply chain

- Creating a visual representation of the flow of your business operations and your partners in the supply chain will give you greater insight into actual and potential impacts

2 Begin educating key internal stakeholders on CSDDD requirements

- Engaging with stakeholders at an early stage will help to ensure a smoother transition once the directive comes into force

3 Conduct a gap analysis to assess your company's current due diligence policies and processes vs CSDDD requirements

- A gap analysis will help you to prioritise your time and develop a clear plan for how you can close any gaps that exist in your current state

4 Review supply chain contracts

- This will give you greater insight into the complexity of your existing contracts, helping you to identify opportunities and potential risks that can be hard to manage with an extensive supply chain

5 Create a plan to identify potential and actual adverse human rights and environmental impacts in your own operations and the supply chain

- This will ensure you minimise and tackle negative impacts on people and the planet, while also enabling you to mitigate risks

6 If you haven't already, start talking to your key suppliers and customers about your expectations around human rights and environmental impact

- Enhanced stakeholder engagement will ensure this work is carried out collaboratively, and that expectations are clear from the off

For more insight and guidance on how to prepare for the CSDDD, get in touch with [Lilly Walstraor Ben Langford](#).

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