

The EU Supply Chain Directive is coming.

What companies need to do now

It's a done deal: the European Supply Chain Directive – the Corporate Sustainability Due Diligence Directive (CSDDD or CS3D) – is coming. In the future, anyone doing significant business in the EU will be obliged to comply with human rights and environmental protection requirements. And this is not just lip service: Companies affected by the CSDDD will have to submit annual human rights and environmental due diligence updates once the Directive comes into force and also ensure their business strategies are in line with the goal of limiting global warming to 1.5°C.

What makes the CSDDD requirements very complex is the new due diligence obligations apply not only to a company's own business activities and its subsidiaries, but also to direct and indirect suppliers. The CSDDD affects the entire value chain and therefore all business partners on the supplier side who have anything to do with the products manufactured or services provided by a company, including transportation, distribution and storage.

In the future, companies will have to identify and document potential risks in terms of environmental protection and human rights at all these points along the value chain and take preventative and remedial measures depending on the results. So, there's a lot to do – whether it's ensuring fair working conditions prevail in supplier production facilities, for example, or that production is ecologically sound, or that everyone along the supply chain has access to a complaints system to report abuses.

The goal of the CSDDD ultimately serves all those who want to preserve our planet and stand up for ethical behavior. It is intended to effectively punish human rights and environmental violations and promote a more sustainable economy overall.

The EU is getting serious and is imposing significant consequences for violations: Anyone who does not comply with the CSDDD can be held liable in European courts in future, is liable for any damage caused and must compensate injured parties. There is also the threat of fines of up to 5% of the company's global net turnover.

The CSDDD is expected to come into force from 2027, staggered according to company size and turnover. **Initially only very large companies with more than 5,000 employees and a turnover of more than 1.5 billion Euros will have to comply with the CSDDD obligations. However, it is also advisable for companies that will be affected later to prepare for the new requirements now and be ready to comply with the future obligations.** The same applies to small- and medium-sized enterprises (SMEs), as these companies will also feel the effects of the CSDDD, at least indirectly. For example, if they are active as suppliers for larger organizations. In the medium term, the new EU Supply Chain Directive will likely ensure the EU economy as a whole operates more sustainably.

We have summarized the most important aspects of the CSDDD to help you prepare: The top ten for CSDDD-compliant business activities:

- **Manage your risks.** Identify potential and actual impacts of your business activities on human rights and the environment in your own operations, at your subsidiaries and along your entire value chain.
- **Establish a professional due diligence process.** Implement processes that allow you to identify, prevent, reduce and account for potential negative impacts. Review and update your due diligence process regularly to ensure you are always aware of risks and their impact.

- **Define preventive measures.** Develop measures to reduce risks from the outset or, ideally, to avoid them altogether. Preventive measures range from training your employees to adapting supplier contracts. If in doubt, it is even advisable to part ways with suppliers.
- **Ensure transparent reporting.** Document your due diligence processes and the results achieved carefully and correctly. The reports must be complete, transparent and publicly accessible.
- **Make it as easy as possible for whistleblowers.** Set up an effective and easily accessible complaints system that allows affected parties and other stakeholders to easily report concerns and possible violations of your due diligence obligations.
- **Monitor the process closely.** Monitor carefully whether your due diligence measures are working and adjust them quickly if necessary.
- **Keep an eye on legal compliance.** Make sure you meet all legal requirements and react promptly to changes in legislation to minimize potential compliance risks.
- **Involve all your stakeholders.** Get all relevant stakeholders on board in regular meetings and discuss possible measures and progress around all compliance issues.
- **Ensure a positive CSDDD mindset.** Bring the ideas and due diligence obligations of CSDDD into your company and ensure the due diligence procedures are integrated into the overall corporate strategy and policy and are supported by management, employees and business partners.
- **Look at the CSDDD as an opportunity!** The introduction of the CSDDD will inevitably involve a great deal of effort. At the same time, however, it also offers great opportunities: companies that act in an environmentally and human rights compliant, sustainable and responsible manner not only benefit our planet, but also enhance the image and reputation of your company and its attractiveness as an employer and for investors.

How to start? With processes, data management and mindset!

CSDDD-compliant business requires automated risk and compliance processes, professional data management and a mindset that recognizes sustainability and responsible business practices as essential.

Processes: As a first step, it is advisable to review the entire value chain in terms of its potential impact on human rights and the environment. This allows you to identify potential risk areas. Integrate the potential environmental and human rights risks into your existing risk management system. Develop specific criteria and controls to assess and manage these risks and carry out close due diligence to ensure your company actually meets the compliance requirements.

Data management: Without a professional IT system, the reporting obligations of the CSDDD alone cannot be fulfilled. Bring all data sources together and evaluate them in order to make well-founded decisions. Use technology to collect, aggregate and analyze all relevant information. Specialized compliance software solutions, such as [NAVEX One GRC solutions](#), help automate and manage due diligence processes. These tools collect and analyze data, and generate reports for internal and external audits.

Mindset: Create a strong corporate culture based on integrity, ethical behavior, sustainability and responsibility. Organize regular training for employees at all levels to raise awareness and understanding of the importance of sustainability and compliance. Compliance with the CSDDD is ultimately a shared responsibility.

Who is affected by the CSDDD?

The Directive affects large EU companies and non-EU companies with significant business activities in the EU. It will enter into force in stages, depending on the size of the company and its turnover, following final approval by the European Parliament – which is considered a formality. There is:

- A 3-year implementation period after the CSDDD comes into force for companies with more than 5,000 employees and a turnover of 1500 million Euros
- A 4-year implementation period for companies with more than 3,000 employees and a turnover of 900 million Euros
- A 5-year implementation period for companies with more than 1,000 employees and a turnover of 450 million Euros

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