

# The EU Corporate Sustainability Due Diligence Directive (CSDDD)

**A guide for business**

**2026**

**Sedex** 



# Executive summary

This guide reflects the final Omnibus agreement adopted in December 2025, which narrows the scope of the CSDDD to large companies and defers application to July 2029.



**3% of net  
worldwide  
turnover**

maximum fine for  
non-compliance



**27  
countries**

where the legislation  
will apply directly, with  
global implications

## Sedex's recommendations for businesses

We recommend companies in scope start by conducting a gap analysis against the requirements of the law – where is the company meeting requirements and where is more work needed? To keep on track and get your internal stakeholders onboard, companies should prepare a roadmap and start implementing the CSDDD's requirements at least two years before the applicable compliance deadline.

### Key considerations for your CSDDD roadmap:

1. **Start at the top.** Incorporate **responsible sourcing principles** and respect for human rights and the environment into your governance, strategies and policies.
2. **Cross-departmental collaboration:** Identify who needs to be involved internally to create workflows between departments for procurement, legal compliance, human rights and environmental due diligence.
3. **Understand your chain of activities.** Do you know your direct suppliers and where they are located and what you source from them? And what about your logistics, delivery and warehousing suppliers who are transporting goods to customers? Doing this initial stock take will make scoping and risk assessment easier.
4. **Conduct initial scoping exercise** to understand inherent social and environmental risks in your chain of activities and prioritise high risk supply chains for further assessment.
5. **Conduct further assessments,** using due diligence tools such as Self-Assessment Questionnaire (SAQ) or audits, starting with supply chains and suppliers where risks are most likely and most severe.
6. **Enable bottom-up feedback.** Allow employees and supply chain workers to voice concerns and complaints through grievance channels.
7. **Provide remediation.** Provide remedy, including through collaboration, to address violations or impacts on workers, communities or others who have been negatively affected by social or environmental impacts.
8. **Measure progress.** Establish goals and key performance indicators (KPIs) to **monitor** your progress.

# What is the Directive?

The European Union (EU) Corporate Sustainability Due Diligence Directive establishes a legal responsibility and due diligence duty across businesses' operations and value chain activities. The Directive builds on the United Nations Guiding Principles on Business and Human Rights (UNGPs), a framework outlining businesses' responsibilities to respect human rights and the environment.

The Directive was formally passed by the EU on **25 July 2024** and has since been reviewed and amendments made under the Omnibus Simplification Package I. Each country within the EU must now translate the Directive into their own national laws by July 2028, before enforcement begins.

## Who will this Directive apply to?

The Directive, as amended by the Omnibus proposal, covers:

- **EU companies** with more than 5,000 employees and global annual turnover greater than €1.5 billion.
- **Non-EU companies** that generate an annual turnover in the EU of more than €1.5 billion net turnover.
- **Companies with EU franchising or licensing agreements** that generate royalties in the EU of more than €75 million (globally for EU entities; in the EU market for non-EU entities) and have a global annual turnover of at least €257 million.

## If your business is not covered by these criteria, it can still be affected by this law.

While the directive aims to reduce the trickle-down effect on smaller business partners that aren't in scope of the regulation, some regulatory overspill is inevitable, particularly where high-risk commodities and geographies are concerned.

## When will the Directive apply to businesses?

The Directive will apply to all in-scope companies from 26 July 2029. Member states will need to transpose the directive into national regulation by July 2028. It is important that companies operating in various member states across the EU monitor the transposition of the regulation as requirements may deviate from the directive. Companies will need to report on their due diligence activities as part of their annual CSRD report published on a company's website.

However, given the complex and resource-intensive requirements of this law, we strongly recommend companies begin their related activities at the earliest opportunity, ensuring readiness for reporting. Outside of CSDDD compliance, these activities – such as risk assessment and monitoring and evaluation – also support many other business objectives, from operational efficiency and resilience to compliance with other sustainability laws.

# The CSDDD's requirements for businesses

**The Directive requires companies to conduct risk-based due diligence on human rights and environmental-related issues in their operations and supply chains.**

## **Risk-based due diligence**

Companies must **identify, prioritise, and address** the most significant risks in their operations and supply chain. This means focusing on areas where harm is most likely to occur and most severe. This includes risks arising within their own operations, upstream, or in limited downstream activities.

## **Human rights and environmental issues to consider**

Examples of the human rights and environmental issues regulators might expect your company to address, in your operations and supply chain:

- Forced labour, the worst forms of child labour and other forms of modern slavery
- Freedom of association
- Health, safety and hygiene standards
- Gender equality and discrimination
- Bribery and corruption
- Land use and indigenous rights
- Greenhouse gas emissions



## How the CSDDD impacts supply chain management

The CSDDD has a large “chain of activities” scope, which means it applies to a company’s own operations, subsidiaries, upstream and limited downstream activities, such as transport, logistics and warehousing.

**Upstream suppliers/business partners** are those related to creating the goods or services a company provides. This includes:

- Product or services design
- Sourcing activities and the supply of raw materials, products or components
- Transport and storage
- Raw material extraction – these are likely to be indirect suppliers for companies not purchasing raw materials directly from sources/extractors

**Downstream suppliers/business partners** relate to distributing, transporting and storing products, where the business partner carries out those activities on behalf of a company.

## For example

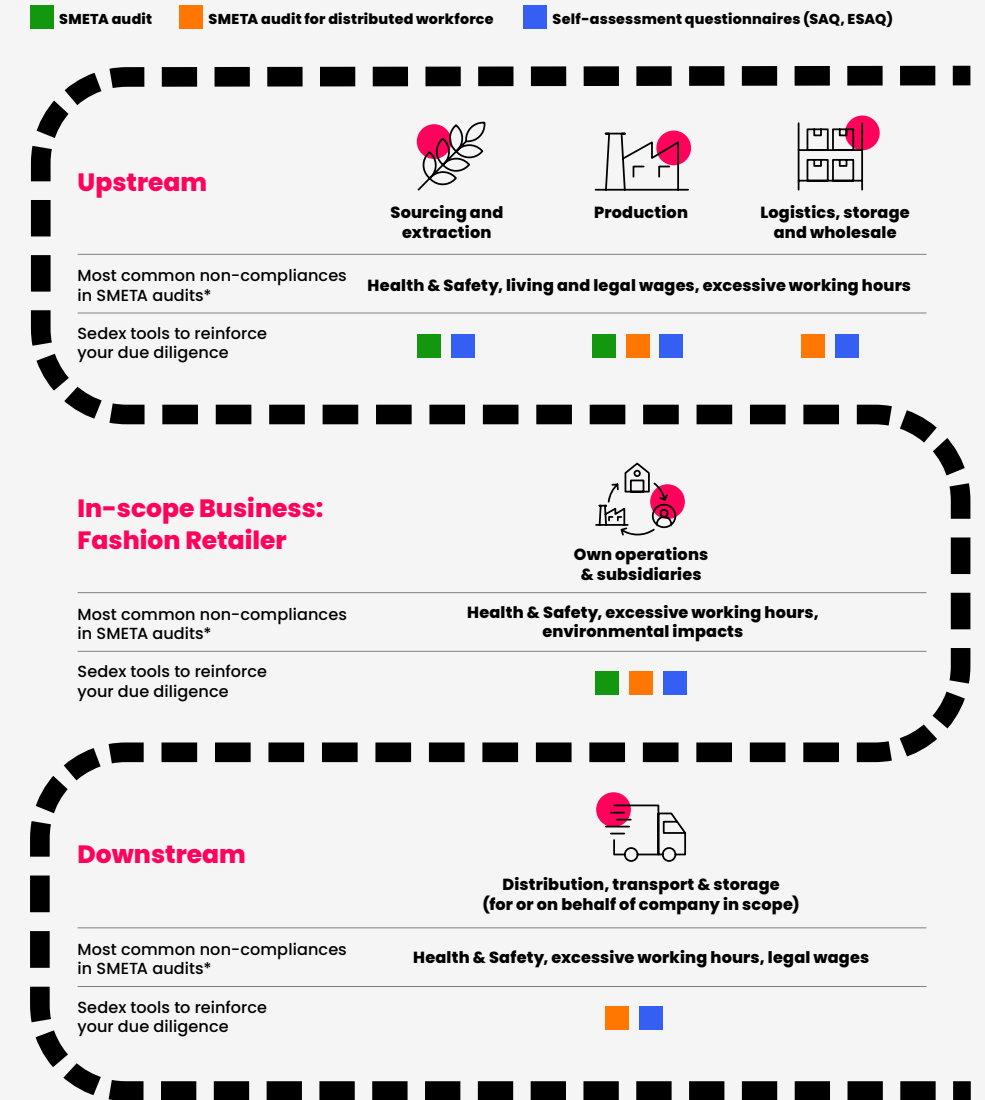
The example opposite illustrates the chain of activities of a fashion retailer in scope of the CSDDD. In this example, the fashion retailer has a direct relationship with a wholesaler—also referred to as a Tier 1 supplier—which provides goods to the retailer.

The wholesaler procures goods from manufacturing sites; the retailer therefore has an indirect relationship with the manufacturer, which is referred to as Tier 2 of the retailer’s supply chain.

To produce goods, the manufacturer procures raw materials from a farm. The farm is an indirect supplier to the retailer and is referred to as Tier 3 of the supply chain.

The retailer also has downstream business partners that deliver goods to end consumers on behalf of the company.

## Assessing risks across the chain of activities



\*Source: Sedex database

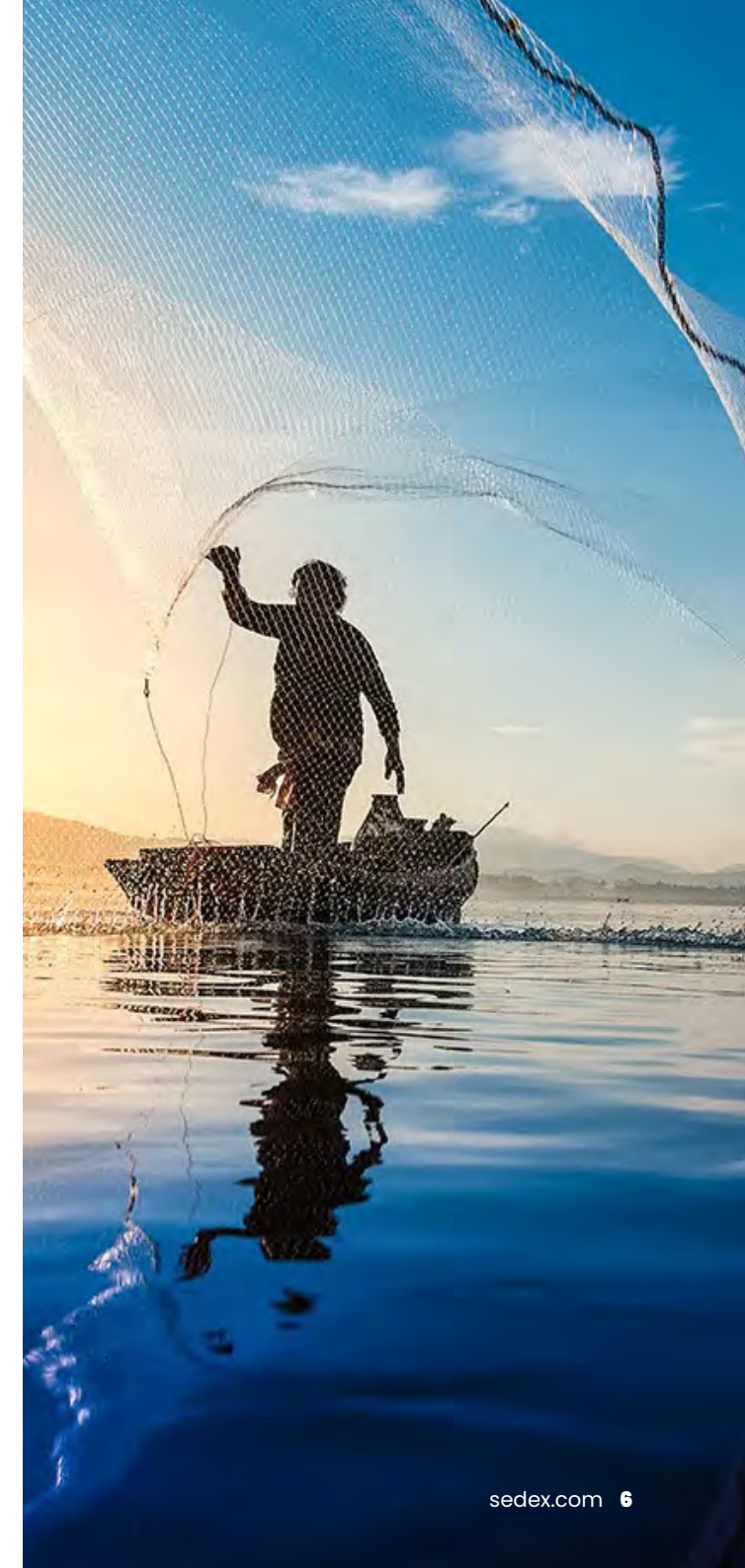
# Summary of requirements

- **Integrating human rights and environmental due diligence** into policies and risk management systems, including for supply chains.
- **Risk assessment to identify and assess actual or potential adverse impacts, and prioritisation of most likely and severe impacts:** This applies to companies' own operations, subsidiaries, and supply chains.
- **Risk management to prevent and mitigate potential adverse impacts, and address actual adverse impacts to minimise their extent:** As with assessment activities, this applies to companies' own organisations, subsidiaries and supply chains.
- **Provide remediation for adverse impacts:** Restore affected people, communities or environments to their original state as much as possible through financial or non-financial compensation. These actions should be proportionate to the company's role in causing negative impacts.
- **Carry out meaningful engagement with stakeholders:** Engage with communities, trade unions, workers and other stakeholders, actively incorporating their feedback into strategies and activities.
- **Establish and maintain a notification mechanism and**

**complaints procedure:** Accessible channels for affected individuals to report complaints and keep informed of the outcome of any investigations.

- **Monitor the effectiveness of due diligence policies and actions:** Organisations must track and review the effectiveness of their due diligence measures every five years. They must include these updates and reflections in reports.
- **Publicly communicate on due diligence efforts:** Publicly disclose due diligence activities in an annual report.

While your business might already have some of these processes and activities in place, establishing comprehensive due diligence systems can be a lengthy and complex process. **Starting as soon as possible and being proactive will help your business meet upcoming deadlines or customer requirements.**



# Immediate actions and long-term approaches for CSDDD compliance

Legal requirement	Immediate actions for businesses	Long-term business approach	How Sedex can help
<p><b>Policies</b> Integrating due diligence into policies and management systems</p>	<p>Implement due diligence policies containing:</p> <ul style="list-style-type: none"> <li>Your company's due diligence approach, including your long-term approach.</li> <li>Your code of conduct describing due diligence principles for employees, subsidiaries, and suppliers.</li> <li>Adopt purchasing policies that contribute to living wages and incomes for their suppliers.</li> <li>The due diligence processes in place, including the measures to verify compliance with the code of conduct among employees, suppliers, and business partners.</li> <li>Communicate and train suppliers to ensure they understand what is expected.</li> </ul> <p>These policies should be reviewed and updated annually.</p>	<p>Ensure that human rights and environmental due diligence are reflected across all business policies, processes and strategies.</p>	<p>Sedex's platform and tools are part of a company's due diligence management system, for example supporting companies to verify suppliers' compliance with your code of conduct - among other tools.</p>
<p><b>Risk scoping and further assessment</b> Identifying human rights and environmental-related risks</p>	<p>Conduct a scoping exercise to identify areas across your own operations, subsidiaries and business partners where adverse impacts are most likely to occur and most severe using a scalable risk assessment tool alongside information from independent reports and existing grievance mechanisms.</p>	<p>Take measures to proactively identify human rights and environmental-related risks arising from your own operations, subsidiaries, supply chain, and established business relationships. Use these to inform your strategy and policies.</p>	<p>Calculate the risks in your supply chains at scale using the Sedex Platform risk assessment tool which provides inherent risk scores across countries, industries and commodities, as well as supplier-specific risk scores.</p>
<p><b>Risk management</b> Preventing and mitigating potential adverse impacts</p>	<ul style="list-style-type: none"> <li>Develop and implement a risk management system, as part of a preventive plan with reasonable timelines for action and indicators for measuring improvement.</li> <li>Utilise tools such as audits to identify, manage and mitigate risks at a supplier's site.</li> <li>Seek contractual assurances from direct suppliers and partners to comply with your code of conduct and preventive action plan. Assurances should be fair, reasonable and non-discriminatory.</li> <li>Ensure contractual assurances are accompanied by measures to verify compliance.</li> <li>If an SME supplier struggles to comply with your Code of Conduct or action plan, provide appropriate support.</li> <li>Collaborate with other organisations to increase your company's ability to prevent negative impacts.</li> </ul>	<p>Take measures to prevent and mitigate human rights and environmental-related risks. By identifying risks ahead of time, companies can prepare for arising challenges, create resilience in their business and prevent crises in their supply chains.</p>	<p>Monitor higher risk areas in your supply chain with Self-Assessment Questionnaires (SAQ), <b>SMETA audits</b> and follow-ups on non-compliances.</p> <p>Consider support from our Sustainability Coordinators to expedite your risk management processes.</p> <p>Sedex <b>Training</b> options support suppliers to get ready for audits and learn about complex risk issues, such as modern slavery.</p>

<p><b>Remediation</b> Bringing actual adverse impacts to an end and minimising their extent</p>	<ul style="list-style-type: none"> <li>• Stop or minimise adverse impacts by changing the cause of the impact</li> <li>• Develop and implement a corrective action plan with reasonable timelines for action and indicators for measuring improvement.</li> <li>• Identify appropriate remediation for affected persons or communities, such as financial compensation or repairing damage.</li> <li>• Seek contractual assurances from direct partners to ensure compliance with your code of conduct and corrective action plan.</li> <li>• If a small-business supplier struggles to implement a corrective action plan, provide appropriate support.</li> <li>• Collaborate with other organisations to increase your company’s ability to stop negative impacts. Examples include remediation initiatives with local partners.</li> </ul>	<p>If issues identified cannot be mitigated:</p> <ul style="list-style-type: none"> <li>• Suspend commercial relations with the partner in question, while implementing an enhanced corrective action plan</li> <li>• Determine criteria for terminating a relationship if the potential adverse impact is severe or cannot be addressed in the short-medium term.</li> </ul>	<p>Use a combination of assessment tools to understand whether adverse impacts have been mitigated– including monitoring non-compliance closures through our platform and requesting follow-up supply chain audits.</p>
<p><b>Grievance mechanism</b> Establishing and maintaining grievance procedures</p>	<p>Establish a grievance mechanism where human rights and environmental concerns regarding your operations and supply chains can be submitted by:</p> <ul style="list-style-type: none"> <li>• People affected by the negative impact</li> <li>• Trade unions and other worker representatives working in your supply chain.</li> <li>• Civil society organisations active in the areas related to your supply chain.</li> </ul>	<p>Provide complainants with appropriate follow-up and the possibility of meeting with company representatives to discuss issues. Implement and maintain a grievance process and policy to ensure grievances are managed in a timely and proportionate way.</p>	<p>Use the <b>Sedex Platform</b> and data to assess which suppliers in your supply chain do and don’t provide a grievance mechanism to their workers.</p>
<p><b>Monitoring and evaluation</b> Monitoring the effectiveness of your due diligence measures</p>	<p>Carry out regular assessments to monitor the effectiveness of your company’s activities to identify, prevent, mitigate, and remediate human rights and environmental issues. Assessments should be carried out at least every 5 years - and should inform your ongoing due diligence activities.</p>	<p>Develop and maintain an efficient monitoring and evaluation system to identify areas for improvement.</p>	<p>Access data from assessments and corrective action plans on our centralised <b>data platform</b> to enable monitoring, analysis and evaluation at scale, supporting continuous improvement.</p>
<p><b>Communication</b> Publicly communicating on your due diligence efforts</p>	<p>Produce an annual report that includes key due diligence areas (specific content and criteria to be defined in national laws). Statements will need to be published on a company’s website no later than 12 months after the end of the financial year it refers to.</p>	<p>Regularly communicate progress to your key stakeholders on identifying, mitigating and preventing human rights and environmental issues and demonstrate how the business is building resilience in the supply chain.</p>	<p>Use our data platform with integrated analytics to help understand, carry out and report on due diligence activities.</p>

# Implications and penalties

**The CSDDD is a major development in corporate sustainability legislation, with significant implications for businesses. Failure to comply with its requirements – in whole or in part – will leave your business vulnerable to a range of consequences.**

## Direct penalties under the CSDDD

### Sanctions, fines and compliance orders

Fines for businesses will be set by EU Member States as they translate the Directive into national law. The Directive dictates that sanctions must be effective, proportionate, and dissuasive, with any fines based on a company's turnover. Penalties are capped at 3% of a company's global turnover, though national penalties will vary.

### Civil liabilities

Companies will be liable for damages if a human rights or environmental issue is found while failing to comply with the obligations under the Directive. Companies and those other parties (like a subsidiary or business partner) can be held responsible for the harm they have caused the harm together. Member states will define civil liabilities when transposing the regulation into national law.

### Public contract awards

Compliance with the CSDDD will be considered in award criteria for public contracts.

## Other implications

### Divestment

Companies failing to manage sustainability risks, or to meet social and environmental expectations from investors and business partners, could lose investment and market value.

### Reputational damage

Social and environmental exploitation by businesses can significantly tarnish brands and corporate reputation across all stakeholders. Companies with lagging progress on human rights and environmental topics will struggle to attract and retain the best talent – both in their own organisations and in supply chains – and could be ostracised by customers, business partners and others.

### Consumer boycotts

Failure to respect human rights and the environment can hit company and brand reputations. Companies can become targets of consumer boycotts and civil society campaigns, leading to financial damages including lost revenue.

# Due diligence regulation – a global trend

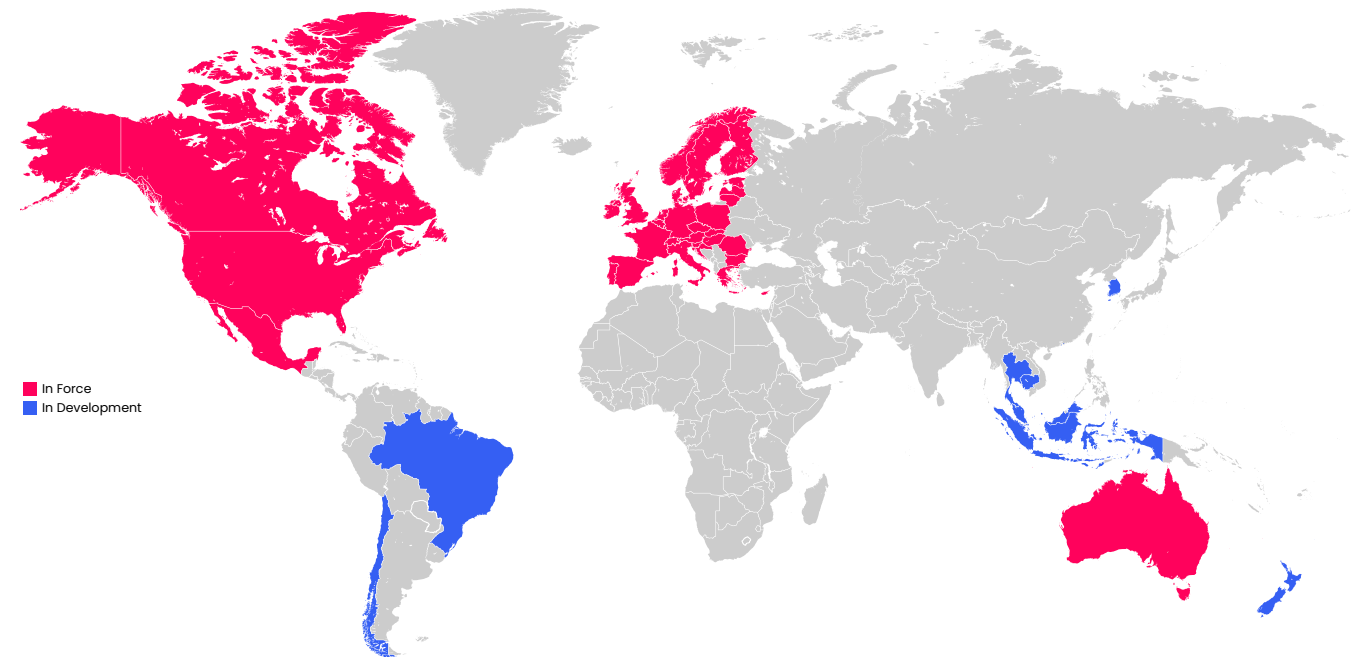
**The EU Corporate Sustainability Due Diligence Directive represents a shift in responsible business legislation and mirrors many national developments in this regard. It is an attempt to harmonise the approach for supply chain due diligence across EU countries.**

Globally, we've seen a clear maturation of sustainability regulation. Regulation is evolving from requiring companies report on environmental and social risks, ESG performance, opportunities, and mitigation strategies, to Mandatory Human Rights and Environmental Due Diligence (mHREDD). mHREDD, such as the CSDDD, is far-reaching, requiring businesses to actively assess, manage, and remediate risks in their supply chains. Other notable mHREDD laws include the **German Supply Chain Due Diligence Act** and the **Norwegian Transparency Act**. While in **APAC**, countries such as Thailand and South Korea are considering adopting similar legislation.

What's more, companies are also expected to comply with forced labour import bans, such as the EU Forced Labour Regulation, and transparency regulations, such as the UK Modern Slavery Act. Although these regulations don't explicitly require businesses to conduct due diligence, doing so supports compliance efforts.

Navigating the changing legal landscape for supply chain due diligence and responsible business is critical for company survival. Companies must understand the extent to which this Directive and similar ones apply to and affect them.

**Countries with supply chain due diligence, forced labour import bans or modern slavery reporting regulation**

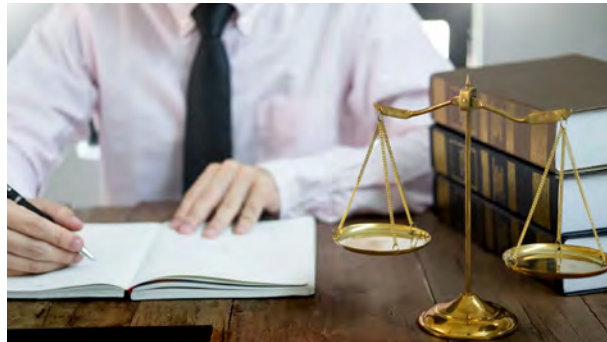


Recent human rights and environmental due diligence national and regional laws and Directives and laws in force, adopted or forthcoming, or under development.

Source: **Sedex**.

# The many drivers of responsible sourcing

**Governments, investors, consumers and others are all driving the demand for more responsible business practices.**



## **Governments and international organisations**

Human rights due diligence laws, modern slavery legislation (e.g. forced labour import bans) and international conventions set standards for responsible business operations.



## **Investors, shareholders, sector initiatives**

Investors **increasingly value** non-financial factors in their decisions, while more and more shareholders pursue proposals with environment, social and governance (ESG) considerations. The ESG asset market is **expected** to hit up to \$50 trillion by 2030 and many investment organisations are calling for mandatory human rights due diligence laws. Meanwhile, activist shareholders seek to push companies towards more responsible practices.



## **Consumers, clients, employees**

The rise of ethical consumerism in recent years sees consumers increasingly basing choices on responsible business behaviour and sustainability criteria. In the UK alone, the **market value** of “ethical consumerism” grew from £47 million to £141 million in the 10 years to 2023. In global recruitment, research has found that positive ESG behaviours are considered one of the top factors for attracting talent.



## **Civil society, trade unions, supply chain workers, local communities**

Many advocacy and awareness-raising organisations demand that businesses support vulnerable people in global supply chains and protect the environment. Supply chain shocks and disruption draw attention to conditions in global regions, while social media and other technology enable workers around the world to share their experiences – putting greater pressure on businesses to improve sub-standard conditions.

# The business benefits of supply chain diligence

**Social and environmental due diligence allows your business to understand where the biggest risks lie, how to effectively address and prevent them and monitor your overall social and environmental impact.**

They also create a **competitive advantage**: human rights and environmental risks in global and complex supply chains pose serious operational, reputational and financial damages to your business. From health and safety and forced labour issues to hazardous chemical handling and carbon emissions, environmental and social risks are present in every sector or industry and affect almost every company in the world. In fact, **evidence shows** that investment in HRDD is associated with financial benefits, particularly with regard to operational efficiency.

**It's essential to proactively manage these concerns to build resilience and safeguard your company's long-term success.**

**Discover the return on investment of supply chain sustainability due diligence.**



# Sedex's recommendations for CSDDD preparation

## An organisational-wide approach is essential

- ✔ Engage teams from across your business – working together will be essential for success and will avoid duplicated efforts.
- ✔ Assign accountability and responsibility for compliance preparations to ensure goals are met.
- ✔ Assess your purchasing and contracting practices against the CSDDD's requirements
- ✔ Support departments in helping their suppliers put in place the processes they need to carry out due diligence further down the supply chain.

## Assess the level of investment required

- ✔ Use risk assessments to prioritise and focus your resources on the highest impact areas.
- ✔ Understand the resources that you will need as early as possible, and identify areas where efficiency will be crucial.
- ✔ Provide or enable supplier access to capacity-building, guidance, administrative and financial support such as loans or financing, while taking into consideration the resources, knowledge and constraints of your business partners.

## The new way of working will require transparency and collaboration

- ✔ Identify internal and external stakeholders, and plan for getting their input throughout compliance preparations. Your direct suppliers will be key, as they are your route to investigating deeper into high risk supply chains.
- ✔ Build ground-level understanding: engage with stakeholders such as workers, trade unions, NGOs, and local communities. Leverage their voices to inform your strategy.
- ✔ Reach out to your industry to understand tools, solutions and initiatives that are underway or working well for others.

## Seek contractual assurances

- ✔ Embed contractual requirements for business partners to comply with social and environmental sustainability commitments.
- ✔ Establish fair, reasonable, and non-discriminatory terms, particularly for small-to-medium businesses (SMEs).
- ✔ Cover audit costs where necessary to prevent undue financial burden on smaller suppliers.

## Address negative impacts

- ✔ Provide accessible channels for people to report grievances and receive updates on progress of investigations.
- ✔ If a negative impact can't be stopped immediately, adopt a time-bound action plan; complex issues and their root causes may require long-term initiatives to address them effectively.
- ✔ Ensure your plans have reasonable and clearly defined timelines for implementing appropriate measures, with both qualitative and quantitative performance indicators.

## Get started now

- ✔ Preventive risk management, continuous assessment and providing remediation are just as important as other steps, but take time to implement – so start these at the earliest opportunity.
- ✔ Compare and benchmark all your sustainability-related requirements to develop a centralised strategy that minimises duplicated efforts and builds a core business case for your sustainability standards. Update your policies and processes with the most stringent standards, if possible, to avoid a 'patchwork' of policies and processes.
- ✔ Understand the data sharing required early on and update your policies, processes, and training to enable this across your organisation.

# Preparation checklist for the CSDDD

## 1. Check if your business will be affected by the Directive

- Will your business be directly **in scope**?
- Will your business be **affected** by the Directive through having customers which are likely to be in scope of CSDDD?

## 2. Understand which human rights and environmental risks you must consider in risk and impact assessments

- Have you identified the **human rights and environmental** issues in your business operations and supply chains which are most severe and most likely to occur?

## 3. Understand your due diligence obligations

- Does your company have policies in place setting out your company's **standards and requirements** for suppliers, such as a Code of Conduct?
- Does your company have **risk management** activities in place to address social and environmental risks across your operations and supply chain?
- Does your company currently **assess and manage human rights** and environmental risks in your operations and supply chain?
- Does your company have a **grievance mechanism** (e.g. a hotline) for workers to report issues across your operations and supply chain?
- Does your company offer **remediation**, or access to remediation, when negative impacts occur?
- Does your company **monitor and evaluate** the effectiveness of your initiatives, activities and impact?

## 4. Understand your reporting obligations

- Detail how your company **meets the required due diligence obligations**, covering activities undertaken in the previous financial year.
- Publish annual statement** within 12 months of the end of the financial year it covers

# Solutions for your business

## Sedex Platform



Store, analyse, share, and report on sustainability practices with the world's largest data platform for supply chain assessment.

[Learn more](#)

## SMETA Audit



Gain visibility into working conditions and environmental performance in your supply chain with our world-leading audit.

[Learn more](#)

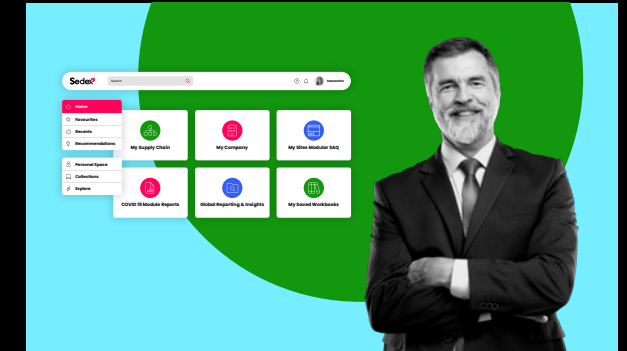
## Training



Improve your business's sustainability operations with our exclusive member training programs.

[Learn more](#)

## Community



Connect with our community of 95,000 businesses globally to share insights and best practices.

[Learn more](#)

# Glossary of terms

## Chain of activities

This includes the activities of a company's upstream business partners—the people or organisations involved in creating the goods or services the company sells. That covers things like designing, mining or sourcing materials, manufacturing, transporting, storing and supplying raw materials or products, as well as developing the product or service.

It also includes the activities of a company's downstream business partners—the people or organisations involved in distributing, transporting, or storing the company's products after they're made, when they're doing this work for the company or on the company's behalf.

## Code of conduct

A set of business behaviours, practices and standards that a company sets out for themselves and others to follow as part of a business relationship – including their employees, suppliers, and other business partners.

## Due diligence

Investigation or activities to exercise a duty of care that a business is expected to take regarding agreements, contracts or transactions with other parties. With regard to human rights and environmental due diligence, this is the process by which companies identify, prevent, mitigate and account for how they address actual and potential social and environmental impacts in their operations, supply chains and other business relationships.

## Forced labour

Work or service that is done under threat of penalty and for which a person has not offered themselves voluntarily.

## Modern slavery

Umbrella term that refers to the worst forms of exploitation. It describes a situation a person cannot refuse or leave because of threats, violence, coercion, deception, and/or abuse of power. It includes forced labour, debt bondage, forced marriage, the worst forms of child labour and human trafficking.

## Sanctions

Penalties or other means of enforcement used to provide incentives to comply with laws, rules and regulations, and punishment for those who don't comply. Criminal sanctions can take the form of fines or imprisonment. In the context of sustainability due diligence laws, sanctions can take various forms including financial penalties or fines, or companies being barred from tendering for public contracts and accessing public funding.

## Supply chain

A supply chain refers only to the businesses and activities required to create and provide a company's products or services.

## United Nations Guiding Principles (UNGPs):

Comprehensive international **guidelines** created in 2011 for nations and companies to prevent, address and remedy human rights abuses in business operations and supply chains, consisting of 31 principles.

Trusted by over 95,000 businesses, Sedex's leading technology platform, data insights and professional services help you build a more sustainable and resilient supply chain.

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