

8 YEARS
TOO LONG
FREE THE
REFUGEES

JULY | 2024

The new rules on environmental and **human** **rights due diligence**

Directive (EU) 2024/1760 (CSDD Directive)

On 5 July the Official Journal of the European Union (OJEU) published Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence and amending Directive (EU) 2019/1937 and Regulation (EU) 2023/2859, also known as the Due Diligence Directive, CS-DDD or CS3D.

The Directive entered into force on 26/07/2024 and must be transposed by 26/07/2026. It will apply to the companies covered gradually, depending on their number of employees and turnover:

- With more than 5,000 employees and 1.5 billion euros in turnover (as of 26/07/2027);
- With more than 3,000 employees and 900 million euros in turnover (from 26/07/2028);
- With more than 1,000 employees and 450 million euros in turnover (from 26/07/2029).



Framework

This Directive was initially proposed in February 2022 in response to the pressing need for legislation in the field of corporate responsibility and the mitigation of negative impacts on human rights and the environment. After years of discussion on the text, the European Parliament gave the green light to it, in a fundamental step towards the European Union's commitment to sustainability and corporate responsibility.



In this context, the CSDD Directive promotes respect for human rights and the environment by companies in their own activities and throughout their value chains, identifying, preventing, mitigating and accounting for their negative effects in terms of human rights and the environment, and adopting appropriate governance and management measures and systems to this end, as well as providing for coercive rules such as sanctions and civil liability criteria for breaches of the duty of care.

Object

The CSDD Directive establishes rules regarding:

- Obligations of companies with regard to actual and potential negative effects on human rights and the environment, with regard to their own operations, the operations of their subsidiaries and the operations carried out by their business partners in the chains of activities;
- Liability mechanisms for violations of these obligations;
- Obligation for companies to adopt and implement a transition plan for climate change mitigation that aims to ensure, through best endeavours, the compatibility of the company's business model and strategy with the transition to a sustainable economy and the limitation of global warming to 1.5°C, in accordance with the Paris Agreement.

Scope of application

The scope of the CSDD Directive covers companies with headquarters in a Member State of the European Union that fulfil one of the following conditions:

- Have on average more than 1,000 (one thousand) employees and have generated a net worldwide turnover of more than €450,000,000 (four hundred and fifty million euros) in the last financial year for which annual financial statements were or should have been adopted;
- Not meeting the above thresholds, but being the parent company of a group that met these thresholds in the last financial year for which consolidated annual financial statements were or should have been adopted;

- Having entered into - or being the parent company of a group that has entered into - franchising or licensing agreements in the European Union in exchange for royalties with independent third-party companies, subject to certain requirements.

The scope of the CSDD Directive also covers companies based in a third country (outside the European Union), operating in the single market, and which fulfil one of the following conditions:

- Have generated a net turnover of more than €450,000,000 (four hundred and fifty million euros) in the Union in the financial year preceding the last financial year;
- Not reaching the above thresholds, but being the parent company of a group which, on a consolidated basis, reached those thresholds in the financial year preceding the last financial year;
- Having entered into - or being the parent company of a group that has entered into - franchising or licensing agreements in the European Union in exchange for royalties with independent third party companies, subject to certain requirements.



Duty of Care

The CSDD Directive aims to ensure that companies based or operating in the European Union adopt responsible and sustainable practices in their activity and value chains, based on risk, specifically in terms of human rights and the environment. To this end, it establishes the following actions for exercising due diligence:

- Integrate due diligence into risk management policies and systems;
- Identify and assess actual and potential negative effects arising from its own operations or those of its subsidiaries and the operations of its business partners;
- Prevent, mitigate, stop or minimise all negative effects identified;
- Provide redress in the event of any actual negative effects caused, either individually or jointly;
- Develop constructive collaboration with stakeholders, based on gathering information on negative effects, defining preventive and corrective action plans, and adopting appropriate measures to remedy any negative effects;
- Create a notification mechanism and complaints procedure for legitimate concerns about actual or potential negative effects of its operations, those of its subsidiaries and its partners in the company's chains of activity;
- Monitor and carry out periodic assessments of its operations and measures, those of its subsidiaries and its partners in the value chain;
- Draw up and publish on the website an annual statement on the obligations arising from the CSDD Directive;
- Adopt and implement a transition plan for climate change mitigation, with timetabled targets, a description of the decarbonisation levers and the main actions planned to meet the outlined targets, an explanation and quantification

of the investments and funding for implementing the transition plan, as well as a description of the company's bodies in complying with this plan.

Civil liability

Companies that fail to fulfil their due diligence obligations under the CSDDD will be held liable and obliged to fully compensate their victims. To this end, Member States will designate a Supervisory Authority in charge of monitoring, investigating and imposing penalties on companies that fail to comply with the CSDDD.

These can include fines of up to 5 per cent of the companies' worldwide turnover. Companies based outside the European Union will be obliged to appoint an Authorised Representative based in the Member State in which they operate, who will communicate with the Supervisory Authorities on due diligence compliance.

