Corporate Sustainability Due Diligence Directive (CSDDD)

CDP Policy Explainer

September 2024

Executive Summary

This policy explainer outlines a selection of essential aspects and implications of the Corporate Sustainability Due Diligence Directive (CSDDD)[1], with a focus on the climate governance of companies along their value chains. The CSDDD is an EU Directive aimed at addressing adverse human rights and environmental impacts where they most often occur: global supply chains. The Directive imposes a set of requirements on large EU and non-EU companies to holistically address the most significant impacts within their value chains. The CSDDD requires companies from all sectors to conduct due diligence for their value chains, the only exemption being the downstream value chains of financial institutions. **The purpose of this policy explainer is to highlight significant impacts of the Directive, alongside areas where CDP's disclosure platform can support organizations taking steps on their environmental obligations under CSDDD**.[2]

Key takeaways:

- The CSDDD is a crucial piece of the EU Green Deal and the EU's ambition towards limiting global warming to 1.5°C in line with the Paris Agreement. The CSDDD aims to ensure that companies active in the EU market contribute to human rights protection and sustainable development, and thus is one of the EU's most ambitious and significant regulations for safeguarding human rights and protecting the environment globally.
- The CSDDD is estimated to directly impact around 6,000 EU-based companies and 900 non-EU companies. Its implementation will pose challenges for different stakeholders, including how companies can get started on their engagement with their value chains; how to avoid or mitigate indirect impacts to Small and Medium Enterprises (SMEs); and how to make sure the approach does not leave out any relevant corporates or financial institutions.
- The CSDDD requires companies to have a transition plan in place, ensuring that their business model and strategy are compatible with the transition to a sustainable economy and the goal of limiting global warming to 1.5 °C, in line with the Paris Agreement and CSRD requirements.

CDP is committed to supporting and collaborating with its stakeholders to achieve the objectives and prepare organizations for compliance with the CSDDD. CDP works with companies in the EU and globally through our disclosure platform, capacity-building measures, and supply chain engagement to help them implement governance structures and engage their value chains. This can help disclosing companies fulfill their climate obligations under the CSDDD. Specifically, CDP has introduced a technical note for reporting on credible transition planning, which can support organizations in fulfilling the mandates to adopt and implement a transition plan for climate change mitigation.

[1] 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) 2023/2859Text with EEA relevance. Available on https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32024L1760

[2] This policy explainer is directed to CDP's stakeholders. **Its primary aim is to provide a general overview of the Corporate Sustainability Due Diligence Directive (CSDDD), with a focus on the disclosure-related aspects and their connection to CDP's disclosure system**. It is important to note that this document does not cover all the elements of the Directive and does not constitute legal advice. For any further information, it is always recommended refer to the original source. You should not act upon the information contained in this publication without obtaining specific professional advice.

About the CSDDD

Introduction

Before the introduction of mandatory regulations, **there have been voluntary frameworks at the international level**,[3] focused on due diligence within companies' governance. While these frameworks have been crucial in helping companies familiarize themselves with corporate sustainability due diligence and have even served as a foundation for mandatory regulations,[4] they have not been sufficient to fully integrate sustainability due diligence processes into company operations and have led to the need to standardize common practices for the private sector.[5]

In February 2022, the European Commission published an initiative on Corporate Sustainability Due Diligence, intending to **improve the regulatory framework for company law and corporate governance**, providing better incentives for companies to focus on long-term, sustainable value creation. Ideally, this would foster better identification of the sustainability risks, opportunities and impacts — and therefore the mitigation of adverse impacts — in the company's operations and throughout its value chain.[6]

From the EU Green Deal initiatives, the CSDDD is one of the most ambitious and important regulations to safeguard and protect human rights and the environment. **This Directive is estimated to directly impact around 6,000 EU-based companies and 900 non-EU companies**.[7] Furthermore, it also impacts companies involved in the value chain of companies to which the Directive applies. **The CSDDD came into force on July 25th 2024**, twenty days after its publication in the Official Journal of the EU. The Directive will be implemented gradually, with its application to companies phased in over a period of three to five years:

Implementation date	Scope of the Directive
26 July 2027 (3 years)	EU companies with more than 5,000 employees and EUR 1,500 million worldwide turnover and non-EU companies with more than EUR 1,500 million turnover generated in the EU.
26 July 2028 (4 years)	EU companies with more than 3,000 employees and EUR 900 million worldwide turnover and non-EU companies with more than EUR 900 million turnover generated in the EU.
26 July 2029 (5 years)	All other companies in the scope of the Directive.[8]

The original proposal included a wider scope of companies with more than 500 employees and EUR 150 million net turnover[9]. Nevertheless, the CSDDD is **an important step forward in ensuring the corporate transition to a sustainable economy**. Recital 74 of the Directive recognizes the aim to reduce the existential harms and costs of climate change, ensure alignment with the goal of 'global net-zero' by 2050 and to prevent greenwashing.

Objectives

To promote sustainable and responsible corporate behaviour and drive the green transition, the CSDDD attempts to address global supply chains, the place where most adverse human rights and environmental impacts occur.[10] In that context, the Directive acknowledges the 'One Health' approach, as framed by the World Health Organization,[11] **recognizing that the health of people, animals and ecosystems is closely interlinked and interdependent**.

The CSDDD aims to ensure that companies active in the EU market contribute to human rights protection and sustainable development. The main objectives of the CSDDD are:

- **Improve corporate governance practices** to better integrate risk management and mitigation processes of human rights and environmental impacts (including those stemming from value chains) into corporate strategies.
- **Avoid fragmentation of due diligence requirements** in the EU market and create legal certainty for businesses and stakeholders regarding their expected behavior and liability.
- **Increase corporate accountability for adverse impacts** and ensure coherence for companies regarding obligations under existing and proposed EU initiatives on responsible business conduct.
- **Improve access to solutions** for those affected by adverse human rights and environmental impacts of corporate behavior.
- **Complement other relevant proposed or existing regulations** to steer business and value chain processes on the path to a green transition.

[3] Particularly the Organization for Economic Co-Operation and Development OECD's Guidance for Responsible Business Conduct (OECD (2018), OECD Due Diligence Guidance for Responsible Business Conduct. Available at: https://mneguidelines.oecd.org/OECD-Due-Diligence-Guidance-for-Responsible-Business-Conduct.pdf
[4] For instance, the CSDDD follows the six-step process defined by the OECD's Guidance for Responsible Business Conduct-
[5] European Commission, Directorate-General for Justice and Consumers, Torres-Cortés, F., Salinier, C., Deringer, H. et al., Study on due diligence requirements through the supply chain – Final report, Publications Office, 2020, https://data.europa.eu/doi/10.2838/39830
[6] Internal Procedure of the Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937 Available here: https://eur-lex.europa.eu/legal-content/EN/PIN/?uri=CELEX:52022PC0071
[7] Ibidem.
[8] Op. cit., Directive on Corporate Sustainability Due Diligence: Frequently Asked Questions.
[9] Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937. Brussels, 23.2.2022. Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A52022PC0071
[10] Op. cit., Directive on Corporate Sustainability Due Diligence: Frequently Asked Questions.
[11] World Health Organization. One Health. Available on: https://www.who.int/europe/initiatives/one-health

Main elements

These are the five key elements of the CSDDD related to environmental disclosure:

Main elements	Description
1. Adverse human rights and environmental impacts	The first article in the Directive sets the rules for **companies to identify and address adverse human rights and environmental impacts** that might occur in their own operations, as well as in the operations of their subsidiaries and business partners within their value chains. In addition, Recital 24 of the CSDDD states that for due diligence to have a meaningful impact, it should cover adverse impacts generated throughout most of the life cycle of production, distribution, transport, and storage of a product or provision of a service.
2. Companies' value chain	Article 3 of the Directive defines the **chain of activities**. It includes the activities of a **company's upstream** business partners related to the production of goods or the provision of services, as well as the development of the product or service. It also encompasses the activities of a **company's downstream** business partners related to the distribution, transport, and storage of the product, and where these business partners perform these activities for or on behalf of the company.
3. Large companies within the scope of the Directive	The scope of the CSDDD is delimited in Article 2. Companies established in the European Union with **more than 1,000 employees on average and a worldwide net turnover exceeding EUR 450 million** in the last financial year (for which annual financial statements have been or should have been adopted) must comply with the due diligence obligations established under this Directive. The Directive also applies to **non-EU companies that generated a net turnover of at least EUR 450 million within the EU** in the financial year preceding the last one, as stated in the second section of this same article.

Main elements	Description
4. Risk-based approach and obligations of means	Recital 73 of the Directive states that the CSDDD obligations **are obligations of means and not of results**. This means that companies should be judged based on taking the appropriate necessary measures to achieve the due diligence objectives, in a manner proportionate to the severity and likelihood of the identified adverse impact. Companies will not be judged on whether they achieve certain expected results or not.
5. No double reporting obligations	The CSDDD **is designed to avoid duplicating reporting obligations**. The Corporate Sustainability Reporting Directive (CSRD) sets out the relevant reporting requirements for the companies covered by the CSDDD, making it the reporting mechanism that companies must fulfill. In that sense, **the CSDDD does not add extra reporting obligations beyond those already established under the CSRD**; however, there will be a simplified and aligned reporting standard on corporate sustainability due diligence for companies not reporting under the CSRD.

Importance of Disclosure

Environmental disclosure is becoming increasingly important due to a combination of regulatory and stakeholder pressures. The CSDDD requires companies to identify, map and assess their environmental impacts, a process that is also embedded in other mandatory sustainability disclosure regulations. Simultaneously, various stakeholders—including NGOs, policymakers, and local communities—are demanding greater environmental transparency. These combined forces are driving companies to produce meaningful environmental data through their disclosure processes, ensuring that the information shared is both comprehensive and impactful.

The design of the due diligence process and the obligations set forth in the Directive emphasize the importance of mandatory disclosure. Companies are required to conduct a thorough identification and assessment of adverse impacts, using both quantitative and qualitative data that can be reasonably obtained. For instance, the CSDDD specifies that companies should be able to gather information about baseline conditions at higher-risk sites or facilities within their value chains, focusing efforts where they are most impactful. **Links with other regulations that can help ease the reporting burden for organizations are discussed in more detail below**.

CSDDD emboldens high-quality disclosure criteria present in the key sustainability disclosure regulations of the EU Sustainable Finance Framework, such as impact materiality, adverse impacts (Principle Adverse Impact indicators requested in the Sustainable Finance Disclosure Regulation) and the EU Taxonomy's Do No Significant Harm definitions. **All are centered around a comprehensive understanding of value chain impacts on people and planet**.

As such, the CSDDD can ultimately help entities identify and act on their environmental impacts and improve their access to capital stemming from sustainable finance initiatives. This highlights the critical role that comprehensive and accurate disclosure plays in fulfilling the Directive's requirements and ensuring that companies are effectively managing their environmental and human rights impacts.

Links with other legislation

The CSDDD complements the ambitious package of initiatives that make up the European Green Deal. The Directive **interplays with other relevant legislation in environmental matters**.

The Corporate Sustainability Reporting Directive (CSRD)

The CSDDD complements the Corporate Sustainability Reporting Directive (CSRD) by **adding a substantive corporate duty on certain companies. This involves performing due diligence to identify, prevent, mitigate and account for external harm** resulting from adverse human rights and environmental impacts in the company's own operations, its subsidiaries and its business partners' activities that are linked to the company's value chain activities.

The CSDDD cross-references the CSRD. For instance, in communicating due diligence obligations, the CSDDD relies on the reporting done under the CSRD to avoid disclosure duplication for companies within the scope of both Directives. For companies not covered by the CSRD, there will be a simplified and aligned reporting framework.[12]

The CSRD requires companies to disclose their plans to ensure that their business model and strategy are compatible with the transition to a sustainable economy and the goal of limiting global warming to 1.5 °C in line with the Paris Agreement. **The two Directives are closely interrelated**:

1. **A proper information collection for reporting purposes under the CSRD** requires setting up processes on the identification of material impacts along a company's value chain, which are closely aligned with identifying value chain adverse impacts under the CSDDD's due diligence duty process.

[12] Op. cit., Directive on Corporate Sustainability Due Diligence: Frequently Asked Questions.

2. **The CSRD covers an important step of the due diligence duty — namely the reporting stage — facilitating compliance** for companies that are covered by both the CSDDD and the CSRD.

3. **The CSDDD requires companies to have a transition plan in place**, ensuring that their business model and strategy are compatible with the transition to a sustainable economy and the goal of limiting global warming to 1.5 °C, in line with the Paris Agreement and CSRD requirements.

The CSDDD will prepare companies for their reporting obligations under the CSRD, making their compliance easier and more effective.

Further reading: CDP Policy Explainer on the CSRD and the ESRS.[13]

EU Sustainable Finance Disclosure Regulation (SFDR)

CSDDD also underpins the Sustainable Finance Disclosure Regulation (SFDR), which applies to financial market participants and financial advisers. Under the SFDR, financial undertakings are required to publish, among others, **a statement on their due diligence policies with respect to principal adverse impacts (PAIs)**, including how adverse impacts have informed their investment decisions on sustainability factors on a "comply or explain" basis.

CSDDD's requirements for identifying and managing adverse impacts align with SFDR guidelines. This will enable entities within the scope of CSDDD and CSRD to provide this crucial information to investors, as SFDR PAIs must be reported in a CSRD-compliant sustainability statement.

Further reading: CDP Policy Explainer on the SFDR.

EU Taxonomy Regulation (EU Taxonomy)

The CSDDD further complements the EU Taxonomy Regulation, a classification system that facilitates decisions on investment and helps tackle greenwashing by providing a definition of environmentally sustainable activities. **The reporting requirements under the EU Taxonomy cover due diligence obligations which can be leveraged by companies within the scope of both regulations**.

The EU Taxonomy establishes that for an activity to be considered sustainable, it must comply with the principles of Do No Significant Harm and minimum safeguards. Under the principle of Do No Significant Harm an activity can only be considered sustainable – besides contributing to one or more of the environmental objectives of the EU – if it does not harm any of the other environmental objectives.

[13] Please visit CDP's webpage to better understand how to prepare for CSRD reporting.

Regarding the minimum safeguards criteria, the EU Taxonomy establishes that companies need to assess whether the activity takes into consideration social safeguards following those established by international frameworks such as the OECD Guidelines for Multinational Enterprises and others. **Therefore, by complying with the CSDDD, companies will be well positioned to assess their activities and future investments that are aligned with the EU Taxonomy criteria**. This will strengthen their position to transition to a sustainable economy, ultimately attracting investments and solidifying their long-term financial stability.

Further reading: CDP Policy Explainer on the EU Taxonomy.

Getting started and going beyond

Corporate governance – Step by step
As illustrated in the **European Commission's Frequently Asked Questions document**, **the core due diligence duties for companies within the scope of the CSDDD can be divided in two parts**. The first group of actions of corporate governance requirements are:

1. **Integrating due diligence into corporate policies and risk management systems.**

2. **Identifying adverse human rights and environmental impacts** in the company's operations, as well as those of its subsidiaries and business partners in the chain of activities; and prioritizing them according to their severity and likelihood.

3. **Addressing negative impacts that (should) have been identified, where necessary in the order of prioritization**. Companies must prevent and/or mitigate potential impacts and, when negative impacts have already occurred, bring them to an end or, if not immediately possible, at least minimize their extent. Companies must provide remedies if they caused the adverse impact or contributed to it through acts or omissions.

4. **Companies are required to suspend or terminate a business relationship, but as a measure of "last resort" when all other actions have failed**, where severe impacts are at stake and only where these impacts outweigh the foreseeable negative consequences of disengagement.

In the second group of actions, companies are also required to:

5. **Engage with stakeholders** (i.e. consult them in the identification of impacts in the due diligence process) based on meaningful information (i.e. sufficient quality and level of detail to allow them to fully participate) provided to stakeholders.

6. **Establish and maintain a complaints and notification procedure**.

7. **Monitor the effectiveness of due diligence measures**.

8. **Communicate publicly on due diligence** according to the Corporate Sustainability Reporting Directive and the European Sustainability Reporting Standards (with some exceptions).

It is important to note that Article 6 of the CSDDD allows **parent companies to fulfil certain obligations on behalf of their subsidiaries** to reduce the burden on companies and facilitate due diligence, making it more effective.

Key provisions

The following is a high-level overview of relevant articles of **the CSDDD and how this links to reporting through CDP's corporate questionnaire**. The overview is not exhaustive, rather it illustrates the benefits that disclosing through CDP can bring to organizations by starting their due diligence journey and implementing transition plans:

Article	Directive Requirements	Link	CDP Question No.	Details on CDP Question(s)
Art. 2	**Scope**: More than 1,000 employees on average and had a net worldwide/EU turnover of more than EUR 450 million.	☑	**General**	**Disclosure through CDP** Full Questionnaire is recommended for organizations with a staff headcount of 1,000 and revenues of US $250 million.
Art. 5	**Due diligence**: Companies should conduct risk-based human rights and environmental due diligence.	☑	**Q.2.2** **Q.2.2.1** **Q.2.2.2** **Q.2.2.3** **Q.5.11**	**Disclosure through CDP** includes the identification, assessment and management of dependencies, impacts, risks and opportunities. It also includes the engagement with the value chain on environmental issues.
Art. 7	**Due Diligence in Company Policies and Risk Management Systems**: Companies integrate due diligence into all their relevant policies and risk management systems.	☑	**Q.4.6**	**Disclosure through CDP** requires organizations to disclose if they have an environmental policy that addresses environmental issues.

Article	Directive Requirements	Link	CDP Question No.	Details on CDP Question(s)
Art. 8	**Identifying and assessing actual and potential adverse impacts**: Companies take appropriate measures to identify and assess potential adverse impacts; and map their own operations, those of their subsidiaries and, where related to their chains of activities, those of their business partners.	☑ ☑	**Q.1.24 Q.1.24.1 Q.2.2.2**	**Disclosure through CDP** requires organizations to disclose if they have mapped their value chain. The questionnaire includes questions on plastics and if this has been mapped in the producing, commercializing using, and/or disposing stages. Organizations also need to provide details on their processes for identifying, assessing and managing environmental dependencies, impacts, risks, and/or opportunities.
Art. 9	**Prioritization of identified actual and potential adverse impacts**: Companies should prioritize adverse impacts.	☑	**Q.2.2.2 Q.2.3**	**Disclosure through CDP** includes a description on the process for identifying, assessing and managing different environmental impacts. It also requires organizations to disclose if they have identified priority locations across their value chain.
Art. 15	**Monitoring**: Companies carry out periodic assessments of their own operations and measures, those of their subsidiaries and, where related to the chain of activities of the company.	☑	**Q.2.2.2**	**Disclosure through CDP** includes a description on the frequency of the assessment of impacts and the time horizons covered.
Art. 22	**Combating Climate Change**: Companies adopt and put into effect a transition plan for climate change mitigation.	☑	**Q.5.2**	**Disclosure through CDP** demands organizations to disclose if they have a process and strategy that includes a transition plan. Below you will find a detailed analysis of CDP's elements for a credible transition plan.

Corporate transition plans

The CSDDD, in Article 22, mandates big companies to adopt and implement **“a transition plan for climate change mitigation** which aims to ensure, through best efforts, that the business model and strategy of the company are **compatible with the transition to a sustainable economy and with limiting of global warming to 1.5°C** in line with the Paris Agreement and the objective of achieving climate neutrality as established in Regulation (EU) 2021/1119, including its intermediate and 2050 climate neutrality targets”.

CDP defines a credible climate transition plan which aligns with a 1.5°C world as a time-bound action plan that clearly outlines how an organization will achieve its strategy to pivot its existing assets, operations, and entire business model towards a trajectory that aligns with the latest and most ambitious climate science recommendations, i.e., halving greenhouse gas (GHG) emissions by 2030 and reaching net-zero by 2050 at the latest, thereby limiting global warming to 1.5°C.

A growing consensus is emerging around the key disclosure indicators of a credible climate transition plan. This convergence can aid regulators in their role of mandating disclosures and offering effective guidance on robust climate transition plans (i.e. in the development of the guidelines of the CSDDD). The figure below shows up to full coverage of CDP’s climate transition plan key elements set by various global frameworks, standards, and initiatives as applicable in September 2024.

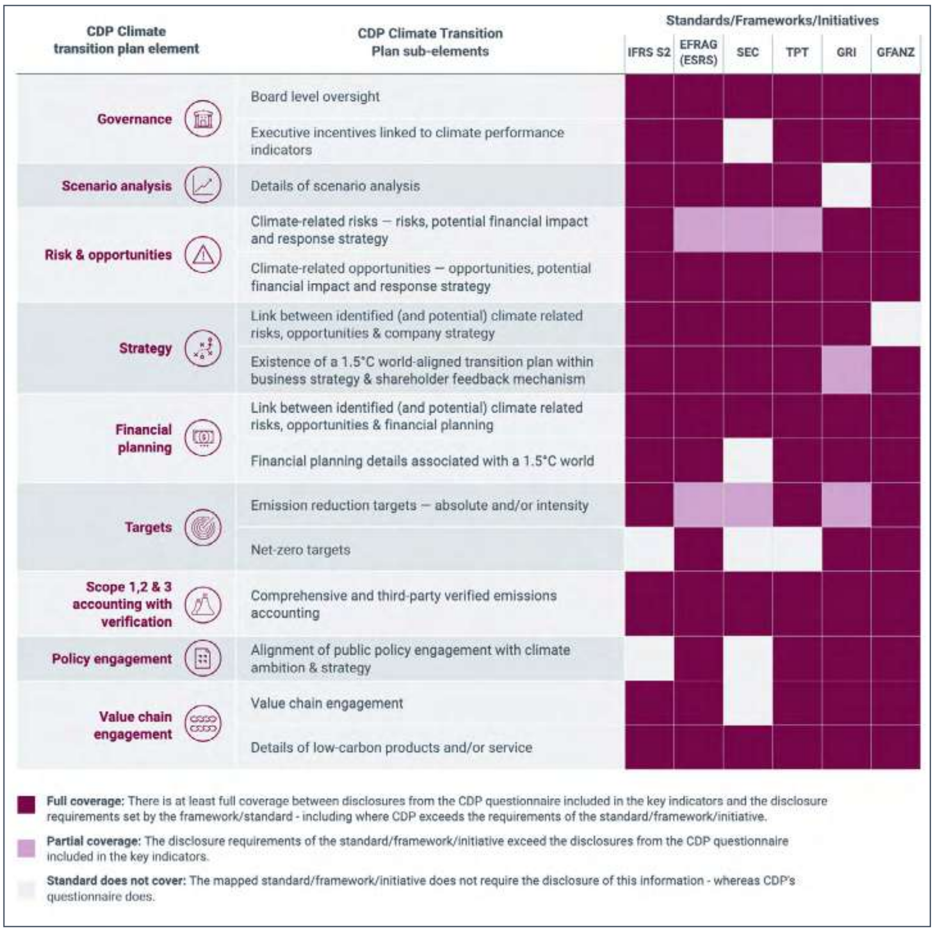

Figure 1. Mapping key elements of climate transition plans with frameworks, standards and initiatives.[14]

[14] Op. cit., CDP, The State of Play 2023: Climate Transition Plan Disclosure.

Refer to the recent CDP report **The State of Play: 2023 Climate Transition Plan Disclosure** and to **CDP Climate Transition Plan Technical Note** for more details on CDP's framework for credible climate transition plans.

The following table presents t**he connections between the elements of the CSDDD on transition plans and the corresponding elements in CDP's transition plans**. This exemplary summary illustrates how CDP's technical guidance for transition plans gives information to companies for developing their transition plans in preparation for the CSDDD:

Transition plan elements of CSDDD	Relation	Transition plan elements of CDP
Time-bound targets related to climate change for 2030 and in five-year steps up to 2050 based on conclusive scientific evidence and, where appropriate, absolute **emission reduction targets for greenhouse gas for scope 1, scope 2 and scope 3** for each significant category.	☑	**Targets** - A climate transition plan should contain time-bound, verified science-based targets which are in line with the latest climate science. Organizations should set near-term SBTs to halve emissions by 2030 and should also set a net zero long-term target – by 2050 at the latest. **Scope 1, 2 & 3 accounting with verification** - A climate transition plan should be accompanied by an annual Scope 1, 2 & 3 emissions inventory that is complete, accurate, transparent, consistent, relevant, and verified by a third-party.
Description of decarbonization levers identified and key actions planned to reach the emission reduction targets, including, where appropriate, changes in the product and service portfolio of the company and the adoption of new technologies.	☑	**Value chain engagement & low-carbon initiatives**: A climate transition plan should include time-bound actions to decarbonize business processes (and those of its value chain), with time-bound KPIs. This includes three distinct elements: - Value chain engagement. - Increasing the share of revenue from low-carbon products and services; and - Implementing emissions reduction initiatives for both its direct and indirect operations.

Transition plan elements of CSDDD	Relation	Transition plan elements of CDP
An explanation and quantification of the investments and funding supporting the implementation of the transition plan for climate change mitigation.	☑	**Financial planning** - As part of its strategy to achieve net zero, an organization should outline time-bound financial planning details of its transition. For example, Capital Expenditure (CAPEX), Operating Expenditure (OPEX), Revenue, etc.
A description of the role of the administrative, management and supervisory bodies regarding the transition plan for climate change mitigation.	☑	**Governance** - This demonstrates that an organization has board-level oversight of the climate transition plan and that there are defined governance mechanisms in place, to ensure implementation of the plan.

Important to note here that **the obligation to "adopt" a plan is fulfilled for companies developing and publishing a transition plan in accordance with the CSRD**. If a company fails to adopt a transition plan with the required content, or to update the plan in due time and form, including the actions to reach the targets, it may face administrative sanctions.[15]

Additional guidelines on the development and implementation of transition plans are expected to be published in 2027, **as Article 19 of the CSDDD tasks the European Commission to develop practical guidance on transition plans**. While the specific content of these guidelines is yet to be seen, other developments in this space, both globally and in the EU, are expected to influence them.[16]

[15] Op. cit., Directive on Corporate Sustainability Due Diligence: Frequently Asked Questions.

[16] The developments include, for example, EFRAG's implementation guidance on transition plans for corporates under the CSRD, and the guidance developed by the UK Transition Plan Taskforce (TPT), whose disclosure materials are now under the responsibility of the ISSB. More information here: https://www.ifrs.org/news-and-events/news/2024/06/issb-delivers-further-harmonisation-of-the-sustainability-disclosure-landscape-new-work-plan/

Common challenges expected in the CSDDD implementation

The CSDDD implementation is expected to face some significant challenges. The below selection of possible challenges and how CDP can support companies addressing them is non exhaustive.

1. Engagement with suppliers

Engaging with suppliers early is crucial for corporates, yet many have not taken the initial steps. This presents a challenge, as nurturing supply chain partners requires time and effort. A recent report by CDP and BCG reveals that, on average, it takes one to three years to fully disclose supply chain emissions, and currently only 25% of corporates use supplier-specific methods to measure Scope 3 emissions. Furthermore, achieving emission reductions can take three to five years.[17]

The same report indicates that delaying supplier engagement results in a slower reduction trajectory, jeopardizing the path to 1.5°C. Despite this, data disclosed through CDP suggests that supplier engagement has not improved significantly: only 40% of corporates engage on climate issues, fewer than 10% collaborate closely with suppliers, and less than 3% require suppliers to set science-based emissions reduction targets.[18]

The diagram below illustrates the impact on climate action by supplier engagement type. Further exhibits of the relevance of corporates catalyzing change in their Scope 3 emissions can be found in the CDP and BCG report "Scope 3 Upstream: Big Challenges, Simple Remedies".

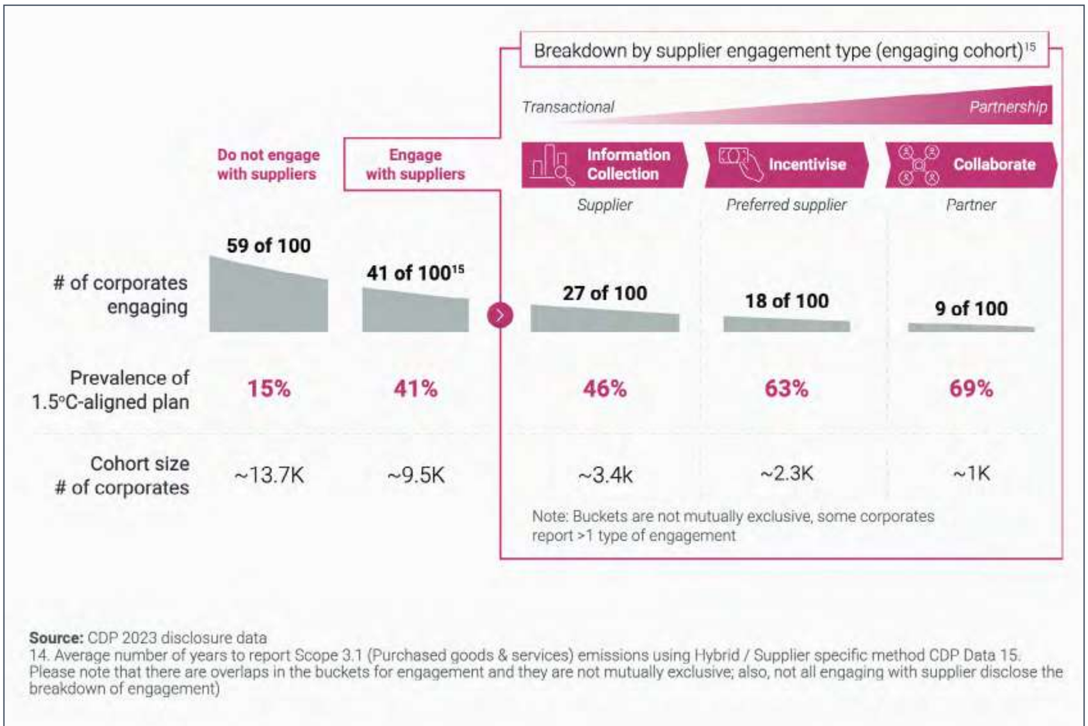

Figure 2. Impact on climate action by suppler engagement type.[19]

[17] CDP & BCG. "Scope 3 Upstream: Big Challenges, Simple Remedies". June 2024. Available at: https://cdn.cdp.net/cdp-production/cms/reports/documents/000/007/834/original/Scope-3-Upstream-Report.pdf?1721043058
[18] Ibidem.
[19] Op. cit., CDP, The State of Play 2023: Climate Transition Plan Disclosure.

Engaging with suppliers within the value chain is crucial for managing Scope 3 emissions. Companies can use their purchasing power to initiate a feedback loop that drives change throughout their supply chains. Data disclosed through CDP shows that **companies that actively engage with their suppliers are 6.6 times more likely to have a climate transition plan aligned with 1.5°C**.[20] This proactive approach not only enhances sustainability efforts but also helps companies meet their climate targets, including Scope 3 upstream emissions.

CDP works closely with companies to help them engage with their suppliers, pinpoint risks and identify opportunities through its Supply Chain Membership programme. Supply Chain Members request suppliers to report their environmental data through CDP, which provides companies with their suppliers' data, analysis and insights.

2. Engaging with small and medium-sized enterprises (SMEs)

First, **SMEs have no direct obligations under the CSDDD and are not subject to public enforcement or civil liability**. Nevertheless, this does not mean that SMEs will be unaffected by the Directive. They will receive requests to collect and share information on actual or potential adverse impacts and to address these in line with the obligations of the larger companies within the scope. For instance, SMEs that are suppliers or subcontractors for companies within the Directive's scope will be impacted as these larger companies address identified adverse impacts in their value chains.

Companies within the scope of the CSDDD are required to provide targeted and proportionate support to their SME business partners, including financial support under certain conditions and making investments, including the chain of activities where necessary.[21] Furthermore, EU Member States may also provide financial support and are required to provide information and support through dedicated spaces, such as websites, platforms or portals.[22]

With the launch of CDP's new SME questionnaire in 2024, **CDP aims to facilitate the collection of data on value chain impacts by large companies while also providing the necessary capacity-building materials for a comprehensive and effective SME disclosure**, making it easier for SMEs to understand where they should focus their attention, build capacity and act. Through CDP's Supply Chain and sustainable finance programs entities within the scope of the CSDDD can request and collect data from their value chain partners that will help them identify adverse impacts and comply with the CSDDD.

3. Exclusion of Downstream Activities from Financial Institutions Due Diligence Obligations

According to the CSDDD, the definition of the term 'chain of activities' should not include downstream business partners that receive services and products from regulated financial undertakings. Only the upstream part and the own operations of financial undertakings is covered by the Directive – **excluding financial services such as investments, loans, insurances and others provided in the context of client relationships from financial institutions' material scope**.

[20] CDP & BCG. "Scope 3 Upstream: Big Challenges, Simple Remedies". June 2024. Available at: https://cdn.cdp.net/cdp-production/cms/reports/documents/000/007/834/original/Scope-3-Upstream-Report.pdf?1721043058
[21] Op. cit., Directive on Corporate Sustainability Due Diligence: Frequently Asked Questions.
[22] Ibidem.

Although regulated financial undertakings are excluded from the downstream part of their chains of activities, **they are required to adopt and implement a climate transition plan, including absolute emission reduction targets for Scope 3 greenhouse gas emissions**. They are expected to consider adverse impacts and use their 'leverage' to influence companies, such as by exercising shareholders' rights.[23]

As stated in Article 36 of the CSDDD, within two years from the entry into force of the Directive, the European Commission shall **submit a report on the necessity of laying down additional sustainability due diligence requirements tailored to regulated financial undertakings** with respect to the provision of financial services and investment activities (client relationships), and the options for such due diligence requirements and their impacts. If appropriate, this report shall include a legislative proposal, ideally including the downstream activities of financial services within the scope of the Directive.

How CDP supports organizations

As **the world's only independent environmental disclosure system**, CDP is essential for organizations big and small to disclose once and ensure their data is used by many, for many uses. This includes– **access to capital**: improving the ability to attract investment or improve government borrowing rates, **business efficiency**: finding competitive advantages through increased efficiency, reputation, government management, etc.; increasing a supplier's access to buyers by meeting purchasing requirements, and– **compliance**: preparing for legal requirements and voluntary standards or political agreements.

CDP enables companies to **confidently navigate the rapidly emerging landscape of new frameworks, standards and mandatory disclosure requirements** - of which the CSDDD is part. By aligning with the most relevant standards, streamlining reporting and avoiding time-intense duplication, CDP helps companies deliver data with real value - data that can be used for good, and is shared directly with the global market to drive action.

In line with these objectives, **CDP continues to evolve and adapt to meet the needs of its stakeholders**, ensuring that the data that we collect drives and informs environmental action. Our approach ensures that global capital markets, procurement teams and the data ecosystem that relies on CDP have **the most robust, decision-useful environmental data, while preparing organizations to comply with incoming market and regulatory requirements**. CDP has identified **10 main principles that should be applied to mandatory disclosure regulation** (Shaping High-Quality Mandatory Disclosure: Taking stock and emerging best practice).

[23] Additional guidance can be found on the specificities of financial services, and the **OECD MNE Guidelines** provide indications of the types of measures that are appropriate and effective for financial undertakings to take in due diligence processes.

Take Action

Figure 3. CDP's call to action to different stakeholders.

Disclosure through CDP's Questionnaires

Companies under the scope of the CSDDD are most likely suitable to disclose through CDP's full corporate questionnaire. The full corporate questionnaire is for organizations with a headcount greater than 1,000 and an annual revenue of more than US$250 million. **This version of the questionnaire presents several datapoints that will help companies to assess if they have put in place a comprehensive due diligence process** — in case they are starting on it — or to strengthen existing due diligence processes and policies.

CDP recognizes that not all organizations have the same reporting capabilities and requirements. Therefore, CDP's disclosure system provides a second disclosure path in the **SME questionnaire, tailored to smaller organizations and containing fewer and simplified questions**. The SME questionnaire is available for organizations with a headcount of less than 500 and an annual revenue of less than US$50 million,[24] and enables SMEs to understand where to focus their attention, build capacity and act.

CDP Sustainable Finance Program

Banks primarily impact the environment through the emissions and environmental impacts of their financed clients. **Understanding the link between finance and supply chains is essential, as most financial impacts occur downstream through what they finance**, whilst most companies' impacts are upstream with their suppliers. Banks cannot achieve their environmental targets unless their clients also meet their supply chain targets.

CDP's Sustainable Finance Program provides a platform for banks to request and access data from specific companies, for use in financial instruments. Tailored to meet both their needs and those of the companies, it features a guided disclosure journey for their portfolio, supporting companies at every level. The program works with banks to analyse key KPIs and CDP scores for decision-useful insights to support their clients. **One such example is sustainable supply chain finance (SSCF), where CDP has worked with banks and large corporate buyers to implement these programs**.

SSCF refers to the application of financial tools and strategies designed to foster environmentally responsible supply chains. **SSCF integrates sustainability criteria into traditional supply chain finance solutions, motivating suppliers to embrace sustainable practices by offering improved access to capital at a reduced cost**. This approach not only mitigates environmental risks but also aligns with global sustainability goals, giving companies committed to achieving net-zero emissions a competitive advantage.

[24] SMEs may choose to complete the full corporate questionnaire if desired or requested by stakeholders. When organizations fall within the thresholds of SME and big companies in terms of workforce and annual revenue, CDP recommends them to complete the full corporate questionnaire.

Key mechanisms include:

- **Receivables Finance**: This involves the early payment of invoices to suppliers, where the financing terms are directly linked to the supplier's sustainability performance. Suppliers with strong environmental practices can secure financing at more favourable rates, incentivizing them to uphold or enhance their sustainability efforts.

- **Incentives**: Commercial banks offer incentives such as lower interest rates or extended payment terms to suppliers that meet specific sustainability criteria. These incentives encourage suppliers to adopt eco-friendly practices, contributing to a reduced environmental footprint across the supply chain.

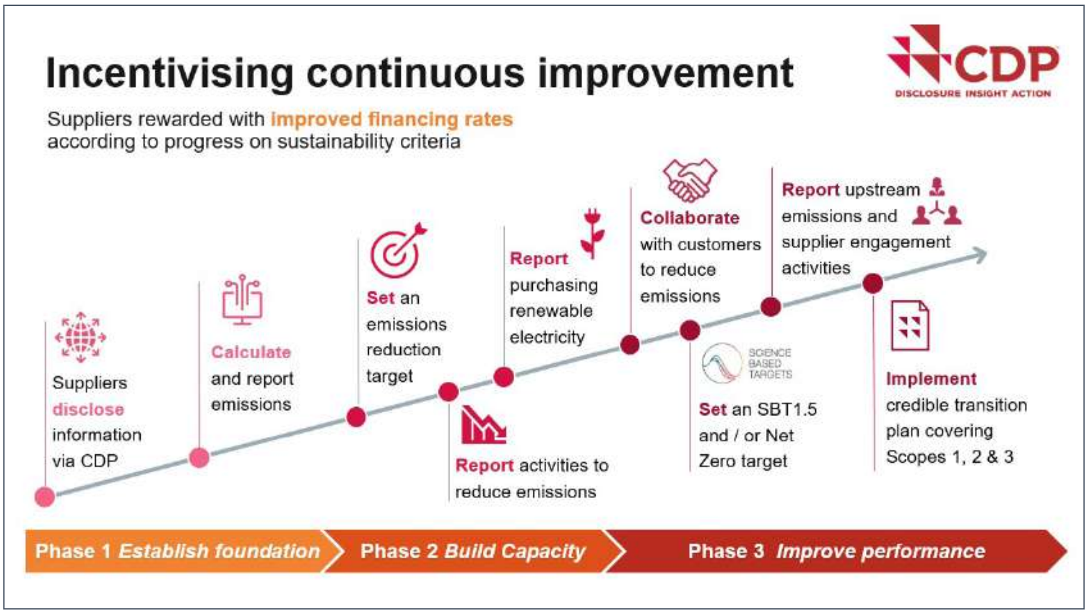

Figure 4. Suppliers rewarded with improved financing rates according to progress on sustainability criteria.

CDP Supply Chain membership

The more companies learn about their suppliers and value chain partners, the more likely it is that they can successfully fulfil their due diligence requirements. CDP encourages companies to take action and responsibility throughout their value chains.[25] **CDP Supply Chain membership** enables companies to gain visibility of their supply chain, by collecting environmental data directly from their suppliers. This information can be used to inform the due diligence process in relation to the CSDDD and other environmental regulations, such as the CSRD and EUDR.

[25] CDP defines value chain as the entire sequence of upstream and downstream activities, sites, resources, and relationships associated with the reporting organization's operations, starting with the raw materials and extending through end-of-life management, aimed at providing or receiving value from an organization's products and services either within, upstream, or downstream of direct operations (adapted from GHG Protocol, 2013; ESRS, 2023; SBTN, 2023).

More than 330 companies worldwide use the program to engage with suppliers and gather primary data on suppliers' environmental risks, impacts, performance and targets through the CDP questionnaire. These insights allow members of the program to start understanding their exposure to environmental risks in the supply chain, as suppliers are asked to disclose their processes for identifying, assessing and managing dependencies, impacts, risks and/or opportunities across relevant environmental themes – climate change, water, forest, biodiversity, plastics – as well as their performance and goals, for example related to emissions, withdrawals from water-stress basins, or consumption of deforestation-linked commodities.

Moreover, through the CDP Supply Chain membership, customers and suppliers can share potential mutually beneficial initiatives to reduce supply chain impacts and risks. In 2022 for example, more than 70 mtCO_2e emissions were saved due to the engagement on this membership.[26] The Supply Chain program is also a space for companies, united by the same goal to foster supply chain transparency, to connect, learn from each other, share challenges and best practices.

General overview of how the CDP Supply Chain membership works:

1. **Members request their suppliers** to report environmental data through CDP's questionnaire.
2. **CDP supports the Supply Chain members and their suppliers** throughout the entire disclosure process, sharing supplier engagement strategies and resources.
3. **CDP provides data and insights** on an annual basis based on the disclosure data of the suppliers.

[26] CDP. Scoping Out: Tracking Nature Across the Supply Chain. Global Supply Chain Report 2022. March 2023. Available at: **https://cdn.cdp.net/cdp-production/cms/reports/documents/000/006/918/original/CDP-Supply-Chain-Report-2022.pdf?1678870769**

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CDP Europe and the CDP global system

CDP Europe is a charitable organization registered in Brussels and Berlin and on the EU Transparency Register since 2012. It is part of the CDP Global System, a global non-profit that runs the world's environmental disclosure system for companies, cities, states and regions. Founded in 2000 and working with more than 700 financial institutions with over $142 trillion in assets, CDP pioneered using capital markets and corporate procurement to motivate companies to disclose their environmental impacts, and to reduce greenhouse gas emissions, safeguard water resources and protect forests. Nearly 24,000 organizations around the world disclosed data through CDP in 2023, including more than 23,000 companies – including listed companies worth two thirds global market capitalization – and over 1,100 cities, states and regions. Fully TCFD aligned, CDP holds the largest environmental database in the world, and CDP scores are widely used to drive investment and procurement decisions towards a zero carbon, sustainable and resilient economy. CDP is a founding member of the Science Based Targets initiative, We Mean Business Coalition, The Investor Agenda and the Net Zero Asset Managers initiative. Visit cdp.net or follow us @CDP and on LinkedIn to find out more.

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CDP Government Partnerships

CDP Government Partnerships are designed for governments to actively encourage ambitious actions by corporates and subnational jurisdictions and to improve data and insights on these organizations' transition to a 1.5°C and nature positive world. By endorsing the CDP disclosure system, governments can accelerate the implementation of international and national climate and nature targets by corporates and subnational jurisdictions in their country and drive faster progress towards achieving climate neutrality and full recovery of nature by 2050. The CDP Government Dashboard, an interactive, online CDP data tool for governments, provides governments with direct access to data insights on corporate and subnational environmental action at national or jurisdictional level.

CDP Europe in European and international media

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