



NEW ZEALAND  
FOREIGN AFFAIRS & TRADE  
Manatū Aorere

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# Corporate Sustainability Due Diligence, Reporting, and Disclosure in the European Union

MARKET INTELLIGENCE REPORT

# Summary

The European Union's Corporate Sustainability Due Diligence Directive (CSDDD) was adopted and [published in the EU Official Journal](#) in July 2024.

The number of companies which will have to comply with the new due diligence reporting requirements is fewer than originally anticipated by the European Commission. For those that are captured, increased environmental and social reporting requirements will be phased in over time.

The CSDDD sits within a package of related EU regulations aimed at increasing transparency and action on climate, the environment, and wider sustainability in the business, financial, and investment sectors. This includes the [Corporate Sustainability Reporting Directive](#) (CSRD) and [Sustainable Financial Disclosures Regulation](#) (SFDR) which are designed to work in tandem with the CSDDD with efficiencies built-in for businesses that are captured by overlapping reporting regimes. Even so, obligations under the CSDDD will likely apply in addition to more sectoral or product-specific EU regulations including the [Conflict Minerals Regulation](#), the [Batteries Regulation](#), the [EU Deforestation Regulation](#), and the [Forced Labour Regulation](#).

New Zealand exporters and investors dealing with the EU need to assess whether any of the new sustainability requirements apply to them.

Even for companies that are not directly in scope, European customers that fall under the scope of the CSDDD may ask their New Zealand partners to supply sustainability-related information to ensure compliance with the new reporting rules.

# Report

## The Corporate Sustainability Due Diligence Directive (CSDDD)

After some changes were made in the final stages of negotiations between EU Member States and the European Parliament, the CSDDD was adopted in July 2024.

The Directive provides the framework under which EU and non-EU companies operating within the single market will be required to assess, report, and manage the actual or potential adverse effects of their activities on the environment and human rights.

Depending on their size and turnover, a smaller than originally envisaged range of EU and non-EU companies will come under the scope of the CSDDD in a staged manner:

- **26 July 2027** for EU companies with over 5,000 employees and €1.5 billion in global net turnover, or non-EU companies with €1.5 billion net turnover within the EU;
- **26 July 2028** for EU companies with over 3,000 employees and €900 million in global net turnover, or non-EU companies with €900 million net turnover within the EU;
- **26 July 2029** for EU companies with over 1,000 employees and €450 million in global net turnover, or non-EU companies with €450 million net turnover within the EU.

Due diligence obligations under the CSDDD extend to the direct activities of in-scope companies, as well as the operations of their subsidiaries and of business partners operating both upstream and downstream in their supply chains (excluding customers' disposal of products, and the downstream service customers of the principal company such as clients or borrowers).

This means that even if a New Zealand or other non-EU company is not directly in-scope, they may still be asked to provide information to support their European suppliers and business partners to comply with the new due diligence rules.

The CSDDD must be transposed into EU Member States' national laws before 26 July 2026. It sets the minimum regulatory standard which EU Member States can build on to go even further than the CSDDD requirements.

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# Competition brings opportunity

The CSDDD requires companies to adopt a risk-based approach to human rights and environmental due diligence. This can be done in numerous ways, including integrating due diligence into relevant policies, identifying and assessing actual or potential adverse impacts of business activity, and either preventing or bringing these to an end. Where this is not immediately possible, companies must mitigate and minimise the extent of the negative impacts of their operations. In addition, they are expected to remediate any adverse impacts, alongside creating channels for meaningful stakeholder engagement, and establishing a notification and complaints procedure.

On an ongoing basis, in-scope companies will also need to monitor the effectiveness of their due diligence policies and measures, including designating an authorised representative on sustainability due diligence matters.

In addition to publicly communicating their due diligence measures, companies must implement transition plans for climate change mitigation to ensure their business model and strategy align with the Paris Agreement (including time-bound targets for 2030 and 2050, and key actions planned for reaching them). Companies that already comply with a transition plan under the CSRD are deemed to have already complied with this parallel obligation under the CSDDD.

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## Penalties and enforcement

The CSDDD will be enforced by designated authorities within Member States, who will be able to carry out investigations in cases where they consider "substantiated concerns" to exist. These authorities will also be required to "at least supervise" the adoption and design of companies' transition plans, though not their implementation.

When non-compliance is identified, the authorities can order a company to bring itself into compliance, take remedial action, impose interim preventative measures where the risk of irreparable harm is severe, and impose financial penalties either on the company itself (up to 5% of the value of the company's net worldwide turnover in the previous financial year) or on the parent company (based on consolidated turnover).

Companies can also be held liable for damages to natural or legal persons where they have intentionally or negligently failed to prevent, mitigate, end, or minimise the negative human rights or environmental impacts. That said, if the impacts are caused only by supply chain partners, then liability is excluded.

For companies looking to secure public procurement contracts in the EU, compliance with the CSDDD could be considered as a factor in whether these are awarded.

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# The Corporate Sustainability Reporting Directive (CSRD)

Separate from the CSDDD, the CSRD amends the existing Non-Financial Reporting Directive (NFRD) by introducing more detailed reporting requirements on environmental rights, social rights, human rights, and wider governance factors.

Specifically, the CSRD requires in-scope EU-based or listed entities (except listed micro-enterprises) to disclose information on their risks and opportunities arising from social and environmental issues, and on the impacts of their activities on people and the environment. This reporting must be done through a detailed set of disclosure standards known as the [European Sustainability Reporting Standards](#) (ESRS) developed by the European Financial Reporting Advisory Group (EFRAG).

The CSRD has a significantly broader scope than the CSDDD. It does, however, follow the CSDDD's graduated approach to implementation. Entities that were already subject to the NFRD and which have more than 500 employees have already been in-scope since January 2024. Other large EU listed entities will come under the CSRD from 2025 (to report in 2026) provided they meet at least two of the following criteria:

- 250 employees;
- €50m turnover; and/or
- €25m balance sheet total.

From 2028, the CSRD will also apply to non-EU parent entities which have either an EU-established subsidiary, or an EU branch, as well as €150 million in net turnover.

Depending on what kind of entity is reporting, there are a range of formats and requirements for how reporting should be done as part of annual financial and management reports. If the parent company is located outside the EU, the sustainability reporting must be in accordance with European (i.e. ESRS) or equivalent reporting standards. While it will be up to the European Commission to determine whether the standards used are considered equivalent, the EFRAG and International Sustainability Standards Board have published guidance on the interoperability between European and international sustainability reporting standards.

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# CSDDD vs CSRD and what it means for New Zealand companies

As noted in the table below, the obligations and exposure of New Zealand companies to the CSDDD, CSRD and the EU's wider package of sustainability-related initiatives will depend on the varying scope and focus of these initiatives.

CSDDD-specific	CSDDD & CSRD	CSRD-specific
<ul style="list-style-type: none"><li>• Mandatory due diligence</li><li>• Applies to companies operating inside and outside the EU</li><li>• About ending negative externalities across environment and human rights if possible or otherwise mitigating them</li></ul>	<ul style="list-style-type: none"><li>• Requires business plans to be Paris Agreement aligned</li><li>• Applicable to both environment and social issues</li><li>• Financial liability and penalties</li><li>• Publication of statements</li><li>• Upstream and downstream impacts</li></ul>	<ul style="list-style-type: none"><li>• Formal reporting framework</li><li>• Applicable to entities listed within the EU</li></ul>

Irrespective of their differences and overlap, these initiatives are indicative of a wider global trend towards more, not less, integration of sustainability data collection and transparency in the business and financial sectors. As a baseline for policy development, countries and blocs like the EU often refer back to the [OECD Guidelines on Multinational Enterprises](#), and [UN Guiding Principles of Businesses and Human Rights](#) - both of which are referenced in the NZ-EU Free Trade Agreement.

Businesses looking to enter, maintain, or grow their presence in the EU and similar high-value markets should take note of how their financial reporting aligns with international standards for reporting sustainability risks and impacts. This includes assessing what additional information they might need from upstream and downstream actors within their supply chains on environmental, governance, and sustainability impacts.

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