

Corporate Sustainability Due Diligence Directive (CSDDD): Sustainability due diligence in the supply chain

The Corporate Sustainability Due Diligence Directive (CSDDD) is an EU directive obliging companies to exercise human rights and environmental due diligence in their own business activities and in the value chain. For buyers and supply chain managers in the DACH industry, this means in concrete terms: supply chains must be systematically screened for risks such as child labour, forced labour or environmental violations, and measures must be documented. The article explains the core obligations, the relationship with the German Act on Corporate Due Diligence Obligations in Supply Chains (LkSG) and practical steps for implementation in procurement management.

Key facts

- The CSDDD is an EU directive on sustainability due diligence along the entire value chain.
- It supersedes and tightens existing national rules such as the German Act on Corporate Due Diligence Obligations in Supply Chains (LkSG).
- Typically affected are large companies with significant turnover and headcount in the EU; the specific thresholds and stages must be checked in the statutory text.
- Core obligations are risk analysis, preventive and remedial measures, complaints procedures, reporting and a climate plan.
- Violations may result in fines and civil liability risks.
- For procurement, the focus shifts from price to risk and origin orientation of the supply chain.

Definition: Corporate Sustainability Due Diligence Directive

The CSDDD (Directive on corporate sustainability due diligence, also referred to in English as CS3D) is an EU directive obliging companies to identify, prevent, mitigate and bring to an end adverse human rights and environmental impacts in their supply chains. It was adopted in 2024 and must be transposed into national law by the member states; the specific deadlines and thresholds must be checked in the respective implementation law and in the directive itself.

Distinction from the LkSG

In Germany, the Act on Corporate Due Diligence Obligations in Supply Chains (LkSG) already applies, which covers the company's own activities, direct contractual partners and, where known, indirect suppliers. The CSDDD goes further in some respects, for example in the civil liability regime and the climate plan, while some thresholds were adjusted during the legislative process. Companies should consider both legal frameworks in parallel and design their processes according to the strictest applicable standard in each case, following examination on an individual basis.

Who is affected?

In essence, the directive addresses large EU companies as well as non-EU companies with turnover in the EU; the size and turnover thresholds were adjusted several times during the legislative procedure. In addition, the obligations have a so-called cascade effect into the supplier landscape: mid-market companies that are not themselves directly within scope are de facto captured via the contractual and conduct requirements of their large customers. Technical suppliers and manufacturing service providers should therefore be able to provide supply chain information at an early stage.

Relationship with the EU Taxonomy

The CSDDD complements other EU sustainability instruments such as the EU Taxonomy and the reporting obligations under the CSRD. While the Taxonomy governs the classification of sustainable economic activities, the CSDDD targets conduct and due diligence obligations along the supply chain. The data flows partially overlap, so integrated data collection in procurement offers efficiency potential.

Obligations and due diligence process under the CSDDD

The directive is oriented towards international frameworks such as the OECD Guidelines for Multinational Enterprises. The due diligence process follows a fixed sequence that companies should integrate into their existing P2P and supplier processes.

Risk analysis and demand determination

The basis is a risk-based analysis: which sites, raw materials and procurement markets carry an elevated risk of human rights or environmental violations? In procurement, this analysis ties into demand determination, for example when critical materials or regions are identified. The risk analysis typically needs to be updated at least annually and on an event-driven basis, for example when new supply sources or production relocations occur.

- Categorisation of purchased items by country and industry risk
- Prioritisation of critical materials and suppliers
- Documentation of the analysis results

Prevention and remediation

Where actual or potential harm is identified, appropriate preventive or remedial measures must be taken. In practice, contractual assurances, audits, training and corrective measures developed jointly with the supplier are used. A supplier development concept provides a structured framework here for systematically remedying weaknesses rather than switching suppliers prematurely. Only when remediation fails should exclusion or termination of the business relationship be considered.

Complaints procedures and reporting

Companies must establish a complaints procedure that enables affected parties and workers along the supply chain to submit notifications. In addition, annual reports on due diligence are required; the exact formats are governed by the applicable reporting obligations. Such processes should be built on an audit checklist so that requirements are documented in a verifiable manner.

Key KPIs and control metrics in supplier management

Compliance with the CSDDD must be made measurable, otherwise it cannot be substantiated in the

company's own accounting or towards customers. Supplier KPIs integrated into the existing supplier evaluation system have proven effective.

Supplier coverage and data quality

Key metrics are the proportion of suppliers with a risk analysis, the proportion with signed codes of conduct and the rate of completed self-assessments. In addition, data quality KPIs indicate whether master data, certificates and origin information are complete and up to date – for example, a duplicate check of the supplier master to avoid inconsistent records. Companies typically aim for coverage rates of over 90 per cent among strategic suppliers.

Audit and action metrics

Important are the number of audits performed, the proportion of identified violations and the rate of remediation recommendations within agreed deadlines. Ideally, these KPIs are incorporated into procurement controlling so that due diligence is understood not as an isolated compliance task but as part of supplier management.

Decarbonisation as a metric

The climate plan requires regular reports on climate targets and progress on supply chain decarbonisation. In practice, emissions data (Scope 3) is often initially estimated using average values and supplier disclosures and progressively refined.

Risks, controls and implementation in the procurement process

Procurement faces concrete action requirements in the selection, contract design and monitoring of suppliers. Those who adapt their processes early avoid fines, liability risks and the loss of customer orders.

Supplier selection and contract design

In direct awards and tenders, sustainability requirements should be anchored as qualifying criteria – for example, evidence such as an FSC/PEFC certificate for wood and paper products or recognised social standards for factory-made parts. Contracts contain assurances, audit and information rights as well as step plans in the event of violations. Outsourced procurement and the use of 3PL providers must also be included, since due diligence covers the contractually regulated chain.

Risks for the mid-market

Smaller suppliers face the problem of having to meet the requirements of their various large customers in different formats. The risks are duplicated effort, contradictory questionnaires and a lack of resources for providing evidence. Standardised self-assessments, joint industry platforms and a clear internal procurement guideline that communicates requirements uniformly provide relief.

Controls and escalation

Effective controls combine document-based checks, on-site audits and supportive measures. For critical findings, a structured problem-solving process is recommended, for example based on the 8D containment methodology, to separate immediate actions from permanent remediation. According to the DPO-effect simulation, unannounced controls can shift weaknesses to other points in the process through circumvention strategies; control systems should therefore be designed holistically and across processes.

Current developments and outlook

The CSDDD is part of a comprehensive EU regulatory package on sustainability that comes into force in stages over several years. At the same time, there are efforts to harmonise reporting obligations across Europe and to reduce the administrative burden.

Omnibus debate and harmonisation

As part of the European burden-reduction agenda, simplifications and adjustments to thresholds and reporting requirements have been debated. For companies, this means: regulatory change is real, but the fundamental direction towards mandatory supply chain due diligence remains. A pragmatic strategy is to build robust baseline processes that work regardless of detail changes.

Digitalisation of supply chain transparency

Software support for risk data, supplier portals and digital qualification processes is increasing; the market for supply chain transparency solutions is growing accordingly. Regardless of the tool, what matters is the data foundation: consistent unit and currency master data, clean supplier master records and a systematic tiering of requirements by risk class significantly facilitate later evaluations and reports.

Typical metrics

Supplier coverage of risk analysis: > 90%

typical target value for strategic suppliers

Proportion of signed codes of conduct: > 95%

relating to active suppliers of the relevant procurement volume

Audit response time to findings: < 30 days

customary deadline for the immediate action plan

Remediation rate within deadline: > 90%

proportion of weaknesses closed within the deadline

Currency of supplier master data: > 98%

basis for robust due diligence reports

Practical example

A mid-market mechanical engineering company with around 800 employees supplies components to European large customers that are subject to the CSDDD. The customers are increasingly demanding supply chain evidence, particularly for imported steel pre-products, electronic components and hydraulic seals from third countries. The company responds with a phased approach:

- Risk assessment of top suppliers by country and material risk on the basis of a standardised audit checklist
- Inclusion of contractual assurances and audit rights in framework agreements at the next contract renewal
- Establishment of a supplier development concept for two suppliers with identified weaknesses in occupational and environmental protection
- Integration of sustainability KPIs into procurement controlling with quarterly reporting to management

Conclusion

The CSDDD makes sustainable supply chain due diligence a mandatory task for large companies and cascades down to the technical mid-market. For buyers, this means: risk analysis, supplier qualification, contractual anchors and robust data are no longer additional tasks but part of professional procurement. Those who integrate the requirements into existing processes such as supplier evaluation, audits and controlling rather than building them in parallel minimise effort and risk. Early action also secures competitiveness with customers that already demand sustainability evidence today. Individual questions of implementation should always be checked against the applicable legal position.

Frequently asked questions

What is the CSDDD in simple terms?

The CSDDD is an EU directive obliging large companies to assess and address human rights and environmental risks throughout their entire supply chain. Companies must analyse risks, take measures, establish complaints procedures and report regularly. Violations can result in fines and liability consequences.

From when does the CSDDD apply and to which companies?

The directive was adopted in 2024 and is being transposed into national law by the member states, with staggered application deadlines. Initially, very large companies are affected, although the thresholds were adjusted during the legislative process. The exact criteria and deadlines should be checked against the current statutory text or the national implementation.

What is the difference between the CSDDD and the LkSG?

The LkSG is the German Act on Corporate Due Diligence Obligations in Supply Chains, which already applies to larger companies in Germany today. The CSDDD is the European requirement that will ultimately replace or supersede the LkSG. Companies should align their processes with the strictest applicable standard in each case.

Does the CSDDD also affect suppliers and the mid-market?

Typically, only large companies fall directly within scope; however, mid-market suppliers are indirectly obligated through contractual requirements imposed by their customers. They must answer questionnaires, provide evidence and undergo audits. Anyone serving first-tier customers should therefore structure their own sustainability data at an early stage.

What specific obligations arise for procurement?

Procurement must incorporate risk data into supplier selection, agree contractual due diligence clauses and manage audits and remedial measures. In addition, there are documentation and reporting obligations as well as the establishment of KPIs covering the supplier base. In practice, this ties into existing processes such as supplier evaluation and procurement controlling.

What sanctions threaten violations of the CSDDD?

Fines are provided for, which may be calculated on the basis of turnover, as well as a civil liability regime for certain cases of damage. Reputational damage and exclusion from customers' approved supplier lists are also threats. The exact design depends on the national implementation and must be examined on a case-by-case basis.