

EU corporate sustainability framework

What Non-EU Businesses Need to Know

02 October 2024

This briefing is the seventh and last in a series on the Corporate Sustainability Due Diligence Directive (CSDDD), where BLOMSTEIN addresses the key aspects that (in)directly affect businesses both within and outside the EU, explores its interplay with the existing legislation in Germany (LkSG) and examines interactions with other recently adopted EU legislation (e.g., EUDR and CSRD) which partially set overlapping obligations.

In today's briefing, we examine the key considerations with respect to the EU's corporate sustainability package for companies operating outside the EU but that have business ties in the EU. Specifically, we will address the direct and indirect impacts for non-EU companies of the Corporate Sustainability Due Diligence Directive (CSDDD) and other related regulations mentioned along the series, including the EU Deforestation Regulation (EUDR), the Corporate Sustainability Reporting Directive (CSRD), as well as the upcoming Forced Labour Regulation and Green Claims Directive.

Framework Overview

As a quick recap of the aim of these acts with respect to activities of non-EU companies:

- **CSDDD:** Imposes due diligence requirements for in-scope companies to identify, prevent, mitigate, and account for current and potential human rights and environmental impacts within their value chain worldwide. This includes subsidiaries, business partners, suppliers and contractors outside the EU.
- **EUDR:** Prohibits the import of certain goods contributing to deforestation and forest degradation into the EU market. Companies selling these products in the EU market are expected to carry out due diligence procedures to ensure their supply chains worldwide pose no or only negligible deforestation risks.
- **CSRD:** Requires companies to disclose information on their environmental and social impacts, governance practices, and sustainability risks and opportunities. This disclosure must also consider the practices of suppliers and contractors outside the EU.
- **Forced Labour Regulation:** Prohibits the import of goods produced with forced labour into the EU market. Companies are mandated to mitigate the risks of forced labour in their supply chains worldwide.

- **Green Claims Directive:** Imposes strict criteria for green claims/labelling related also to imported products sold in the EU market.

While these regulations apply within the EU, they significantly enhance sustainability standards for non-EU companies wishing to conduct business with the EU.

Scope Overview

The following table summarises what has been discussed in the previous briefings with respect to the scope of each act regarding non-EU companies.

Act	Direct impact non-EU companies	Indirect impact non-EU companies
CSDDD	<p>Net turnover generated within the EU exceeds EUR 450 million in each of the two financial years preceding the last financial year.</p> <p>Being a subsidiary of an EU mother company.</p> <p>Non-EU mother companies can fulfil the obligations on behalf of its in-scope EU subsidiary (if ensures effective compliance).</p>	<p>Increased diligence by in-scope companies of their value chains will lead to tighter scrutiny of non-EU partners. These partners will be expected to adhere to sustainability standards and provide compliance information to maintain business relationships.</p>
EUDR	No direct liability	<p>Increased diligence by EU companies selling relevant products on the EU market will result in tighter scrutiny of non-EU suppliers.</p> <p>Suppliers in the various tiers of the supply chain (producers and exporters) will need to provide clear evidence that their products are deforestation-free and comply with the Regulation's standards.</p> <p>In practice, the EUDR's due diligence requirements, which directly apply to stakeholders within the EU, will extend further</p>

		up the value chain, ultimately impacting exporters, who must comply to retain their business relationships.
CSRD	<p>EU turnover > EUR 150 million and at least one branch with turnover > EUR 40 million or a subsidiary meeting certain threshold.</p> <p>Parent company outside the EU can fulfil the obligations on behalf of EU in-scope subsidiary (if ensures effective compliance)</p>	Increased transparency by in-scope companies regarding the sustainability footprint of their value chains worldwide will lead to tighter scrutiny of non-EU partners (e.g., suppliers and contractors), who will be expected to adhere to sustainability standards and provide relevant compliance information to maintain business relationships.
Forced Labour Regulation	No direct liability	<p>Increased diligence by EU companies placing products with potential risk of forced labour in the EU market will result in tighter scrutiny of non-EU suppliers.</p> <p>Suppliers in the various tiers of the value chain (producers and exporters) will need to provide clear evidence that their products are compliant with the Forced Labour regulation.</p> <p>In practice, the Forced Labour Regulation requirements, which directly apply to stakeholders within the EU, will extend further up the value chain, ultimately impacting exporters, who must also comply to retain their business relationships.</p>
Green Claims Directive	No direct liability	Companies selling finished imported products in the EU market need to ensure that green claims are compliant with the Directive's

		requirements. In practice, exporters of these end-products will need to comply to maintain their business relationships with EU resellers.
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Practical effects

Whether non-EU companies face direct liability or are indirectly impacted, it is clear that the European corporate sustainability framework is intensifying its demands. There is an increasing need for these companies to integrate sustainability agendas into their business strategies and operations, and to be transparent about their efforts. Failure to meet these standards may lead EU buyers and partners to sever commercial relationships with companies that pose a relevant exposure to risk of non-compliance.

Non-EU companies should prepare for increased scrutiny and more frequent requests for information from their EU partners. This heightened scrutiny could lead to new contractual arrangements between buyers and suppliers, aligning legal obligations faced by EU entities with their procurement contracts. These adjustments may include amendments to supplier contracts and codes of conduct. For instance, contracts might incorporate indemnification provisions to manage risks associated with non-compliance. Additionally, legal discussions may arise regarding recourse for damages and penalties incurred by EU entities resulting from non-compliance effectively incurred by suppliers.

Key Takeaways

The EU corporate sustainability framework raises entry barriers to the EU market, entailing significant compliance costs for all stakeholders, including non-EU companies. However, where challenges exist, opportunities also emerge. Suppliers and business partners who proactively integrate a compliant sustainability framework into their business practices are not only likely to sustain current relationships but also to access new markets. To achieve this, non-EU companies doing business with the EU must understand these regulations to its full extent and in an integrated manner, rather than addressing them in isolation. By adopting an integrated compliance strategy, non-EU companies can streamline procedures and reduce costs effectively.

BLOMSTEIN will continue to closely monitor and evaluate the developments and practical implementation of the CSDDD and other regulations shaping the European corporate sustainability framework. If you have any questions on the topic, [Dr. Florian Wolf](#), [Bruno Galvão](#) and [Carolina Vidal](#) will be happy to assist you.
