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EU Sustainability Legislation:

A guide to obligations, implementation and interoperability for businesses

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Disclaimer

The information and analysis presented in this study are intended for general information purposes only. While the publication aims to provide an easy-to-read guidance for implementers, the study is not intended as professional advice. Although every effort has been made to ensure the content is comprehensive and precise, errors, inaccuracies or omissions may have occurred.

This publication is not a substitute for professional advice or consultation on the implementation of the regulations addressed below. Readers are encouraged to seek expert advice or consult with relevant authorities to ensure compliance with applicable laws and regulations in their specific jurisdictions.

For further discussion, collaboration or to share inputs regarding the contents of this publication, feel free to reach out to lorena.bisignano@frankbold.org.

Omnibus

On 26 February 2025, the European Commission adopted a package of proposals (Omnibus) with the reported aim of simplifying EU rules and boosting competitiveness. In the scope of the proposed Omnibus legislation fall the CSDDD, the CSRD, the Taxonomy and the CBAM. As such, these pieces of legislation will be subject to changes in the following months.

As part of the wider simplification package of which the Omnibus is an expression, on 15 April 2025 the Commission released a new guidance document concerning the EUDR. The guidance document introduces a number of simplifications, including the reduction of due diligence statements that companies need to file.

Furthermore, the Commission published a draft delegated act for a public consultation aimed to amend Annex I of the EUDR to introduce targeted and limited technical fixes to the list of relevant products, by clarifying the range of products not covered by the Regulation.

The current study identifies these upcoming changes. Nevertheless, it focuses on the current state of the art and aims to provide businesses with guidance for implementation according to the legislation as it currently stands.

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List of Abbreviations

- CBAM - Carbon Border Adjustment Mechanism
- CSDDD - Corporate Sustainability Due Diligence Directive
- CSRD - Corporate Sustainability Reporting Directive
- CMR - Conflict Minerals Regulation
- DNSH - Do No Significant Harm
- ESRS - European Sustainability Reporting Standards
- EUBR - European Batteries Regulations
- EUDR - European Deforestation Regulation
- EU ETS - European Emissions Trading System
- FLR - Forced Labour Regulation
- GAR - Green Asset Ratio
- GHG - Greenhouse Gas
- IED - Industrial Emissions Directive
- IEPR - Industrial Emissions Portal Regulation
- LSU - Livestock Unit
- SFDR - Sustainable Finance Disclosure Regulation

Introduction

There has been a number of developments in sustainability legislation in the European Union over the past few years covering both the environmental and social aspects of sustainability. Several laws have been passed as part of the EU Green Deal agenda, with the aim of turning the European Union into a leader in the sustainable transition. In this context, new obligations have been placed on companies too, including human rights and environmental due diligence, Greenhouse Gas emissions accounting, emissions reduction targets, the adoption and implementation of transition plans and new reporting requirements.

However, this new set of EU sustainability laws has led to uncertainty amongst target companies due to the lack of clarity on how the different legislations will interact, as well as the interoperability between these laws, especially due to inconsistencies across the sustainability legislation.

This legal brief offers an accessible guide for businesses to have a clear understanding of their obligations under each legislation as well as their respective implementation timeline. It also provides an explanation of the relationship between legislations, to help businesses better navigate the interoperability of these norms and carry out their compliance obligations as effectively and efficiently as possible, without unnecessarily duplicating their efforts.

It further explains the potential impact of the Omnibus initiative on these obligations.

The publication focuses on the following legislation:

- Corporate Sustainability Reporting Directive (CSRD)
- Corporate Sustainability Due Diligence Directive (CSDDD)
- EU Taxonomy
- European Emissions Trading System (EU ETS)
- Carbon Border Adjustment Mechanism (CBAM)
- Industrial Emissions Directive (IED)
- European Batteries Regulations (EUBR)
- European Deforestation Regulation (EUDR)
- Conflict Minerals Regulation (CMR)
- Forced Labour Regulation (FLR).

Overview of legislation: who, what, when?

CSRD*

* Subject to change according to the Omnibus proposals (see page 13)

Who

Large EU undertakings or groups, as defined in the EU Accounting Directive.[1]

EU SMEs with securities listed in regulated markets. Micro-undertakings[2] are exempted.

Non-EU companies or groups with a turnover above €150mn in the EU and one of the following:

- A large EU subsidiary (same thresholds as for EU large companies or groups)
- A branch in the EU with a turnover above €40mn
- Securities listed on EU regulated market

What

Disclosure of environmental, social and governance information in accordance with the European sustainability reporting standards (ESRS).

Key disclosures include:

- Impacts and risks based on double materiality analysis
- Policies, actions and targets
- Standardised and entity-specific metrics

For climate specifically:

- Climate transition plan
- Climate risks
- Energy, GHG emissions and resource inflows metrics

When

CSDDD*

* Subject to change according to the Omnibus proposals (see page 13)

Who

EU companies or groups who simultaneously meet both of the following thresholds for two consecutive years:

- 1000 employees, and
- €450mn global net turnover

Non-EU companies above €450mn net turnover in the EU for two consecutive years

What

- Establishment of due diligence processes in their own operations and part of their value chain
- Adoption and implementation of a Climate Transition Plan on a best effort basis

When

[1] Large companies or groups are those that fulfill at least two out of the three following criteria: €50mn net turnover, €25mn balance sheet total, 250 or more employees.
[2] Micro-undertakings are those below at least two of the following thresholds: €900,000 net turnover, €450,000 thousand balance sheet total, 10 employees.
[3] Public-interest entities comprise: listed companies, insurance undertakings, credit institutions, and any other companies designated as such by Member States, as per Article 2 § 1.

EU Taxonomy*

* Subject to change according to the Omnibus proposals (see page 13)

Who

Companies covered by the CSRD (see above).

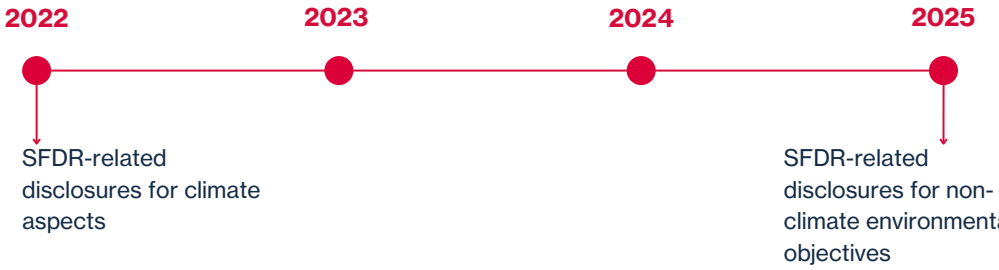
Financial market participants covered by the SFDR must explain how the financial products they promoted as sustainable (Article 8 and Article 9 products) relate to the Taxonomy.

What

The Taxonomy is a classification system for business activities. Under it, companies in scope have to assess the eligibility and alignment of their products/activities with the EU taxonomy and disclose this information as part of their sustainability statements based on the CSRD.

When

***Financial market participants covered by the SFDR**



***Companies covered by the CSRD**: following the same timeline (see above)

EU ETS

Who

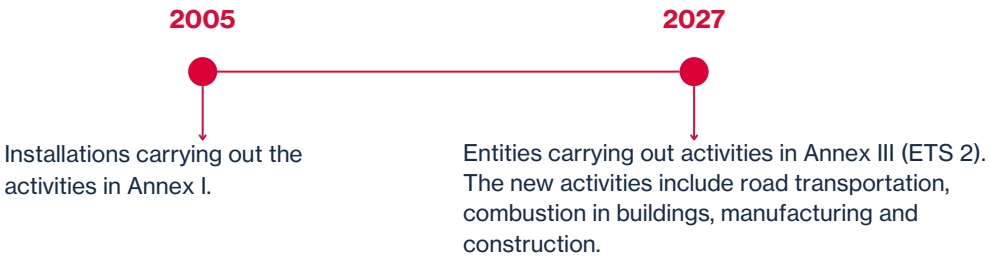
Companies of all sizes operating an installation covered by the EU ETS. The sectors in scope include electricity, heat generation and other energy-intensive industry sectors (oil refineries, steel works, production of iron etc). The ETS also applies to aviation and maritime transport.

The full list of activities can be found in Annex I.
The ETS only concerns a limited selection of greenhouse gases, which are listed in Annex II.

What

The top 20% of EU ETS installations, depending on GHG emission intensities, were required to present climate neutrality plans by May 2024, if their operators want to receive free allocations.

When



CBAM*

* Subject to change according to the Omnibus proposals (see page 13)

Who

Companies of all sizes that import cement, iron and steel, aluminium, fertilisers, electricity or hydrogen or processed products from these goods.

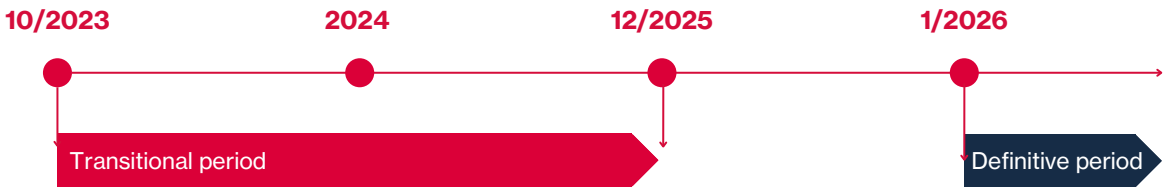
The full list of covered products with their relevant CN codes is contained in Annex I of the Regulation.

What

CBAM, like the EU ETS, is first and foremost a GHG emissions trading system. Under it, companies have to hold the relevant authorisation for importing the covered goods.

Companies also have to make CBAM declarations, where they account for the embedded GHG emissions of the products they import.

When



IED

Who

Operators in industrial sectors depending on production capacity thresholds, specified in Annex I (energy industries, production and processing of metals, processing of ferrous metals, mineral industry, chemical industry, waste management, pulp production and tanning) and Annex Ia (LSU - livestock unit) levels for pig and poultry farms) of the Directive.

The Directive captures 37,000 industrial installations, 38,500 pig and poultry farms, and recently, landfills, metal extraction and battery gigafactories have been included in scope too.

In terms of material scope, the IED only applies to a limited number of gases, including some not covered in the EU ETS.

What

Operators have to establish an Environmental Management System and adopt an indicative Transformation Plan. While the exact contents of the Transformation Plan is to be further explained by the Commission in 2026, it shall include information on how operators will transform the installation to contribute to a climate-neutral economy by 2050.

Operators must also report on the implementation of their Transformation Plan as well as their significant emissions and use of resources.

A baseline report has to be prepared where the activity involves the use, production or release of relevant hazardous substances.

When

EUBR

Who

Companies with a net turnover of €40mn or more that place batteries on the EU market[4] or put them into service.[5] The regulation covers both batteries manufacturing and importing companies.

What

Companies must establish a risk management system to be adopted and incorporated into contracts with suppliers. The risks to be addressed include environment, climate and human health risks, human rights, labour rights and industrial relations as well as community life, including that of indigenous people.[6]

The management system shall include controls and transparency regarding the supply chain with traceability processes to map the supply chain. Finally, the management system should include a grievance mechanism for stakeholders and affected people.

When

EUDR

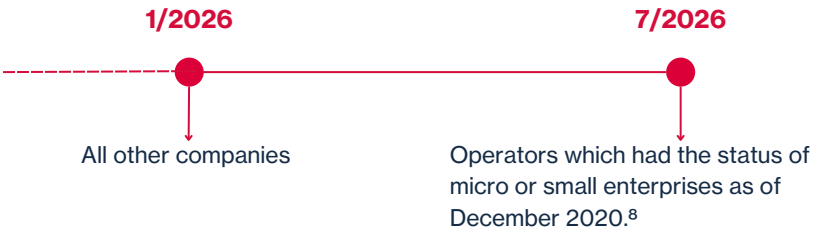
Who

Companies of all sizes that place or make available in the EU market or export from the EU market[7] products containing, made of or fed with cattle, cocoa, coffee, oil palm, rubber, soya or wood. For the relevant CN codes, refer to Annex I of the regulation.

What

Operators and non-SME traders are required to carry out due diligence before placing the product on the market or exporting it, in order to prove that the product is deforestation-free and has been produced in accordance with local legislation.

When



[4] Placing on the market refers to the first time that a battery is supplied for distribution or use in the EU market in the course of a commercial activity, i.e. manufacturers or importers.
[5] Putting into service refers to the first operation of a battery for its intended purpose, without it being placed on the market (i.e. manufacturers using their own batteries).
[6] Making available on the market refers to any supply for distribution or use in the EU market in the course of a commercial activity. The EUDR differentiates obligations according to whether the company is the first one to make a good available on the market ("placing on the market") or not.
[7] Making available on the market refers to any supply for distribution or use in the EU market in the course of a commercial activity. The EUDR differentiates obligations according to whether the company is the first one to make available a good on the market ("placing on the market") or not.
[8] Micro or small undertakings are those that reach at least two of the three following thresholds: €10mn net turnover, €5mn balance sheet total, 50 employees.

CMR

Who

Companies of all sizes that import the covered raw minerals and metals (tin, tungsten, tantalum and gold).

Full list of covered metals and their CN codes in Annex I of the regulation.

What

Companies in scope must establish a risk management system, adopt and incorporate a due diligence policy into supplier contracts for the sourcing of tin, tungsten, tantalum and gold from conflict-affected areas and high-risk areas.

Companies also have to establish traceability processes and a grievance mechanism.

When

FLR

Who

Companies of all sizes that place or supply products on the EU market or that export products from the EU market.[9]

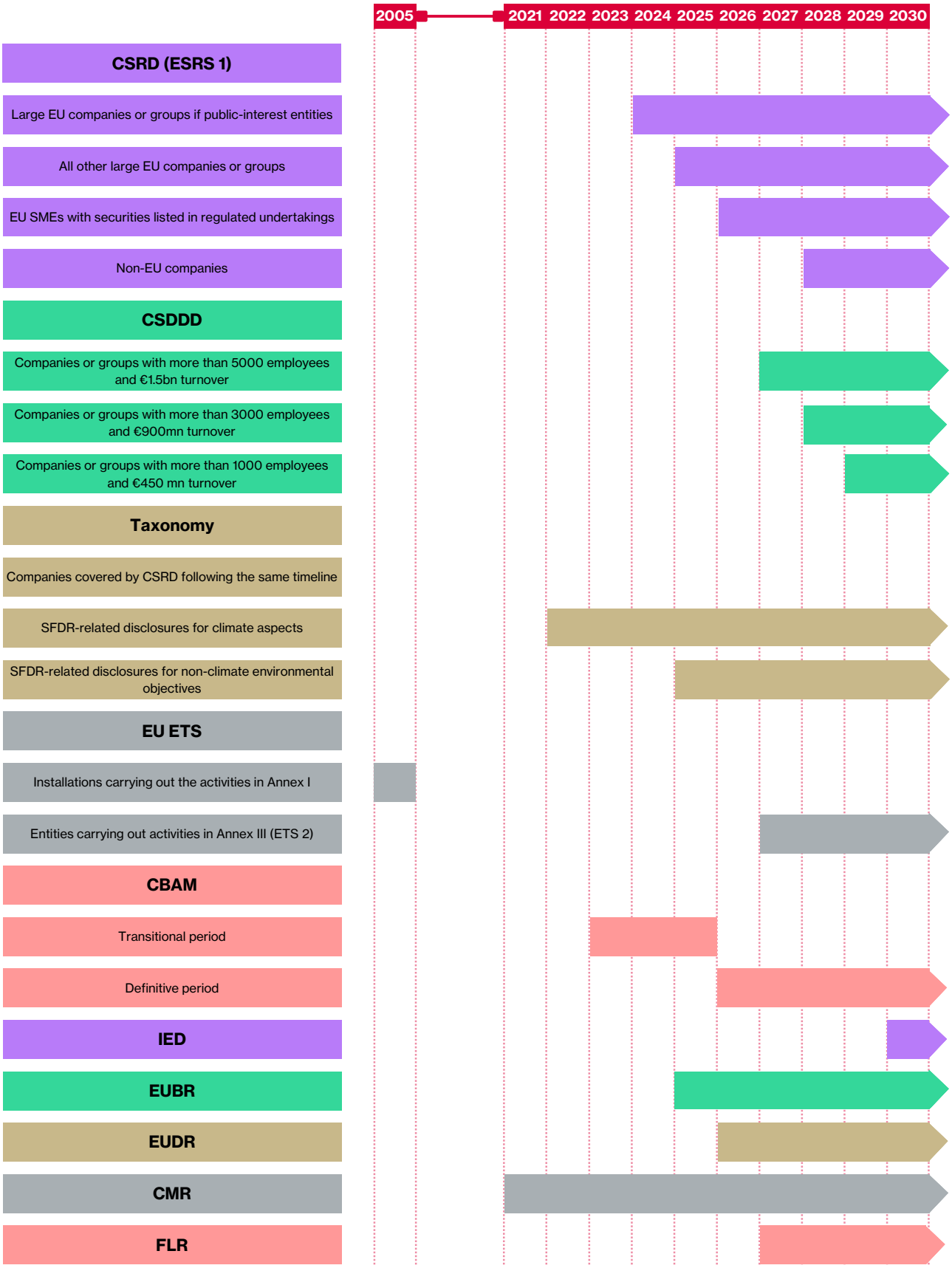
What

The FLR prohibits commercialising products made with forced labour, but it does not directly impose new due diligence requirements. The main obligations on companies relate to collaboration in investigations by Member States authorities.

When

[9] The FLR introduces a general prohibition when it comes to commercialising any market product partially or completely made with forced labour. Article 1 of the Regulation reads: "This Regulation lays down rules prohibiting economic operators from placing and making available on the Union market or exporting from the Union market products made with forced labour in order to improve the functioning of the internal market, while contributing to the fight against forced labour."

Calendar


2005
2021 2022 2023 2024 2025 2026 2027 2028 2029 2030
CSRD (ESRS 1)
Large EU companies or groups if public-interest entities
All other large EU companies or groups
EU SMEs with securities listed in regulated undertakings
Non-EU companies
CSDDD
Companies or groups with more than 5000 employees and €1.5bn turnover
Companies or groups with more than 3000 employees and €900mn turnover
Companies or groups with more than 1000 employees and €450 mn turnover
Taxonomy
Companies covered by CSRD following the same timeline
SFDR-related disclosures for climate aspects
SFDR-related disclosures for non-climate environmental objectives
EU ETS
Installations carrying out the activities in Annex I
Entities carrying out activities in Annex III (ETS 2)
CBAM
Transitional period
Definitive period
IED
EUBR
EUDR
CMR
FLR

Omnibus: summary of proposed changes and key preserved elements

On 26 February 2025, the European Commission proposed its first Omnibus Package concerning the Corporate Sustainability Reporting Directive, the Corporate Sustainability Due Diligence Directive, the EU Taxonomy and the Carbon Border Adjustment Mechanism.

The proposal has marked the opening of a new legislative procedure, meaning that the European Parliament and the Council of the European Union will have to review the proposal and negotiate its final approval. The Omnibus Package I includes several amendments concerning the above-mentioned legislations.

A summary of the Omnibus, including aspects of the legislation which are maintained is included below.

Please note that certain changes proposed by the European Commission will be subject to political debate and disagreements, and may change. This concerns, in particular, the question of increased personal scope threshold in the CSRD.

CSRD

Key elements which are not expected to be changed

Double materiality assessment and reporting on material impacts, risks and opportunities and - if applicable - due diligence.

Key aspects of current climate reporting obligations.

A majority of quantitative KPIs in the ESRS.

Proposed changes to the requirements

The already adopted ESRS (sector-agnostic standards) will be improved, simplified and better organised based on the experience with their application. Key principles and disclosures requirements are meant to be kept to protect companies from wasted efforts. The focus will be on streamlining data points.

Sector-specific ESRS, which should have been adopted in 2026 to specify material matters for companies, are proposed to be abandoned. Instead, companies will have to determine material sectoral information based on voluntary initiatives and good practice.

The proposal includes a limitation on the information that companies in scope of the CSRD can seek and obtain from business partners and suppliers in their value chain. The limitations are defined by not-yet-adopted voluntary standards for SMEs and information commonly shared in (company's) sector. This proposal is highly contentious as it creates serious uncertainty as to what ESG information would be permitted to be exchanged.

The Commission also proposes to remove its obligation to adopt standards for assurance, whilst retaining the right to do so.

Proposed changes to the personal scope

The threshold for companies is put to large undertakings exceeding the average number of 1000 employees during the financial year, in addition to meeting either €50mn net turnover or €25mn balance sheet total.

Proposed changes to the timeline for implementation

Deferral of two years for mandatory reporting for 2nd and 3rd wave of companies (i.e. companies that are currently due to report for the first time for FY 2025, would start reporting for FY 2027).

No deferral for 1st wave, i.e. companies that have already obliged to report for FY 2024 would continue (large public interest entities with more than 500 employees).

CSDDD

Key elements which are not expected to be changed

Core sustainability due diligence obligation and reporting in accordance with CSRD and ESRS.

Proposed changes to the requirements

Regarding Climate Transition Plans:

Under the proposal, the requirement to “put [the plan] into effect”, is replaced by including envisioned implementing actions in the plan.

- All other elements, including compatibility with the goals of the Paris Agreement, and reporting on progress remain.

On due diligence:

- In case of indirect business partners, an in-depth assessment is required only if the undertaking has “plausible information” that an adverse impact has occurred or might occur.
- In case of direct business partners with less than 500 employees, the company should ask them for specific information only in case of indications of likely adverse impacts.

Civil liability:

- The requirements for compensation of harm and access to courts for affected people are maintained, but Member States are given flexibility on how to implement them.

Proposed changes to the personal scope

Unchanged.

Proposed changes to the timeline for implementation

Transposition deadline is proposed to be postponed by one year to 26 July 2027, with companies having to comply starting in 2028 (wave 1 gets an additional year to prepare and is merged with wave 2) and all other companies have to start complying in 2029.

EU Taxonomy

Key elements which are not expected to be changed

Criteria for significant positive contribution for Taxonomy-aligned activities.

Turnover and CapEx KPIs.

Proposed changes to the requirements

Opt-in mechanism: Companies in scope which claim to have Taxonomy-aligned or partially aligned activities shall disclose their turnover and CapEx KPIs, while they may disclose their OpEx KPI.

If companies do not claim any Taxonomy-aligned or partially aligned activity, then they will not have to report under the EU Taxonomy.

The Omnibus Package also proposes the introduction of a financial materiality threshold, reduction of reporting templates, simplification of DNSH criteria, and adjustments of the Green Asset Ratio calculation for banks.

Proposed changes to the personal scope

Taxonomy reporting remains linked to the CSRD thresholds. However, an opt-in regime is introduced, whereby only companies exceeding the higher threshold of 1000 employees and a net turnover of €450 million are mandated to report.

Proposed changes to the timeline for implementation

Dependent on CSRD timeframes.

CBAM

Key elements which are not expected to be changed

Main principles of the legislation, except for personal scope and technical aspects of calculations and declarations.

Proposed changes to the requirements

Changes are envisioned with regards to the content and submitting procedure of the CBAM Declaration, and embedded emission calculations.

Proposed changes to the personal scope

The proposal suggests the introduction of a new exemption for small CBAM importers, with a threshold proposed at 50 tonnes mass. This would entail the exemption of 90% of importers.

Proposed changes to the timeline for implementation

Unchanged.

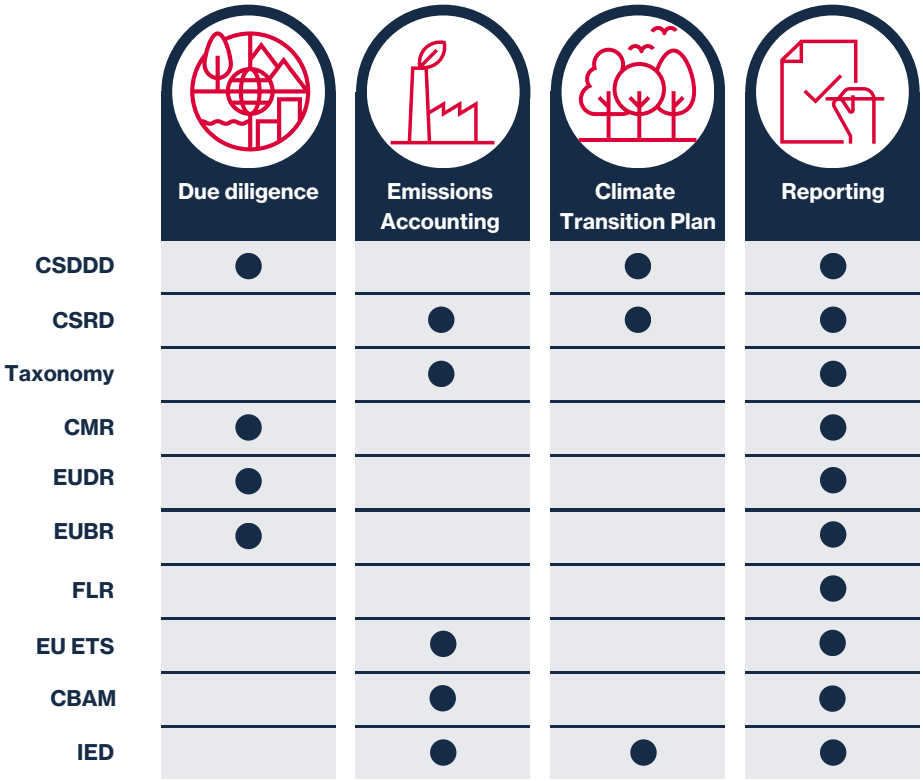
Relations between legislations: overlaps and exemptions

Under these different pieces of legislation companies are required to perform due diligence and to take actions in relation to climate change. On top of these, the EU sustainability legislation presents an array of reporting requirements.

The overlaps between these requirements can be confusing for practitioners and implementers.

Although the risk of duplication or even conflict between requirements can be high, in most cases this risk is mitigated by the presence of exemption or compatibility clauses.

The matrix below recaps the similarities of requirements. Further below, we explain key interconnections.



Due Diligence

Due diligence requirements under different legislations vary depending on the material scope of the legislation. However, the core requirement in all due diligence legislations consists in the integration of due diligence processes within the existing company's risk management system with the aim of identifying, assessing and addressing sustainability actual and potential adverse impacts. Companies must focus on their most severe adverse impacts.

The CSDDD provides a baseline due diligence framework which is applicable across all topics and business activities and value chains. The CMR, EUDR and EUBR provide specific due diligence requirements that apply only to those companies that place the defined products on the EU market-level and are focused on particular types of impacts.

The CSDDD contains a compatibility clause (Article 1 § 3) which establishes that the Directive does not prejudice any other obligations in the areas of human, employment and social rights, and of protection of the environment and climate change under other EU legislative acts. In case of conflict, the legislation providing more specific due diligence obligations should prevail. For example, the CMR and the CSDDD present some overlaps. When requirements in the CMR are more specific, they prevail over the general provisions of the CSDDD but only for due diligence in the area of conflict minerals.[10]

[10] See these FAQs and EU Commission's report on the functioning and effectiveness of CMR, pages 21-22 here. More specific and clearer guidance is however missing at present.

This regime has the following implications:

1. If a company is in the scope of the CSDDD, it should follow the CSDDD rules, as well specialised topical due diligence laws that apply to it (if any).
2. In case of conflict between CSDDD and other due diligence legislation, the company shall follow the more specific rules - it does not have to conduct two different types of due diligence for the same matter.
3. When the company/operator is not subject to the CSDDD, it only needs to follow the specific due diligence legislation that applies to it (if any); there is no overlap or conflict between these legislation because they concern different topics.

Product-related specific due diligence requirements may not be comparable or entirely matching either with requirements under other product-related specific due diligence legislation or broader due diligence obligations under the CSDDD. In such cases, the legislation is not considered to be in conflict. Rather the product-related specific due diligence legislation supplements the CSDDD with separate topic-specific requirements but does not replace the general due diligence obligations.

For example:

- FLR only imposes a duty to cooperate with authorities (see below, FLR sub-section). While this duty might imply carrying out due diligence, it is specified that FLR does not impose any extra due diligence requirements beyond those already prescribed under other EU and/or domestic legislation. In this case, companies do not have to carry out other due diligence beyond the one required under other legislation (e.g. CSDDD) or carried out voluntarily, and vice versa compliance with FLR does not replace such due diligence.
- EUDR provides specific due diligence obligations concerning deforestation risks linked to specific commodities in products' supply chain, which typically will be more specific than general CSDDD requirements, and therefore should prevail. However, for other impacts which may be connected to the same products' supply chains (e.g. forced and child labour, pollution, or illegal displacement of communites) the company should follow the CSDDD.

The table below provides an explanation of the difference between general sustainability due diligence and product-specific due diligence.

Focus: Due Diligence in product-specific legislation

While the CSDDD applies in relation to a company (covering all its products and operations), more specific due diligence legislation applies in relation to specific products - be it specific product types (such as certain minerals) or those products related to a specific type of adverse impacts (such as products made with forced labour).

In these cases, concepts from EU product law are used to attribute certain obligations depending on what role a given company plays in the value chain of said products. The following key concepts are used:

- **Making available on the market** refers to the supply of a product for distribution, consumption or use on the Union market in the course of a commercial activity. Therefore, several companies may be considered to be making available any given product in the EU market.
- **Placing on the market** refers to the first time a product is made available in the Union market. Therefore, a product is placed on the market only once, either by its manufacturer or by an importer.
- **Putting into service** refers to the first time a product is used by its end-user for its intended purpose. While this is a subsidiary category, compliance obligations may be attached to the putting into service of a product in some specific cases. As with placing on the market, putting into service happens in principle only once in the lifetime of a product.

Please note that these are general definitions and principles, the details of which may change according to the specific piece of legislation under consideration.

Examples

Importer A sells a product to intermediary B, who then sells it to intermediary C, who then sells it to manufacturer D. In this case, all (A, B, C and D) are making available the product on the market. However, only A is placing it on the market.

Importer A sells a product to company D, who then uses it. A is placing the product on the market, and D is putting it into service.

Importer A imports a product for its own use. The product is not being placed on the market (nor made available on the market). However, importer A is putting the product into service.

The "EU Blue Guide"[11] provides further guidance on the interpretation of concepts related to EU product legislation.

GHG emissions accounting

Several EU sustainability legislations require companies to calculate their GHG emissions for different purposes.

The CSRD requires companies to report their entire carbon footprint. It does not prescribe detailed accounting methodology, but instead refers to the GHG Protocol as a preferred method for emissions accounting, with limited specifications for the scope and categories of emissions and presentation of results.

CBAM and EU ETS require calculation of emissions for imported products and for individual facilities respectively. They require companies to follow a specific methodology, which is spelled out in the relevant legislation and implementing acts.

Annex II to this study recaps the most essential elements of the specific accounting methodologies under these two legislative acts.

Under the IED, installations have to account for their significant emissions for reporting purposes. Furthermore, for permitting purposes, operators have to map the sources of their emissions, including odours as well as estimate the nature and quantities of foreseeable emissions while identifying the significant effects of the emissions on the environment.[12]

Climate Transition Plans

The CSDDD requires companies to adopt a climate transition plan according to the CSRD criteria. In practice, it means that companies first need to calculate or estimate their GHG emission, including for their significant Scope 3 categories, and determine which emissions are material for reporting purposes under the CSRD. Second, they need to develop a climate transition plan covering all categories of such reported GHG emissions (i.e., across Scope 1, 2 and 3, as material).

Companies that will not be subject to the CSDDD may do the same, or they can instead disclose that they don't have a climate transition plan and indicate whether and, if so, when they will adopt it.

Under the CSDDD[13] and the CSRD[14], the constitutive elements of the climate transition plan are aligned and they include:

- GHG emissions reduction targets and explanation of how they make the business model compatible with the Paris Agreement goals and carbon neutrality by 2050;
- Climate change mitigation actions and explanation of decarbonisation levers, investments and funding supporting the implementation of the transition plan;
- Assessment of locked-in GHG emissions from key assets and products and how they may jeopardise the plan or drive transition risk .

[11] Commission Notice - The 'Blue Guide' on the implementation of EU product rules 2022 (2022/C 247/01)
[12] These emissions accounting obligations derive from the content of the permit that installations need to obtain to keep carrying out their activities. Further details can be found in Article 12 of the Industrial Emissions Directive. Additional emissions accounting obligations are linked to reporting and stem from the Industrial Emissions Portal Regulation (IEPR)
[13] Article 22
[14] ESRS E1 §§ 14 and following and Appendix A, AR 1 to 5

The ETS is a cap and trade system for direct (i.e., Scope 1) emissions, whereby the amount of carbon allowances that operators can purchase decreases year-on-year. As such, the EU ETS works as an incentive for operators to reduce their annual GHG emissions. However, there is also a more specific obligation for operators to adopt a climate neutrality plan.

Climate neutrality plans have to be adopted by the top 20% of EU ETS installations, *i.e.,* energy intensive industries which are at risk of carbon leakage.[15] The most essential information that these plans need to contain consists in the specification of a) measures and investment to achieve climate neutrality by 2050 and b) intermediate targets and goals. Further details can be found in the EU ETS-dedicated section in this study.

For EU ETS installations also covered by the CSRD, climate neutrality plans are an integral part of their CSRD/ESRS climate transition plans. As clarified in EFRAG draft implementation guidance for reporting Climate Transition Plans under the CSRD / ESRS:

"*Undertakings that own or operate these assets (installations under the EU ETS), the climate-neutrality plans should be reflected as an integral part of the CTP. Sometimes the climate-neutrality plans of specific assets may be deemed material for the undertaking."*[16]

One key difference between climate neutrality plans under the EU ETS and climate transition plans under the CSRD/ESRS is that the former are at installation level, whereas the latter at corporate level. The practical consequence is that operators can summarise the information of the EU ETS climate neutrality plans for the purposes of CSRD reporting, with specific information to be then provided for key installations on a materiality basis.

Another key distinction concerns the emissions scopes to be addressed within the climate plans. While under the EU ETS the focus is on Scope 1 GHG emissions, the CSRD/ESRS cover Scope 1, 2 and 3 GHG emissions. This means that, while EU ETS climate neutrality plans can feed into the climate transition plans under CSRD/ESRS, they constitute a starting point and operators will have to consider whether they have other material GHG emissions beyond Scope 1 and include them in their emissions reduction targets and plans under the CSRD/ESRS.

The IED, in its recently revised version, includes an obligation for installations operators to develop and implement a climate transformation plan. While the exact content of such transformation plans is yet to be determined by the Commission in 2026, the legislation itself clarifies that:

- Climate transformation plans will have to be adopted at the installation level by operators, similarly to ETS climate neutrality plans
- The plans will have to detail the specific strategy to transform the installation in the 2030-2050 timeframe to contribute to resource-efficient and climate-neutral economy
- The plan should cover broader scope of GHG gasses, and potentially certain indirect emissions, as to be clarified in the anticipated Delegated Act

The Directive specifies that when an operator has already developed elements of the transformation plan under other EU legislation, then the requirement under IED is assumed to be (at least partially) fulfilled. As such, once the content of the climate transformation plans is specified, such plans may link to the neutrality plans under the EU ETS, but they will be sufficient in fulfilling the specific requirements under that legislation.[17] Similarly, IED climate transformation plans might feed into the climate transition plans under the CSRD/ESRS, but like for the EU ETS climate neutrality plans, adjustments in content will be needed.

[15] See art 10b §1 of EU ETS Directive for the threshold that needs to be reached to be considered at risk of carbon leakage.
[16] Consult the full Guidance here
[17] Consult EFRAG's draft implementation guidance on climate transition plans above.

Reporting

The **CSRD** provides a central disclosure obligation for corporate-level sustainability information. In this regard, the following compatibility clauses and exemptions apply:

- Companies in the scope of the CSRD are exempt from reporting requirements under the **CSDDD**. Accordingly, in their CSRD sustainability statements, companies need to describe their due diligence processes and provide information about their climate transition plans. ESRS include specific disclosure requirements to this end.
- The same regime applies to operators in the scope of the **EUDR**. The EUDR includes a compatibility clause which specifies that reporting under other legislation enshrines due diligence reporting (*i.e.,* the CSRD) will fulfill the requirement under the EUDR.
- The Taxonomy complements reporting under the CSRD. In this regard, the Taxonomy Disclosure Delegated Act specifies the contents and format of information on Taxonomy-eligible and -aligned activities, while the disclosures are made as part of the CSRD sustainability statement.
- Companies reporting Scope 1 GHG emissions in accordance with the EU ETS should use that same information under the CSRD too (ESRS E1 AR 41e), thus avoiding double accounting.

Other legislations have a special purpose and typically require separate activity-level reporting. Such information may be material for CSRD reporting (i.e., corporate level), but primarily needs to be reported in separate reports in accordance with each applicable legislation:

EU ETS	A Monitoring and Reporting plan needs to be submitted to competent authorities to obtain GHG emissions permit; Annually a report on GHG emissions needs to be produced and submitted to the ETS Reporting Tool
CBAM	CBAM Declarations containing information on the total quantity of goods and embedded emissions must be submitted to the CBAM Registry
IED	Submit a report of significant emissions and use of resources to the Industrial Emissions Portal Report on progress of the implementation of the deep industrial transformation using the Industrial Emissions Porta
EUBR	Report on progress on the implementation of the Regulation, in particular with reference to risk management systems and risk identification processes in the supply chain.
CMR	Report on progress on the implementation of the Regulation, in particular detailing their efforts in establishing a risk management system.
FLR	In order to facilitate enforcement, the Commission can establish specific information requirements for importers or exporters for specific products

Annex I: Legal analysis of EU sustainability legislative acts

CSRD

Corporate Sustainability Reporting Directive

Who must comply

The Corporate Sustainability Reporting Directive (CSRD) applies primarily to large EU companies, namely those that - on their own or as a group - meet at least two of the following three criteria:

- €50mn in net turnover
- €25mn in balance sheet assets
- 250 or more employees

Additionally, EU SMEs with securities listed in regulated markets are also subject to CSRD (with the exception of the smallest among them, known as micro-undertakings).[18]

Finally, non-EU companies or groups with a turnover above €150mn in the EU and one of the three following:

- A large EU subsidiary (see thresholds for EU companies above)
- A branch in the EU with turnover above €40mn
- Securities listed on EU regulated market

What are the requirements

Process requirements

Companies must:

- Carry out a double materiality assessment of sustainability matters to determine what is material for reporting, including matters that are specific to their sector or their own operations or business relationships.
- Annually report on their governance, strategy, management of material matters and metrics and targets.
- Climate change mitigation and adaptation efforts (if any).

[18] Micro-undertakings are those below at least two of the following thresholds: €900,000 net turnover, €450,000 thousand balance sheet total, 10 employees.

CSRD

Corporate Sustainability Reporting Directive

Output requirements

Active output (deliverables you must submit / disclose / publish)

Under the ESRS E1, companies have to make climate change-related disclosures, including:

- Whether and how climate-related considerations are taken into account within the remuneration policies of administrative, management and supervisory bodies;
- Transition plan for climate change mitigation, if it was adopted[19];
- Climate-related impacts, as well as transition and physical risks, including business model and strategy resilience
- Process to assess and identify climate-related impacts, risks and opportunities, including use of climate scenario analysis;
- Policies adopted to manage climate-related impacts, risks and opportunities;
- Actions for climate adaptation and mitigation as well as allocation of money for their implementation (capex and opex);
- Climate-related targets and metrics, including for energy consumption, GHG emissions, GHG removals and mitigation projects financed through carbon credits, and internal carbon pricing;
- Current and anticipated financial effects stemming from its climate-related risks (transition and physical), especially the value of assets at risk.

Companies should make similar disclosures in other sustainability topics which are material in their context. This includes topics of Pollution (ESRS E2), Water and marine resources (ESRS E3), Biodiversity and ecosystems (ESRS E4), Circular economy (ESRS E5), Own workforce (ESRS S1), Workers in the value chain (ESRS S2), Affected communities (ESRS S3), Consumers and end users (ESRS S4), Business conduct (ESRS G1).

Impacts, risks and opportunities in these other topics can be connected to climate change. For example, climate-related physical risks may be closely related to water consumption in areas of high water stress. Similarly, companies that manufacture or sell products need to report on their resource inflows where material, and such inflows are often linked to climate risks and mitigation.

Passive output (deliverables you must have but not proactively submit / disclose / publish)

The CSRD aims to ensure transparency and a good understanding of a company's material impacts and risks.

For climate change topics, this requires a company to calculate its GHG emissions, and build an understanding of the magnitude and likelihood of climate transition and physical risks in short-, medium-, and long-term horizons. The latter requires considerations of various climate scenarios, and in cases of heightened exposure a detailed asset- and activity-level assessments including reasonable quantifications of possible financial effects of climate hazards and transition events.

With regard to the identified climate-related risks, the company should also make due assessments to test the resilience of the company’s business model and strategy.

[19] The requirements of the Climate Transition Plan are specified in ESRS E1 §§14 and following, as well as Appendix A, AR 1 to 5

CSDDD

Corporate Sustainability Due Diligence Directive

Who must comply

The CSDDD applies only to the largest companies (or groups) active in the European market, with estimates pointing to around 7,000 companies (less than 4,300 groups after consolidation) being covered by the legislation.[20]

It applies independently of the country of origin of the companies, applying the same standards to non-EU companies and groups if they have a sufficient connection to the EU market.

EU companies are covered by the CSDDD if they fulfill both the following conditions at the same time and for two consecutive years:

- Having more than €450mn in net worldwide turnover
- Having an average more than 1000 employees

Non-EU companies are covered by the CSDDD if they have more than €450mn net turnover in the EU market for two consecutive years.

These requirements are applied both at the company level and at the group level. Hence, the parent company of the group may be required to carry out due diligence if the group in the aggregate fulfils the above thresholds.

In some situations both the parent company and one or more subsidiaries may be required to comply with CSDDD (for example, an EU company above the thresholds that is the subsidiary of a non-EU company). In these cases, the parent company may comply with the Directive for the entire group.[21]

Additionally, the CSDDD also applies to companies or groups entering into licensing or franchising agreements totalling more than €22.5mn a year, provided that they have a total turnover of more than €80mn (worldwide for EU companies, in the EU market for non-EU companies).[22]

[20] CSDDD Datahub reveals law covers fewer than 3,400 EU-based corporate groups - SOMO
[21] See Article 6 CSDDD for further details and the conditions that need to be met in these circumstances.
[22] Additionally the franchise or license agreements must ensure a common identity, a common business concept, and the application of uniform business methods. The main purpose of this provision is to prevent circumvention of the CSDDD.

CSDDD

Corporate Sustainability Due Diligence Directive

What are the requirements

Process requirements

Companies must establish and operate a due diligence process which allows them to identify and address adverse impacts on human rights and the environment of their activities and those of their business partners (see below "chain of activities"). This includes:

- Integrating sustainability due diligence into policies and risk management systems, including through the adoption of a due diligence policy (see section "Passive outputs" below) and the establishment of a notifications mechanism and complaints procedure.

- Identifying and assessing actual and potential impacts in their own operations and "chain of activities". This does not require obtaining information on each individual actor in the value chain. Rather, it involves a first overview (for instance, drawing on existing information and desk research) to identify general areas of risk, before proceeding to targeted in-depth assessments of the operations and relationships in high-risk areas.

- Taking appropriate measures to address the identified impacts (preventing, mitigating or bringing them to an end, including through remedy in some cases). It must be noted that the CSDDD does not require companies to address all impacts at the same time, but it allows companies to prioritise according to the severity and likelihood of the impacts. Addressing impacts means taking appropriate action based on context, company's leverage and good practice. Companies are not expected to directly disengage from problematic business relationships, or prevent the impacts from happening when they currently lack leverage to do so. Instead they are expected to engage with their suppliers to find meaningful solutions.

- Establishing systems to monitor the effectiveness of policies and measures.

- In addition to the obligations to carry out due diligence, companies covered must adopt and make best efforts to implement a transition plan for climate change mitigation.

- Report on the implementation of their sustainability due diligence and climate transition plans in line with the CSRD and the ESRS, and the disclosure requirements therein.

Throughout this process, companies are required to consult stakeholders who are affected by the adverse impacts and/or their legitimate representatives, especially when they decide on prioritisation and design prevention measures.[23]

While Guidance is to be issued by the European Commission, the due diligence process of the CSDDD is based on international standards, notably the UNGPs and OECD Guidelines, upon which companies may rely to start their preparation efforts.

[23] Refer to Article 13 CSDDD for further detail on the standards and requirements for stakeholder consultation.

CSDDD

Corporate Sustainability Due Diligence Directive

Focus: Chain of activities vs. Value chain

Under international standards, companies are expected to identify and assess impacts across their entire value chain, from design to end-of-life, focusing on the products, geographies, and relationships where risks are higher. This is what is known as a risk-based approach, and has been incorporated into several pieces of EU legislation, including the CSRD and CSDDD.

In the case of the CSDDD, however, companies are not required to apply this risk-based due diligence to the entire value chain, but to a subset termed the "chain of activities". The chain of activities refers to the entire supply chain (the upstream part of the value chain) as well as downstream logistics (distribution, transport and storage) done for or on behalf of the company.

Output requirements

Passive output (deliverables you must have but not proactively submit / disclose / publish)

The CSDDD does not take a formalistic approach to due diligence, and leaves flexibility to companies on how to identify and address human rights and environmental impacts in their chains of activities.

However, companies are required to retain documentation and evidence on the actions they have taken to fulfil their obligations for at least 5 years from the moment when the documentation is produced or obtained. These may be requested by public authorities in the context of enforcement efforts. The documents that companies should have available include but are not limited to:

- A due diligence policy, describing the processes and measures to implement due diligence, and incorporating a (supplier) code of conduct in relation to the matters covered by the Directive.
- The protocol for the notification mechanism and complaints procedure.
- Preventive and corrective action plans required in certain cases when addressing impacts.[24]

Active output (deliverables you must submit / disclose / publish)

In order to avoid reporting duplication, the CSDDD does not establish any additional reporting requirements for companies already covered by the Corporate Sustainability Reporting Directive (CSRD). Given the bigger scope of the CSRD as compared to the CSDDD (see Table 1 above), the vast majority of companies will be exempted from reporting under the CSDDD. Companies will have to explain how they are complying with the CSDDD in their CSRD reports.

For companies that are not exempted from CSDDD reporting, the reporting requirements will be further specified by the European Commission through delegated act, before the start of application of the Directive.

[24] These are specified in Articles 10 and 11 of the CSDDD.

Taxonomy

Who must comply

The companies subject to taxonomy are the same as those in scope of the CSRD (see above) as well as financial market participants.

What are the requirements

Process requirements

Companies must:

- Identify eligible/aligned activities under the taxonomy[25]
- For eligible activities, assess whether their contribution to the six taxonomy objectives is substantial[26]
- For eligible activities substantially contributing to one environmental objective, assess whether this contribution hampers the remaining objectives
- Assess the alignment with minimum safeguards (OECD Guidelines, UNGPs, the four fundamental ILO Conventions)[27]

Output requirements

Passive output (deliverables you must have but not proactively submit / disclose / publish)

The EU Taxonomy is first and foremost a classification system for sustainable activities. The criteria that must be met for an activity to be qualified as sustainable are spelled out in Article 3 of the Regulation and they include: a) substantial contribution to one or more of the six taxonomy sustainable objectives; b) no significant harm to any of the six taxonomy sustainable objectives; c) compliance with the minimum safeguards and d) compliance with the technical screening requirements.[28]

These classification conditions require an assessment of the part of the company on their activities to determine if one or more of their activities meet the above criteria and can then be sustainable under the Taxonomy. This data must be collected but need not be disclosed under the Taxonomy Regulation.

[25] The specific characteristics for such activities are spelled out in Article 3 Taxonomy Regulation
[26] The Taxonomy Regulation Articles 10 to 15 provide a definition of 'substantial contribution' in relation to each Taxonomy objective.
[27] Article 18 Taxonomy Regulation
[28] The Technical Screening Criteria are contained in Commission Delegated Regulation (EU) 2023/2486 and in Commission Delegated Regulation (EU) 2023/2485

Taxonomy

Focus: Taxonomy eligibility vs alignment

Under the Disclosures Delegated Act[29], an eligible activity is an activity that falls in the scope of the Taxonomy, regardless of the positive assessment of its adherence with the Taxonomy sustainability criteria and the technical standards.

An activity is aligned to the Taxonomy, when an eligible activity is positively assessed against and meets all of the above criteria and the technical screening requirements.

Active output (deliverables you must submit / disclose / publish)

The Taxonomy adds to the disclosure requirements under both SFDR and CSRD.[30] These additional requirements differ according to the type of company (financial or non-financial).[31]

For Non-financial & financial companies under the scope of CSRD:

- Disclose the proportion of their Taxonomy-aligned and/or Taxonomy-eligible activities
- Disclose capex and opex of their Taxonomy-aligned and/or Taxonomy-eligible activities

For financial market participants in their pre-contractual documentation in scope of SFDR:

- Disclose whether the fund makes sustainable investments defined using the taxonomy
- Disclose the minimum investment into environmental sustainable activities as defined in the taxonomy
- Disclose the minimum share of investments in transition and enabling activities as well as investments in fossil gas and nuclear energy that comply with taxonomy.

Financial Market Participants' periodic disclosures need to include Taxonomy alignment of investments per KPI (Turnover, CapEx, OpEx) and with the same breakdowns reflected in the pre-contractual disclosures.

Timeline of process requirements

Compliance with the EU Taxonomy is phased according to the following timeline:

2025 → Integration for the 4 new environmental objectives (eligibility and alignment only) for FY 2024

2026 → Expansion of the companies in scope to include the large companies, for the FY 2025

2027 → Expansion of the companies in scope to include listed SMEs, for the FY 2026 with a two-year opt-out period

2028

2029 → Expansion of the companies in scope to include the Non-EU companies with subsidiaries/branches in the EU, for the FY 2028 are mandated to report for the FY 2028

[29] Commission Delegated Regulation (EU) 2021/2178
[30] Articles 5, 6 and 7 for financial corporations and Article 8 for non-financial corporations.
[31] Further specifications on the disclosure requirements and the templates to be used can be found in the Delegated Act - Commission Delegated Regulation (EU) 2021/2178

EU ETS

EU Emissions Trading System

Who must comply

The European Union Emissions Trading System (EU ETS) applies to all companies operating installations in the sectors of electricity, heat generation and other energy-intensive industry sectors (oil refineries, steel works, production of iron, etc). The ETS also applies to aviation and maritime transport.

There is an optional exclusion depending on Member States' discretion, whereby installations emitting less than 25000 tonnes CO2-eq can be exempted from the obligations stemming from the Directive. The exemption only concerns installations that carry out combustion activities, have a rated thermal input below 35 MW excluding emissions from biomass.[32]

The ETS applies only to certain gases.[33] In particular, ETS 1 covers:

- CO2 emissions from electricity and heat generation; energy-intensive industry sectors (e.g. oil refineries, steel works, production of iron, etc.); aviation; maritime transport
- N2O from production of nitric, adipic and glyoxylic acids and glyoxal
- Perfluorocarbons (PFCs) from aluminium production

As part of the 2023 revisions of the EU ETS, a new trading system (ETS 2) integrating the existing one has been established. ETS 2 will be fully operational starting from 2027 and it will cover emissions from buildings and road transportations, as well as manufacturing industries and construction, and energy industries not covered under ETS 1.[34]

ETS 2 applies to:

- CO2 emissions from combustion in buildings, road transport and other sectors, excluding those already covered under ETS1, i.e. Combined Heat Power Generation and Heat Plants insofar as they produce heat for commercial or institutional buildings and residential buildings; Road Transportation code 1A3b IPCC guidelines national GHG inventory, except agricultural vehicles on paved roads; Commercial/Institutional buildings; Residential buildings
- Energy industries (code 1A1 IPCC guidelines national GHG inventory)

[32] For more details, see Art 27 EU ETS Directive.
[33] Full list of gases covered can be found in Annex II of the ETS Directive (integrated text).
[34] Full list of activities is to be found in Annexes I and III of the EU ETS Directive (integrated text).

EU ETS

EU Emissions Trading System

What are the requirements

Process requirements

Companies must:

- Submit for approval to the competent authority a monitoring and reporting plan, spelling out measures to monitor and report emissions.
- Apply for a greenhouse gas emissions permit[35];
- Submit their Reports for verification (see below active output).

Other requirements

Passive output (deliverables you must have but not proactively submit / disclose / publish)

As a cap-and-trade system, with the aim of reducing industry's carbon emissions, companies are obliged to hold a permit for each tonne of CO2-eq that they emit. In order to apply for the permit, companies need to prepare their monitoring and reporting plans. While these need to be approved by the competent authority, they need not be published anywhere.

Active output (deliverables you must submit / disclose / publish)

Installation operators have to devise a climate neutrality plan. The obligation to develop such a plan is contained in Article 10b of the EU ETS Directive and it covers the top 20% installations, namely those installations that based on their typology are at higher risk of carbon leakage. These plans, adopted at installation-level, must have been adopted by May 2024 and need to contain:

- Measures and investments to reach climate neutrality by 2050 at installation or company level, excluding the use of carbon offset credits;
- Intermediate targets and milestones to measure progress made towards reaching climate neutrality. Progress needs to be monitored on a 5-year timeframe;
- An estimate of the impact of each of the measures and investments to reduce carbon emissions.

Companies also have a reporting obligation consisting in producing an annual report on their emissions.

Useful tools for compliance and implementation

- ETS Reporting Tool (ERT): web-based resource offering features and tools to guide operators in the development of their monitoring plans as well as enabling reliable and easy procedures.
  - Through this tool it is also possible to submit the emissions reports (both for ETS 1 and ETS 2)
  - The tool is accessible by accredited verifiers, so that verifications can be made through it in a facilitated way
- For the maritime transport: THETIS-MRV platform
- For small emitters aircraft operators and aircrafts operators who face data gaps: Small Emitter Tool (SET)

For the aviation sector: Emissions trading system support facility

[35] According to Article 5 ETS Directive, the company's application for the permit must include the description of the installation and its activities and used technologies; raw and auxiliary materials; sources of targeted gas emissions; measures planned to monitor and report emissions; and a non-technical summary of the description of the installation and its activities. Further conditions and the content of the permit are spelled out in Article 6.

CBAM

Carbon Border Adjustment Mechanism

Who must comply

All companies importing goods covered by CBAM (cement, electricity, fertilisers, iron and steel, aluminium, and chemicals) are subject to the legislation.[36] Notably, however, CBAM does not apply to consignments where the total value of CBAM goods is less than €150.

CBAM does not apply to electricity generated in the exclusive economic zone (EEZ) of Member States and imported into the EU. Such electricity has "EU origin" and is thus not covered by Article 2 (1) of the CBAM Regulation.

What are the requirements

Process requirements

Importers wishing to import CBAM-covered goods into the EU market are required to apply for recognition of their status as CBAM declarants. Once they have been authorised, they can submit CBAM declarations (see below, "active output").

To submit their CBAM declarations, importers must calculate the embedded emissions in the products they want to import. It must be noted that for some goods (those listed in Annex II), only direct emissions must be calculated.

Explainer box: Direct, Indirect, Embedded and Actual Emissions

Under the CBAM Regulation Article 3 (21), 'direct emissions' are the emissions deriving from the production process of goods, including emissions from the production of heating and cooling that is consumed during those processes. This definition broadly corresponds to Scope 1 emissions.

Article 3 (34) CBAM Regulation explains that 'indirect emissions' are those stemming from the production of electricity which is consumed during the production processes of goods, irrespective of the location of the production of the consumed electricity. This definition corresponds to Scope 2 emissions.

'Embedded emissions', according to Article 3 (22) CBAM Regulation, are direct emissions released during the production of goods and indirect emissions from the production of electricity that is consumed during the production processes.[37]

Finally, 'actual emissions' are, following Article 3 (28) CBAM Regulation, those emissions that are calculated based on primary data from the production processes of goods and the production of electricity consumed during these processes.[38]

[36] For the relevant CN codes, refer to Annex I of the Regulation.
[37] The methods for the calculation of embedded emissions are specified in Annex IV of the CBAM Regulation
[38] The methods for the calculation of actual emissions are specified in Annex IV of the CBAM Regulation

CBAM

Carbon Border Adjustment Mechanism

Importers must have their calculations of emissions verified by an accredited verifier. Importers must surrender CBAM certificates for the amount of embedded carbon that is not priced in the countries of production. The price of CBAM certificates is based on the price of EU ETS allowances.

CBAM's transitional period: a phased-in approach

To ease implementation by businesses, CBAM has taken a phased-in approach when it comes to the obligations to monitor and report embedded emissions, as well as the surrender of CBAM allowances.

In the first phase of CBAM implementation, a restriction on the scope of application applies too. Indeed, the CBAM will initially pertain only to imports of certain goods and selected precursors whose production is carbon intensive and at most significant risk of carbon leakage. These include cement, iron and steel, aluminium, fertilisers, electricity and hydrogen.

Timeline of process requirements

2023 → **2023–2024:** only reporting of greenhouse gas emissions (GHG) embedded in their imports (direct and indirect emissions), without the need to buy and surrender certificates.

2024

2025 → **From January 2025:** reporting according to EU reporting method only (see below, Annex II), mandatory CBAM declarant status certification

2026 → **From January 2026**, definitive reporting regime:

- EU importers of goods covered by CBAM will register with national authorities where they can also buy CBAM certificates. The price of the certificates will be calculated depending on the weekly average auction price of EU ETS allowances expressed in €/tonne of CO2 emitted.
- EU importers will declare the emissions embedded in their imports and surrender the corresponding number of certificates each year.
- If importers show that a carbon price has already been paid during the production of the imported goods, they can receive a deduction.

CBAM

Carbon Border Adjustment Mechanism

Output requirements

Passive output (deliverables you must have but not proactively submit / disclose / publish)

Companies are required to keep records of the information used to calculate embedded emissions. The records should be sufficiently detailed for verifiers to assess whether the company has calculated its embedded emissions in accordance with CBAM's requirements. Annex V of the Regulation establishes minimum bookkeeping data requirements.

Active output (deliverables you must submit / disclose / publish)

Transitional Period

During the transitional period, until 31 December 2025, the obligations of importers under the CBAM Regulation are limited to the reporting obligations spelled out in Article 35 of the Regulation (Transitional Provisions). The obligation consists of the submission of a CBAM report, which is a less detailed version of the CBAM Declaration.

The CBAM report must include information on the total quantity of CBAM goods imported in the previous quarter of the calendar year, the actual total embedded emissions (no verification report required), the total indirect emissions, and the carbon price due in a country of origin for the embedded emissions in the imported goods.

Definitive Regime

For the first time in 2027 and with reference to 2026, importers must submit a CBAM declaration by May the 31st to the CBAM Registry. The CBAM declaration contains details on the total quantity of CBAM goods imported in the previous calendar year, the emissions embedded in them (inclusive of their verification reports), and the total number of CBAM certificates to be surrendered after the reduction due on account of carbon prices paid in third countries.

Useful compliance guidance tools

- CBAM self assessment tool, for importers to pre-screen whether their imports fall in the scope of CBAM
- The TARIC database allows importers to search their imported goods and screen their corresponding obligations

For methodologies for GHG emissions accounting see Annex II below.

IED

Industrial Emissions Directive

Who must comply

All companies (operators) which operate in industrial sectors. The specific scope of installations covered by the directive is spelled out in Annex I and Ia. Annex I clarifies the production capacity or output thresholds for installations for energy industries, production and processing of metals, processing of ferrous metals, mineral industry, chemical industry, waste management and other activities relating to pulp production and tanning. In Annex Ia LSU levels for pig and poultry farms are specified.

In practice, the Directive captures 37,000 industrial installations, 38,500 pig and poultry farms, and recently, landfills, metal extraction and battery gigafactories have also been included in scope.[39]

Explainer: Operators

Under Article 3 § 15, 'operator' means any natural or legal person who operates or controls in whole or in part the installation or combustion plant, waste incineration plant or waste co-incineration plant or, where this is provided for in national law, to whom decisive economic power over the technical functioning of the installation or plant has been delegated.

There is an additional scope limitation, regarding the GHG emissions covered. The scope of the IED covers all the gases that are not already included in the EU ETS.

These gases include, for example, nitrous oxide and hydrofluorocarbons.[40]

Focus: IED vs EU ETS

Personal scope
There is not a complete personal scope overlap between the IED and the EU ETS, with some thresholds (e.g. for combustion plants) being different and pig and poultry rearing not included in the EU ETS.

Material scope: greenhouse gases and polluting substances
When it comes to the greenhouse gases and polluting substances included in the scope, the EU ETS includes carbon dioxide, nitrous oxide, and perfluorocarbons. On the other hand, the IED covers sulphur oxides, nitrogen oxides, ammonium, particulates, methane, mercury and other heavy metals.

There might however be some overlaps: when an installation in scope both of the IED and the EU ETS emits a greenhouse gas that is regulated under both, then there is an exemption under the EU ETS rules. The emission limit under the IED permit is only added where necessary to ensure that no significant local pollution is caused.

[39] Industrial Emissions Directive, Article 2 via referral to Chapters II to VIa.
A review clause to assess possible synergies of the interplay between the IED and the EU Emissions Trading System (ETS) Directive is further delayed to 2028. As of now, the IED only specified that any greenhouse gas emissions regulated under ETS shall be exempt from GHG-specific emission limits under the IED.
[40] A full list of activities and covered substances is included in Annex I to the IED. Annex V contains a list of emissions limits for each of the covered activities.

IED

Industrial Emissions Directive

Category of emissions

Both Directives are concerned with Scope 1 emissions. Under the IED, the definition of emissions suggests consideration of indirect GHG emissions in the context of a climate transformation plan, but this is yet to be clarified by the European Commission in a Delegated Act in 2026.

Key obligations

Under both Directives, installation operators need a permit to operate. In the case of the EU ETS, operators have to hold a permit for each tonne of CO2-eq they emit. These permits are conditional on the approval of the operator monitoring and reporting plan and are based on an estimation of foreseen emissions. Under the IED, operators will obtain their permit under the condition that they comply with the best available techniques and develop a climate transformation plan (see below).

What are the requirements

Process requirements

Operators must:

- Apply for a permit attesting that the company complies with Best Available Techniques (BATs), namely, the most environmentally effective, economically and technically viable techniques for pollution prevention and control of emissions;[41]
- Establish an Environmental Management System - EMS, inclusive of an environmental policy, objectives and performance environmental indicators, measures taken to achieve the environmental objectives and avoid risks to human health and the environment and a transformation plan;[42]
- Adopt an installation-level transformation plan.

Focus: Transformation Plans

Refrain 41 of the amendment document provides that the installation carrying out the activities described in Annex I (energy-intensive installations) must set up a transformation plan by 30 June 2030. The transformation plan will be essential to apply for the required permit reconsideration and as part of the update process for alignment with the new conclusion of BATs, which the Commission will publish after 1 January 2030.

Article 27d adds more details on the transformation plan requirement. An 'indicative' transformation plan must be included in the Environmental Management System that operators have to set up. The transformation plan must contain information on how the operator will transform the installation in the 2030-2050 period to 'contribute to the emergence of a sustainable, clean, circular, resource-efficient and climate-neutral economy by 2050, including where relevant deep industrial transformation'.

It is specified that where the operator has already developed some elements of the transformation in accordance with other legislation of the EU, the requirement set in the Article 27 should be considered (partially) fulfilled.

The actual content of the transformation plan will be specified by the European Commission, which by 30 June 2026 must adopt a delegated act to supplement the Directive accordingly.

[41] For more information on the permitting criteria, see Article 4.
[42] Full details of the requirements are to be found in Article 14a of the revised IED.

IED

Industrial Emissions Directive

Output requirements

Passive output (deliverables you must have but not proactively submit / disclose / publish)

- Collection of data on the operator's compliance with emission limit values in waste gases, fugitive emissions limit values and total emission limit values; the requirements of the reduction scheme.[43] These data need to readily available as the competent authority might request a report on compliance, following Article 62 IED.

Active output (deliverables you must submit / disclose / publish)

- Operators have to report on the progress in the implementation of the deep industrial transformation or, when it is relevant, on the closure plan of the existing installation;[44]
- Where the activity involves the use, production or release of relevant hazardous substances and with regard to the possibility of soil and groundwater contamination at the site of the installation, operators shall prepare and submit to the competent authority a baseline report before starting operation of an installation or before a permit for an installation is updated for the first time;
- Under the Industrial Emissions Portal Regulation (IEPR), operators must report on their significant emissions and use of resources.[45]

Timeline of implementation IED 2.0

The new requirements (EMS and Transformation plans) are dependent on a) domestic transposition and b) technical guidance and implementation documents to be published and adopted by the Commitments. States have 22 months from the 4th of August 2024 to transpose. The Commission has different timelines depending on the act:

The transformation plans are due by 2030, with the Commission having to define their key contents by the 30th of June 2026 (implementation Directive); furthermore, the plans have to be prepared based on the BAT Conclusions which will be released on 1 January 2030, while companies will have to present them on 30 June 2030.

The EMS is to be prepared and implemented by the operator in accordance with the relevant BATCs (those for the newly covered sectors are being defined now) by the 1st of July 2027.

[43] More details on such a scheme are provided in Part 5 of (c) the derogations granted in accordance with Article 59(2) and (3).
[44] The reporting requirements stem from both the IED Article 27e §1(b) and §2(b) and the European Pollutant Release and Transfer Register Regulation, now replaced by the Industrial Emissions Portal Regulation.
[45] IEPR replaces the previous European Pollutant Release and Transfer Register and aims to improve synergies with the IED. The reporting requirements apply at installation level. For information on the exact disclosures that need to be done and by whom, refer to Article 6 of the IEPR.

EUBR

EU Batteries Regulation

Who must comply

The EU Batteries Regulation (EUBR) requires companies manufacturing or importing batteries into the EU market (for their own use or for sale) to carry out due diligence in relation to some key materials used in battery production (namely cobalt, natural graphite, lithium, nickel and chemical compounds based on them). Battery due diligence should address the risks in relation to the protection of human rights, including human health, community life (indigenous peoples' rights), protection of children and gender equality. With respect to environmental topics, battery due diligence should address risks for the protection of the natural environment and biodiversity as well as climate change.

It applies only to companies with a net annual turnover of €40mn or more (either individually considered or as a group).

Second-hand batteries that had already been placed on the EU market before being subject to the relevant repair operations do not fall in the scope of this Regulation. That is, second-hand batteries are exempted from due diligence obligations under the EUBR if they were already in circulation in the EU market or were being used in the EU. However, the sourcing of batteries outside the EU market for second-hand use in the EU market is subject to due diligence obligations.

What are the requirements

Process requirements

The process requirements onto companies covered by EUBR follow the same structure as other pieces of due diligence legislation. In particular, under the EUBR companies must:

- Establish a risk management system by adopting and incorporating into contracts with suppliers a battery due diligence policy[46], assigning responsibility to top management for the policy's oversight, and establishing a grievance and remediation mechanism. The management system should include controls, transparency and traceability, identifying the upstream actors in the supply chain (beyond Tier-1).[47]

- Based on the information obtained through the grievance mechanism and supply chain transparency system, identify and assess the risk of adverse impacts in the supply chain.

- Design and implement a strategy to respond to identified risks, including by adopting risk management measures in accordance with international standards (including audits) and leveraging the company's influence over those actors in the supply chain who can address risks most effectively. The response to identified risks should include monitoring and tracking the performance of the efforts to mitigate risks.

Companies may use due diligence schemes in their efforts to comply with the above requirements. The EUBR has a process for scheme owners to apply for recognition of their schemes as enabling operators to meet the requirements.

[46] Article 48.2 specifies that the policy must be verified by a notified body. The notified bodies will be established according to Article 51. Furthermore, under Article 48.2 the policy must be periodically audited. Article 49.1, finally, requires that the policy be notified to suppliers.
[47] Article 49.2 of the Regulation details what information should be obtained through the traceability system.

EUBR

EU Batteries Regulation

Output requirements

Passive output (deliverables you must have but not proactively submit / disclose / publish)

The EUBR requires companies to keep documentation for 10 years after the last battery manufactured under a given policy is placed on the market. Said documentation must cover the fulfilment of its process obligations (see above), and include the results of audits.

Upon request by public authorities, companies must make available the verification and audit reports for their due diligence policy and its operation, as well as evidence of compliance through recognised due diligence schemes if applicable.

Active output (deliverables you must submit / disclose / publish)

Covered companies must publish an annual report containing data and information on the steps taken to adapt their risk management systems and identify and address risks in their supply chains. In particular, the report must include details on whether significant impacts have been identified (and, if so, how) and on the audits carried out. The EUBR does not provide for any further detail on the content and structure of the report.

Additionally companies must share all relevant information obtained from their due diligence practices with their immediate downstream purchasers (with due regard for business confidentiality and other competitive concerns) on a continuous basis.

EUDR

EU Regulation on Deforestation-free Products

Who must comply

The EU Deforestation regulation (EUDR) seeks to address the global deforestation and forest degradation arising from the consumption of 7 commodities (cattle, cocoa, coffee, oil palm, rubber, soya, and wood) and some of their derived products in the EU.

Focus: 'relevant product' under the EUDR

In the context of the EUDR, relevant products are understood to be those products that contain, have been fed with or have been made using the 7 targeted commodities listed above. Annex I of the EUDR contains a comprehensive list of such products.

Companies of all sizes that import a product within the EUDR scope are subject to its requirements, which vary according to the role of the company in relation to the product.

- Companies that place products on the market (i.e. manufacture them or import them into the EU) or export them are known as **operators**. They have due diligence obligations in relation to the products they are placing on the market.
- Companies that make a product available on the market, but are not manufacturers or importers of the product, are known as **traders**. In the case of traders, the EUDR differentiates obligations between:
    - Traders that are SMEs,[48] who have simplified obligations limited to identification of their direct suppliers and clients.
    - Traders that are not SMEs, who are equated to operators.

[48] According to the definitions in the EU Accounting Directive. Therefore, a trader is an SME if it falls below at least two of the following thresholds: €50mn net turnover, €25mn balance sheet total, 250 or more employees.

EUDR

EU Regulation on Deforestation-free Products

What are the requirements

The EUDR prohibits exporting, placing or making covered products available on the market unless the traders or operators can demonstrate that:

- The products are deforestation-free (meaning that they have been produced without inducing deforestation or forest degradation).
- The products have been produced in accordance with the relevant legislation of the country of production.

Products need to be covered by a due diligence statement.[48]

To this end, the Regulation sets out requirements to carry out due diligence and to provide specific documentation (see below).

Process requirements

Operators and non-SME traders are required to exercise due diligence before placing the product on the market or exporting it, in order to prove that the product is deforestation-free and has been produced in accordance with local legislation.

Such due diligence entails:

- The collection and verification of information, data and documents prescribed in Article 9 of the Regulation, including the geolocation of all plots of land where the relevant commodities that the relevant product contains were produced, as well as the date or time range of their production.
- On the basis of such information, companies must carry out a risk assessment to determine what products are at a non-negligible risk of non-compliance. Article 10 of the Regulation provides a non-exhaustive list of factors to be taken into account. In particular, the European Commission will prepare a country risk ranking to facilitate the assessment.
- If non-negligible risks are identified, companies are required to put in place policies, controls and procedures to manage risks, including among others compliance management systems and internal reporting and auditing mechanisms.[49]

If on the basis of their due diligence an operator or non-SME trader concludes that a product is deforestation-free and compliant with the relevant legislation of the country of production, it must prepare and submit a due diligence statement before placing it on the market or exporting it (see below, section “Active outputs”).

SME traders are not required to carry out due diligence. Rather, they must gather information on the identities of their direct suppliers and clients and the due diligence statement reference numbers for the products they trade.

[48] See updated guidance document released by the Commission on 15 April 2025, which includes a reduction of the number of due diligence statements that companies have to file.
[49] Requirements to have an internal audit function apply only to operators and traders which are not SMEs.

EUDR

EU Regulation on Deforestation-free Products

Focus: Simplified due diligence under the EUDR

The EUDR requires the European Commission to prepare and keep updated a risk classification of countries and regions.

Under certain circumstances, operators and non-SME traders may carry out simplified due diligence if - after gathering the information required under Article 9 - they determine that products are produced in countries or regions that are classified as low-risk. In this case, companies must present evidence showing that there is a negligible risk of mixing with products from other origins or of the Regulation being circumvented.

In these cases, companies do not need to carry out the risk assessment or adopt risk mitigation measures.

Output requirements

Passive output (deliverables you must have but not proactively submit / disclose / publish)

Operators and non-SME traders must keep records of submitted statements and of the measures taken to comply with the Regulation (including supporting documentation) for at least 5 years, and make them available to authorities upon request.

SME traders must keep records of the information they are required to gather for at least 5 years. Public authorities may require them to provide said information for enforcement purposes.

Active output (deliverables you must submit / disclose / publish)

Operators and non-SME traders must submit a due diligence statement following the template in Annex II through the information system to be established by the European Commission, once they have determined that a covered product is deforestation-free and has been produced in compliance with the legislation of the country of production.

Operators have also to report on their due diligence systems. This obligation does not apply to SMEs or natural persons.[50]

[50] The content of the disclosure requirement as per Article 12 §3 includes the description of the product, country of the product, country of production of the product (as well as all countries involved in the production of specific parts of the product), description of information and evidence behind the risk assessment, conclusion of risk assessment, risk mitigation measures. If applicable, process of consultation with indigenous peoples, local communities, other customary tenure rights holders, CSOs.

CMR

The Conflict Minerals Regulation

Who must comply

The Conflict Minerals Regulation (CMR) applies to companies of all sizes importing the following minerals into the EU: tin, tantalum, tungsten and gold. The Regulation also applies to metals containing or consisting of such minerals when they exceed certain annual import volume thresholds.[51]

The CMR does not apply to recycled products, but it does apply to products that are by-products.

What are the requirements

Process requirements

Companies must:

- Establish a risk management system by adopting and incorporating into supplier contracts a due diligence policy for the sourcing of 3TG from conflict-affected and high-risk areas (CAHRAs) in conformity with the OECD's sector-specific guidance.[52] Responsibility must be assigned at the management level.
- Establish a system for supply chain traceability as well as a grievance procedure open to any interest party.[53]
- On the basis of the information generated by the risk management system, companies must identify and assess the risks of adverse impacts in their supply chains.
- When risks are identified, companies must implement a strategy to prevent or mitigate adverse impacts by adopting measures consistent with OECD sector-specific guidance (including its Annex III).
- The performance of the implemented measures should be monitored and tracked, using the measures and indicators in Annex III of the OECD sector-specific Guidance.

Companies must have their due diligence system for compliance with the CMR audited by an independent, competent and accountable auditor.

[51] For details on the covered products, including their relevant CN codes and annual thresholds, please refer Annex I of the Regulation.
[52] OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas | OECD (OECD Minerals Guidance)
[53] In accordance with Article 4(f) CMR, the supply chain traceability system shall include a description of the mineral and its trade name; name and address of the supplier to the EU importer; country of origin of the mineral; and quantities and dates of extraction, if available, expressed in volume or weight. Additional information is required for minerals originating from CAHRA or where other supply chain risks as spelled out in the OECD Minerals Guidance are present. These additional requirements align with those in the OECD Minerals Guidance.

CMR

The Conflict Minerals Regulation

Output requirements

Passive output (deliverables you must have but not proactively submit / disclose / publish)

Companies are required to keep documentation demonstrating compliance with their due diligence obligations under the CMR obligations for at least 5 years.

Additionally, they must make available the reports of audits to enforcement authorities upon request, and, if relevant, evidence of conformity with a recognised due diligence scheme.

Active output (deliverables you must submit / disclose / publish)

Companies must publish an annual report on the steps taken to comply with the Regulation, including information on their efforts to establish a management system and manage risks, as well as audits.

Additionally, companies must share all relevant information obtained from their due diligence practices with their immediate downstream purchasers (with due regard for business confidentiality and other competitive concerns) on a continuous basis.

FLR

EU Forced Labour Regulation

Who must comply

The Forced Labour Regulation (FLR) applies to companies of all sizes that export, place or make available products on the EU market. It concerns all types of products that are "extracted, harvested, produced or manufactured", which appears to apply to physical products.

The FLR contains a general prohibition of exporting, placing or making available products on the market that have been made (partially or completely) with forced labour, at any stage of the supply chain.

Focus: Forced Labour

Under the FLR, 'forced labour' is defined in accordance with the Article 2 of the ILO Convention n. 29, which specifies that 'forced or compulsory labour shall mean all work or service which is exacted from any person under the menace of any penalty and for which the said person has not offered himself voluntarily'.

The ILO also offers a list of indicators to spot forced labour that can be used as a guide to better understand the scope of the prohibition under the EU FRL. The indicators include: abuse of vulnerability; deception; restriction of movement; isolation; physical and sexual violence; intimidation and threats; retention of identity documents; withholding of wages; debt bondage; abusive working and living conditions; excessive overtime.

What are the requirements

The FLR mostly concerns the enforcement of the forced labour ban by public authorities, including customs procedures and collaboration between authorities in different Member States. Therefore, it only contains obligations on companies in relation to investigations initiated by public authorities. Implementation is due to start in 2027.

Process requirements

Where there is a decision from a competent authority that finds that products are in violation of the forced labour ban, a company must withdraw the relevant products from the market, and dispose of them by recycling (non-perishable products) or donating (perishable products) them or, where none of the above is possible, by rendering them inoperable.

FLR

EU Forced Labour Regulation

Output requirements

Passive output (deliverables you must have but not proactively submit / disclose / publish)

The main obligations on companies under the FLR relate to collaboration in investigations by authorities.

- **Before initiating an investigation:** an authority may request information from economic operators on relevant actions to identify, prevent, mitigate, bring to an end or remediate risks of forced labour in their operations and supply chains in relation to the specific product. This may include due diligence obligations under other pieces of legislation, or which is carried out voluntarily, but this is not required under the FLR.

- **Once an investigation is opened:** the operator has the duty to provide information relevant and necessary for the investigation on the request of the authority. Regardless of a formal request form the competent authority, the operator has also a right to submit documents or information that it considers relevant.

Active output (deliverables you must submit / disclose / publish)

As a mechanism to facilitate enforcement, the FLR empowers the European Commission to establish information requirements for importers or exporters for specific products or groups of products.

Annex II: GHG Accounting methods

Calculation-based (Section 2 MRV Regulation)

A calculation-based methodology shall consist in determining emissions from source streams on the basis of activity data obtained by means of measurement systems and additional parameters from laboratory analyses or default values.

- Article 21 MRV Regulation specifies that when this methodology is chosen, the operator also has to then choose between a standard methodology or a mass balance methodology and determine tiers in accordance with Annex II

Details on the standard methodology are provided in Article 24 MRV Regulation, whereas the mass balance methodology is spelled out in Article 25 MRV Regulation.

A measurement-based (Section 3 MRV Regulation)

A measurement-based methodology shall consist in determining emissions from emission sources by means of continuous measurement of the concentration of the relevant greenhouse gas in the flue gas and of the flue-gas flow, including the monitoring of CO 2 transfers between installations where the CO 2 concentration and the flow of the transferred gas are measured.

- Under article 40, operators shall use measurement-based methodologies for all emissions of nitrous oxide (N2O) as laid down in Annex IV, and to quantify CO2 transferred pursuant to Article 49
- Measurement-based methodology can also be used for CO2 emission sources when the operator can demonstrate that for each emission source the tiers spelled out in Article 41 are met (this also depends on the category of installation)

Combined methodology

Subject to approval from the competent authority, article 21 MRV Regulation allows for an operator to combine a standard methodology or a mass balance one with the measurement-based methodology.

Special regime/derogation regimes

- **Small Emitters** (emitting less than 25 000 tonnes of CO2 per year) can:

Determine their CO2 emissions using Eurocontrol's simplified monitoring tool, known as Small Emitter Tool (SET)

Note: This tool is available to 1) aircraft operators that are small emitters and 2) all aircraft operators to face data gaps.

Obtain an automatically generated annual emissions report via Eurocontrol's Environment Management Information Service (EMIS, previously called ETS Support Facility) and submit it without further verification.

- **A derogation regime under Article 22** can be chosen: this would consist of a monitoring methodology that is not based on tiers (fall-back methodology)

>> this can be done only under specific cumulative conditions (set in Article 22 itself) and only for selected source streams or emissions sources.

Note: This is a residual option for when a tier-based method (either calculation- or measurement-base) is not feasible or too costly.

Further specifications on ETS GHG emissions accounting methods:

Annex IV of the MRV Regulation sets some conditions, whereby one specific methodology or the measurement methodology must be used by the operator. In these cases, the operator may opt for another methodology, only by proving to the competent authority that the established methodology is technically not feasible or leads to unbearable costs, or that the alternative methodology ensures a higher level of accuracy.

There may be slight differences or some specifications in either the calculation-based or the measurement-based methodology depending on the type of operator (maritime, aviation, other regulated entities) - these are spelled out in the MRV Regulation subsections dealing specifically with each of them.

Tier definitions for calculation-based methodology for installations and regulated entities are spelled out in Annexes II and IIa respectively.

Tier definitions for measurement-based methodology are enshrined in Annex VIII.

CBAM

Transitional Regime (from 1 October 2023 until 31 December 2025):

Under Article 4, the calculator of embedded emissions during the transitional period can be made following either one of the following methods:

1) Determination of emissions from source streams on the basis of activity data obtained by means of measurement systems and calculation factors from laboratory analysis or standard values (calculation-based method)

2) Determination of emissions from emission sources by means of continuous measurement of the concentration of the relevant greenhouse gas in the fuel gas and of the fuel gas flow (measurement-based method)

Definitive Regime (from 1 January 2026 onwards):

Annex IV of the CBAM Regulation spells out the methodologies to be followed to calculate embedded emissions. Article 7 CBAM Regulation specifies which methodology has to be followed for different types of embedded emissions, including those in goods other than electricity and in imported electricity, and embedded indirect emissions.

Annex IV includes the specific formula and methods for the determination of actual specific embedded emissions for simple and complex goods; the default values, specific and alternative default values depending on the type of goods and on the category of emissions (embedded, indirect, actual) as well as the conditions under which specific calculation methods can be used in imported electricity and indirect emissions.

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