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ESGREG



Navigating ESG Regulations

A Guide for SMEs

A Word from the Project Team

This guide is prepared within the framework of the “Navigating ESG Regulations: A Guide for SMEs” (ESG-REG) project, co-funded by the Erasmus+ Program of the European Union (For more information about the project and the project partners, please refer to the final section of the guide).

The guide aims to provide basic and accessible information to small- and medium-sized enterprises (SMEs) and their trainers about the Corporate Sustainability Reporting Directive (CSRD) and the broader regulatory ecosystem it forms a part of.

Our intention is not to overwhelm but to empower - to offer clarity, practical examples, and entry points that make sustainability reporting understandable and actionable for smaller companies. Throughout this guide, you'll find explanations, tips, and insights to help you begin or strengthen your sustainability journey. Please note that the guide reflects a dynamic and evolving regulatory landscape and will be updated as new developments emerge.

While ESG-REG Guide has been prepared to the best of our knowledge and with great care, the project consortium cannot accept responsibility for any errors or omissions. The content is for informational purposes only and does not constitute legal or professional advice.

The ESG-REG Guide is the result of collaborative work across the ESG-REG consortium, with special thanks to Cecilia Gabutti for her editorial leadership and substantial contributions to content development.

Publication Date: 30.06.2025










This version reflects the state of regulations and practices as of the publication date.

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How this guide is structured and what can you expect in every section

	Section	Explains...	Example
	Name of the directive written in green letters	A short description of the directive is provided in a box and the official link to the regulation can be found.	
	Goal	Why the regulation exists	Protect forests / human rights
	Who is affected	Which actors must comply	EU firms, importers, large companies
	Scope & coverage	What issues and operations it applies to	Supply chain, ESG, sourcing, HR
	Timeline	When obligations apply	CSRD: 2024 for large firms, 2027 for SMEs
	Non-compliance effects	What happens if rules are ignored	Fines, product bans, lawsuits
	Regulatory links	How it fits into the EU legal ecosystem - interconnections	EU Leather Bags Producer with more than 500 employees: EUDR + CSRD + EU Taxonomy
	Future outlook: Omnibus Proposal	This refers to what's expected to happen next if Omnibus is approved	SMEs will be out of scope of CSRD
	Helpful Tools and Resources	Online Tools and Resources, mostly free of charge for companies, which provide additional learning material or help companies to comply with requirements	

Introduction

Why Sustainability Demands a Shift in Economic Systems and Business Operations

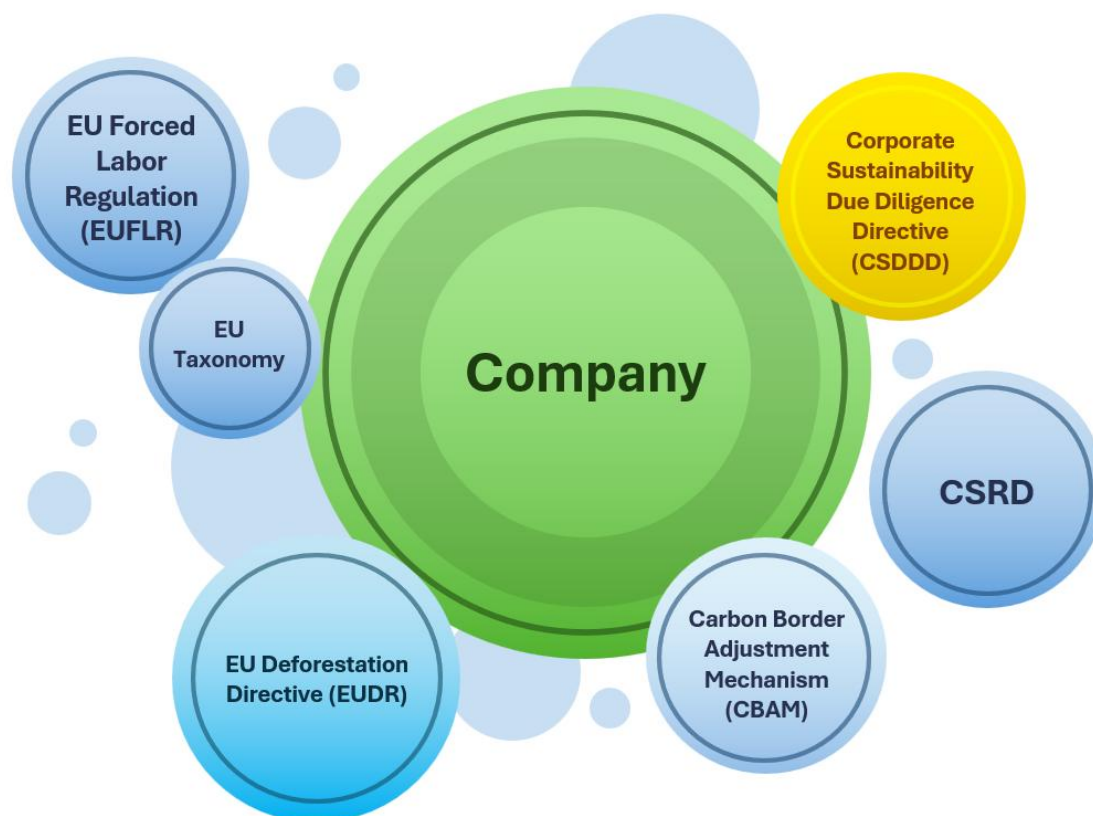
The world is facing unprecedented environmental and social challenges that demand urgent and transformative action. Climate change, biodiversity loss, resource depletion, and social inequality are no longer distant threats - they are realities reshaping economies, societies, and ecosystems. Traditional business models, which prioritize short-term profit over long-term sustainability, have played a significant role in driving these crises. To secure a thriving future, we need a paradigm shift in how economic systems and businesses operate.

Sustainability is at the heart of this transformation. It calls for businesses to move beyond mere profit generation and embrace responsibility for their environmental and social impacts. This shift is not just a moral imperative; it is an economic necessity. Markets are evolving, consumers are demanding transparency, investors are prioritizing sustainable practices, and governments are introducing rigorous regulations to address these pressing issues. Businesses that adapt to these changes are not only safeguarding their operations but also positioning themselves to lead in a new era of opportunity.

This is the backdrop against which small and medium-sized enterprises (SMEs) must navigate - and thrive. As vital engines of the global economy, SMEs have a unique role to play in this transition. But to do so, they need clear guidance on how to align with emerging sustainability frameworks and embrace Environmental, Social, and Governance (ESG) practices that will enable them to innovate, grow, and contribute to a resilient, sustainable future.

ESG Compliance and Reporting: Aligning with CSRD and ESRS

The Corporate Sustainability Reporting Directive (CSRD) and European Sustainability Reporting Standards (ESRS) are reshaping how businesses approach ESG compliance and reporting. These frameworks require companies, including SMEs under certain thresholds, to provide detailed and standardized disclosures on their environmental, social, and governance impacts. This includes reporting on greenhouse gas emissions, resource usage, social practices, and governance structures, with an emphasis on transparency and accountability across the value chain.



The Corporate Sustainability Reporting Directive (CSRD) provides a framework for companies to transparently disclose environmental, social, and governance-related information. However, it does not function in isolation; rather, it is part of a broader regulatory ecosystem where complementary regulations—such as the CBAM, EUDR, EUFLR, and CSDDD—also shape reporting requirements and influence company practices. This intricate interplay underscores the importance of understanding not only the CSRD and the ESRS but also how these and other regulations interact, as the combined effects ultimately determine overall disclosure obligations and compliance strategies. While these regulations are designed to drive positive transformation across industries and economic systems, navigating them can be highly complex. Companies must adopt a comprehensive approach to ensure alignment and successfully integrate these multifaceted requirements into their business practices.

What Does It All Mean for SMEs?

SMEs are the backbone of the EU economy, accounting for 99% of all businesses in the European Union. To determine whether a company qualifies as an SME, the EU considers two main factors: staff headcount AND either turnover or balance sheet total:

Company category	Staff headcount	Turnover	or	Balance sheet total
Medium-sized	< 250	≤ € 50 m		≤ € 43 m
Small	< 50	≤ € 10 m		≤ € 10 m
Micro	< 10	≤ € 2 m		≤ € 2 m

Definition & Image Source: [European Commission / Internal Market, Industry, Entrepreneurship and SMEs](#)

While the definition of an SME may vary from country to country at the local level, the EU definition is the one taken into consideration for the ESG-REG Guide.

So, what does this mean for SMEs specifically?

For SMEs based in the EU, these regulations introduce new reporting requirements, operational benchmarks, and supply chain standards. While this may seem daunting, it also presents a unique chance to align your business with market trends, enhance competitiveness, and build trust with stakeholders.

For SMEs outside the EU, the implications are equally significant. As part of global supply chains, your ability to comply with EU sustainability regulations could determine your access to markets, partnerships, and new business opportunities. Far from being a barrier, this alignment can serve as a springboard for positioning your business as a sustainable, trusted partner.

Why This Guide and How to Use It?

The ESG-REG Guide is developed in the framework of the small-scale partnership project “Navigating ESG Regulations: A Guide for SMEs”, co-funded by the European Commission’s Erasmus+ Program.¹

The Guide aims to provide a practical roadmap to help you:

- Navigate the complexities of evolving sustainability regulations.
- Understand the interrelations among different regulations. Explore business-case scenarios and useful digital tools/resources to better understand the regulations.

The Guide highlights the evolving EU regulatory landscape, which impacts not only EU-based companies but also upstream and downstream actors across the global supply chain. It begins with the CSRD, examining its direct implications for companies and how it interlinks with other

¹ Please visit the end of the Guide for more information on the project and consortium partners

emerging regulations. Understanding these regulatory interactions is essential for effective ESG reporting and successful implementation of sustainability requirements.

Important Note on Use of This Guide: This Guide is a project-based publication developed to support and inspire SMEs and SME trainers/consultants in navigating the evolving sustainability regulatory landscape. It aims to simplify complex topics, offer orientation, and present practical tools and examples. However, it is not an official regulatory document and should not be treated as a substitute for consulting authoritative EU legislation or guidance. Readers are strongly encouraged to refer to the official EU sources for the most up-to-date, complete, and legally binding information.

Disclaimer on Tools and Resources: The Guide includes training resources alongside selected tools where applicable. However, not all regulations presented are accompanied by available training materials. The inclusion of any tool or resource does not constitute an endorsement. Responsibility for the content rests solely with the respective authors or providers. Tools and resources are presented solely for informational and orientation purposes.

Context: The Omnibus Proposals and Their Potential Impact

On February 26, 2025, the European Commission introduced two legislative packages, Omnibus I and Omnibus II, as part of its efforts to simplify EU regulatory frameworks and improve business conditions. According to these proposals Omnibus I (COM(2025)80, COM(2025)81, COM(2025)87 and its annexes) and Omnibus II (COM(2025)84) aim to reduce administrative burdens, enhance the competitiveness of European businesses (particularly SMEs), and ensure better alignment with the EU's sustainability and climate goals.

This Guide highlights the implications of these proposals on existing regulations, including the Corporate Sustainability Reporting Directive (CSRD), Carbon Border Adjustment Mechanism (CBAM), Corporate Sustainability Due Diligence Directive (CSDDD), and the EU Taxonomy. Please note that the affected regulations may undergo modifications as a result of the Omnibus packages. Key proposed changes are highlighted in the relevant sections throughout the Guide.²

Consequences of Non-Compliance with Sustainability Regulations

Non-compliance with sustainability regulations can have severe implications for businesses across multiple areas. These consequences can be categorized into legal and financial risks, reputational risks, and operational risks. Additionally, enforcement measures and specific sanctions will be determined at the national level, meaning they may vary from country to country.

² At the time of finalizing this publication, the *Stop the Clock* proposal has been approved, and the content of this guide has been updated accordingly, however the other proposed changes under the Omnibus I & II proposals were still under discussion and had not yet been formally adopted. It remains uncertain which elements will be approved, revised, or withdrawn. For the most accurate and up-to-date information, readers are strongly encouraged to consult official EU sources. While updates may be shared on our project website after May 2025, we cannot guarantee continuous tracking of all legislative developments.

1. Legal and Financial Risks

- Companies that fail to comply with sustainability regulations may face fines, penalties, and potential criminal liability, depending on the regulation and on the severity of the violation.
- Regulatory authorities may impose increased scrutiny, leading to prolonged legal and administrative challenges.
- Non-compliance could result in higher compliance costs in the future as companies attempt to rectify past violations.
- Restricted access to credit and financing, as banks and investors increasingly consider sustainability compliance when making lending decisions. Financial institutions may deny loans or impose higher interest rates on non-compliant businesses.

2. Reputational Risks

- Non-compliance can lead to loss of stakeholder trust, including investors, customers, and employees.
- Negative publicity and public scrutiny may damage a company's brand, affecting its market position.
- Difficulty in attracting and retaining talent, as employees increasingly seek to work for companies that uphold sustainability and ethical standards.

3. Operational Risks

- Companies may face increased costs due to supply chain disruptions, additional compliance measures, and loss of key business partners.
- Missed business opportunities as many clients and partners prioritize working with compliant businesses.
- Potential exclusion from procurement processes, as sustainability compliance is increasingly a requirement in supplier selection criteria.
- Reduced competitiveness in markets where sustainability standards are a key factor in business operations.

4. Country-Specific Enforcement and Sanctions

Even though this Guide offers general information about regulation's specific sanctions in case of non-compliance, the enforcement of sustainability regulations and the specific sanctions for non-compliance will be defined at the national level, which means that penalties and enforcement approaches may vary from one country to another. Businesses must stay informed about how these regulations are transposed and enforced in the countries in which they operate to ensure compliance and mitigate risks.

1. Corporate Sustainability Reporting Directive (CSRD)

The Corporate Sustainability Reporting Directive (CSRD) is an EU regulation that expands and standardizes sustainability reporting requirements for companies. It mandates detailed disclosure on environmental, social, and governance (ESG) factors, ensuring transparency and alignment with the EU Green Deal objectives.

[Official Link](#)



What's the Goal?

The CSRD modernises and strengthens the rules concerning the information that companies have to report. It aims to ensure that companies disclose relevant environmental, social, and governance (ESG) information in a consistent and comparable manner, enabling stakeholders to make informed decisions. The new rules ensure that investors and other stakeholders have access to the information they need to assess the impact of companies on people and the environment. It also allows investors to assess financial risks and opportunities arising from climate change and other sustainability issues. By mandating comprehensive sustainability reporting, the CSRD supports the EU's goals of transitioning to a sustainable economy and reaching carbon neutrality. The CSRD's core purpose is to standardize and improve the quality of sustainability reporting across Europe, helping investors, stakeholders, and the public assess companies' ESG credentials more effectively.

Who's Affected

1. EU companies meeting two or more of the following criteria:
 - €50 million in net turnover
 - €25 million in assets
 - 250 or more employees
2. Both EU and non-EU companies with securities listed on a regulated market in the EU (such as bonds or stocks) and meeting two or more of the following criteria:
 - €900,000 or more in net turnover
 - €450,000 or more in assets
 - 10 or more employees
3. Non-EU companies that have an annual EU net turnover exceeding €150 million in each of the last two consecutive financial years, and own:
 - a large EU-based business, or
 - an EU-based subsidiary with securities listed on an EU-regulated market exchange, or
 - an EU branch with €40 million or more in net turnover.

Scope and Coverage

The CSRD applies to companies required to disclose sustainability information under EU law. It expands reporting obligations beyond the NFRD, covering large EU companies, listed SMEs, and certain non-EU companies with significant EU operations. The directive ensures standardized ESG reporting, improving transparency and accountability in corporate sustainability practices.

Timeline

The Corporate Sustainability Reporting Directive (CSRD) came into force on 5 January 2023, introducing a phased approach to sustainability reporting obligations. Companies will be required to gradually align with the new standards, depending on their size, market presence, and geographical scope.

The first companies affected by the directive are those already subject to the 2014 Non-Financial Reporting Directive (NFRD), including large public-interest entities with more than 500 employees and large issuers exceeding the same threshold. For these companies, the new reporting requirements apply from 1 January 2024, with the first CSRD-compliant reports due in 2025.

From 1 January 2027, the scope expands to include all other large EU companies and large non-EU companies listed on an EU-regulated market. Additionally, large EU subsidiaries of non-EU parent companies must also comply. These entities will be required to publish their first reports under the directive in 2028.

The following year, from 1 January 2028, listed small and medium-sized enterprises (SMEs) will need to adopt CSRD reporting standards, along with EU small and non-complex credit institutions and captive insurance companies. Their first reports will be required in 2029.

Finally, from 1 January 2028, the directive will apply to large non-EU companies generating more than €150 million in net turnover within the EU, provided they have at least one in-scope entity or branch within the EU.

What Happens If You Don't Comply?

Companies that fail to comply with the Corporate Sustainability Reporting Directive (CSRD) may face a range of sanctions, as enforcement is managed at the national level by regulatory authorities in each EU member state. Since the directive must be transposed into national law, penalties will vary across jurisdictions, but they are required to be effective, proportionate, and dissuasive. Regulatory bodies have the authority to conduct investigations and audits to ensure compliance. Failure to submit accurate and complete sustainability reports can result in financial penalties, legal actions, or heightened regulatory scrutiny. In some countries, companies that do not meet reporting obligations may also face restrictions, such as exclusion from public procurement processes or business limitations that affect their market position. In certain jurisdictions, non-compliance could lead to more severe consequences. Some national laws already include criminal sanctions for obstructing sustainability audits or failing to appoint an independent third-party auditor. For publicly listed companies, failure to comply may trigger trading restrictions or, in extreme cases, lead to delisting from stock exchanges.

How It Connects to Other Regulations

NFRD (Non-Financial Reporting Directive): The CSRD is a replacement and expansion of the NFRD. The scope of application has increased to a broader range of companies. CSRD also introduces more detailed and standardized reporting requirements and also mandates assurance (audit) requirements for reported sustainability information, unlike the NFRD.

EU Taxonomy: Both the EU Taxonomy and the CSRD are part of the European Union's Sustainable Finance Package. While the CSRD establishes comprehensive and standardized sustainability reporting based on the European Sustainability Reporting Standards (ESRS), the EU taxonomy deals with the categorization of financial flows into taxonomy-eligible and taxonomy-compliant revenues. In the environmental section of a CSRD report, companies need to disclose how their actions align with the EU Taxonomy Regulation (Regulation 2020/852).

Under Article 8 of the EU Taxonomy Regulation, companies subject to the CSRD must disclose three key “green” performance indicators relating to their economic activities. In practice, this means they must report: Green Turnover, Green Capital Expenditure (CapEx), Green Operating Expenditure (OpEx).

By mandating these disclosures, the EU aims to provide transparency on how much of a company's business is truly “sustainable” and to help investors, policymakers, and other stakeholders identify environmentally sustainable activities.

ESRS (European Sustainability Reporting Standards): ESRS are the reporting standards under the CSRD which the affected companies must use to disclose sustainability information in a structured, comparable, and detailed manner.

CSDDD (Corporate Sustainability Due Diligence Directive): The regulations complement each other while focusing on different aspects of corporate responsibility. The CSDDD emphasizes corporate due diligence, requiring companies to identify, prevent, and mitigate human rights and environmental risks across their supply chains. Outputs of the CSDDD will be used to support and complete the CSRD report. The CSDDD enforces environmental and social responsibility, while the CSRD ensures its transparency.

SFDR (Sustainable Finance Disclosure Regulation): As the CSRD aims to enhance transparency regarding ESG impacts, risks, and opportunities, the SFDR focuses on increasing transparency in sustainable investments. By requiring the disclosure of ESG-related information, the SFDR seeks to channel capital into more sustainable investment avenues and prevent greenwashing. The CSRD ensures that companies disclose ESG data, making it easier for financial institutions to comply with SFDR, which mandates that investors disclose sustainability-related information about their investments. The SFDR applies to financial market participants (FMPs) and financial advisors (FAs). Additionally, the Principal Adverse Impact (PAI) indicators in SFDR align with certain CSRD/ESRS reporting metrics.

VSME (Voluntary SME Sustainability Reporting Standard): The CSRD introduces simplified voluntary reporting standards (VSME) for non-listed SMEs which aims to help SMEs face growing sustainability data requests from business counterparties, without excessive administrative burden. While SMEs are not directly required to report under CSRD (unless listed), they may face indirect pressure from banks, investors, and larger supply chain partners that must comply with CSRD. SMEs can use this to standardise the sustainability information they wish to report, creating better opportunities to obtain green financing and thus facilitating the transition to a sustainable economy.

Future Outlook: Omnibus Proposal

The Omnibus Proposal presented on February 2025, proposes several changes that affects this regulation, among the main changes that can be expected in case of approval of this proposal, we can mention the following:

Mandatory reporting now applies only to:

- ▶ Companies with more than 1,000 employees and either €50 million in net turnover or €25 million in total assets
- ▶ Large publicly listed companies with more than 1,000 employees remain subject to full CSRD compliance

Exempt from reporting obligations:

- ▶ Companies with less than 1,000 employees – their reporting obligation may be removed if the Omnibus regulation is adopted
- ▶ Publicly listed companies with fewer than 500 employees – no reporting required for 2025 and 2026. If Omnibus is not adopted by 2027/2028, they might be brought back into scope
- ▶ Micro and small private companies (both publicly listed and private) – fully exempt, but they can opt to use the VSME (Voluntary SME Sustainability Reporting Standard) for simplified reporting

Reporting simplifications introduced:

- ▶ New revision of ESRS: 25% reduction in disclosure requirements, prioritizing quantitative data over extensive narrative explanations
- ▶ Sector-specific reporting requirements removed – no additional obligations based on industry classification
- ▶ Value chain reporting restrictions – large companies cannot demand excessive sustainability data from SMEs in their supply chains, ensuring a proportionate compliance approach

Assurance

- ▶ Reasonable Assurance has been removed

Helpful Tools and Resources

<https://csrdinstitute.eu/> - The CSRD Institute provides professional online training on CSRD reporting regulations, offering structured courses that equip businesses with the tools to ensure compliance. Higher-level programs include certification of completion, with access available through course enrollment.

<https://platform.csr-secure.eu/> - A free e-learning platform intended to make sustainability training available to everyone. SECuRe project offers a vocational educational course to become a certified SECuRe manager and a knowledge repository which provides access to up-to-date information on sustainability reporting.

<https://www.efrag.org/en/about-us/friends-of-efrag> - A compilation of organizations that support EFRAG's mission of being committed to supporting the development of sustainability reporting standards. A multitude of listed organizations offer their own software/platforms for complying with the CSRD.

<https://www.greenomy.io/ebooks/csrd> - A free ebook which serves as a toolkit to understand the essentials of the CSRD.

<https://normative.io/white-papers/decoding-csrd/> - A free guide that provides a summary of the CSRD requirements, gives explanations for the terminology and requirements, outlines the tools and workflows that can help with complying and how to use the data you collect for CSRD to drive environmental action and unlock new business opportunities

<https://www.csrdsoftware.com/all-in-one-csrd-reporting-software> - A toolkit for ensuring CSRD compliance. Includes carbon accounting, double materiality assessment, ESRS management, supplier assessment and audit-ready sustainability statement. Available for a free demo, otherwise requires payment.

Example

Company A, which is based in the EU, runs a tech-startup. In order to comply with the CSRD, the company will have to undertake the following steps:

Company A must determine whether it falls within the scope of the regulation, meaning it needs to assess whether it qualifies as one of the business categories required to report. Familiarizing itself with the legislation and understanding how the CSRD has been transposed into the specific country's legal framework are crucial steps in this process. Key factors such as phasing-in timelines, thresholds for applicability, and audit requirements can vary from country to country. Depending on the size, there are certain disclosures that may not be required in the first year of reporting, but will become required later on.

In this example, company A has 1010 employees but a net turnover of €30 million. To determine if it is required to report, the company must also review its assets. If its total assets amount to at least €25 million, it falls under the reporting obligation and must disclose ESG information for the 2025 financial year, beginning in 2026.

I. Assembling a team

The complexity of CSRD reporting demands a team that will conduct double materiality assessments, coordinate data collection, and ensure compliance with frameworks like the European Sustainability Reporting Standards (ESRS). Whether it is done through outside help or in-house, an important step in the process is involving departments such as finance, HR, legal affairs, among others who already might be collecting information relevant to the ESRS standards. By choosing representatives for each topic, the process is simplified since the employees already have some general knowledge on the process and data collection.

II. Listing important themes within the business

Once a dedicated team for the CSRD report is in place, Company A should begin by conducting preliminary research to compile a comprehensive list of topics that impact its business. At the same time, the team should identify which sustainability issues are most relevant to its industry and determine the applicable ESRS standards for disclosure. For a tech startup like Company A, these areas might include energy efficiency, ethical sourcing, digitalization, and social responsibility, among others.

To support this initial assessment, Company A can utilize existing sources of information—such as audits, certifications, annual reports, and other documentation detailing how its supply chain addresses human and environmental risks. This approach ensures that the preliminary review is both thorough and aligned with industry-specific sustainability practices.

III. Identifying key topics with a double materiality assessment (DMA)

A double materiality assessment (DMA) is a fundamental step in determining which sustainability topics must be reported. Company A must evaluate impact materiality (how its operations affect people and the environment) and financial materiality (how sustainability matters influence business performance).

[Following EFRAG's Implementation Guidance](#), the assessment consists of four steps:

1. **Understanding the context** – analyzing business activities, value chain, and sustainability risks
2. **Identifying impacts, risks, and opportunities** – reviewing ESG factors relevant to the company's operations
3. **Determining materiality** – assessing which topics meet reporting thresholds
4. **Documenting and disclosing findings** – integrating results into the sustainability report

For Company A, carbon emissions, labor rights, and corporate governance may represent impact materiality, while energy consumption, ethical business practices, and talent acquisition may have financial materiality. Topics that are financially material, impact material, or both should be treated as material matters and must be disclosed in the CSRD report.

IV. Engaging with stakeholders

Involving stakeholders—such as employees, customers, suppliers, banks, environmental groups, the government, and any other parties affected by company A's activities—is crucial for ensuring transparency and accountability in sustainability reporting. Engaging in dialogue with the stakeholders who have the greatest impact on the company, and vice versa, allows for discussions on their priorities, expectations, and perceptions of opportunities and risks. By actively involving stakeholders and sharing their input openly, the company builds trust and creates a report that speaks directly to the concerns of those who matter most to its business. That is also why it is essential for company A to outline in its report how it considers stakeholder interests in its strategy and operations. For example, that could be through taking into consideration the opinions and satisfaction from end users in the formation of new products.

Discussions with stakeholders should focus on topics relevant to the company, based on the 12 general ESRS standards. These topics might include internal concerns such as employee well-being, external issues like the circular economy, or broader cultural aspects like corporate culture.

The stakeholder analysis can be conducted in various ways, but the most common methods are questionnaires and interviews. While engaging a wide range of stakeholders provides a more comprehensive picture, the company can determine the scope that is both sufficient and feasible for its reporting process.

V. Collecting and Managing ESG Data

After determining material sustainability topics, Company A must establish a structured data collection process to ensure compliance with CSRD requirements. Sustainability data can be categorized into:

- **Narrative data** – information about policies, strategies, and commitments.
- **Quantitative data** – measurable indicators such as carbon footprint, energy use, water consumption, and workforce diversity.

Company A should leverage existing internal systems and external data sources to collect accurate and verifiable information. Collaboration with suppliers and business partners may also be necessary, particularly for topics related to supply chain sustainability. Given the complexity of ESG data, the company must ensure consistency, traceability, and alignment with ESRS reporting frameworks.

VI. Understanding Reporting Requirements and Phased Implementation

Company A must ensure that it understands both mandatory and phased-in disclosure requirements under the CSRD. Certain reporting elements have transitional periods, allowing companies to gradually integrate full compliance. For example, in the first year of reporting, companies are not required to include value chain information, and only minimal reporting on social topics is necessary. Biodiversity reporting remains voluntary for the first two years, while financial effects of sustainability issues can be reported qualitatively for the first three years. Additionally, companies with fewer than 750 employees benefit from phased-in reporting obligations for social standards, easing their compliance process.

VII. Auditing the sustainability report

Under the CSRD, sustainability reports must undergo an external audit to verify the accuracy and completeness of disclosed information. Company A should proactively document each step of the reporting process, ensuring that methodological choices, materiality assessment procedures, and excluded voluntary data points are clearly recorded. Auditors will assess whether the report aligns with ESRS standards and CSRD requirements. If any gaps or inconsistencies are identified, Company A must be able to demonstrate that certain reporting elements were either optional, phased-in, or deliberately omitted based on justified criteria. By ensuring transparency in its reporting methodology, the company minimizes the risk of audit-related issues and regulatory scrutiny.

VIII. Publishing the sustainability report

Under the CSRD, all the required data should be presented in one coherent document, published as part of company A's annual management report and be made publicly available. The report should be structured in a clear and coherent manner, aligning with ESRS disclosure requirements while maintaining readability for stakeholders. Since CSRD mandates comparability and accessibility of sustainability data, Company A must ensure that all required disclosures are properly structured, enabling stakeholders to analyze the company's sustainability performance over time.

IX. Meeting Digital Reporting Requirements

To facilitate large-scale data collection and regulatory oversight, the European Commission and ESMA require companies to publish their sustainability reports in a standardized digital format. Once the XBRL taxonomy is finalized, all CSRD reports will need to be submitted in xHTML format with XBRL tags, ensuring machine-readability and alignment with EU regulatory frameworks. Company A should monitor developments in digital reporting requirements and ensure that it implements the necessary technical solutions to comply with structured sustainability disclosures. By preparing for these changes in advance, the company can avoid last-minute compliance challenges and ensure a smooth transition to digital sustainability reporting.

2. European Sustainability Responsibility Standards (ESRS)

The European Sustainability Reporting Standards (ESRS) set a clear framework for companies to report on their sustainability impacts, risks, and opportunities in accordance with the Corporate Sustainability Reporting Directive (CSRD). These standards aim to improve transparency, consistency, and comparability in sustainability reporting, ensuring that businesses provide reliable information to investors, regulators, and other stakeholders.

[Official Link](#)



What's the Goal

A key principle of ESRS is materiality, meaning that companies are only required to disclose information on environmental, social, and governance (ESG) topics that have a significant impact on their business or broader society. ESRS does not require companies to disclose information on environmental, social, or governance topics if, after assessment, they determine that the topic is not material to their business or stakeholders. By implementing ESRS, companies can strengthen risk management, enhance market credibility, and align with evolving sustainability expectations, turning compliance from an obligation into a strategic advantage.

Who's Affected?

EU companies meeting two or more of the following criteria:

- €50 million in net turnover
- €25 million in assets
- 500 or more employees

Both EU and non-EU companies with securities listed on a regulated market in the EU (such as bonds or stocks) and meeting two or more of the following criteria:

- €900,000 or more in net turnover
- €450,000 or more in assets
- 10 or more employees

Non-EU companies that have an annual EU net turnover exceeding €150 million in each of the last two consecutive financial years, and own:

- a large EU-based business, or
- an EU-based subsidiary with securities listed on an EU-regulated market exchange, or
- an EU branch with €40 million or more in net turnover.

Scope and Coverage

The European Sustainability Reporting Standards (ESRS) establish the scope of mandatory sustainability disclosures, covering environmental, social, and governance (ESG) topics. Each standard defines specific reporting obligations to ensure transparency, consistency, and comparability in corporate sustainability disclosures across the EU.

The environmental standards (E) require companies to report on climate change mitigation and adaptation, pollution prevention, management of water and marine resources, biodiversity and ecosystems, and resource use with a focus on circular economy principles.

The social standards (S) address the company's own workforce, workers in the value chain, impacts on affected communities, and consumer and end-user protection.

The governance standard (G) mandates disclosures on corporate conduct, including business ethics, anti-corruption measures, and responsible business practices.

ESRS applies to companies at both the individual and group levels, ensuring that sustainability impacts, risks, and opportunities are disclosed comprehensively and in alignment with EU reporting obligations.

Timeline

Regulation applies from **January 1, 2024**, for financial years beginning on or after this date. The implementation follows a phased approach³:

ESRS is the mandatory reporting framework under CSRD, ensuring standardized sustainability disclosures across the EU. From **2028**, reports prepared under ESRS must be submitted to the European Single Access Point (ESAP) for public access, as required by Directive (EU) 2023/2864.

What Happens If You Don't Comply?

[European Sustainability Reporting Standards \(ESRS\)](#) are integral to the [Corporate Sustainability Reporting Directive \(CSRD\)](#), which mandates that companies disclose specific sustainability information. Non-compliance with ESRS requirements is addressed within the CSRD framework. While the CSRD sets the overarching guidelines, it delegates the responsibility of enforcement and the determination of sanctions to individual EU member states. Consequently, each country establishes its own penalties for non-compliance, which can include monetary fines, legal actions, and reputational consequences. The directive emphasizes that these sanctions should be effective, proportionate, and dissuasive to ensure adherence. Therefore, companies must familiarize themselves with both the ESRS requirements and the specific enforcement mechanisms within their respective jurisdictions to ensure full compliance.

³ Please see the CSRD Timeline on page 9.

How It Connects to Other Regulations

The European Sustainability Reporting Standards (ESRS) serve as the official framework for corporate sustainability disclosures under the Corporate Sustainability Reporting Directive (CSRD). However, their implementation is closely interconnected with several other EU regulations, ensuring consistency in environmental, social, and governance (ESG) reporting. ESRS acts as the foundation for aligning sustainability disclosures across multiple regulatory frameworks, including CSRD, the EU Taxonomy, SFDR, EUDR, CBAM, CSDDD, and EUFLR.

- [The CSRD \(Directive \(EU\) 2022/2464\)](#) mandates which companies must report, while ESRS defines how they report. Compliance with ESRS ensures adherence to CSRD, structuring sustainability disclosures in a standardized way.
- The Sustainable Finance Disclosure Regulation ([SFDR – Regulation \(EU\) 2019/2088](#)) applies to financial institutions, requiring them to assess sustainability risks in investments. Many ESRS data points align with SFDR indicators, particularly Principal Adverse Impact (PAI) disclosures, providing investors with essential ESG data.
- The Corporate Sustainability Due Diligence Directive ([CSDDD – Directive \(EU\) 2024/1760](#)) mandates that companies identify, prevent, and mitigate environmental and human rights risks in their supply chains. ESRS standards, particularly S1 (Own Workforce), S2 (Workers in the Value Chain), and G1 (Business Conduct), require disclosures on due diligence practices, helping companies demonstrate compliance with CSDDD obligations.
- From an environmental perspective, the EU Deforestation Regulation ([EUDR – Regulation \(EU\) 2023/1115](#)) requires businesses to prove that their products do not contribute to deforestation. ESRS E4 (Biodiversity and Ecosystems) requires reporting on land use and biodiversity impacts, ensuring supply chain transparency in alignment with EUDR.
- Regarding climate policies, the Carbon Border Adjustment Mechanism ([CBAM – Regulation \(EU\) 2023/956](#)) introduces a carbon pricing system for imported goods. ESRS E1 (Climate Change) mandates the disclosure of Scope 1, Scope 2, and Scope 3 greenhouse gas emissions. If the company needs to comply with CBAM regulation, this information will have to be disclosed in the Scope 3 emissions report but at product level.
- On the social front, the [EU Forced Labor Regulation \(EUFLR\)](#) bans products made with forced labor. ESRS S1 and S2 require companies to disclose their human rights policies and supply chain due diligence, ensuring compliance and minimizing risks of market restrictions.

Further Information about the FAQ can be found [HERE](#)

Future Outlook: Omnibus Proposal

The Omnibus Proposal presented on February 2025, proposes several changes that affects this regulation, among the main changes that can be expected in case of approval of this proposal, we can mention the following:

Reporting simplifications introduced:

- ▶ New revision of ESRS: 25% reduction in disclosure requirements, prioritizing quantitative data over extensive narrative explanations

- ▶ Sector-specific reporting requirements removed – no additional obligations based on industry classification
- ▶ Value chain reporting restrictions – large companies cannot demand excessive sustainability data from SMEs in their supply chains, ensuring a proportionate compliance approach

Assurance

- ▶ Reasonable Assurance has been removed

Helpful Tools and Resources

To comply with ESRS, organizations need structured approaches for data collection, risk assessment, reporting, and verification. Various tools facilitate alignment with ESRS requirements, ensuring standardized and transparent sustainability reporting.

[ESRS Navigator](#) – A free digital platform that offers an overview of all ESRS standards, disclosure requirements, and indicators, helping organizations structure their reports effectively.

[GHG Protocol](#) – A globally recognized methodology for measuring Scope 1, 2, and 3 emissions, referenced in ESRS E1 for carbon accounting.

[SBTi \(Science-Based Targets initiative\)](#) – A globally recognized framework that provides sector-specific standards and methodologies for setting science-based emission reduction targets in line with the Paris Agreement. SBTi validates corporate decarbonization goals, ensuring alignment with the 1.5°C or well below 2°C pathways.

[SASB Materiality Finder](#) – A structured tool that helps organizations identify financially material sustainability topics by industry, based on SASB Standards, which are widely used in financial reporting. It supports ESRS double materiality assessments by providing sector-specific ESG risks that may impact financial performance.

[EFRAG XBRL Taxonomies](#) – A digital framework developed by EFRAG to facilitate structured ESRS reporting by enabling machine-readable sustainability disclosures. The XBRL (eXtensible Business Reporting Language) format helps organizations align their sustainability data with regulatory requirements, improving data transparency and comparability.

[EFRAG ESRS Implementation Guidance](#) – A set of official non-binding guidelines issued by EFRAG, providing detailed explanations, illustrative examples, and best practices for ESRS compliance. These documents help organizations understand materiality assessments, value chain disclosures, and reporting structures.

[OECD Guidelines for Multinational Enterprises](#) – A set of internationally recognized standards that provide guidance on responsible business conduct, including anti-bribery, human rights, supply chain due diligence, and corporate governance. These guidelines support ESRS G1 requirements for business conduct, ethics, and transparency.

Example

Example of a hotel chain operating in Croatia that must comply with the [European Sustainability Reporting Standards \(ESRS\)](#) under the [Corporate Sustainability Reporting Directive \(CSRD\)](#).

To achieve compliance, the company must undertake several key steps to ensure its sustainability data is structured, transparent, and aligned with regulatory expectations:



Double Materiality Assessment

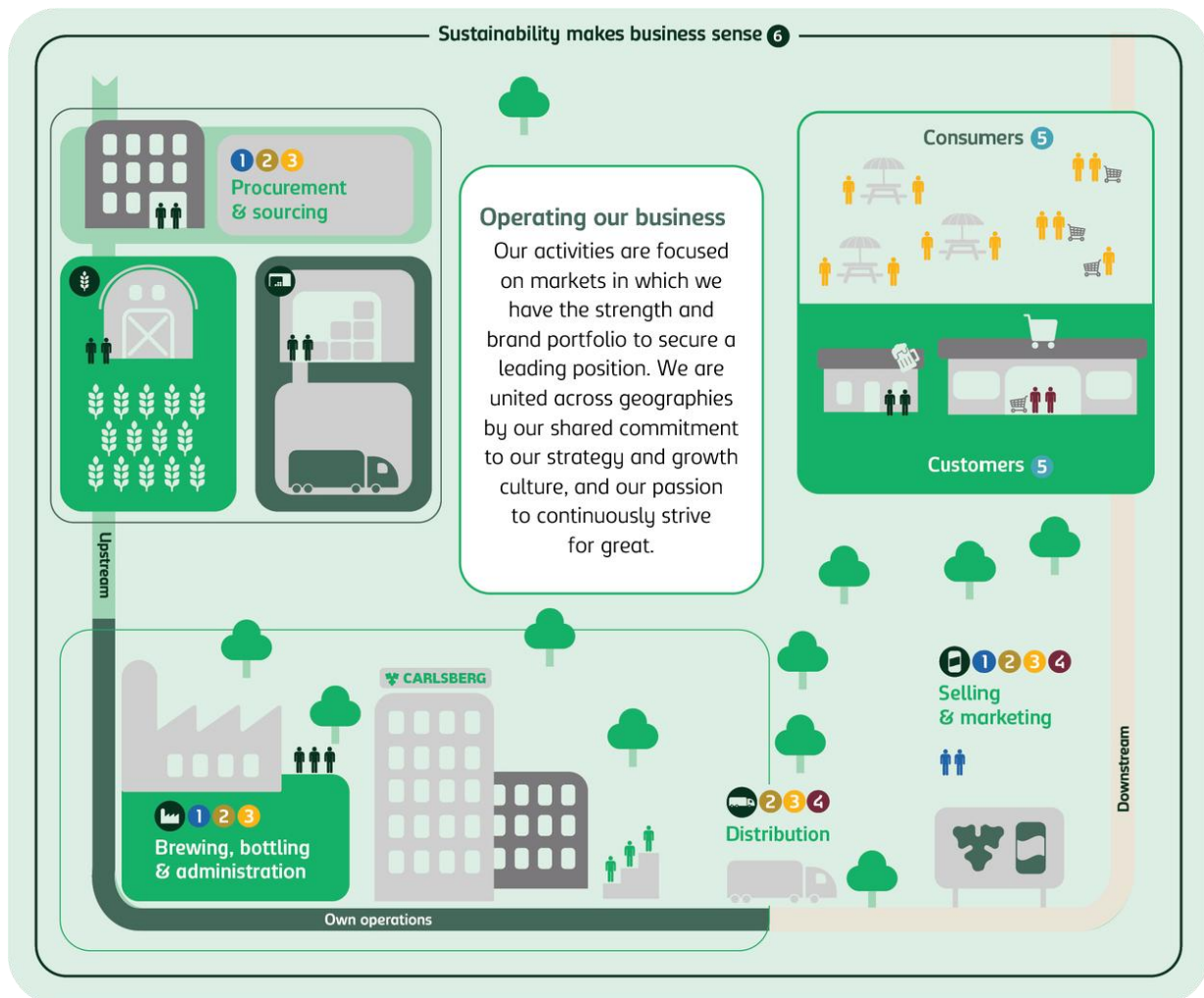
The first step in this process is conducting a double materiality assessment to determine which environmental, social, and governance (ESG) factors are relevant to the business. This assessment requires the company to evaluate both how its operations impact the environment and society (impact materiality) and how sustainability risks affect financial performance (financial materiality). The assessment must be carried out following established methodologies such as [EFRAG ESRS Implementation Guidance](#) and may be supplemented with tools like [SASB Materiality Finder](#). Without a proper materiality assessment, the company risks incomplete or misaligned reporting, which may lead to regulatory scrutiny or reputational risks. Following the assessment, the company must integrate these findings into its ESG strategy, governance structures, and corporate reporting.

Double Materiality Assessment Process under ESRS

The double materiality assessment follows a structured process outlined by ESRS, ensuring that sustainability impacts, risks, and opportunities (IROs) are properly identified, assessed, and reported. This process consists of four key steps:

Step A: Understanding the Context

In this step, the company establishes a clear overview of its business model, strategy, and operations, which serves as the foundation for identifying relevant sustainability matters. This includes: Business activities and value chain mapping (both upstream and downstream), Regulatory and market context, including sustainability-related risks and stakeholder analysis to determine affected parties.



Source: [Carlsberg Group Annual Report 2024](#), page 20.

Step B: Identification of Actual and Potential IROs

At this stage, the company identifies sustainability impacts, risks, and opportunities across its operations and value chain. This involves screening relevant sustainability matters (e.g., climate change, human rights, biodiversity), evaluating entity-specific risks and opportunities not covered by sector standards, and defining a preliminary (long) list of material topics for assessment.

Material impacts, risks, and opportunities and their interaction with strategy and business model

ESRS Standard	Material impacts, risks and/or opportunities	Classification	Time horizon	Location in value chain	Description and interaction with business model and/or strategy
E1 Climate change	Transitional risks due to increasing carbon costs and embodied carbon level	Negative impact and risks	Medium-term	VC	Classified as “high climate impact sector”, most stone wool factories use fossil fuels, impacting climate change and exposing ROCKWOOL to rising carbon costs. These risks are presented in more detail in the scenario analysis on pp. 64-66
	Physical risks due to acute climate change	Risks	Medium-term	VC	ROCKWOOL’s factories, key assets with capital-intensive technologies, could be harmed by acute climate change. These physical risks are presented in more detail in the scenario analysis on pp. 64-66 Mitigation: Regular monitoring, evaluation and mitigation in cooperation with insurers and experts
	Non-combustible energy saving products contribute to green transition	Opportunity	Medium-term	VC	Increased demand for insulation products is an opportunity presented in more detail on pp. 64-66
E2 Pollution	Air emissions other than GHG	Negative impact and risks	Short-term	OO	The production process entails melting raw materials at temperatures about 1.500°C and curing wool fibers at around 450°C. This process generates pollution of air other than GHG emissions, such as NO _x , SO ₂ , CO, PM ₁₀ , and other substances. With increasingly demanding EU and international regulation and local community awareness, the risks linked to air emissions are significant. Mitigation: Abatement installations and R&D focused on new binder technologies

Source: [Rockwool Annual Report 2024](#), page 57.

Step C: Assessment and Determination of Material IROs

Here, the identified IROs are evaluated based on impact materiality and financial materiality using criteria such as:

- Scale, scope, and irreversibility of impacts.
- Likelihood and financial impact of risks and opportunities.
- Stakeholder feedback and scientific consensus.



Source: [Orsted Annual Report 2024](#) page 67.

Step D: Reporting on Material IROs

The final step involves disclosing material sustainability impacts, risks, and opportunities in line with ESRS requirements. Companies must:

- Provide a transparent methodology for assessing material topics.
- Report material IROs and their impact on strategy, business model, and financial performance.
- Align with CSRD and EU Taxonomy requirements for sustainability disclosures.

Legend										
Time horizon			Value chain							
●●● Short-term ●● Medium-term ● Long-term			▲▲▲ Upstream ▲▲ Own operations ▲▲▼ Downstream							
								2025 Target		
Environmental	Impacts, Risks and Opportunities	Description	Time horizon	Policies	Actions	Metrics	Value chain	KPI	Unit	2025 target
Climate change (ESRS E1)	Material negative impact, material risk	As a healthcare company, Philips has a negative impact on the environment due to GHG emissions as a result of Philips' own operations and value chain activities.	●●●	Environmental Policy	Section 4.1.2 Note I Note XIII	E1-5 – Energy consumption and mix E1-6 – Gross Scopes 1, 2, 3 and Total GHG emissions E1-8 – Internal carbon pricing Entity specific Operational Carbon Footprint	▲▲▼	Net operational carbon footprint	kilotonnes CO ₂ - e	0
		Renewable energy in our operations	% of energy from renewable sources					75%		
		Scope 1 & 2 emissions	kilotonnes CO ₂ - e					34		
		Scope 3 emissions	kilotonnes CO ₂ - e					4,269 (2030 target)		
		Philips is exposed to certain physical risks (including acute and chronic risks) and certain transitional risks which can lead to disruptions in Philips' operations, supply chain, and increased costs.	●●●					% of suppliers committed to Science Based Targets	%	50%
Energy efficiency (ESRS E1)	Material risk, material opportunity	Risk of losing Philips' competitive position if Philips does not develop energy-efficient equipment.	●●●	Environmental Policy	Note I Note II	E1-5 – Energy consumption and mix Entity specific EcoDesigned new product introductions (NPIs) Green Innovation	▲▲▼	EcoDesigned NPIs	%	100%
		Risk of reputation loss if Philips fails to deliver on external (e.g., SBTi) commitments and fails to increase the share of renewables on site.	●●●							
		Philips has a potential opportunity to further improve its reputation which may lead to increased sales if Philips continues to develop energy-efficient equipment through its' EcoDesign program and bring them to market.	●●●							

Source: [Philips Annual Report 2024](#), page 174.

a) ESG Strategies and ESG Topic Management

Once the material ESG topics have been identified, the company must develop a structured strategy for managing them. This involves defining policies and procedures that govern climate impact, social responsibility, and corporate governance, ensuring full compliance with [ESRS disclosure requirements](#).

In practice, this means implementing clear management frameworks for environmental aspects such as energy consumption, greenhouse gas emissions, water usage, and waste management. Social aspects, such as working conditions, consumer safety, and supply chain transparency, must be addressed in line with labor standards and responsible sourcing principles. Governance policies, including anti-corruption measures and ethical business conduct, must be integrated into operations to ensure transparency and accountability.

A key part of ESG strategy is the **Climate Transition Plan**, which must align with the [Paris Agreement](#) and [SBTi \(Science-Based Targets initiative\)](#). This plan should outline measurable steps to reduce GHG emissions, optimize energy use and energy efficiency, and transition to renewable energy sources, while also integrating circular economy principles for improved resource efficiency.

To track progress, the company must establish Key Performance Indicators (KPIs) that monitor environmental, social, and governance goals. Regular assessment of these indicators ensures compliance and supports transparent sustainability reporting. Additionally, ESG policies and measures must be periodically reviewed and adjusted to ensure they remain effective and aligned with regulatory updates.

Additionally, the company must ensure alignment with the [EU Taxonomy](#) by evaluating which business activities meet the [technical screening criteria](#) for sustainability. This includes determining the proportion of revenue, CapEx, and OpEx that qualify under the Taxonomy framework, ensuring transparency in financial and sustainability disclosures.

b) Data Collection and Analysis

Once ESG Strategies are defined, the company must establish a systematic approach to collecting, analyzing and organizing ESG data. Data collection under ESRS standards requires the company to ensure all sustainability related data is accurate, complete and consistent. The company gathers information directly from internal departments (finance, operations, human resources) and external partners (suppliers, investors). The goal of this phase is to gather and have all necessary data for further processing and integration into the final report.

c) Reporting

Once sustainability data has been collected and validated, the company must prepare and submit its sustainability report in compliance with ESRS disclosure requirements. The report must be structured, standardized, and verifiable, ensuring transparency for investors, regulators, and stakeholders. The company must ensure that the report is submitted within the designated timeframe, following regulatory deadlines. If applicable, [EFRAG's XBRL](#) taxonomy can be used to facilitate structured digital reporting, improving data comparability and accessibility.

To ensure accuracy, the company must verify ESG data through independent assurance. This includes external audits to confirm the reliability of reported emissions, resource use, and social impact indicators. Verification must be conducted by accredited third-party auditors, following EU assurance standards, but also can include internationally recognized frameworks such as [ISAE 3000](#). The goal of this phase is to ensure that sustainability disclosures are accurate, compliant, and aligned with regulatory expectations, supporting corporate accountability and long-term compliance.

3. Voluntary SME Sustainability Reporting Standard (VSME)

The Voluntary SME Sustainability Reporting Standard (VSME) is a non-mandatory reporting framework designed for non-listed small and medium-sized enterprises (SMEs) in the EU. It allows SMEs to disclose their environmental, social, and governance (ESG) performance in a simplified and flexible way.

[Official Link](#)



What's the Goal?

The Voluntary SME Sustainability Reporting Standard (VSME) provides non-listed SMEs with a flexible and proportionate approach to sustainability reporting. Unlike mandatory frameworks like CSRD, VSME is voluntary, allowing SMEs to demonstrate their ESG efforts without excessive administrative burdens. The standard helps SMEs enhance transparency, improve access to finance, and align with market expectations, particularly from investors and larger business partners. It also offers a practical tool for preparing for future regulatory changes, ensuring that sustainability reporting remains manageable and resource-efficient.

Who's Affected?

The Voluntary SME Sustainability Reporting Standard (VSME) is designed for non-listed SMEs operating in the European Union (EU) that choose to engage in sustainability reporting on a voluntary basis. The framework provides flexibility and proportionality, ensuring that sustainability disclosures align with the size, complexity, and business model of each SME.

VSME is particularly relevant for:

- **SMEs in larger supply chains:** Many SMEs supply goods and services to CSRD-compliant companies that require sustainability-related data from their business partners. VSME helps SMEs meet these data requests efficiently.
- **SMEs seeking sustainable financing:** Banks, investors, and financial institutions increasingly evaluate ESG factors when assessing loans, investments, and credit risk. VSME can improve access to green financing by aligning sustainability reporting with investor expectations.
- **SMEs improving their market position:** Companies that integrate sustainability reporting can enhance their competitiveness, strengthen relationships with stakeholders, and meet emerging industry standards for corporate responsibility.
- **SMEs preparing for future regulatory obligations:** Although VSME is not mandatory, regulatory trends indicate that sustainability disclosure requirements may expand over time. Early adoption allows SMEs to gradually integrate sustainability reporting into their operations, reducing future compliance challenges.

Overview of the VSME Framework

The Voluntary Sustainability Reporting Standard for SMEs (VSME) is designed to offer a flexible and proportional approach to sustainability reporting, recognizing the varying capacities of small and medium-sized enterprises (SMEs). To accommodate different reporting needs, the framework is divided into two modules:

Basic Module

The Basic Module serves as the foundation of the VSME framework and is the minimum level of ESG reporting that SMEs can adopt. It consists of 11 key disclosures across three main categories—environmental, social, and governance. These disclosures cover essential sustainability topics that investors, banks, and business partners often request from SMEs.

This module is specifically designed to accommodate SMEs that may not have dedicated sustainability teams or extensive resources for ESG reporting. To ensure usability across different industries and company sizes, the Basic Module follows three key principles:

- **Simplicity and practicality** – It avoids unnecessary complexity and focuses only on the most relevant ESG topics.
- **Accessibility for all SMEs** – Even companies with no prior experience in sustainability reporting can complete it with minimal effort.
- **Standardization** – It provides a single, structured reporting format that can replace multiple different ESG questionnaires from stakeholders, reducing administrative burden.

The Basic Module does not require a materiality assessment, meaning businesses only need to report on what is relevant to their operations. This streamlined approach makes ESG reporting more manageable, ensuring that companies can meet growing stakeholder expectations without excessive complexity.

Category	Disclosures	Description
General Information	1. Basis for preparation	Specifies the chosen reporting module (Basic or Comprehensive) and key company details (legal form, revenue, employees, any sustainability-related certifications or labels)
	2. Practices, policies and future initiatives for transitioning towards a more sustainable economy	Outlines existing sustainability policies and planned efforts to reduce negative impacts and enhance positive ones
Environmental Metrics	3. Energy and greenhouse gas emissions	Reports total energy use and Scope 1 & 2 emissions
	4. Pollution of air, water, and soil	Discloses pollutant emissions
	5. Biodiversity	Indicates if business sites are in or near biodiversity-sensitive areas
	6. Water	Reports water use and withdrawals, especially in stressed regions
	7. Resource use, circular economy, and waste management	Covers waste generation, recycling, and circular economy efforts
Social Metrics	8. Workforce – General characteristics	Provides employee breakdown by contract type and gender
	9. Workforce – Health and safety	Reports work-related injuries and fatalities
	10. Workforce – Remuneration, collective bargaining, and training	Discloses wage compliance, pay gaps, union representation, and training hours per employee
Governance Metrics	11. Convictions and fines for corruption and bribery	Reports convictions and financial penalties for corruption-related offenses

Comprehensive module

While the Basic Module serves as the foundation of the VSME framework, the Comprehensive Module is designed for SMEs that want to go beyond the minimum ESG reporting requirements. It expands upon the Basic Module by introducing 9 additional disclosures, allowing businesses to provide a deeper and more detailed view of their sustainability performance.

This module is particularly useful for SMEs that need to demonstrate stronger ESG commitments, whether to secure green financing, attract sustainability-focused investors, or align with industry best practices. Unlike the Basic Module, which focuses on fundamental sustainability metrics, the Comprehensive Module enhances transparency by including additional disclosures on climate risks, sustainability strategies, human rights policies, and governance-related factors.

The Comprehensive Module is built on three guiding principles:

- **Scalability** – It allows businesses to expand their ESG reporting based on their growth, industry demands, or investor expectations.
- **Strategic depth** – It includes disclosures that help businesses showcase their long-term sustainability strategies and risk management efforts.
- **Competitive positioning** – Companies that adopt this module can strengthen their market presence by demonstrating leadership in sustainability practices.

However, it's important to note that the Comprehensive Module cannot be used independently. SMEs must first complete the Basic Module before incorporating additional disclosures from the Comprehensive Module. This ensures a consistent reporting structure, where companies start with the essential ESG metrics before progressing to more advanced reporting elements.

Category	Disclosures	Description
General Information	C1. Strategy: Business Model and Sustainability – Related Initiatives	Describes the company's business model and key sustainability efforts
	C2. Description of practices, policies and future initiatives for transitioning towards a more sustainable economy	Outlines current policies and planned sustainability improvements
Environmental Metrics	C3. GHG reduction targets and climate transition	Discloses emission reduction targets and transition plans to a low-carbon model
	C4. Climate risks	Reports exposure to physical (e.g., extreme weather) and transition risks (e.g., regulatory changes)
Social Metrics	C5. Additional (general) workforce characteristics	Expands on employment types and regional workforce distribution (for companies with more than 50 employees)
	C6. Additional own workforce metric - Human rights policies and processes	Companies must answer specific questions regarding the existence and coverage of their human rights policies (covering issues like child labor, forced labor, and discrimination) and whether they have a complaints-handling mechanism in place
	C7. Incidents related to severe human right cases	Reports confirmed cases of forced labor, child labor, or major human rights breaches (own workforce and supply chain)
Governance Metrics	C8. Revenues from certain sensitive sectors and exclusion from EU reference benchmarks	Companies active in sectors such as controversial weapons, tobacco, fossil fuels, or certain chemicals must disclose their related revenues and indicate if they are excluded from any EU reference benchmarks aligned with the Paris Agreement
	C9. Gender diversity ratio in the governance body	Reports gender composition in senior leadership and board roles

Key Differences Between ESRS and VSME

	VSME	ESRS
Regulatory Requirement	Designed for non-listed micro, small, and medium-sized enterprises (SMEs), the VSME offers a voluntary framework to standardize sustainability information, facilitating better access to green financing and easing the reporting burden	Mandatory – Required under the Corporate Sustainability Reporting Directive (CSRD) for large companies that fall under the scope of the regulation
Complexity	Simplified and proportionate – Tailored to SMEs, avoiding excessive complexity	Comprehensive and detailed – Covers a broad range of sustainability topics with strict compliance requirements
Double Materiality Assessment (DMA)	Not required – Companies are not obligated to conduct a full DMA, though they can assess risks voluntarily	Mandatory – Companies must assess both financial materiality and impact materiality
Structure	Modular approach – Companies choose between Basic (11 disclosures) and Comprehensive (9 additional disclosures)	Prescriptive approach – Companies must comply with all relevant and applicable disclosure requirements based on the double materiality assessment
Disclosure Requirements	"If applicable" principle – Businesses report only on relevant topics, ensuring practicality	Comprehensive set of disclosure requirements that must be assessed for applicability
Stakeholder Expectations	Addresses ESG data requests from banks, investors, and corporate partners in a structured format	Meets regulatory obligations while ensuring comparability across industries
Assurance	It does not impose mandatory assurance obligations. Instead, it provides a voluntary framework, allowing SMEs to decide whether to seek external assurance based on their specific circumstances and stakeholder expectations.	Companies reporting under the ESRS are subject to mandatory assurance requirements, ensuring the reliability and accuracy of the disclosed sustainability information.

If you are a supplier to a large EU company, consider using the VSME standards now to get ahead of data requests.

4. EU Taxonomy

The EU Taxonomy is a regulatory framework that sets criteria for identifying environmentally sustainable economic activities. It aims to guide investments toward sustainability and enhance market transparency.

The EU Taxonomy is established by Regulation (EU) 2020/852, with detailed criteria provided in Delegated Regulation (EU) 2021/2139.

[Regulation \(EU\) 2020/852](#)

[Delegated Regulation \(EU\) 2021/2139](#)



What's the Goal?

The EU Taxonomy aims to establish a common classification system for environmentally sustainable economic activities. It establishes criteria to determine whether an activity makes a substantial contribution to one or more of the six environmental objectives while ensuring that it does not cause significant harm to any of the others. These six objectives are: climate change mitigation, climate change adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, and the protection and restoration of biodiversity and ecosystems.

Who's Affected?

Companies that fall under the scope of the Corporate Sustainability Reporting Directive (CSRD) have to report in their annual reports to what extent their activities are covered by the EU Taxonomy (Taxonomy-eligibility) and comply with the criteria set in the Taxonomy delegated acts (Taxonomy-alignment). Other companies that do not fall under the scope of CSRD can decide to disclose this information on a voluntary basis to get access to sustainable financing or for other business-related reasons.

- All large companies under CSRD
 - ▶ Companies that were not previously covered by NFRD but now fall under CSRD
- Listed SMEs and other companies
 - ▶ Small and medium-sized enterprises (SMEs) that are listed on an EU-regulated market are subject to EU Taxonomy disclosure requirements
- Financial market participants (Investment funds, pension providers, insurance companies)
- Voluntary Disclosure (Any company, regardless of size, can choose to disclose its alignment with the EU Taxonomy to attract investors and improve sustainability transparency)

Scope and Coverage

The EU Taxonomy Regulation (Regulation (EU) 2020/852) applies to companies and financial institutions that are required to disclose sustainability-related information under the Corporate Sustainability Reporting Directive (CSRD). This includes large companies that meet at least two of the following criteria: more than 250 employees, over EUR 40 million in net turnover, or more than EUR 20 million in total assets, as well as listed small and medium-sized enterprises. In addition, financial market participants—such as asset managers, pension providers, and insurance companies—are subject to the regulation when they make available financial products that are marketed as environmentally sustainable.

However, the Taxonomy Regulation goes beyond simply identifying who must report. Its main purpose is to establish a common framework for defining what qualifies as an environmentally sustainable economic activity. To be considered Taxonomy-aligned, an activity must contribute substantially to at least one of six environmental objectives defined by the regulation (such as climate change mitigation or adaptation), must do no significant harm to any of the other objectives, must comply with minimum social safeguards, and must meet specific technical screening criteria laid out in delegated acts.

For companies in scope, this means more than just general disclosure. They are required to assess their economic activities in light of these criteria and publicly report on the share of their turnover, capital expenditure (CapEx), and operating expenditure (OpEx) that is Taxonomy-aligned. This provides investors and other stakeholders with a consistent and reliable way to evaluate the environmental sustainability of companies' operations, and plays a key role in facilitating the transition towards a more sustainable economy. While only certain entities are legally required to report under the Taxonomy Regulation, others may choose to apply it voluntarily in order to improve transparency and attract sustainable investment.

Timeline

The EU Taxonomy was published in the EU's Official Journal on June 22, 2020, and officially came into effect on July 12, 2020. Its implementation has been phased in over several years, with specific provisions becoming mandatory on designated dates:

- From January 1, 2022, all companies within the scope of the regulation were required to disclose the proportion of their revenue, capital expenditures, and operating expenses that qualify as Taxonomy-eligible. For financial institutions, this also included reporting Assets Under Management (AUM) and the Green Asset Ratio for banks.
- From January 1, 2023, non-financial corporations became obligated to report the share of their key financial indicators—turnover, CapEx, and OpEx—that are aligned with the Taxonomy criteria.
- From January 1, 2024, financial institutions, including asset managers, banks, insurers, and pension providers, must disclose the Taxonomy alignment of their investments. However, this reporting obligation applies only to investments in companies that have self-reported their alignment since January 2023.

What Happens If You Don't Comply?

The EU taxonomy does not entail any sanctions for companies not complying with the reporting requirements. The Taxonomy Regulation does not entail direct sanctions for non-compliant financial institutions either.

- **EU - level sanctions**

- ▶ The EU Taxonomy regulation does not impose direct sanctions for non-compliance
- ▶ No EU - wide fines or penalties are specified

- **National - level enforcement**

- ▶ EU member states must establish their own enforcement measures
- ▶ These measures must be effective, proportionate and dissuasive
- ▶ National Financial Supervisory Authorities oversee compliance with reporting obligations

How It Connects to Other Regulations

The Taxonomy is part of a broader regulatory ecosystem designed to promote sustainable finance, together with the [Corporate Sustainability Reporting Directive \(CSRD\)](#) and the [Sustainable Finance Disclosure Regulation \(SFDR\)](#). CSRD (Directive 2022/2464) makes it mandatory for large and listed companies to disclose sustainability information, as of January 1, 2024. SFDR (Directive 2019/2088) requires financial market participants and financial advisers to disclose on sustainability. The aim is that these regulations together will ensure transparency through reporting obligations in corporate non-financial reporting and in relation to financial products and investments. Together, these three frameworks constitute the EU Sustainable Finance Framework and work together to direct investments toward Taxonomy-aligned activities by enabling investors to identify these activities.

Future Outlook: Omnibus Proposal

The Omnibus Proposal presented on February 2025, proposes several changes that affects this regulation, among the main changes that can be expected in case of approval of this proposal, we can mention the following:

- **Mandatory reporting applies to:**

- ▶ Companies with more than 1,000 employees and over €450 million in turnover remain subject to full EU Taxonomy reporting
- ▶ Companies with more than 1,000 employees but turnover below €450 million can opt for a simplified disclosure framework instead of full compliance

- **Reporting simplifications:**

- ▶ Materiality thresholds introduced – companies with less than 10% eligible economic activities are exempt from mandatory reporting
- ▶ Operational expenditure (OpEx) disclosures are required only if eligible activities exceed 25% of total turnover
- ▶ No more sector-specific disclosure obligations under the EU Taxonomy framework

Helpful Tools and Resources

[EU Taxonomy Compass](#) – A freely available tool that provides a visual representation of the sectors, activities, and criteria included in the EU Taxonomy. It helps users understand which activities are considered Taxonomy-eligible and what criteria need to be met for alignment with the Taxonomy's environmental objectives.

[EU Taxonomy Calculator](#) – An freely available interactive tool designed to help users understand and support their reporting obligations under the EU Taxonomy Regulation. It assists in calculating the percentage of activities aligned with the Taxonomy for specific indicators such as revenue, capital expenditure (CapEx), and operational expenditure (OpEx).

[EU Taxonomy User Guide](#) – A freely available guidance document that simplifies the EU Taxonomy for non-experts. It offers a step-by-step explanation of the Taxonomy's structure and how companies can assess their alignment, with practical examples of how to implement the Taxonomy.

[EU Taxonomy FAQs Repository](#) – A freely available repository that gathers all frequently asked questions (FAQs) related to the EU Taxonomy. It provides answers to questions regarding the Taxonomy's application, disclosure obligations, and technical screening criteria.

[NACE Classification Mapping](#) – A freely available tool that maps the NACE codes (industry classification system) to the EU Taxonomy's eligible economic activities. This helps businesses understand which of their activities align with the Taxonomy's criteria based on their sector.

Example

Example: Cement Company's Compliance with the EU Taxonomy

A cement company is modernizing two of its production plants to align with the [EU Taxonomy](#) for sustainable activities. These facilities generate 50% of the company's total turnover, making them a key part of its sustainability strategy. To comply with the technical screening criteria, the company must take the following steps:

I. Assessing Taxonomy Alignment and Energy Efficiency Improvements

Before proceeding, the company must determine whether its planned investments qualify as taxonomy-aligned activities. Cement production falls within the scope of the regulation, but for the investment to be classified as sustainable, it must meet technical screening criteria for emissions reductions and energy efficiency. The company plans to retrofit production plants to improve energy efficiency and lower carbon emissions by reducing the clinker-to-cement ratio and incorporating alternative binders. These measures help ensure compliance with the climate mitigation objectives of the Taxonomy.

II. Ensuring Compliance with the Do No Significant Harm (DNSH) Criteria

Beyond emissions reductions, the project must also comply with [Do No Significant Harm \(DNSH\) criteria](#). A climate risk assessment identified flooding as a key threat to the production facilities, requiring adaptation measures. To address this, the company invests in drainage system improvements, flood-resistant construction materials, and enhanced water management infrastructure. These steps ensure that sustainability improvements do not create additional environmental risks.

III. Reporting Taxonomy-Aligned Capital Expenditures (CapEx) and Turnover

With a total project cost of EUR 500 million, the company must disclose how these investments contribute to sustainable economic activities. Since the renovated facilities account for 50% of the company's total turnover, this portion can be reported as taxonomy-aligned revenue once the upgrades are completed. [Article 8 of the EU Taxonomy Regulation](#), the company must also disclose the share of its capital expenditures (CapEx) dedicated to sustainability improvements. These disclosures provide transparency for investors and financial institutions, allowing them to assess the company's alignment with sustainability objectives.

IV. Securing Green Financing and Ensuring Transparency

To finance the renovation, the company issues a green bond in accordance with the [EU Green Bond Standard \(EU GBS\)](#). The funds raised must be allocated exclusively to taxonomy-aligned activities, ensuring compliance with climate mitigation and adaptation criteria. To maintain investor confidence, the company must provide clear documentation on fund allocation and regularly report on the environmental impact of the financed projects. This ensures that the investment remains aligned with sustainability commitments and regulatory expectations.

V. Independent Verification and Compliance Assurance

To finalize the process, the company undergoes an independent third-party verification to confirm that the renovation project aligns with the [EU Taxonomy framework](#). This includes reviewing technical documentation, assessing climate adaptation measures, and auditing financial reports to verify that CapEx and turnover disclosures accurately reflect taxonomy-aligned activities. The verification follows EU assurance standards, such as [ISAE 3000](#), ensuring that the company's sustainability claims are credible and meet regulatory requirements. Compliance with these standards strengthens investor confidence and demonstrates the company's commitment to transparent and reliable sustainability reporting.

VI. Achieving EU Taxonomy Compliance and Business Benefits

By successfully aligning its activities with the EU Taxonomy, the company secures its position within the EU sustainable finance framework. Compliance not only ensures regulatory alignment, but also provides access to green financing opportunities, enhances corporate transparency, and reinforces the company's commitment to environmental sustainability.

5. EU Deforestation Regulation (EUDR)

The EU Deforestation Regulation (EUDR) aims to prevent products linked to deforestation and forest degradation from entering the EU market. It requires companies to conduct due diligence, ensuring that commodities such as soy, cocoa, and palm oil are sourced from deforestation-free supply chains.

[Official Link](#)



What's the Goal?

The EUDR aims to prevent products linked to deforestation and forest degradation from entering the EU market. It targets companies involved in the import, sale, and trade of goods like soy, palm oil, beef, wood, cocoa, and coffee, ensuring they are sourced from deforestation-free areas.

The new rules aim to avoid that the listed products Europeans buy, use and consume contribute to deforestation and forest degradation in the EU and globally.

Who's Affected?

EUDR applies to any company that imports, places on the market, makes available, or exports specific commodities, including coffee, cocoa, rubber, cattle, wood, palm oil, soy, and their derivatives to or from the EU, regardless of whether the commodity originates from within or outside the EU, and applies to both traditional trade channels and online platforms, from the point of market entry until final delivery to consumers.

Categories of Market Players:

- **Operators:** These are natural or legal persons who, as part of a commercial activity, place or export the relevant products for the first time on the EU market. Examples include importers, exporters, and companies converting goods between HS codes.
- **Traders:** These are entities within the supply chain (other than operators) that make the relevant products available on the market but do not import, export, or transform them.

Company Size Considerations:

Obligations vary by company size. SMEs defined by specific thresholds in Article 3 of Directive 2013/34/EU based on balance sheet totals, net turnover, and employee number, might face lighter requirements in some cases.

As general rule SME operators, including those who transform or export products further down the supply chain, must follow the same rules as other operators and remain legally responsible for any breaches of the Regulation. However, if a part of their product has already undergone due diligence, they do not need to:

- Perform due diligence again for that part, or
- Submit a new due diligence statement in the Information System.

They must still provide the reference numbers from the earlier due diligence checks. For any product parts that have not yet been reviewed, SME operators must complete the full due diligence process and submit the appropriate due diligence statement.

Article 3 of Directive 2013/34/EU provides the following definitions of when a company can be considered a micro, small, or medium enterprise:

- An organization is regarded as a microenterprise if the balance sheet total does not exceed € 350,000, the net turnover does not exceed € 700,000 and the average number of employees during the financial year is equal to or lower than 10.
- An organization is regarded as a small enterprise if the balance sheet total does not exceed € 4,000,000, the net turnover does not exceed € 8,000,000 and the average number of employees during the financial year is equal to or lower than 50.
- An organization is regarded as a medium enterprise if the balance sheet total does not exceed € 20,000,000, the net turnover does not exceed € 40,000,000 and the average number of employees during the financial year is equal to or lower than 250.

At least 2 of the 3 thresholds per category must be met to qualify for the respective type of organization.

Scope and Coverage

The regulation imposes obligations on economic operators and traders involved in placing, making available, or exporting deforestation-related commodities and associated products on the EU market. It targets products such as soy, beef, palm oil, rubber, cocoa, coffee, timber, and their derivatives (for full details, refer to Annex 1 of the regulation).

Article 3 of the EU Deforestation-free Regulation establishes specific requirements for companies that wish to import, export, place, or make certain goods available on the European market. These requirements include:

Deforestation-free: The production process must not have led to deforestation or forest degradation after December 30, 2020, regardless of whether such practices would have been considered legal in the country of production.

Legally produced: The goods must be produced in full compliance with the relevant legislation of the country where production occurs.

Due Diligence: Prior to shipment, companies must provide a due diligence statement based on a comprehensive risk assessment. EUDR (Article 8) outlines three key steps that operators and non-SME traders must complete as part of their due diligence process:

- **Data Collection:** Gather comprehensive information about the product's supply chain, including details on where and when the primary agricultural or forestry production occurred.
- **Risk Assessment:** Analyze the collected data to determine whether the products are linked to deforestation, forest degradation, or illegal activities, including violations of human rights. The assessment categorizes the risk as significant or negligible/absent. If a significant risk is found, the company must mitigate it before the product is marketed; if the risk is negligible or absent, the product is considered compliant.
- **Risk Mitigation:** Implement effective measures to reduce any significant risks to negligible or no risk. This could involve gathering additional information, carrying out independent surveys, conducting laboratory tests, performing field audits, training suppliers, or intervening directly in the supply chain.

Companies dealing with these commodities must ensure that their products do not contribute to deforestation and other legal and human rights violations, while adhering to differentiated obligations and varying levels of due diligence. Requirements differ based on the company's role (operator vs. trader), size (non-SME vs. SME), and position in the supply chain (first placing vs. downstream). Companies must perform due diligence to verify that deforestation has not occurred (with a cut-off date of December 31, 2020). They must trace the supply chain back to its point of origin and exercise one of three options for due diligence statement obligations:

- **Complete:** Submit a full due diligence statement.
- **Refer:** Provide a unique reference number to an existing statement.
- **Record:** Keep records of the due diligence statement reference numbers without submitting them.

Operators or traders can designate an authorized representative to submit the due diligence statement, though the operator remains ultimately responsible for compliance.

Additional Guidance For a detailed overview of due diligence obligations based on company type, supply chain position, and size, refer to the compliance table found on pages 6 and 7 of the following [document](#).

Timeline

Originally the regulation was planned to come into force by 31st of December 2024, however this has been postponed until 31st of December 2025.

What Happens If You Don't Comply?

- Fines proportional to the value of the goods sold on the EU market.
- Confiscation of goods found to be in violation.
- Temporary exclusion from public procurement processes.
- Other penalties as determined by national authorities, depending on the level of the breach and country-specific rules.

How It Connects to Other Regulations

CSRD (Corporate Sustainability Reporting Directive): Companies affected by EUDR will also have to report under the CSRD on their environmental impacts, including deforestation-related risks in their supply chain.

CSDDD (Corporate Sustainability Due Diligence Directive): It establishes a general, horizontal legal framework concerning the due diligence obligations of large EU and non-EU companies with respect to sustainability. The EUDR, on the other hand, provides the sector-specific framework regarding deforestation for certain aspects of due diligence for particular products. Although CSDDD and EUDR have different scopes, they complement each other and should be used in coordination to ensure the effective fulfillment of due diligence obligations. In cases where the specific due diligence provisions of the EUDR conflict with the general provisions of the CSDDD, the EUDR provisions, as *lex specialis*, take precedence over the general CSDDD provisions (*lex generalis*), since they impose more comprehensive and specific obligations to achieve the same objectives.

EU Forced Labor Regulation (EUFLR): EUDR focuses not only on preventing deforestation, aligned with the EUFLR both target labor exploitation. Companies will need to ensure not only environmental sustainability but also labor rights compliance throughout the supply chain.

Further Information about the FAQ can be found [HERE](#).

Helpful Tools and Resources

Free Web-Seminars in German language can be found in this [link](#). These Webinars are offered by the Bundesanstalt für Landwirtschaft und Ernährung (BLE) in Bonn, Germany. Each webinar includes presentations from BLE experts and external speakers, followed by Q&A sessions. Participation requires prior registration, with registration opening three weeks before each event. Detailed information and schedules are available on the BLE website.

Team Europe Initiative on Deforestation-Free Supply Chains: This website offers a library with different Guidance, including guidance for small producers, particularly explaining the requirements.

EU-EUDR Understanding your position in the supply chain: This document is useful to understand due diligence obligations and reporting obligations for non-SME and SME Operators while trading, producing and selling with commodities and products that fall under the scope of the EUDR. It provides many examples of different commodities and supply chains.

Global Forest Watch: This is a free online platform that allows monitoring of deforestation in real-time.

It offers high resolution images, it helps companies to track land-use changes in many countries, information in multiple languages, resolution 10kmx10km, monthly updates, free access. However, it is not tailored to specific supply chain monitoring for commodities, interpretation of satellite data might require certain expertise.

FAO Global Forest Resources Assessment: The Food and Agriculture Organization (FAO) provides a comprehensive assessment of forest resources worldwide. While not specific to EUDR, it offers useful data on deforestation trends.

This information is widely accepted and reflects general, aggregated data on deforestation trends.

As a limitation the information provided is updated every 5 years.

Whisp, What is in that Plot: It is an open-source solution which helps to produce relevant forest monitoring information and support compliance with deforestation-related regulations. Whisp is robust, transparent, and replicable, built on interoperability open standards. All code is open, publicly available, and can be inspected, reproduced, and adapted on GitHub.

Transparency International, **Corruption Perception Index:** It is useful to assess the risk associated with the corruption & bribery risks of the country, which is required as part of the risk assessments companies need to undertake to show compliance.

To identify protected and biodiversity sensitive areas, the following tool can be used: [The World Database on Protected Areas \(WDPA\)](#). Companies can also use other tools like the [Integrated Biodiversity Assessment Tool \(IBAT\)](#).

DeDuCe: This free dataset provides country-level estimates of agriculture and forestry-driven deforestation and associated carbon emissions for the period 2001-2022. The search engine allows to search for information at commodity level.

Create my Map from Google: Allows users to create customized maps by adding locations with GPS coordinates.

QGIS (Quantum GIS): This tool supports detailed mapping and geolocation data. This software can be downloaded for free.

Example

Disclaimer: Companies must carefully assess how directives have been transposed into national law, as differences may arise between member states. Unlike regulations, which are directly applicable across all EU countries, directives set overarching goals that each member state must achieve through its own legislative process. This means that while the objectives remain the same, the specific legal and procedural requirements may vary depending on how each country implements the directive. To ensure compliance, businesses should closely monitor national legislation and seek guidance on country-specific requirements.

A non-SME in Germany (Company A) is importing Cacao to the EU to be sold and placed in the EU. Cacao beans are one of the products included in Annex 1 and the company in Germany is an upstream non-SME operator that falls under the scope of the EUDR. Therefore, it must exercise due diligence for the cacao beans to ensure that they are deforestation-free and legal (Art. 4(1)). It must also submit a due diligence statement for the cacao beans in the Information System prior to placing them on the Union market and it will have undertake the following steps:

I. As a first step, an operator placing on the market imported products or exporting relevant products will need to complete a customs declaration (applicable for the customs procedures 'release for free circulation' and 'export'). To complete the customs declaration, a due diligence statement reference number will first be needed. To obtain this, a due diligence statement has to be submitted by the operator into the Information System and a reference number is then issued and can be used on the customs declaration lodged for that relevant product.

II. For its due diligence process, the company needs to start with the data collection process by identifying the country of production and the specific areas concerned with the product. For cacao, this might include West African or Latin America regions, which can have higher

deforestation issues. The company can request suppliers to provide documentation on how and where the ingredients were produced, in the case of cacao, this has to include plots or production-unit level data. All such plots must be documented, as any trace of deforestation or forest degradation on any plot results in disqualification. The process also involves obtaining conclusive and verifiable evidence that the products are deforestation-free. Finally, there must be documented evidence of compliance with the relevant legislation in the country of production, including the compliance with other requirements besides deforestation, like compliance of local legal regulations, human rights compliance, etc. The following list gives some examples or relevant legislation that need to be considered:

- Land use rights, including laws on harvesting and producing on the land or on the management of the land.
- Environmental protection: Legislation on nature protection and/or restoration, legislation on the protection and conservation of wildlife, biodiversity and endangered species. For this the [IUCN List of Threatened Species](#) can be useful.
- Forest-related rules, including forest management and biodiversity conservation
- Third parties' rights, including rights to use and tenure affected by producing the relevant commodities and traditional land use rights of indigenous peoples and local communities.
- Labor rights and human rights protected under international law.
- The principle of free, prior and informed consent, including as set out in the UN Declaration on the Rights of Indigenous Peoples.
- Tax, anti-corruption, trade and customs regulations.

A tool that can be used for addressing deforestation, conservation and human rights in the agricultural and forestry supply chain could be the [Accountability Framework](#). Certifications like Rainforest Alliance, UTZ for cocoa or FSC for packaging, can help companies to prove deforestation-free materials. In this sense, working with suppliers already certified under voluntary or regulatory national schemes can facilitate the process of showing compliance at farm level under the EUDR. However, these certifications do not exempt the responsibility of the company that falls under the scope of the EUDR to carry out the due diligence process.

III. To comply with the EUDR the company will have to implement a traceability and monitoring system. The company needs to collect geolocation Data (GPS coordinates) from all production units or plots to prove that the cacao bones they are importing have not been sourced from recently deforested areas. Additionally, the company must ensure that the material that has been sourced from these deforestation-free areas or production units is segregated throughout the supply chain to ensure that EUDR compliant material is not mixed with other non-compliant products.

IV. The next phase involves evaluating the risk of non-compliance associated with the cacao bones by carefully reviewing all the collected documentation. In this process, the company must perform a risk assessment guided by several key principles. First, they assign a risk level to the country of production, or specific regions within it, by identifying forests and acknowledging the presence of indigenous peoples. This includes verifying that genuine consultation and cooperation have taken place, and assessing any valid claims made by indigenous peoples, which should be supported by objective, verifiable evidence relating to land use or ownership.

Moreover, companies must consider the overall incidence of deforestation or forest degradation in the area, as well as evaluate the quality, reliability, and sources of the information gathered during the initial data collection phase. Other crucial factors include external concerns such as corruption, document falsification, enforcement challenges, human rights violations, armed conflicts, or any existing sanctions by the UN Security Council or EU Council. The assessment also takes into account the complexity of the supply chain, the stages of product processing, and any difficulties encountered in tracing products back to specific production plots.

Additionally, the risk analysis covers potential attempts at circumventing the regulations or the mixing of products with those of unknown origin or from deforested areas. Supplementary data may also be included, provided it comes from certified or third-party verified schemes that meet the specified criteria. To ensure continuous compliance, companies are required to carry out these risk assessments at least once per year, while also clearly documenting their data collection process and the rationale behind the assigned risk levels.

There are various ways to conduct the risk assessment, but the operator has to address the criteria listed in Article 10(2) for each relevant product. A list of questions that help companies to address these Criteria in Article 10(2) can be found in [this guidance](#) document (pages 9&10).

V. The company will need to develop and document a due diligence procedure that outlines the how the company evaluated, verifies and monitors suppliers compliance with deforestation-free requirements and ensure supplier alignment through policies and grievance mechanisms (e.g. Stiftung Allianz für Entwicklung und Klima - [Grievance Mechanism Template](#)).

VI. Once the company A has imported into the EU the cacao beans must submit a full due diligence statement. If Company A then sells them to a large cocoa processor B (non-SME), which processes them into cocoa mass/liquor, cocoa butter, and cocoa powder, it is considered that Cocoa processor B is transforming a relevant product into other relevant products (Annex I), so this company is a non-SME downstream operator for the cocoa mass/liquor, cocoa butter, and cocoa powder. Since these products were made using the cocoa beans that have already been subject to due diligence, cocoa processor B can refer to due diligence statements that have already been submitted by cocoa buyer Company A by including the relevant reference number but must first ascertain that due diligence was exercised upstream in accordance with the EUDR. Cocoa processor B retains responsibility for the compliance of the relevant products.

VII. If Cocoa Processor B sells the cocoa butter to an SME (Company C) that markets the unprocessed product in a local store in Germany. In this case, Company C is not required to exercise due diligence or submit a due diligence statement (DDS). However, it is obligated to keep records of the associated DDS reference numbers.

VIII. If company A or B fall into the scope of CSRD, the due diligence process will be key information for the reporting. Meanwhile company C, can opt to report under the VSME standard.

6. Carbon Border Adjustment Mechanism (CBAM)

The Carbon Border Adjustment Mechanism (CBAM) is designed to place a fair price on the carbon emissions embedded in imported goods, ensuring that EU-produced goods, which are subject to carbon pricing, can compete fairly. It discourages carbon leakage and incentivizes non-EU countries to adopt stricter climate policies.

[Official Link](#)



What's the Goal?

The EU's Carbon Border Adjustment Mechanism (CBAM) is the EU's tool to put a fair price on the carbon emitted during the production of carbon intensive goods that are entering the EU.

By doing so, the CBAM addresses the risk of carbon leakage, a phenomenon where companies move production to countries with less stringent energy regulations to avoid the costs with the EU's carbon pricing. This mechanism helps create a level playing field, ensuring that both EU-produced goods—already subject to carbon pricing—and imported goods compete under fair conditions. Beyond its direct impact on trade and industry, CBAM also serves as an incentive for other countries to adopt or strengthen their own climate policies, ultimately contributing to the global effort to reduce carbon emissions.

Who's Affected?

Directly impacted by the regulation:

- **EU Importers:** All companies within the European Union that import goods listed in Annex I of the CBAM regulation from outside the EU are directly affected.
- **Importers of Specified Goods:** This includes those importing iron, steel, aluminum, cement, fertilizers, electricity, hydrogen, and certain derivative products.
- **Targeted Sectors:** The CBAM initially targets sectors that are highly energy-intensive and responsible for significant carbon emissions, where there is a heightened risk of "carbon leakage", meaning companies might relocate production to countries with less strict climate policies

Indirectly impacted by the regulation:

- **Non-EU Exporters:** Although they are not directly responsible for paying the CBAM fee, exporters outside the EU whose goods are sold into the EU market may face increased costs, as importers will have to account for the carbon adjustment fee, potentially affecting competitiveness and demand.

Scope and Coverage

Currently these are the goods in the scope of the CBAM:

- Iron
- Steel
- Cement
- Fertilizers
- Aluminum
- Electricity
- Hydrogen

Further scope extensions are foreseen and full inclusion of additional goods are planned by 2030.

It is important to highlight that goods that fall under the scope of this directive but only enter the EU to stay “in transit” but are not sold in EU countries, do not have to comply with this normative.

For the complete list of goods that fall under the scope of this regulation please check [Annex1 and 2](#) of the regulation.

Regarding the CBAM its application will be divided in 2 moments. The CBAM transitional phase (2023 – 2025) and the CBAM definite regime (from 2026 on).

Key reporting roles:

- The "reporting declarant" is the entity accountable for reporting the embedded emissions of imported goods. While this role typically falls to the "Importer," in practice, the responsibility may vary based on who submits the customs declaration. When multiple parties are involved in the import process, it is crucial to ensure that each ton of imported goods is reported by one, and only one, reporting declarant—avoiding both duplication and omission in the reporting.

The reporting declarant can be either:

- ▶ The importer who lodges a customs declaration for release for free circulation of goods in its own name and on its own behalf;
 - ▶ The person, holding an authorisation to lodge a customs declaration who declares the importation of goods
 - ▶ The indirect customs representative, where the customs declaration is lodged by the indirect customs representative, when the importer is established outside the Union or where the indirect customs representative has agreed to the reporting obligations.
- The operator of a non-EU installation producing CBAM goods plays a key role, as they have direct access to emissions data and are responsible for monitoring and reporting embedded emissions of goods exported to the EU.

Timeline

Transitional phase: From October 1st 2023, with the first reporting period for importers ending January 2024. During this period the importers of the goods affected by this regulation are required to submit reports that includes the following information:

- Greenhouse gas emissions (GHG) embedded in their imports (direct and indirect emissions), without the need to buy and surrender certificates
- Country of origin, where the goods were produced
- The carbon price of the producing country if applicable

Key aspects of the transitional period

Duration	1.10.23 - 31.12.25
Reporting of indirect emissions	Required for all CBAM goods
Default values for reporting of embedded emissions	Global values (except electricity). May be used for precursors of complex goods contributing up to 20% of the total for the complex good.
Flexibility regarding MRV rules	The use of rules from other (non-EU) carbon pricing or reporting schemes are allowed for operators of installations until the end of 2024, if they provide similar accuracy. Importers may use other (estimation) methods until 31 July 2024.
Frequency of reporting	Quarterly (importers).
Verification of reported data	Not required
Surrender of CBAM certificates	Not required

The full scope of the CBAM regulation will enter into force on 1st of January 2026. From that moment on importers will need to:

- Obtain an authorization in order to import CBAM goods ('authorized declarant')
- Declare on a yearly basis the quantity of CBAM goods imported into the EU in the preceding year and their embedded greenhouse gas emissions
- Surrender CBAM certificates to cover the declared emissions
- The deadline for CBAM declaration submission will be the 31st of May of the subsequent year
- Verification and audit of the information submitted is required

Further Information about FAQ can be found [HERE](#)

What Happens If You Don't Comply?

Reporting of embedded emissions in CBAM goods from 1 October 2023 is compulsory.

- During the transition period, reporting declarants may face penalties ranging between EUR 10 and EUR 50 per ton of unreported emissions.
- In the case of missing, incorrect, or incomplete CBAM reports, the National Competent Authority (NCA) may initiate a correction procedure, granting reporting declarants the possibility to rectify potential errors.
- During the definitive period, authorized CBAM declarants will be liable for a penalty if they fail to surrender their certificates by 31 May of each year. These penalties do not release the declarant from the obligation to surrender the outstanding number of CBAM certificates retrospectively (Article 26(3) CBAM Regulation). Penalties will also be imposed on persons other than authorized CBAM declarants should they introduce goods into the customs territory of the Union. The penalty for authorized CBAM declarants for excess emissions is EUR 100 per ton of CO₂ emitted by the installation for which the operator has not surrendered allowances. The penalty for persons other than authorized CBAM declarants is three to five times this amount, depending on the duration, gravity, scope, intentional nature and repetition of the non-compliance and on the level of cooperation of the person with the competent authority (Article 26(2) CBAM Regulation). Penalties are enforced by the competent national authorities.

How It Connects to Other Regulations

CBAM and EU Emissions Trading System: [The EU Emissions Trading System \(ETS\)](#) is the EU's main tool for reducing emissions, setting a cap on the greenhouse gases that large industries can release. Companies must buy allowances to cover their emissions, although some are granted free allowances to prevent them from moving production elsewhere. Over time, these free allowances are being phased out to push industries toward decarbonization. To balance this, the Carbon Border Adjustment Mechanism (CBAM) will gradually be introduced, ensuring imports face similar carbon costs and maintaining competitiveness within the EU. As the ETS phases out free emissions allowances, CBAM gradually takes effect to cover the emissions costs on imports. Starting in its full scope of application in 2026, CBAM certificates, which mirror ETS allowance prices, will apply to imported goods proportionally to reduced free allowances in the ETS. This approach ensures EU producers and importers face equivalent carbon costs by 2034, when free allowances are fully phased out.

CSRD: The Corporate Sustainability Reporting Directive mandates companies that fall under its scope employees to report both direct and indirect greenhouse gas (GHG) emissions, including Scope 3 emissions, at company level. In this case the applicable standards for calculation are the [Greenhouse Protocol Corporate Standard](#) and the [Corporate Value Chain Standard](#) for Emissions Scope 3. In contrast, the CBAM requires that emissions falling under Scope 3 are reported at product level. While CSRD provides an overall company emissions overview, the CBAM focuses on emissions linked to specific products that are being imported in the EU market. In this case the [GHG Protocol for Product Standard](#) applies.

Future Outlook: Omnibus Proposal

The Omnibus Proposal presented on February 2025, proposes several changes that affects this regulation, among the main changes that can be expected in case of approval of this proposal, we can mention the following:

- **Exempt from CBAM obligations:**
 - ▶ Importers of less than 50 tons of CBAM-covered goods per year are now fully exempt
- **For companies still in scope:**
 - ▶ CBAM reporting and authorization processes are simplified to ease compliance for importers
 - ▶ CBAM certificates payments postponed from february 2026 to February 2027
 - ▶ Declarants will now have to hold 50% of the CBAM certificates instead of 80%

Helpful Tools and Resources

[Guidance Documents](#) on CBAM implementation for importers of goods into the EU

Introduction to the CBAM - [Factsheet](#)

[Greenhouse Gas Protocol](#), methodology for GHG calculations

[Clean Carbon CBAM Tool](#): This platform offers basic and advanced calculation of embedded emissions

Example

Disclaimer: Companies must carefully assess how directives have been transposed into national law, as differences may arise between member states. Unlike regulations, which are directly applicable across all EU countries, directives set overarching goals that each member state must achieve through its own legislative process. This means that while the objectives remain the same, the specific legal and procedural requirements may vary depending on how each country implements the directive. To ensure compliance, businesses should closely monitor national legislation and seek guidance on country-specific requirements

Company A is importing 80 tons of steel into the EU. In order to comply with the CBAM, the company will have to:

I. Register as a CBAM Declarant

The company must register as a CABAM declarant, therefore the company needs to contact the [national competent authority](#) (NCA) of the country where it operates. In each member state, the NCA is responsible for providing reporting declarants with access to the [CBAM Transitional Registry](#). Once the registration takes place, the company has access to the CBAM registry, where emissions data is submitted and the CBAM certificates are managed. It is also possible that the supplier directly registers at the CBAM, in this case the reporting process will be simplified as the supplier provides the company verified emissions data.

II. Calculation of embedded emissions

After the registration the company will have to assess the greenhouse gas emissions embedded in the products they have imported. It has to include the direct emissions from the production process and also the emissions that are the result of indirect energy use. For this the company will need to select appropriate emission factors for the CBAM-related emission calculations. There are different sources of emission factors that the company needs to consider:

- Primary information provided by suppliers
- Default values provided by the EU

The company can use [default values](#) for the purpose of reporting during the transitional period is thus possible for the first three reporting periods, without quantitative limits. In addition, estimated values (including default values) can be used for the whole reporting period for input materials or subprocesses with a relatively minor contribution e.g. <20%) to the total embedded emissions of complex goods. In other words, this means that for imports until 30 June 2024, 100% of the total embedded emissions may be determined using default values. For the remaining transitional period (i.e. for imports from 1 July 2024 to 31 December 2025), estimated values may be used but a quantitative limit is applied: for complex goods, up to 20% of the total embedded emissions, considering the entire production chain, may be then determined using estimations (using default values provided by the Commission would qualify as 'estimation').

Key Differences:

Feature	Default Values	Estimated Values
Data Requirements	No specific data required from importers	Requires detailed and verified emissions data
Accuracy	Less accurate, based on generalized assumptions	Highly accurate, specific to the production process
Carbon Cost Impact	Higher, as they assume worst-case emissions	Lower, if the production process is efficient
Incentive	Encourages importers to adopt transparency	Rewards transparency with potentially lower costs

By the end of the transitional period in 2025, the Commission will assess the default values based on the data collected, but during the transitional period, there will be only global default values (for each CN code under the CBAM scope). During the definitive period default values by country or even by region will be made available.

Suppliers of Third Countries outside the EU do not fall under the scope of this regulation, however suppliers from EU countries and Non-EU countries will have to provide the company (declarant) with product-specific information on embedded emissions including detailed records of the information needed for their calculation and a verification report by an accredited verifiers (for final goods and regulated complex goods, that fall under the scope of the regulation).

The calculation of the embedded emissions has to be at product level, however the CBAM regulation does not prescribe a single mandatory methodology, therefore the company has certain flexibility but it has to choose a methodology which provides a robust monitoring and

verification process to ensure compliance. One option companies can use is the Greenhouse Gas Protocol, specifically the [“Product Accounting”](#) Standard for it.

III. Reporting

During the transitional period the company will have to comply with quarterly reports (see Starting Date in this document). By 31st of May of each year, and for the first time in 2017 for the year 2026, the company shall use the [CBAM registry](#) to submit a CBAM declaration for the preceding year. Additional information about the report format, delayed submissions, etc. can be found [here](#). The company can use the following [guidance](#) to understand how to fill out the report.

IV. Verification

Once the CBAM is fully operational (after the transition period) the company has to calculate the embedded emissions of the products that are being imported and sold in the EU countries. For this, the company will need to validate the reported emissions by third-party verifiers accredited under the EU Emissions Trading System (ETS) standards. The [national accreditation bodies](#) are the ones responsible for the accreditation of the verifiers in each country. In Germany the accreditation Body is the [DAKKS](#), this organization will be in charge of the accreditation process for local certification bodies.

The compliance obligation to report the number of total embedded emissions is for the company which is importing the goods (declarants). However, the emissions that are subject to verification are those that result from production processes also at third-country installations. Therefore, much of the work of verification will occur outside the EU.

V. Purchase and Surrender of CBAM Certificates

From 2026, the company will need to purchase CBAM certificates equivalent to the embedded emissions of its imports. The quantity of certificates will increase over time as free allowances under the EU ETS are phased out. The calculation for the number of certificates that the company needs to surrender is the following:

Surrendering obligation = Embedded emissions – reduction for carbon price paid abroad – adjustment to reflect free allocation within the EU⁴.

Once the company has surrendered the applicable obligations, it has to submit the CBAM declaration by May 31 each year (imports from 2026 on).

⁴ CBAM Factsheet pages 5 & 6
https://www.umweltbundesamt.de/sites/default/files/medien/11850/publikationen/cbam_factsheet_0.pdf

7. EU Forced Labor Regulation (EUFLR)

The EU Forced Labor Regulation (EUFLR) requires companies that place, import, or export goods within the EU to ensure that their supply chains are free from forced labor practices. The primary goal of the regulation is to protect human rights and promote ethical business practices across the EU market.

[Official Link](#)



What's the Goal?

This Regulation lays down rules prohibiting economic operators from placing and making available on the European Union market or exporting from the European Union market products made with forced labour with a view to improving the functioning of the internal market, while contributing to the fight against forced labour.

Who's Affected?

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. It covers all stages of the supply chain (for this regulation upstream operations in the supply supply chain, namely the extraction, harvesting, production and manufacturing of a product in whole or in part, including in the working or processing related to the product at any of those stages).

Additionally, it is important to highlight that while the Forced Labour Regulation imposes no additional due diligence obligations beyond existing EU laws, it encourages economic operators to implement strong due diligence practices. Moreover, the Forced Labour Regulation recognises that any due diligence carried out will be taken into account in case of an investigation and could avoid the initiation of an investigation altogether.

Scope and Coverage

What is Considered Forced Labour?

The Regulation defines forced labour according to the Forced Labour Convention, 1930 (No. 29) of the International Labour Organization (ILO). This Convention defines forced or compulsory labour as “all work or service which is exacted from any person under the threat of a penalty and for which the person has not offered himself or herself voluntarily”, with certain exceptions. These exceptions include work or service exacted as part of compulsory military service, or which form part of normal civic obligations, or as a consequence of a court conviction. This regulation does not cover transportation services.

The ban applies to:

- Products made with forced labour at any point of their production.
- Distance selling, including online selling, should also fall within the scope of this Regulation.
- It includes all types of products and their parts.
- It applies to all products produced, sold and imported in the EU.

Special approach for Micro enterprises and SMEs: Micro, small and medium-sized enterprises ('SMEs') can have limited resources and ability to ensure that the products they place or make available on the Union market are free from forced labour. The Commission should therefore issue guidelines on due diligence in relation to forced-labour risk indicators, including how to identify them, which should be based on independent and verifiable information, including reports from international organisations, in particular the ILO. At the moment, such guidelines have not been developed.

The Commission should also prevent unnecessary administrative burdens on SMEs and should develop accompanying measures to support the efforts of economic operators and their business partners in the same supply chain, in particular the SMEs. Existing business and human rights help desks or due diligence contact points may be appointed as contact points for the purposes of this Regulation.

By 14 June 2026, the Commission must issue guidelines on due diligence for forced labour, including child labour. These will cover legal requirements, best practices for remediation, risk indicators, and engagement with authorities. The guidelines will also provide sector-specific recommendations based on company size and supply chain structures. Economic operators must stay informed to ensure compliance when importing into the EU.

Timeline

The European Union's Forced Labour Regulation (EUFLR) was published in the EU Official Journal on **12 December 2024** and entered into force on **13 December 2024**. However, its provisions will become applicable **36 months after its entry into force**, meaning that enforcement will commence on **14 December 2027**.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

What Happens If You Don't Comply?

- Member States shall lay down the rules on penalties applicable to non-compliance with a decision referred to in Article 20 and shall take all measures necessary to ensure that they are implemented in accordance with national law.
- This regulation mainly establishes penalties by enforcing the removal of goods linked to forced labour, either the whole good or the components (if possible) that have been produced with forced labour. Either the goods will have to be destroyed or donated and withdrawn from the EU market if already sold.
- Administrative fines are not mandated in the current regulation, however, member states must establish and enforce effective, proportionate and dissuasive penalties for violations, which might lead to administrative fines or the payment of costs related to investigations and the removal of affected goods.

How It Connects to Other Regulations

The prohibition applies to all products sold in the EU, including their components, regardless of geographic origin or industry.

Regulation [\(EU\) 2017/821](#) of the European Parliament and of the Council requires Union importers of minerals or metals falling under the scope of that Regulation to carry out due diligence obligations consistent with Annex II to the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas, and the due diligence recommendations set out therein.

Regulation [\(EU\) 2023/1115 \(EUDR\)](#) of the European Parliament and of the Council requires due diligence regarding the legal and deforestation free character of products and commodities within its scope, including with respect to human rights. However, The EU Deforestation Regulation (EUDR) primarily targets its due diligence requirements on the point of production or the origin of the raw materials. In contrast, the EU Forced Labor Regulation (EUFLR) (or related frameworks) generally requires due diligence along the entire supply chain.

The Directive [\(EU\) 2022/2464 \(CSDDD/CS3D\)](#) of the European Parliament and of the Council on Corporate Sustainability Reporting amended that requirement by introducing detailed reporting requirements for covered companies regarding the respect of human rights, including in global supply chains. The information that companies disclose about human rights should include, where relevant, information about forced labour in their value chains.

[The CSRD](#) requires companies to disclose sustainability information, including human rights impacts and efforts to mitigate risks like forced labor in their operations and supply chains.

The [European Sustainability Reporting Standards \(ESRS\)](#) specify mandatory reporting on human rights due diligence, including forced labor risks. Under the CSRD, companies must disclose:

- Policies addressing forced labor risks.
- Steps taken to identify, prevent, and mitigate forced labor in their supply chains.
- Performance indicators (e.g., number of suppliers audited, forced labor incidents identified).

Data from CSRD reports could be used by EUFLR authorities to identify high-risk areas or gaps in compliance. While CSRD applies to bigger companies and certain foreign companies, the EUFLR applies to all size companies that place goods in the EU markets.

Public Database on Forced Labour Risk

The commission will establish a database of specific economic sectors in certain geographic areas where there is a high risk of forced labour, as well as a ban on certain products or suppliers. This database will gather information from different sources including but not limited to the International Labour Organization (ILO), The United Nations (UN), research or academic groups, etc.

This database should be accessible via the “Forced Labour Single Portal”.

The Commission will create a special central system (Single Information Submission Point), in all official languages of the EU, where people can submit information. Any person, group, organization or company can report suspected violations of this regulation through this system.

Helpful Tools and Resources

[The Information and Communication System in Market Surveillance \(ICSMS\)](#). It is an IT platform to facilitate communication between market surveillance bodies in EU and [EFTA countries](#). It quickly and efficiently shares information on non-compliant products, avoids duplication of work and speeds up the removal of unsafe products from the market. This platform has an internal area designed for customs and EU authorities and a public area devoted to consumers, users and manufacturers. The information visible to the public provides only reference to the product and its non-compliance, and not any internal documents (i.e. information exchange between the authority and the importer/manufacturer).

[Global Slavery Index\(GDI\) by Walk Free](#): It provides data and rankings on modern slavery prevalence by country.

[U.S. "List of Goods Produced by Child Labour or Forced Labour"](#): This list includes countries and goods linked to forced and child labour. It covers 150 goods and is updated by the U.S. Department of labour regularly.

[KnowTheChain Benchmark](#): It provides sector-specific insights into high-risk areas. It also provides a Guide for companies on how to assess, identify risks and implement good practices to combat forced labour in the supply chain.

[The Responsible Sourcing Tool](#): It offers not only a methodology to prevent and address Forced labour in the supply chain, but also provides information related to identified risks in the supply chain in different sectors and products.

Example

Disclaimer: Companies must carefully assess how directives have been transposed into national law, as differences may arise between member states. Unlike regulations, which are directly applicable across all EU countries, directives set overarching goals that each member state must achieve through its own legislative process. This means that while the objectives remain the same, the specific legal and procedural requirements may vary depending on how each country implements the directive. To ensure compliance, businesses should closely monitor national legislation and seek guidance on country-specific requirements

Under the Forced Labor Regulation, the idea is not to impose an entirely new, burdensome due diligence system on every company, regardless of size. Instead, all companies are expected to take reasonable steps to ensure that their supply chains do not involve forced labor. For smaller companies or those already managing their supply chains effectively, this may mean using existing processes, certifications, or supplier audits to demonstrate compliance, rather than implementing a complex new due diligence system.

For a small company, such as a t-shirt importer, the approach could be simplified as follows:

- **Basic Supplier Verification:** Rather than conducting an elaborate internal audit, the company can rely on supplier certifications, third-party audits, or verified documents to ensure that forced labor isn't being used.
- **Data Collection:** Instead of mapping a complex supply chain, a small business can focus on collecting key documents and contact details from its main suppliers.

- **Simplified Risk Assessment:** A basic risk analysis can be performed by reviewing supplier credentials and any easily accessible public information regarding labor practices in the supplier's country. This process might be less formal and detailed compared to that required from larger companies. There are different tools the company can use to identify the risks in their supply chain (e.g.n [Global Slavery Index\(GDI\) by Walk Free](#), [“List of Goods Produced by Child Labour”](#) or the Guide the Commission will develop by 2026)
- **Record Keeping:** Maintain a clear record of the due diligence materials (e.g., certificates, audit reports, and supplier declarations) that demonstrate compliance, ensuring that this information is available for review upon request.
- **Due Diligence Statement:** For small companies, preparing a due diligence statement might involve summarizing the straightforward verification process and confirming that the suppliers meet forced labor requirements, rather than conducting a comprehensive internal risk evaluation.

The regulation aims to balance the responsibility across all market players while scaling the obligations based on factors like company size and supply chain complexity, so while the requirement exists for all, the level of effort expected can vary.

8. Corporate Sustainability Due Diligence Directive (CSDDD)

The Corporate Sustainability Due Diligence Directive (CSDDD) aims to promote sustainable and responsible corporate behavior in companies' operations and throughout their global value chains.

For the first time, it creates a uniform and binding transnational regulation that obliges EU and third-country companies operating in the EU to embed human rights and environmental due diligence obligations in the so-called "chain of activities". Micro companies and SMEs are not covered by the proposed rules. However, the Directive provides supporting and protective measures for SMEs and SMCs (Small Midcaps Companies) which could be indirectly affected as business partners in value chains. The Directive came into force on July 25, 2024. Member States shall adopt and publish, by 26 July 2026, the laws, regulations and administrative provisions necessary to comply with this Directive.

[Official Link](#)



What's the Goal?

The directive aims to enhance human and environmental standards throughout the supply chain and encourage responsible corporate behavior. While some companies have already committed to addressing these issues, there has been a lack of comprehensive accountability for negative impacts along the value chain, and no legally binding obligations existed in this regard. The CSDDD will change this: Companies will be required to meet specific criteria in both upstream and certain downstream activities. They must assess their value chains and take action if critical working conditions or environmentally harmful processes are identified. These criteria are intended to ensure that goods produced and offered in the EU adhere to minimum human and environmental standards.

Who's Affected?

- Companies established in the Union with more than 1 000 employees on average and a net worldwide turnover exceeding EUR 450 000 000 in the last financial year for which annual financial statements have been or should have been adopted.
- Companies in the EU with franchise or licensing agreements with independent third parties, where these agreements ensure a common identity, business concept, and uniform business methods, and where the licensing fees exceed EUR 22,500,000 and the worldwide net turnover exceeds EUR 80,000,000 in the last financial year, must comply with the due diligence obligations set out in this Directive. The same applies to ultimate parent companies of groups of companies that taken together fulfil those conditions.
- Micro companies and SMEs are not covered by the proposed rules. However, the Directive provides supporting and protective measures for SMEs and SMCs (Small Midcaps

Companies) with no more than 500 companies which could be indirectly affected as business partners in value chains.

Scope and Coverage

The directive aims to ensure that companies operating in the internal market contribute to sustainable development by identifying, prioritizing, avoiding, mitigating, remedying, and minimizing negative impacts on human rights and the environment in their own operations, as well as in the activities of their subsidiaries and business partners. The behavior of companies in all sectors of the economy is crucial to the successful implementation of the Union's sustainability goals, as companies in the Union, especially large ones, rely on global value chains.

Companies should take appropriate steps to implement and carry out due diligence measures in their own operations, as well as in the activities of their subsidiaries and direct or indirect business partners along their value chains, in accordance with this directive. The directive does not require companies to ensure that no negative impacts occur or that they are completely stopped under all circumstances. For example, a company may not be able to achieve such results with business partners where negative impacts are due to government interventions. Therefore, the main obligations in this directive should be "obligations of means". Companies should take appropriate measures to achieve the goals of due diligence by addressing negative impacts in a manner that is proportionate to the severity and likelihood of the impacts. This should take into account the specific circumstances, the nature and extent of the negative impacts and relevant risk factors, the characteristics of the company's operations and value chain, the industry or geographic area in which the company operates, the company's ability to influence its direct and indirect business partners, and whether the company could increase its influence.

In short: According to the Directive, companies must

- analyze risks by identifying potential and actual negative impacts on human rights and the environment,
- take measures to prevent or mitigate these risks
- monitor and report on the effectiveness of these measures.

Companies should promote the following processes to implement the directive:

Strategy Development

Companies should integrate due diligence into their strategy and risk management systems and establish a strategy based on risk-based due diligence. In addition to describing the due diligence approach and the processes by which due diligence obligations are fulfilled, this should also include a code of conduct for employees, subsidiaries, and business partners.

Risk Analysis

Companies shall regularly and on an ad hoc basis identify, assess, and prioritize potential and actual adverse impacts. For this purpose, companies should first map their own activities, the activities of subsidiaries, and suppliers in the chain of activities to identify areas where negative impacts are particularly likely. Subsequently, an in-depth analysis should be conducted in these areas.

Measures

After identifying negative impacts, preventive and remedial measures must be taken. The CSDDD clarifies that remediation is part of remedy. However, remediation is only required if companies cause impacts alone or jointly with a business partner, not if they are merely associated with an adverse impact.

Reporting Mechanism and Complaint Procedure

Companies must establish a reporting mechanism and complaint procedure to allow potentially affected parties, trade unions, employee associations, NGOs, and other individuals to raise concerns. They can set up either their own internal procedure or an external one, for example, as part of an initiative.

Monitoring

Companies must continuously monitor the effectiveness of their measures. This applies to their own activities, the activities of subsidiaries, and business partners.

Stakeholder Engagement

Companies are required to meaningfully engage stakeholders. This includes consultations to identify, assess, and prioritize negative impacts, to develop prevention and remediation plans, and to develop qualitative and quantitative indicators for monitoring. They must provide stakeholders with information for the purpose of consultation, address access barriers, and ensure that participants do not suffer any disadvantages.

Communication

Companies that are not already subject to CSRD reporting obligations must publish an annual public statement on their website. This should cover the due diligence process, activities to identify and address negative impacts, and the results.

Timeline

As mentioned, SMEs are not or only indirectly affected by the introduction of the regulation. However, large partner companies may expect information from SMEs, which is why the following introduction periods may also be relevant for SMEs.

The CSDDD will then subsequently apply to companies that fall under the scope in three stages:

- **Group 1 - Compliance with the CSDDD from July, 2027**
EU companies with an average of more than 5,000 employees and a global net annual turnover of more than €1.5 billion and (parent) companies under the legislation of a third country (outside the EU) with a net annual turnover of more than €1.5 billion within the EU
- **Group 2 - Compliance with the CSDDD from July, 2028**
EU companies with an average of more than 3,000 employees and a global net annual turnover of more than € 900 million and (parent) companies under the legislation of a third country (outside the EU) with a net annual turnover of more than € 900 million within the EU

- **Group 3 - Compliance with the CSDDD from July, 2029**

EU companies with an average of more than 1,000 employees and a global net annual turnover of more than € 450 million and (parent) companies under the legislation of a third country (outside the EU) with a net annual turnover of more than € 450 million within the EU and (parent companies of) franchisees with EU license fees of more than € 22.5 million and a net annual turnover of more than € 80 million within the EU.

What Happens If You Don't Comply?

The introduction of sanctions, calculated based on global net turnover, and the statute of civil liability for breaches of the CSDDD's due diligence obligations are likely to have significant legal and financial impacts on the affected companies. Non-compliance with the directive's requirements could result in lawsuits, fines, and reputational damage, severely affecting their market position and profitability. Companies that fail to comply with the CSDDD may face several consequences, including:

- Fines up to a maximum amount determined individually by each Member State, which should not be less than 5% of the company's net global turnover
- Exclusion from public tenders
- Civil liability for intentionally or negligently causing adverse effects

How It Connects to Other Regulations

The CSDDD is closely linked to various EU laws such as the EU Deforestation Regulation ([EUDR](#)), the EU Conflict Minerals Regulation ([EUCMR](#)), the EU Batteries Regulation ([EUBR](#)), and upcoming legislation banning forced labor. While these regulations have sector-specific due diligence obligations, the CSDDD establishes a uniform EU-wide standard, requiring both EU and non-EU companies to develop comprehensive due diligence strategies for human rights and environmental issues. Data and due diligence from EUDR, EUCMR, and other regulations can support CSDDD compliance, and vice versa.

Additionally, the CSDDD is linked to the Corporate Sustainability Reporting Directive ([CSRD](#)). Both align with the OECD [Guidelines](#) for Multinational Enterprises and the UN Guiding Principles, with the CSRD focusing on reporting and disclosure, and the CSDDD imposing action-oriented obligations. Companies subject to CSRD reporting, do not need to publish an annual public statement on their website.

Future Outlook: Omnibus Proposal

The Omnibus Proposal presented on February 2025, proposes several changes that affects this regulation, among the main changes that can be expected in case of approval of this proposal, we can mention the following:

- **Applicable to:**
 - ▶ Large companies with more than 1,000 employees and either €50 million in net turnover or €25 million in total assets
 - ▶ Non-EU companies with significant EU operations if their EU turnover exceeds €450 million

- **Simplifications and deferrals:**

- ▶ The first phase of application is postponed by one year (now starting in 2028)
- ▶ Due diligence obligations for indirect business partners have been reduced, focusing only on direct partners unless there is specific evidence of risks
- ▶ Period of reassessment: Reduced reporting frequency. Companies now assess the effectiveness of due diligence measures every 5 years instead of annually
- ▶ Modified penalty system: Fines are no longer tied to a company's net revenue
- ▶ New definition of stakeholders has been proposed
- ▶ Termination clause for non-compliant suppliers has been changed for a remediation clause

Helpful Tools and Resources

- **OECD Due Diligence Guidance for Responsible Business Conduct:** The OECD Guidelines for Multinational Enterprises contain recommendations for responsible business conduct, including due diligence. The governance dimension is emphasized through the obligation to implement management systems and processes to identify, prevent, and mitigate adverse impacts on human rights, the environment, and corruption.
- **Implementing the CSDD in the mineral supply chain:** This guide, originally developed for the mining, transport, and trade of mineral resources, can also serve as a valuable resource for implementing risk analysis under the CSDDD.

Example

A small- to medium-sized enterprise with fewer than 1,000 employees and an annual turnover of less than 450 million euros is not directly subject to the regulation. However, it may still be indirectly affected through its large business partners by following:

- **Supplier assessments:** The large company can conduct regular assessments and audits of their suppliers to ensure that they meet the required sustainability standards. This may include reviews of environmental practices, labor conditions and human rights standards.
- **Sustainability reports:** Small businesses may be required to produce a sustainability report documenting their efforts to reduce negative impacts on the environment and society. These reports may include information on energy consumption, waste management, water consumption and social responsibility.
- **Code of conduct:** Large companies can require their small business partners to sign and implement a code of conduct that sets out specific sustainability practices and standards. This can include policies to prevent child labor, promote fair working conditions and reduce pollution.
- **Training and workshops:** In their efforts to reduce negative social or environmental impacts large companies might request SMEs to participate in workshops or training sessions to help them implement sustainable practices. This can include training on energy efficiency, sustainable resource management and compliance with human rights standards, etc.

Conclusion

Integrating Green, Digital, and Social Components for Long-Term Sustainability

Achieving long-term sustainability requires more than adopting green strategies - it demands a Triple Transformation that integrates environmental, digital, and social dimensions. Green strategies alone cannot succeed without the support of advanced digital technologies. As sustainability regulations like CSRD, EUDR, and CBAM become more data-driven, the ability to collect, analyze, and report reliable data is essential for compliance. Digital tools such as automated reporting systems, supply chain monitoring platforms, and predictive analytics enable SMEs to meet these requirements efficiently while identifying opportunities for improvement and innovation.

However, technology and data are not enough on their own. A truly transformative shift requires addressing the social and behavioral dimensions of sustainability. Employees at all levels must internalize sustainability principles, embedding them into daily decision-making and operations. This involves fostering a culture of shared responsibility, enhancing sustainability literacy, and cultivating a mindset that sees ESG practices not as obligations but as drivers of value and progress.

When green strategies are coupled with digital capabilities and supported by a social and cultural transformation within organizations, the impact goes beyond individual businesses - it drives systemic change. This holistic approach ensures not only regulatory compliance but also resilience, adaptability, and leadership in the sustainable economy of the future. Together, these pillars form the foundation for a new way of doing business—one that is not only profitable but also responsible and regenerative.

About the ESG-REG Project

“Navigating ESG Regulations: A Guide for SMEs” (ESG-REG), is a small-scale partnership project co-funded by the European Commission’s Erasmus+ Program. The project was conceived in response to the growing confusion among SMEs regarding sustainability regulations and compliance requirements that are already, or soon will be, affecting their operations.

Project Goal	The project aims to assist SMEs in understanding CSRD requirements and the implications for their business operations, so that they can get prepared in time and have a smooth transition to compliance with ESG standards. Additionally, it aims to encourage management-related CVET providers to adapt their training offers to this labor market need, upskilling professionals to become ESG-practitioners.	
Specific Objectives and corresponding Outputs	O1 Raise knowledge and awareness around CSRD requirements	R1: ESG-REG Spark Sessions These interactive online sessions focus on storytelling and the exchange of updates and best practices in sustainable management, CSRD and ESG standards, regulatory compliance, and the use of digital tools.
	O2 Simplify the standards outlined in CSRD framework into accessible guidelines	R2: ESG-REG Guide The Guide is designed to help SMEs and trainers more easily understand and navigate the CSRD framework, as well as related regulations and standards. It aims to reduce the confusion and complexity businesses may experience by offering clear explanations and practical guidance.
	O3 Train selected target audience by making use of the ESG-REG Guide	R3: ESG-REG Education Series These training sessions provide participants with practical learning in sustainability reporting, supported by workshops and real-life case studies. The goal is not only to build knowledge and hands-on skills to enhance ESG compliance and reporting, but also to inspire deeper engagement and more sustainable business transformations.
Project Time Frame	01.09.2024 – 31.08.2025	
Project Number	2024-1-DE02-KA210-VET-000246364	
Project Website	www.esgreg.eu	

Launched in September 2023, the project aims to raise awareness and enhance SMEs’ understanding of the regulatory landscape through interactive **ESG-REG Spark Sessions**. These sessions provide a platform for knowledge sharing, practical insights, and collaborative learning.

Building on these efforts, the **ESG-REG Guide** serves as a structured and practical tool to help SMEs navigate the complexities of sustainability regulations, including frameworks such as CSRD, ESRS, CBAM, and EUDR. Designed not only for SMEs but also for vocational education and training (VET) providers, consultants, and coaches, the guide is a versatile resource for educational and professional purposes.

The first **ESG-REG Educational Series**, utilizing the ESG-REG Guide, will be implemented as part of the project in June 2025, setting a foundation for continued learning and capacity building in the SME community. By simplifying the path to ESG compliance, the project empowers SMEs to embrace sustainability as a driver of innovation, resilience, and growth.

Project Partners



Steinbeis School of Sustainable Innovation and Transformation (SIT) - Berlin, Germany

Affiliated to Steinbeis University, SIT is a research and education institute as well as an innovation partner, committed to delivering high-quality educational and consultancy services in the field of sustainability and sustainable management. SIT's work is grounded in two main areas: advancing continuous vocational education -particularly through a new model in Germany offering Diplomas of Advanced Studies- and driving innovation in education projects, with a strong focus on the intersection of sustainability and digitalization.

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World Citizen Alliance e.V. (WCA) – Tübingen, Germany

WCA emerged from the pilot project World Citizen School at the Global Ethic Institute of the University of Tübingen. Since 2017, the organization has been engaged in teaching, research, and practical projects, contributing to the advancement of global citizenship education, social innovation education, entrepreneurship education, and value-based learning to promote civic engagement. The goal of the organization is to foster a world in which people learn to take responsibility with and from one another. WCA strengthens value-oriented engagement, self-responsibility, and global responsibility.

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Institut za Društveno Odgovorno Poslovanje (IDOP) – Zagreb, Croatia

IDOP is a prominent think-tank research and advisory organization dedicated to advancing sustainability practices and digitalization within Croatia. It serves as a nexus for academia, businesses, government, and civil society to collaborate on sustainability and social responsibility initiatives. IDOP's core activities encompass educational programs, advisory services, and participation in various EU projects. With a multidisciplinary approach, IDOP endeavors to identify and implement sustainable solutions across sectors.

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Thank You for Reading!

We hope this guide has sparked ideas, supported your learning journey, and encouraged action.

Stay Connected

Explore more resources, share your feedback, or join our community:

 www.esgreg.eu

Acknowledgements

This guide was developed by the ESG-REG consortium, coordinated by *Steinbeis School of Sustainable Innovation and Transformation* (SIT), in collaboration with partners *Croatian Institute for Corporate Social Responsibility* (IDOP) and *World Citizen Alliance e.V.* (WCA).

We gratefully acknowledge the dedicated contributions of the partner staff who worked on the guide's development, as well as the valuable feedback provided by external individuals during the pilot testing phase.

Special thanks go to Cecilia Gabutti for her editorial leadership and substantial contributions to content development.

Disclaimer

While ESG-REG Guide has been prepared to the best of our knowledge and with great care, the project consortium cannot accept responsibility for any errors or omissions. The content is for informational purposes only and does not constitute legal or professional advice.

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