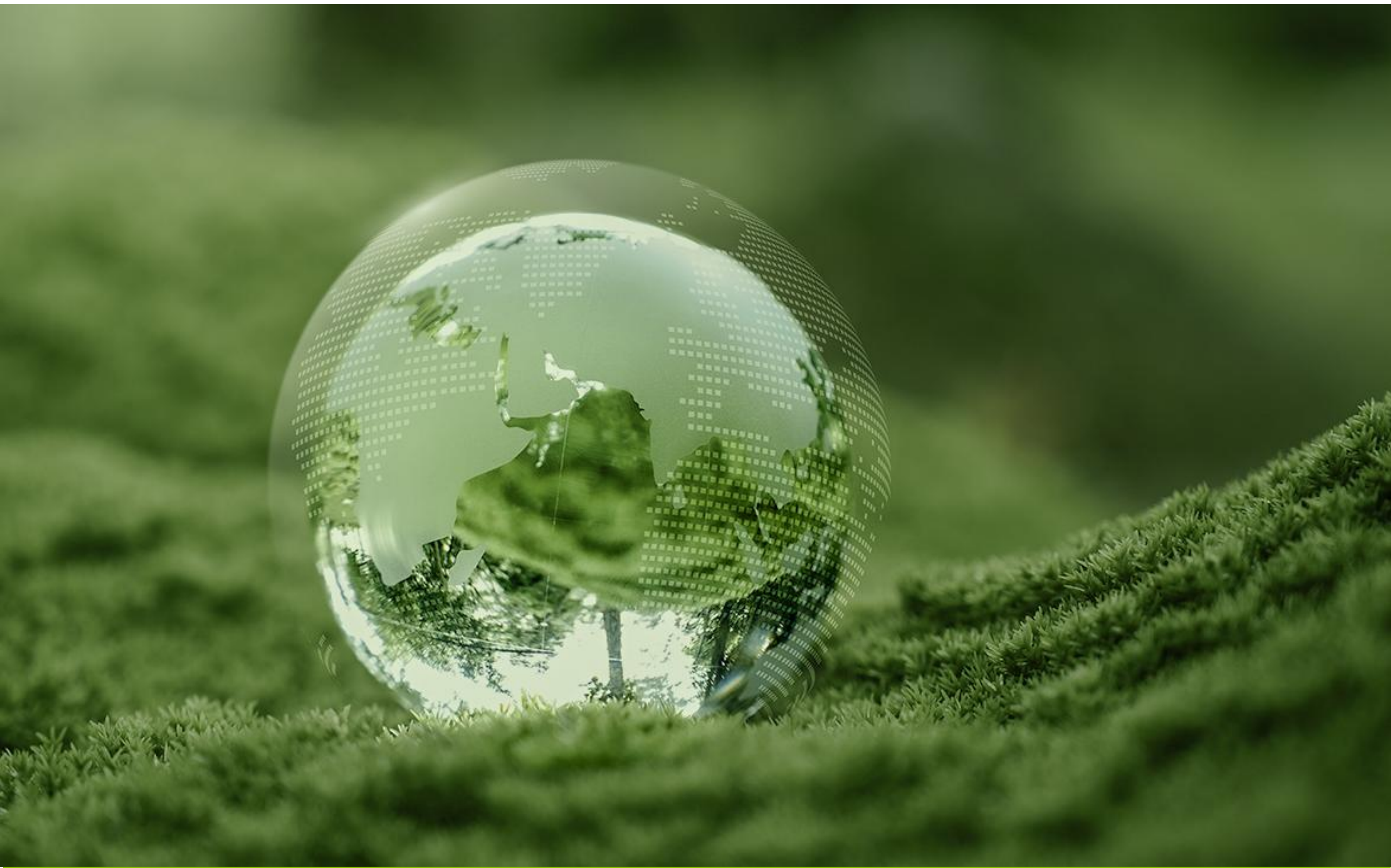
Co-funded by
the European Union



Navigating ESG Regulations - A Guide for SMEs

SUMMARY

ESG-REG Guide Summary | Project Number: 2024-1-DE02-KA210-VET-000246364

A Word from the Project Team

This document provides a summary of the Guide which was 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.

Each of the following pages offers a snapshot of the regulations and standards covered in the ESG-REG Guide. For detailed information, including practical examples and useful tools, please refer to the full ESG-REG Guide, available for download on the project website: **www.esgreg.eu**

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.

ESG-REG project is co-funded by the European Union. Views and opinions expressed are however those of the author(s) only and do not necessarily reflect those of the European Union or the European Education and Culture Executive Agency (EACEA). Neither the European Union nor EACEA can be held responsible for them.

License

CSRD

Corporate Sustainability Reporting Directive

Who

Large EU undertakings or groups, meeting at least two of the following:

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

EU and non-EU companies with securities listed on an EU-regulated market, meeting at least two of the following:

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

Non-EU companies with €150 million+ net turnover in the EU (last two consecutive years) and:

- Own a large EU-based business, or
- Have an EU-listed subsidiary, or
- Operate an EU branch with €40 million+ turnover

What

CSRD is an EU regulation that expands and standardizes sustainability reporting requirements for companies. CSRD mandates disclosure of environmental, social, and governance (ESG) information according to the **European Sustainability Reporting Standards (ESRS)**.

Key elements:

- Standardized, comparable ESG reporting
- Double materiality assessment: Impact and financial risk
- Disclosure of policies, actions, and targets
- Mandatory ESG disclosure requirements under the ESRS, covering:
  - E – Environmental: Climate mitigation/adaptation, pollution, water and marine resources, circular economy, biodiversity, and ecosystems
  - S – Social: Own workforce, value chain workers, affected communities, consumers and end-users
  - G – Governance: Business conduct, ethics, anti-corruption, and responsible practices

When

2023

CSRD comes into force

2024/5

NFRD companies

- Employees > 500
- Net turnover > EUR 40M
- Assets > EUR 20M

2027/8

Big- & SMEs

- Employees > 250
- Net turnover > EUR 40M
- Assets > EUR 20M

2028/9

Listed SMEs

2028/9

Non EU–companies

- One subsidiary in the EU
- EUR 150m turnover in the EU
- EU Branch > EUR 40M turnover

Future Outlook: Subject to change based on Omnibus proposals. Please refer to the ESG-REG Guide and official EU sources for further details.

VSME

Voluntary SME Sustainability Reporting Standard

Who

Non-listed SMEs in the EU that choose to report on sustainability voluntarily.

The standard is tailored for SMEs based on their size, complexity, and resources.

Particularly relevant for:

- SMEs in supply chains of CSRD-in scope companies, responding to ESG data requests
- SMEs seeking sustainable financing, improving access to loans or green investments
- SMEs enhancing market position through transparency and stakeholder trust
- SMEs preparing for future regulation, easing transition to mandatory reporting later.

What

A voluntary, flexible, and proportionate framework for SMEs to:

- Report on environmental, social, and governance (ESG) efforts
- Improve transparency and build credibility with partners and investors
- Align with evolving market expectations without administrative burden
- Use as a stepping stone toward compliance with future regulations.

Designed to keep sustainability reporting manageable and resource efficient.

When

No fixed enforcement date - SMEs can adopt at their own pace.

EU Taxonomy

Who

Applies to a range of companies and financial institutions, primarily those in scope of CSRD:

- Large EU companies falling under the CSRD
- Listed SMEs on EU-regulated markets
- Financial market participants, including: Investment funds, Pension providers, Insurance companies
- Voluntary disclosure for any company wishing to attract sustainable investment or improve ESG transparency

What

A classification system that defines which economic activities are environmentally sustainable based on technical criteria.

To qualify as Taxonomy-aligned, an activity must:

- Substantially contribute to one or more of six environmental objectives:
  - Climate change mitigation
  - Climate change adaptation
  - Sustainable use of water and marine resources
  - Circular economy transition
  - Pollution prevention and control
  - Biodiversity protection and restoration
- Do no significant harm (DNSH) to the other objectives
- Respect minimum social safeguards
- Meet the technical screening criteria

Disclosure obligations include reporting the share of turnover, CapEx, and OpEx aligned with the Taxonomy.

Financial institutions must also report the Green Asset Ratio or investment alignment.

When

2022

Companies in scope must report Taxonomy-eligibility (turnover, CapEx, OpEx); financials begin basic disclosures

2023

Non-financial companies report Taxonomy-alignment (share of eligible financial indicators)

2024

Financial institutions disclose Taxonomy alignment of investments, based on data from investee companies

Future Outlook: Subject to change based on Omnibus proposals. Please refer to the ESG-REG Guide and official EU sources for further details.

EUDR

EU Deforestation Regulation

Who

Applies to companies that import, export, place on the market, or make available the following commodities (and derivatives according Annex 1 of the regulation) in the EU: cattle, cocoa, coffee, palm oil, rubber, soy, wood.

Covers both EU and non-EU origin products, and applies across all supply chain actors, including:

- **Operators:** Entities placing or exporting products for the first time in the EU
- **Traders:** Entities further down the supply chain making products available (excluding import/export)

SMEs: Subject to the same due diligence rules, but may avoid repeating steps if earlier due diligence has been performed (must reference previous checks).

What

An EU regulation that aims to prevent deforestation-linked products from entering the EU market.

Companies must ensure products are:

- Deforestation-free (no deforestation or degradation after Dec 31, 2020)
- Legally produced (in compliance with producing country's laws)
- Fully traceable (supply chain back to point of origin).

Due diligence process includes:

1. **Data Collection** – Info on origin, location, production time
2. **Risk Assessment** – Identify potential deforestation or legal/human rights violations
3. **Risk Mitigation** – Reduce any identified risk to negligible

Depending on the size of the company, role and position in the supply chain, companies must:

- Submit a due diligence statement
- Refer to an existing statement via reference number
- Keep records of existing due diligence statements

When

Dec 31, 2025

Full regulation enters into force (postponed from 2024)

Operators classified as small and microenterprises since December 2020 are granted an additional six months – start date: July 1, 2026.

CBAM

Carbon Border Adjustment Mechanism

Who

Directly affected:

- **EU importers** of specific carbon-intensive goods
- **Goods in scope:** Iron, steel, cement, fertilizers, aluminum, electricity, hydrogen, and some derivatives
- **Targeted sectors:** High carbon-emitting, energy-intensive industries at risk of *carbon leakage**.

Indirectly affected:

- **Non-EU exporters:** May face cost impacts as EU importers must report and eventually pay for embedded emissions, potentially affecting competitiveness and demand.

* Carbon leakage is a phenomenon where companies move production to countries with less stringent energy regulations to avoid the costs with the EU's carbon pricing.

What

An EU mechanism that places a carbon price on imported goods to prevent carbon leakage and ensure equal treatment between EU and non-EU producers.

Goals:

- Create a level playing field, ensuring that both EU-produced goods (already subject to carbon pricing) and imported goods compete under fair conditions.
- Encourage global climate action by incentivizing cleaner production abroad.

Reporting Roles:

- Reporting Declarant: The person or company responsible for reporting the embedded emissions of imported goods. This is usually the importer, but it can also be another party who files the customs declaration. Each shipment must be reported only once to avoid duplication or gaps.
- Non-EU installation operators: must provide accurate emissions data for exported goods.

When

October 1, 2023 ▶ December 31, 2025

Transitional phase begins: Reporting obligations start (quarterly)

January 1, 2026

Full CBAM comes into force: Importers must be authorized, submit annual emissions data, and surrender CBAM certificates

Future Outlook: Subject to change based on Omnibus proposals. Please refer to the ESG-REG Guide and official EU sources for further details.

EUFLR

EU Forced Labor Regulation

Who

Applies to all economic operators that:

- Place, make available, or export products from the EU market
- Sell products through any channel, including online
- Operate at any stage of the supply chain, including extraction, harvesting, production, and manufacturing — even if forced labor occurs only at one step.

What

This regulation requires companies that place, import, or export goods within the EU to ensure that their supply chains are free from forced labor practices. This regulation does not impose additional due diligence requirements by law, but it encourages the implementation of due diligence practices.

Key elements:

- Based on ILO Convention No. 29 definition of forced labor
- Covers all products and parts, regardless of origin or production stage
- Applies to distance selling, including e-commerce
- Enforcement authorities may consider an operator's due diligence efforts when investigating — this may even prevent an investigation from being launched

This regulation does not apply to transport services.

When

Dec 14, 2027

Enforcement begins in all EU Member States (36-month transition period).

CSDDD

Corporate Sustainability Due Diligence Directive

Who

EU companies with:

- more than 1,000 employees (average) and
- net worldwide turnover over €450 million in the last financial year

Companies in the EU with franchise or licensing agreements with independent third parties where:

- agreements ensure a common identity, business concept, and methods
- license fees exceeding €22.5 million and
- worldwide net turnover over €80 million (including parent companies of qualifying groups)

Micro companies and SMEs are not directly affected, but may be indirectly involved as business partners in value chains and benefit from support measures outlined in the directive.

What

This regulation requires large companies to take responsibility for human rights and environmental impacts in their own operations and across their value chains.

Core due diligence duties:

- Identify and assess risks of adverse human rights or environmental impacts
- Prevent, mitigate, and remedy negative impacts
- Monitor and report on due diligence measures
- Engage stakeholders, including workers, NGOs, and affected communities
- Establish complaint mechanisms
- Publish an annual statement (unless already reporting under CSRD)

Due diligence is based on proportionality – obligations depend on severity, company size, influence, and geographic/sector risk.

When

July 2027	**Group 1:** >5,000 employees & >€1.5B global turnover (EU and non-EU)
July 2028	**Group 2:** >3,000 employees & >€900M global turnover (EU and non-EU)
July 2029	**Group 3:** >1,000 employees & >€450M global turnover, or franchisors / licensors with €22.5M+ fees & €80M+ turnover in the EU

Future Outlook: Subject to change based on Omnibus proposals. Please refer to the ESG-REG Guide and official EU sources for further details.