



# EU Corporate Sustainability Due Diligence Directive

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# What is EU Corporate Sustainability Due Diligence Directive?

In line with the rapid developments in the fields of sustainability and ESG in recent years, on 24 April 2024, the **Corporate Sustainability Due Diligence Directive (CSDDD or Directive)**; was accepted by the European Parliament which is published on **5 July 2024** and entered into force on **25 July 2024**. The main objective of the Directive is to extend the environmental and social obligations of companies to corporate groups and their supply chains, thereby having an impact on global supply chains.



# To Which Companies the Directive is Applicable?

The Directive applies to EU companies incorporated under the laws of the European Union (**EU Companies**) and non-EU Companies not incorporated under the laws of the European Union (**Non-EU Companies**) *if certain thresholds are exceeded.*

## The obligations set out under the Directive apply to an EU Company if;

- ✓ The company has on average more than 1,000 employees and a worldwide net turnover exceeding €450 million; or
- ✓ The company is the ultimate parent of a corporate group that collectively meets the thresholds set out above, or
- ✓ The company has entered into or is the ultimate parent company of a corporate group that has entered into franchising or licensing agreements in the EU that generate royalties over €22.5 million, provided that the company or corporate group has a net worldwide turnover over €80 million.

## The Directive applies to non-EU companies if;

- ✓ The company has a net turnover in the EU exceeding €450 million; or
- ✓ The company is the ultimate parent company of a corporate group that collectively meets the above thresholds; or
- ✓ The company has entered into or is the ultimate parent company of a corporate group that has entered into franchising or licensing agreements in the EU that generate royalties over €22.5 million, provided that the company or corporate group has a net turnover in the EU exceeding €80 million.



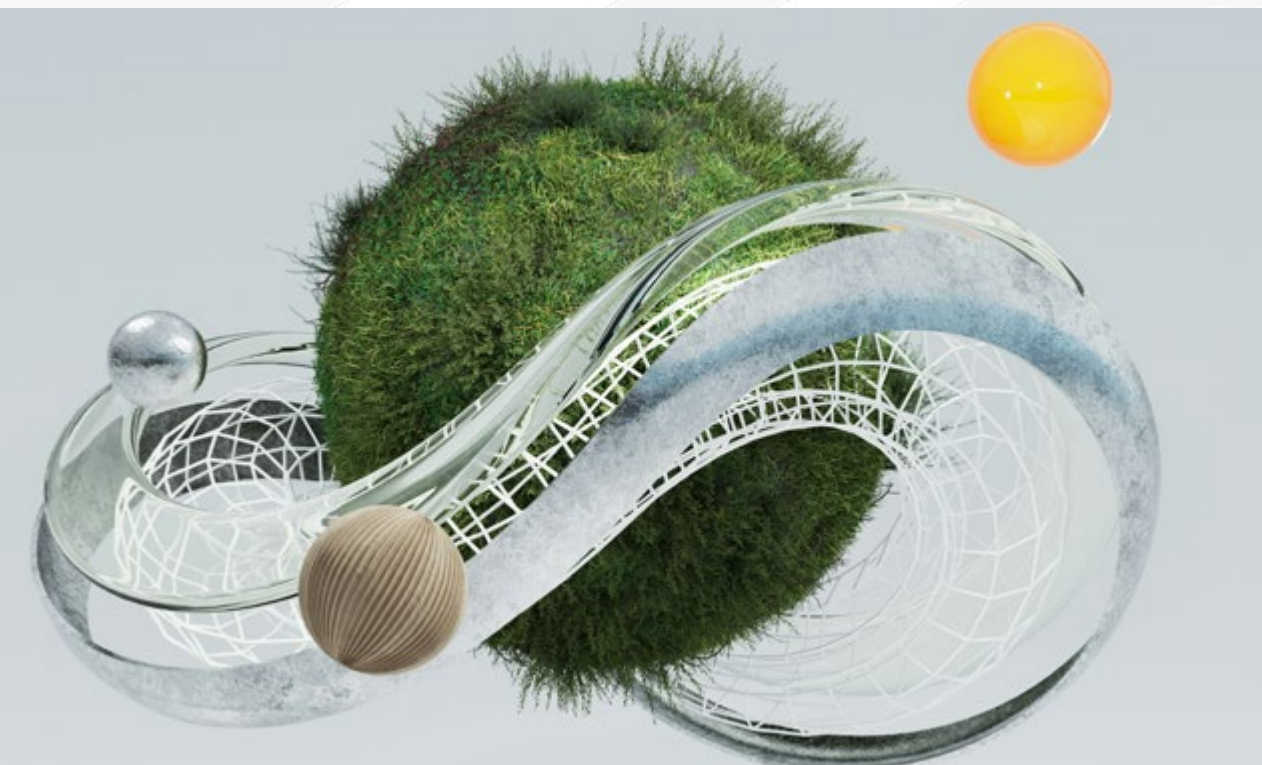
# To Which Companies the Directive is Applicable?

The thresholds are based on the last financial year for which annual financial statements are or should have been adopted.

Although it is stipulated in the Directive that companies meeting the above-mentioned thresholds will ultimately fall within the scope of the Directive, certain distinctions have been made in terms of the number of employees and turnover thresholds of companies and different effective dates have been determined accordingly. Please see these various thresholds and effective dates under the last chapter.

Although small and medium-sized enterprises (SMEs) are not directly covered by the Directive, SMEs that are suppliers or sub-suppliers of companies falling within the scope of the Directive will also be affected.

In this context, the provisions of the Directive will be applicable to **Turkish companies that meet the above-mentioned turnover criteria within the European Union and that are in the supply chain of a company subject to the Directive.**





## What are the Obligations Imposed by the Directive on Companies?

The main obligations imposed on companies by this Directive can be summarized as below;

- ✓ Establishing human rights and environmental due diligence policies
- ✓ Determining the current situation of companies in these areas and carrying out studies to reduce weaknesses and potential risks
- ✓ Establishing complaint mechanisms within the company and then monitoring the implementation of these policies.

The obligations stipulated by the Directive also cover the companies' *subsidiaries, and supply chains*. In this context, companies are obliged to identify and address both potential and actual negative impacts on human rights and the environment, including their operations, subsidiaries and supply chain partners. Additionally, large companies are required to develop and implement a climate change transition plan, aligning with the 2050 climate neutrality goal of the **Paris Agreement** and intermediate targets set by the European Climate Law.

# What are the Consequences of Failure to Comply with the Law?

Member States are expected to impose penalties on companies that violate the due diligence obligation and in case of infringement of the Directive, various penalties such as pecuniary fine of **up to 5% of the turnover** of the relevant company are envisaged.

The supervisory authority may also take **interim measures** where there is an imminent risk of severe and irreparable harm.

When determining penalties, authorities will consider factors such as the nature, severity, duration of the infringement, and if any, remedial actions that are taken and financial gains from the infringement.

In addition, relevant companies will also be liable for damages if they cause a harmful human rights violation or fail to prevent or minimize it.

In this context, Member States will be required to establish a supervisory authority to investigate and impose penalties on companies that do not comply with their obligations.





## What Comes Next?

On 5 July 2024, the Directive is published in the Official Journal of the European Union and it will enter into force on 25 July 2024. Member States will have 2 years to transpose the Directive into national law and communicate the relevant texts to the Commission. The rules will start to apply to companies, with a gradual phase-in between 3 and 5 years after the date of entry into force.

Accordingly, the obligations under the Directive will apply;

### From 2027 onwards;

to EU Companies with more than 5,000 employees and a worldwide turnover exceeding EUR 1.5 billion (*or ultimate parent companies of such a corporate group*), and to Non-EU Companies with a net turnover in the European Union exceeding EUR 1.5 billion (*or ultimate parent companies of such a corporate group*);

### From 2028;

these obligations will apply to EU Companies with more than 3,000 employees and a worldwide net turnover of more than €900 million (*or ultimate parent companies of such a corporate group*), and to Non-EU Companies with a net turnover of more than €900 million (*or ultimate parent companies of such a corporate group*);

### From 2029 onwards;

the Directive's obligations will also apply to EU Companies with more than 1,000 employees and a worldwide net turnover of more than €450 million (*or ultimate parent companies of such a corporate group*), and to Non-EU Companies with a net turnover in the European Union of more than €450 million (*or ultimate parent companies of such a corporate group*).

# Key Contacts



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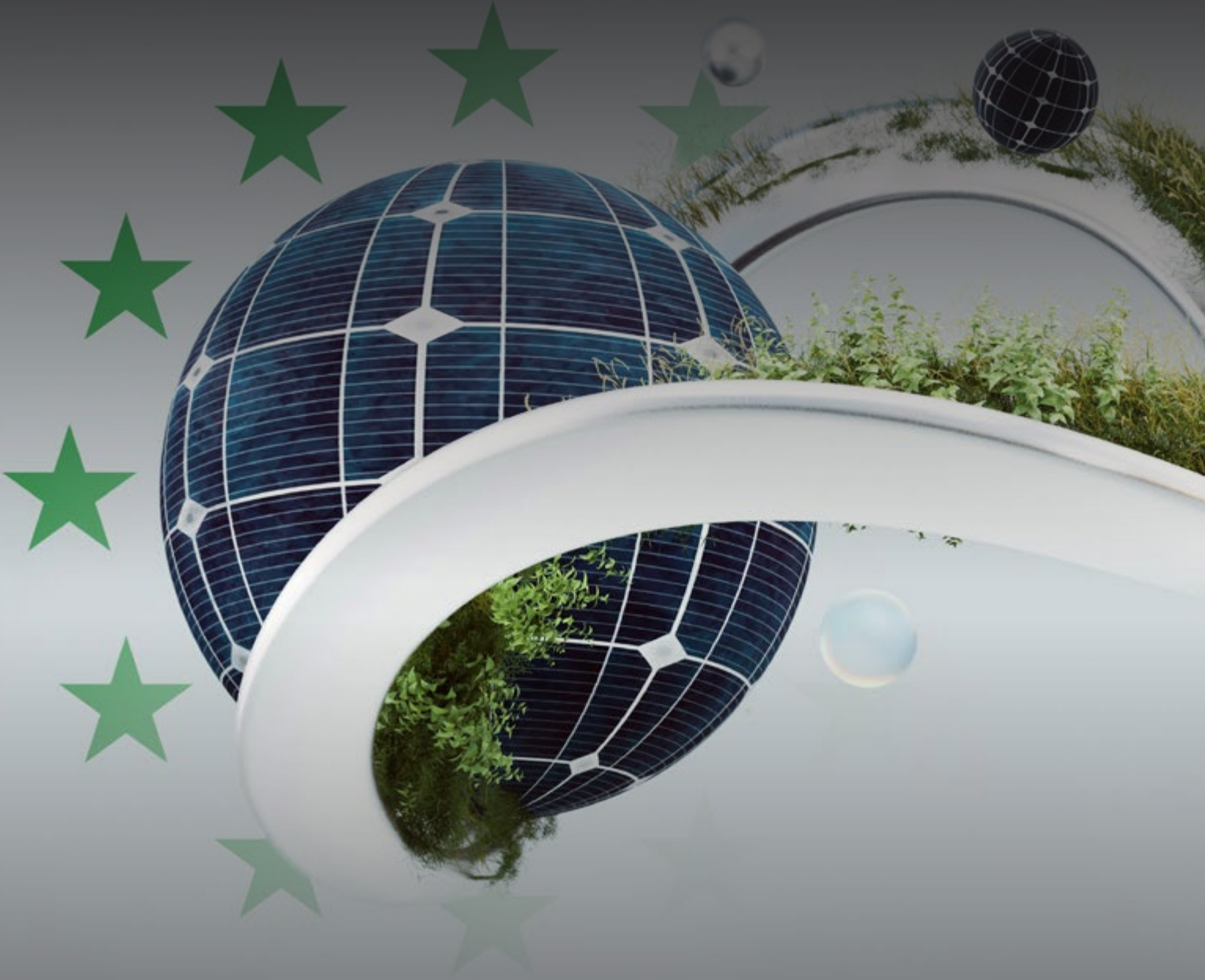
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