

CSDDD: The Formula for a Sustainable Chemical Industry?

EU Directive Presents both Challenges and Opportunities for Chemical Companies

The EU's Corporate Sustainability Due Diligence Directive (CSDDD) is reshaping the chemical industry's approach to environmental and social responsibility. A close look at the requirements reveals significant changes to supply chain oversight, risk management, and sustainability reporting. Chemical companies must implement new strategies to ensure compliance, drive innovation, and adapt to evolving regulations.

As awareness of environmental and social issues grows, regulatory bodies are introducing measures to ensure corporate accountability. The European Union's CSDDD is a central plank of this movement, which aims to enforce sustainable business practices across various sectors. The EU developed the directive in response to rising concerns about the environmental and social impact of corporate activities. It requires companies to identify, prevent, and mitigate adverse effects on human rights and the environment throughout their supply chains. The directive underlines the necessity for businesses to integrate sustainability into their core operations.

The CSDDD's primary objectives are promoting responsible corporate

behavior, protecting human rights, and enhancing environmental stewardship. The directive presents both challenges and opportunities for the chemical industry, which is characterized by intricate supply chains and its substantial environmental impact. While compliance will demand significant operational adjustments, it also creates conditions for the industry to advance sustainable innovation and demonstrate leadership.

Unique Challenges and Responsibilities

One of the primary reasons the CSDDD significantly impacts the chemical industry is the sector's reliance on

raw materials sourced from various parts of the world. For instance, the extraction of minerals and chemicals often occurs in regions with varying environmental regulations and labor standards. Companies involved in producing specialty chemicals or industrial gases must now ensure their sourcing practices align with the directive's requirements.

Another challenge stems from the industry's heavy environmental footprint. Chemical manufacturing processes can produce substantial greenhouse gas emissions and other pollutants. The CSDDD mandates that companies implement robust environmental management systems to mitigate their impact. For example, producers of plastics or fertilizers must adopt cleaner production technologies and enhance waste management practices to comply with the directive.

Moreover, the CSDDD strongly emphasizes human rights, which is crucial for an industry that often operates in regions with variable and sometimes poor labor conditions. Ensuring fair labor practices and safe working conditions throughout the supply chain is a significant focus. Companies must conduct thorough



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due diligence to identify and address potential human rights violations. This may involve auditing suppliers, providing training on labor standards, and implementing corrective actions where necessary.

Enhancing Reputation and Competitiveness

The CSDDD outlines several core requirements that companies must adhere to, spanning due diligence, reporting, and accountability. These involve regularly assessing potential risks in their supply chains, such as environmental degradation or labor rights violations. Companies must implement measures to prevent identified risks, such as adopting sustainable sourcing practices or improving working conditions in supplier factories. Additionally, they must take corrective action to address any adverse impacts, including providing remedies for affected communities or workers.

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The directive also mandates that companies enhance their reporting on sustainability practices. This includes regularly publishing reports detailing their due diligence processes, identified risks, and measures to address them. Stakeholder engagement, including employees, suppliers, and local com-



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munities, is essential for ensuring operational transparency and accountability.

The directive introduces mechanisms for legal accountability to ensure compliance. Companies that fail to meet the directive's requirements may face sanctions, including fines and other penalties. Underscoring the importance of robust due diligence processes, businesses can be held liable for damages resulting from failing to prevent or mitigate adverse impacts. By adhering to these requirements, companies can not only comply with the directive but also strengthen their sustainability practices, thereby enhancing their reputation and competitiveness.

Transparency and Communication are Key

Strategically, the CSDDD will push companies to integrate sustainability into their core business models. This means developing long-term plans that prioritize sustainable growth and innovation. Companies must set clear sustainability targets and measure their progress towards them. The directive's transparency and reporting requirements necessitate improvements in how companies communicate their sustainability efforts. Such communication may involve adopt-

ing new reporting frameworks or enhancing existing ones to provide more detailed and accurate information about their environmental and social impacts. In the chemicals industry, product stewardship is well established, and such programs, as well as Responsible Care Management Systems, can provide a solid foundation for transparency and meeting due diligence requirements.

By investing in advanced data management systems, companies can efficiently collect, analyze, and report on sustainability metrics across their operations. This may involve integrating existing environmental management systems with new software solutions designed specifically for CSDDD

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compliance. Developing clear, standardized reporting templates aligned with the directive's requirements will ensure consistency and completeness in disclosures.

Finally, it is crucial to establish a dedicated cross-functional team responsible for overseeing CSDDD compliance across the organization. This team should develop comprehensive risk assessment protocols, focusing on human rights and environmental impacts throughout the supply chain. Additionally, they should conduct regular supplier audits and implement risk mapping exercises to identify potential issues before they escalate.

Improving Stakeholder Involvement

Establishing regular communication channels and feedback mechanisms can help companies anticipate and manage potential issues while demonstrating their commitment to responsible business practices. Additionally, companies should develop comprehensive training programs to ensure all employees, especially those in key roles such as procurement and operations, understand the CSDDD requirements and their role in ensuring compliance.

Strengthening legal and compliance teams allows them to navigate the complex regulatory landscape effectively. This may involve hiring environmental experts and specialists in human rights or partnering with external experts. These teams should collab-

orate closely with operational units to develop and implement policies that ensure compliance while maintaining operational efficiency.

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Finally, companies should consider establishing a board-level sustainability committee to oversee CSDDD implementation and broader sustainability initiatives. This committee can ensure that sustainability is intrinsic to high-level strategic decisions and that the company remains proactive in addressing emerging regulatory challenges. By focusing on these governance and reporting strategies, chemical companies can build a strong foundation for CSDDD compliance while positioning themselves as responsible industry leaders.

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