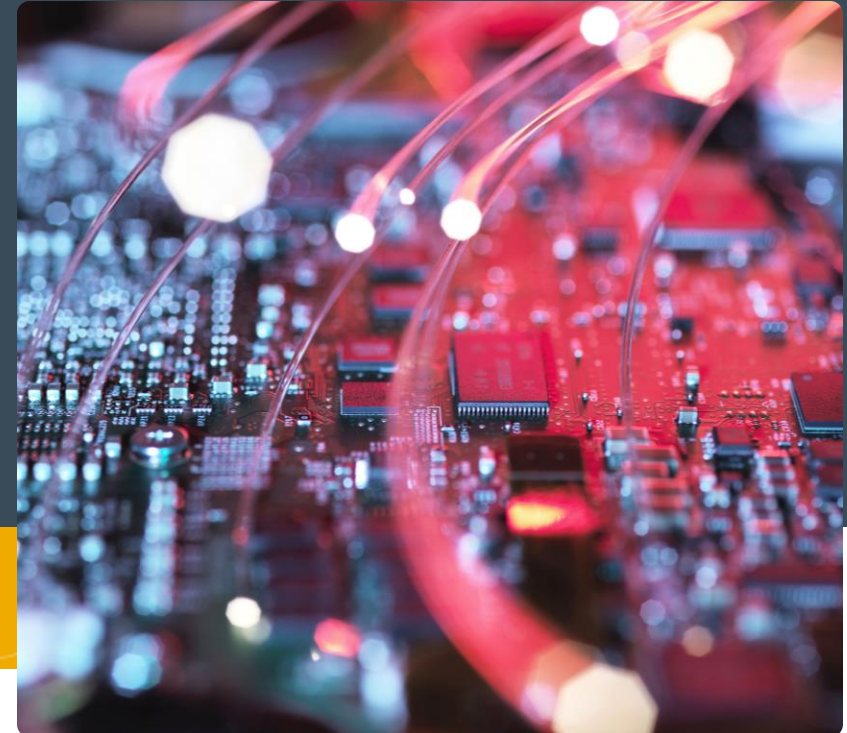


# Demystifying the EU CSDDD for the Electronics Manufacturing Industry

11 September 2024





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# Poll Question #1

# Agenda

Introduction

CSDDD Overview

Comprehensive Guide to CSDDD

Q&A

Key Takeaways

With you today



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# Poll Question #2

# EU Corporate Sustainability Due Diligence Directive (CSDDD) Overview



“This law is a historic breakthrough. Companies are now responsible for potential abuses in their value chain, ten years after the Rana Plaza tragedy.

Let this deal be a tribute to the victims of that disaster, and a starting point for shaping the economy of the future – one that puts the well-being of people and the planet before profits and short-termism.

I am very grateful to those who joined me in the fight for this law. It ensures honest businesses do not have to participate in the race against cowboy companies.”





# What is the CSDDD?

The CSDDD (Corporate Sustainability Due Diligence Directive) is an EU directive that introduces legal obligations on businesses to conduct human rights and environmental due diligence.

## The CSDDD requires certain companies to:

- Integrate due diligence into **policies & risk management systems**
- **Identify, assess and prioritize** actual or potential adverse human rights and environmental impacts in their operations and chains of activities
- **Prevent, mitigate or bring to an end** adverse impacts
- **Provide remediation** where necessary
- Meaningfully **engage** with stakeholders
- Implement a robust **notification/complaints** mechanism
- **Monitor** the effectiveness of measures taken
- **Communicate** publicly on due diligence
- Develop and implement a **climate transition plan**

## What is meant by chain of activities?

- The term “chain of activities” is broader than supply chains and means that companies must not only consider their direct suppliers but also the wider impacts of their production and operations.
- This includes both **upstream activities** (Tier 1 and beyond) and some **downstream activities** (distribution, transport, and storage of products).

## Key milestones

The Directive **went into effect on July 25, 2024**. Expected timeframes for companies to comply:

When	EU Companies	Non-EU Companies
2027	<b>5,000+</b> employees and a net turnover of at least <b>1,500 million</b> EUR globally	Net turnover of at least <b>1,500 million</b> EUR in the EU market
2028	<b>3,000+</b> employees and a net turnover of at least <b>900 million</b> EUR globally	Net turnover of at least <b>900 million</b> EUR in the EU market
2029	<b>1,000+</b> employees and a net turnover of at least <b>450 million</b> EUR globally	Net turnover of at least <b>450 million</b> EUR in the EU market





# Which topics are in scope?

The CSDDD includes a wide range of human rights and environmental topics aligned with international conventions.



## Human Rights

- Right to freedom from child labor
- Right to freedom from all forms of forced labor and compulsory labor
- Right to freedom of association and collective bargaining
- Right to freedom from discrimination in employment
- Right to enjoy just and favorable conditions of work (incl. fair wages, working hours, and safe and healthy working conditions)
- Right to life
- Prohibition of torture, cruel, inhuman or degrading treatment
- Right to freedom of thought, conscience and religion
- Right to access adequate housing
- Right to a clean, healthy and sustainable environment, etc.

## Environmental

- Environmental degradation, including:
  - Harmful soil change
  - Degradation of land
  - Deforestation
  - Water pollution
  - Water scarcity
  - Air pollution
  - Harmful emissions
  - Ozone depletion
  - Marine ecosystems degradation
- Waste management
- Biodiversity loss
- Climate change



# What are the consequences of non-compliance?

Member States will set rules on penalties, including fines, for breaking the national laws created under this Directive.

## Penalties

- Member States will decide on penalties, but they must be “effective, proportionate and dissuasive”.
- The highest penalty will be at least 5% of the company's net worldwide turnover in the previous financial year.

## Civil liability

- Member States are responsible for setting up mechanisms to enable victims to trigger civil liability in case of damages to compensate for harm caused “intentionally or negligently”.
- A company cannot be held liable if the damage was caused only by its business partners in its chain of activities.
- However, if both the company and a business partner are found to have caused the harm together, the company will be jointly and severally liable.

## Public procurement

- Compliance with the CSDDD could also be a requirement for getting public contracts and concessions.
- If a company doesn't meet these requirements, it could be considered a violation of the contract or concession terms.



# Why is the CSDDD important for the electronics industry?

The CSDDD is highly significant for the electronics manufacturing industry due to its complex supply chains and a range of known sustainability impacts.

Starting on your compliance journey now will also help address other regulations with overlapping requirements.

## Sustainability issues

- The electronics manufacturing industry has been in the spotlight for human rights and environmental impacts within its operations and supply chains, including:
  - Labor practices
  - Conflict minerals
  - Carbon emissions
  - Use of toxic chemicals in production, etc.

## Global operations & supply chains

- Some electronics manufacturers (EU and non-EU based) will be directly in scope of CSDDD.
- Even if not directly in scope, CSDDD-related requirements are likely to trickle down the supply chain from customers that are in scope.

## Overlap with other regulations

- Although the compliance period for the CSDDD has not yet begun, electronics manufacturers may be in scope of other ESG regulations with overlapping requirements, including:
  - CSRD (EU's Corporate Sustainability Reporting Directive)
  - Modern slavery acts (UK, Australia, Canada)
  - UFLPA (US Uyghur Forced Labor Prevention Act), etc.
  - Conflict Minerals (3TG)
  - RoHS (Restriction of Hazardous Substances in EEE)
  - POPs (Persistent Organic Pollutants) e.g. PFOA, PFOS, PCBs
  - REACH (Registration, Evaluation and Authorization of Chemicals)
  - Seveso III / COMAH (Control of Major Accident Hazards)
  - EUETS (Emissions Trading Scheme)
  - Waste Management Laws, Hierarchy, Transboundary Waste Transfers
  - F-Gas Regulations (HFCs, PFCs, SF<sub>6</sub>)
  - Upcoming Green Claims Directive



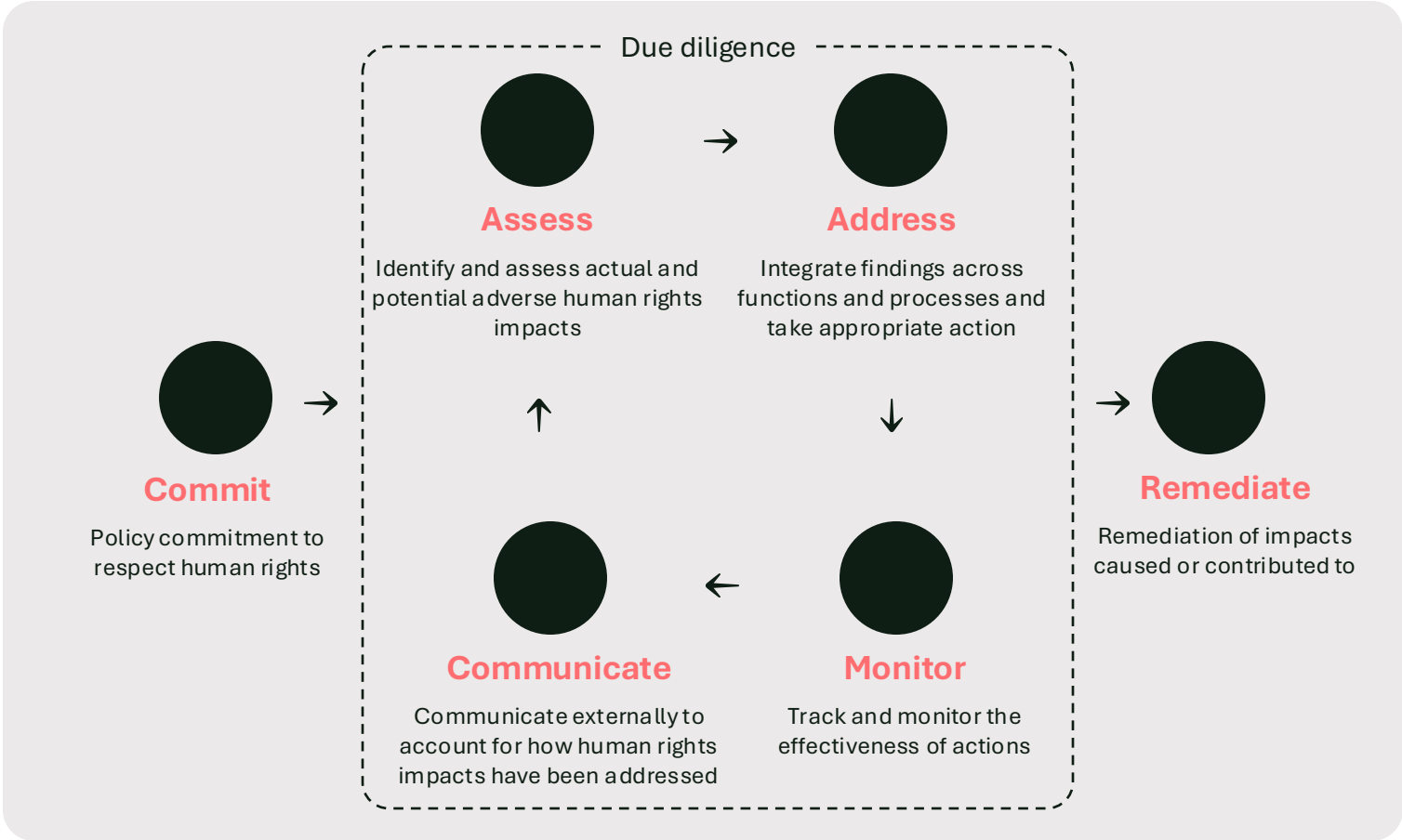
SECTION 3

# Comprehensive guide to CSDDD



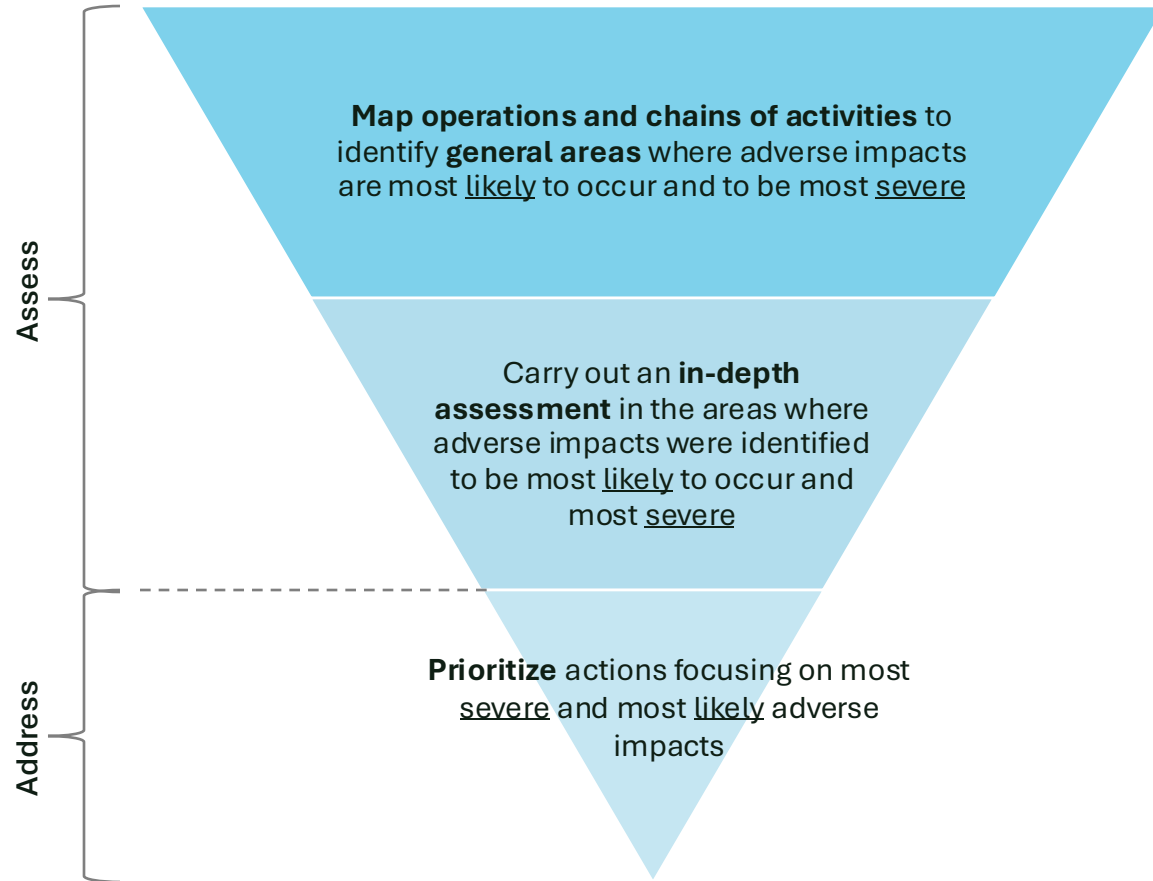
# What is human rights due diligence (HRDD)?

The concept of “human rights due diligence” comes from international instruments such as the UN Guiding Principles on Business and Human Rights (UNGPs) and the OECD Guidelines for Multinational Enterprises.



# What is risk-based due diligence?

The CSDDD suggests adopting a risk-based approach to due diligence, which aligns with both the UNGPs and the OECD Guidelines.



Prioritization should be based on the severity and likelihood of **impacts on people**.

**Severity** refers to:

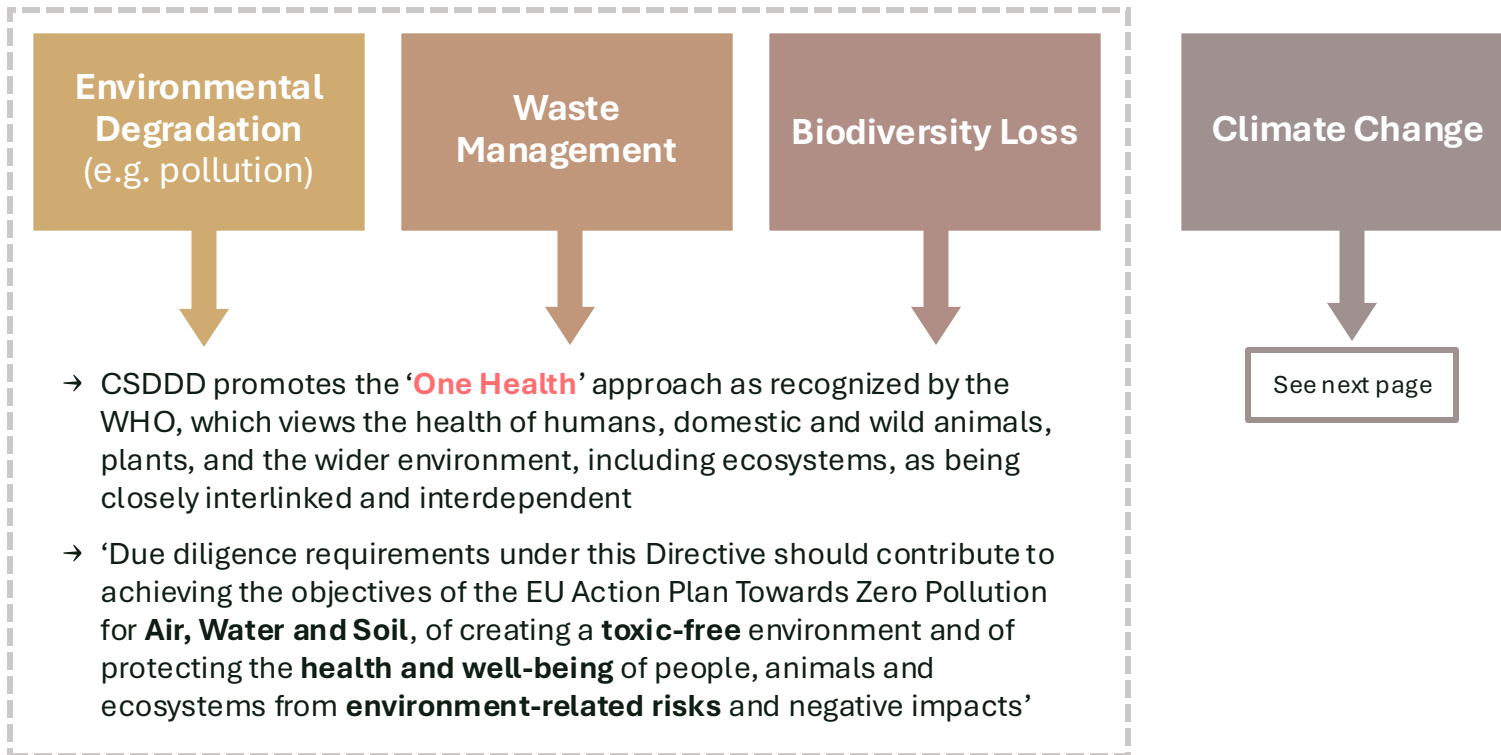
- **Scope** (how many people?)
- **Scale** (to what extent?)
- **Irremediability** (can the harm be reversed?) of the adverse impact



# Environmental due diligence

The OECD Guidelines also extend the concept of due diligence to environmental topics, hence the companies in scope are expected to conduct human rights AND environmental due diligence (HREDD) in their operations and chains of activities.

There are 4 key environmental topics covered by CSDDD:



Example thermal abatement unit

<https://www.edwardsvacuum.com/en-uk/semiconductor/our-products/abatement/atlas>

Assessing and Prioritizing - The same principle of **prioritization based on severity and likelihood** of impacts on the environment applies to environmental due diligence in operations and chains of activities.





# Climate Change Transition Plans

In addition, the CSDDD requires companies to develop and implement **climate change transition plans** that align with the Paris Agreement's goal of limiting global warming to 1.5°C.

The intent is that this supports the EU's commitment to:

- Reducing emissions by at least 55% by 2030
- Becoming climate-neutral by 2050
- Stop greenwashing
- Stop fossil fuels expansion

## CLIMATE CHANGE TRANSITION PLAN

Should be updated every 12 months and include:

- **Time-bound targets** related to climate change:
  - For 2030
  - In five-year steps up to 2050 based on 'conclusive scientific evidence'
  - Absolute GHG emission reduction targets for scope 1,2 & 3 (where appropriate)
- **Implementation actions** to achieve the company's climate targets
- Address company **exposure to coal, oil, and gas**-related activities



# Summary: Ten key HREDD requirements in the CSDDD

## 1. Commit

Integrating due diligence into a company's policies and risk management

*(Article 7)*

## 4. Bring to an end

Bringing actual adverse impacts to an end or minimizing their extent

*(Article 11)*

## 7. Grievance mechanisms

Notification mechanism and complaints procedure

*(Article 14)*

## 2. Assess

Identifying, assessing and prioritizing actual and potential adverse impacts

*(Article 8 and 9)*

## 5. Remedy

Remediation of actual adverse impacts

*(Article 12)*

## 8. Monitor

Periodic assessments to monitor the adequacy and effectiveness of the identification, prevention and bringing to an end of adverse impacts *(Article 15)*

## 10. Combat climate change

Adopting and implementing a transition plan for climate change mitigation *(Article 22)*

## 3. Prevent

Preventing or mitigating potential adverse impacts

*(Article 10)*

## 6. Stakeholder engagement

Meaningful engagement with stakeholders

*(Article 13)*

## 9. Communicate

Publishing an annual statement

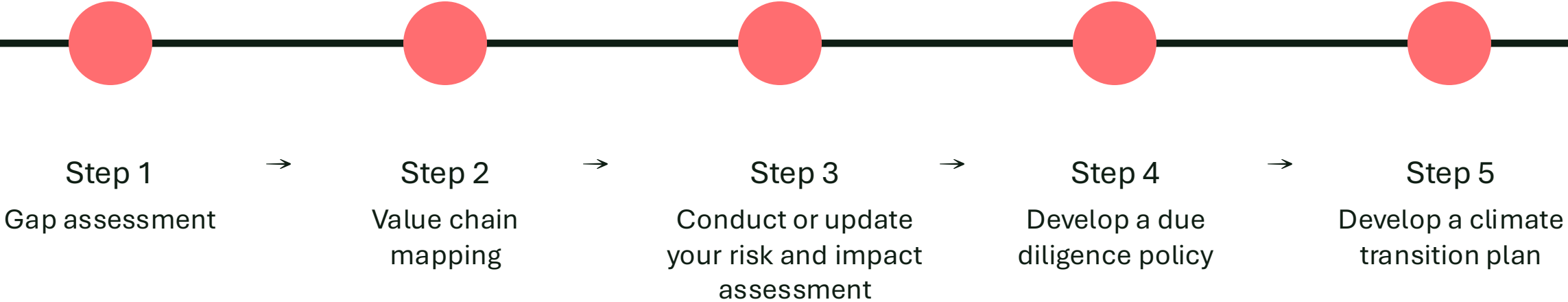
*(Article 16)*



# This is too much... How can we get started?

The following five steps are essential to get you started on the CSDDD journey.

This will help you understand and increase visibility into your human rights and environmental risks. Starting now will lay the foundation for taking step-by-step actions toward compliance by the required date/year.



# Lessons learned from a recent project

We recently completed a CSDDD readiness assessment and value chain mapping for an IT hardware and software company.

## Lessons learned from the CSDDD readiness assessment:

- Brought together insights from different business units whose initiatives were inter-related and are interdependent for effective due diligence
- Highlighted several due diligence-related initiatives in the works not yet formally documented in policies and procedures, and identified opportunities to streamline updates to such policies as well as what to include in an overarching due diligence policy
- Helped identify the company's degree of existing processes across human rights and environmental topics covered by CSDDD and other legislations
- Created a centralized starting point for discussion regarding CSDDD, its applicability to the company, and what it means for them between now and the first year they'll need to comply

## Lessons learned from the value chain mapping:

- Helped the company segment their suppliers by risk based on three key criterion: proximity, likelihood of adverse impacts, degree of leverage
- Increased visibility of current or future use of in-house or third-party data sets available to company for further identification, assessment, and prioritization of actual or potential adverse human rights and environmental impacts in their operations and chains of activities



SECTION 4

# Q&A



SECTION 5

# Key takeaways





# Key takeaways

## Legislation Status & Compliance Obligations

- The CSDDD is **already in force**, companies have 2-4 years to prepare for compliance (**2027-2029**).
- Even if not directly within scope, due diligence obligations may still trickle down from customers who are within scope.

## Impacts & Activities Covered

- HREDD should be conducted across **operations** and **chains of activities**.
- The Directive covers a broad range of **human rights** and **environmental** impacts (including climate change) and emphasizes the interlinkages between environmental and social impacts.

## Risk-Based Due Diligence

- Risk-based due diligence involves identifying **general areas of adverse impacts** first and then conducting an **in-depth assessment** in areas where adverse impacts are most likely and severe.
- Companies are not expected to address all impacts simultaneously; they can **prioritize** them based on **severity** and **likelihood**.
- Once the most severe and likely adverse impacts are addressed, the company should then address less severe and less likely impacts.
- The same principles of risk-based due diligence apply to both human rights and environmental topics.







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# Poll Question #3



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