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ESG MOVES BEYOND REPORTING

ESG has become increasingly important for businesses, driven not only by investor expectations and customer demands but also by regulation. A growing number of EU laws are transforming sustainability from a voluntary commitment into a legal obligation, requiring companies to rethink how they operate.

For years, ESG discussions focused primarily on corporate responsibility. Companies were encouraged to reduce their environmental footprint, improve governance structures, and address social challenges. While these considerations remain important, the regulatory landscape has changed significantly. The European Union has introduced several legislative measures to support climate objectives, promote sustainable business practices, and increase supply chain transparency.

Among the most significant are the Carbon Border Adjustment Mechanism (CBAM), the EU Deforestation Regulation (EUDR), and the Packaging and Packaging Waste Regulation (PPWR). Although each regulation addresses a different environmental challenge, together they illustrate a broader trend: ESG is no longer limited to reporting and public commitments. It is becoming an integral part of corporate compliance.

CBAM: PUTTING A PRICE ON CARBON

CBAM is part of the EU's broader climate strategy and aims to prevent carbon leakage, namely the relocation of production to countries with less stringent environmental standards. Without such measures, companies operating under the EU's stricter climate rules could be placed at a competitive disadvantage compared with foreign producers.

CBAM introduces reporting and financial obligations for certain imported goods with high carbon intensity. The mechanism focuses on sectors such as cement, iron and steel, aluminum, fertilizers, hydrogen, and electricity. Importers must collect information on emissions associated with imported products, submit regular reports, and fulfill financial obligations. Companies subject to CBAM must obtain emissions data from their suppliers and verify its accuracy to properly assess potential financial implications. Within organizations, this often requires close cooperation between sustainability, procurement, finance, customs, tax, and legal teams, while collaboration across the supply chain remains essential.

Under the definitive CBAM regime introduced in 2026, importers are required not only to comply with administrative and reporting obligations but also to purchase CBAM certificates based on the amount of embedded emissions of imported goods. The European Commission has published the first certificate prices, which directly affect authorized CBAM declarants' financial obligations. Companies importing CBAM goods, such as steel or aluminum, and subsequently exporting finished products outside the EU may, subject to certain conditions and the use of an appropriate customs procedure, benefit from relief from selected CBAM obligations, thereby reducing the costs associated with the purchase of CBAM certificates.

PPWR: RETHINKING PACKAGING REQUIREMENTS

The Packaging and Packaging Waste Regulation addresses the growing volume of packaging waste across the EU. The Regulation forms part of the EU's efforts to transition towards a circular economy and reduce the environmental impacts associated with packaging materials.

Unlike other ESG-related legislation that affects only specific sectors, PPWR is expected to have broad implications across industries from August 2026. Businesses that manufacture, import, distribute, or use packaged products may all be affected by the new requirements.

Companies will need to consider environmental requirements as early as the product design stage, examining not only how packaging protects and markets a product, but also how it can be reused, recycled, or otherwise managed at the end of its lifecycle. Under the PPWR, technical documentation becomes a key compliance tool. Each type of packaging requires documented evidence that it meets the Regulation's applicable requirements before being placed on the EU market.

Product designers, procurement teams, manufacturers, logistics specialists, and compliance professionals will need to work together more closely than ever before. Sustainability considerations will increasingly influence decisions that were previously driven primarily by cost, functionality, and consumer appeal.

EUDR: THE CHALLENGE OF DEFORESTATION-FREE SUPPLY CHAINS

The EU Deforestation Regulation reflects growing concerns about the environmental impact of global supply chains. Deforestation remains one of the major contributors to biodiversity loss and climate change, and the EU has sought to address this issue by introducing stricter requirements for products entering or leaving the European market.

The Regulation applies to commodities associated with deforestation risks, including timber, cattle, soy, coffee, cocoa, palm oil, and rubber, and to various products derived from those commodities. Companies placing relevant products on the EU market shall demonstrate that these products are not linked to deforestation or forest degradation. They are required to conduct due diligence and gather information about the origin of products.

For businesses, the main challenge is understanding the legal requirements and obtaining reliable information across increasingly complex supply chains. Many companies depend on suppliers located in different jurisdictions. As a result, supplier engagement and traceability systems are becoming essential elements of compliance. The Regulation highlights a broader shift towards greater accountability for environmental impacts across the entire supply chain.

EUDR, CBAM and PPWR address different environmental objectives. Collectively, however, they reveal a clear direction. The European Union is increasingly embedding sustainability considerations directly into legal frameworks governing trade, products, supply chains, and business operations.

For companies, this means that ESG can no longer be treated as a reporting exercise or a matter reserved for sustainability teams. Organizations that fail to prepare may face compliance risks, operational disruptions, and increased costs.

The expanding ESG regulatory framework demonstrates that sustainability is becoming a permanent feature of the business landscape. As EUDR, CBAM and PPWR reshape corporate obligations, companies will need to recognize ESG as a core component of legal and business strategy rather than a voluntary initiative.