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On July 25th, 2024, the EU adopted the Directive on Corporate Sustainability Due Diligence Directive, also known as [CSDDD](#) or CS3D. It could be best described as an EU tool to harmonize and export its regulatory framework, particularly regarding the sustainability norms, in order to shape behavior within and beyond the bloc's borders. The core element of this Directive is to identify and address adverse (potential and actual) environmental impacts and human rights infringements on a company's internal and international operations and overall chain of activities, including, but not limited to, its subsidiaries and business partners (when relevant.)

The Directive was first proposed in 2022 with the aim of fostering responsible corporate behaviors. It has put in place an obligation for companies to adopt and implement a transition for climate change mitigation aligned with the intermediate targets under the EU Climate Law and the 2050 Paris Agreement's climate neutrality objective. Moreover, companies subject to the CSDDD legal framework are expected to report publicly and transparently and are as such subject to significant fines and civil liability for non-compliance.

To better facilitate the implementation of this harmonized framework, the Commission adopted the [Omnibus package](#) early 2025 to reduce compliance complexities for all companies, in order to boost competitiveness, unleash growth, attract investments, and support the transition to sustainable economy more effectively and pragmatically. This directly supports the core obligations of policy incorporation and simplifies stakeholder engagement.

With deep integration in logistics, investment flows, and global energy, GCC economies are exposed to substantial EU exposure. On the one hand, the CSDDD creates a strategic opportunity to accelerate alignment between the EU's ESG standards and the GCC reforms as well as support the attraction of green capital. On the other, however, with the CSDDD as an external regulatory force on the GCC, Gulf countries do face threats of competition and increasing challenges to sovereignty. As such, the wider implications and the strict application of CSDDD directives in the GCC context need to be closely examined.

GCC within the framework of CSDDD: The Three Channels of Impact

The CSDDD scope covers two categories that face largely identical obligations but differ in qualification criteria, timing, and enforcement:

- Large EU companies with over 1000 employees and exceeding €450 million turnover (net) worldwide. Threshold assessments rely on the last approved annual accounts and do not require authorized EU representatives for compliance and liaison with authorities. EU companies are not subject to an EU-wide supervisory jurisdiction and fall under their MS's direct supervision.
- Large non-EU companies only qualify on net turnover, estimated at over €450 million (net) in the EU, regardless of employee numbers. Moreover, turnover assessment relies on the financial year preceding the last one. Non-EU companies are required to designate an authorized EU representative for compliance and liaison with authorities and are notified about the largest turnover by the EU Commission via a secure system.



Although SMEs and SMCs are not directly covered, the Directive categorizes them as [downstream partners](#) and provides them with protective measures. Various GCC companies fall under CSDDD scope of “[Large non-EU companies](#).” This is particularly the case for companies exporting energy and petrochemicals to the EU, logistics, aviation, and hospitality brands with strong EU networks or hubs, and large conglomerates with EU branches or subsidiaries.

The GCC’s new legal obligations and liability exposure under CSDDD could be categorized into three main channels of impact:

- *Direct impact on large GCC multinationals:* Within this framework, CSDDD duties will complement the [Corporate Sustainability Reporting Directive](#)-style (CSDR) sustainability reporting obligations. Both CSDDD and CSRD serve as pivotal tools of the EU’s sustainability framework: the latter mandates companies to report sustainability information, while the former requires companies to implement changes in corporate behavior. GCC companies will be required to operate within a multilayered framework: one that combines harmonized Environmental, Social, and Governance (ESG) disclosure requirements consistent with CSRD-style reporting, value-chain governance standards, and EU-driven due diligence. This indicates an effective expansion of substantive human rights, labor, and environmental standard practices across these companies’ global operations and subsidiaries, irrespective of the physical location of their activities within the EU.
- *Indirect impact on GCC suppliers and SMEs via EU value chains:* because SMEs are provided with protective measures, in-scope companies are required to conduct due diligence on all entities affiliated, directly or indirectly, with their value chains and secure contractual guarantees from collaborators. This imposes tighter data-sharing demands, audit rights, and tighter sustainability clauses in contracts with EU buyers. Moreover, it imposes risks of potential screening-out of GCC suppliers of high-risk price pressure to offset perceived ESG risk. Another major practical consequence is increased paperwork and compliance obligations for GCC SMEs demonstrating adherence to governance norms imposed by the framework.
- *Political and sovereignty tensions:* CSDDD imposes a regulatory framework that exceeds the sustainability obligations defined and agreed upon in UN frameworks, like the Paris Agreement. Moreover, because CSDDD serves as an EU tool to harmonize and export its regulatory framework, the bloc positions the framework within a broader context over sustainability norm setting. By imposing unilateral standards that operate as de facto barriers to trade, CSDDD threatens the continuity and competitiveness of GCC companies in EU markets burdened by reporting and penalties requirements.

More crucially, GCC states see the due diligence policies as a direct threat to their sovereignty, representing a potential point of deep, inter-bloc division. Because the expectations and implications imposed by CSDDD exceed those established within international frameworks, there are growing concerns about potentially jeopardizing the continuity of GCC energy supplies to the EU.

CSDDD Meets GCC ESG: Misalignment, Gaps, and Convergence



In GCC markets, ESG reporting is no longer a voluntary Corporate Social Responsibility (CSR) and has gradually moved to a strategic leading characteristic. Although this comes at various degrees across member states, where UAE and Saudi Arabia lead while Oman and Qatar lag, the current ESG landscape in the GCC indicates improvements in the social and environmental performance, combined with external pressures and institutional reforms.

This rapid, yet uneven, adoption of ESG standards across the GCC remains hindered by structural misalignments. This adoption remains often guided by global structures such as the Task Force on Climate-related Financial Disclosure ([TCFD](#)), the Sustainability Accounting Standards Board ([SASB](#)), and the Global Reporting Initiative ([GRI](#)). These frameworks often lack robust enforcement and rarely mandate remedy mechanisms or value-chain due diligence. This creates a situation in which EU companies are legally required to comply with CSDDD reforms, while GCC firms can still treat ESG primarily as a reputational or investor-relations exercise. This is not to undermine ongoing efforts by GCC companies, but the reality indicates that ESG practices remain predominantly shallow and surface-level.

Moreover, various GCC companies exhibit insufficient systematic processes to identify and prioritize human and environmental standards within their supply chain. GCC companies also function within a regulatory framework where labor and climate regulations are often inconsistently enforced. They also possess restricted grievance and remediation mechanisms. Consequently, ESG and compliance processes can be underfunded while independent assurance markets remain nascent. This hinders generating the detailed, auditable data mandated by the EU under the CSDDD framework.

Nevertheless, in parallel, CSDDD can play an incentive role in fostering greater consistency between EU and GCC ESG practices in the long-term. GCC companies remain open to reforming and aligning their practices with global standards, and despite differences between both blocs, the GCC remains deeply integrated into EU capital markets and value chains. This remains the case even in the absence of equivalent domestic rules. CSDDD can foster the development of, and an eventual shift towards, “ESG as conduct” in the region, fostering stakeholder engagement, remedy pathways, risk-mapping, and investments in governance structures that align with CSDDD’s mandate. CSDDD can encourage and support the gradual adoption of due diligence principles into national corporate, environmental, and labor laws, transforming the current misalignment into a harmonized framework in which both blocs can converge on core expectations of responsible business conduct.

The EU can practically mitigate the impacts on GCC, both in the short and long term, through

- *Phased rollout*: the EU can grant a grace period of one to two years to large GCC companies, allowing them to keep relying on ESG reporting frameworks while gradually adopting and adapting their governance mechanisms to the EU’s due diligence requirements. This approach will allow GCC companies to negotiate contractual amendments, map value-chain risks, and train staff, without fear of immediate penalties. It also eases administrative pressure on the EU by focusing, in the initial stages of the



policies' implementation, to focus on EU-based entities before shipping the bloc's supervisory authorities abroad.

- *Sector-specific carve-outs*: the EU could potentially delay full reporting obligations for high-emission GCC exporters while still demanding a credible transition plan and a baseline climate-risk assessment. This approach will help reduce abrupt supply-chain disruption shocks and acknowledge the sector's strategic importance in both regions.
- *Technical assistance and financing*: the EU could subsidize the cost of compliance to encourage voluntary adoption of CSDDD standards and support the fundamental governance upgrade in GCC firms.

Multidimensional Implications and What the GCC Should Do Next

With the EU ongoing emphasis on compliance with due diligence practices, GCC is faced, first and foremost, with short-term economic and profitability pressures. GCC hydrocarbons and heavy industry will face immediate economic strain. Environmental reforms will reduce GCC profitability in gas and oil sectors, with supply-chain improvement costs exceeding short-term returns. This will directly and significantly impact GCC exporters to the EU, and compliance with due diligence practices will become more of a cost center than value driven. Moreover, EU buyers can potentially redirect value chains towards non-GCC suppliers with strong ESG-compliance records, marginalizing Gulf countries, and jeopardizing market access. In parallel, GCC countries with strong CSDDD-compliance can position themselves as catalysts for EU investors. This helps translate various GCC national visions into realities.

As a response, and on a corporate level, GCC companies should evaluate their exposure by identifying direct and indirect CSDDD triggers. This should be followed by integrating the due diligence practices into governance mechanisms, such as remediation, climate strategies, and supply chains. On a governmental level, GCC countries should foster domestic compliance with CSDDD principles while adapting them to national development needs, particularly in the sectors of energy transition and labor reforms. This could be done through building and bolstering regulatory expertise, funding training programs, and establishing an independent market for ESG audits to address existing implementation gaps and shortfalls. In this stage, an EU-GCC dialogue remains critical to push for local reforms while safeguarding national interests.

All in all, CSDDD provides a powerful lever to reshape global market engagement and sustainability risks management. Despite the existing structural challenges and misalignments, the framework can represent a new phase in overall EU-GCC cooperation. Whether it becomes a catalyst or a burden depends on proactive institutional exchange and corporate reforms. As such, it will be crucial for both blocs to establish an EU-GCC joint working group to foster a cooperative, sustainable pathway towards harmonized sustainability standards. The working group can help with negotiating transitional arrangements and monitoring compliance impacts.

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