SUSTAINABILITY INTELLIGENCE — EU · JAPAN · INDIA

Sustainability Readiness in Small & Mid-Sized Manufacturing

2026 Outlook — Europe · Japan · India

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Regulatory Calendar Across Three Regions and Spillover Impact on SMEs

Table 1: Application Timing, Scope, and Spillover Impact of Major Regulations

Regulation/Framework	Region	Full Application Date	Direct Application Threshold	Spillover Path to SMEs	Spillover Timeline
CSRD (post-Omnibus I)	EU	Large enterprises from the 2025 reporting year (FY2024). Listed SMEs have a deferral until 2028.	Over 1,000 employees & over €450M in turnover	Large corporate customers request Scope 3 Cat. 1 data	Immediate to 2027
CSDDD (post-Omnibus I)	EU	Transposition deadline July 2027. Direct application to large companies from July 2028.	Over 5,000 employees & over €1.5B in turnover	Requests for supplier audits and due diligence	2027–2029
CBAM Full Application	EU	From January 1, 2026 (transitional period from Oct 2023 to Dec 2025)	Importers of iron, steel, aluminum, fertilizers, electricity, etc.	Obligation for exporting suppliers to submit carbon intensity data	Immediate
ESPR/DPP	EU	Phased implementation by product category from 2026	All operators placing products on the EU market	Requirement for product LCA data and Digital Product Passports	2026–2030
SSBJ Mandatory Disclosure	Japan	From March 2027 term (starting with Prime-listed companies with market cap > ¥3 trillion)	Large Prime-listed companies on the Tokyo Stock Exchange	Listed companies request Scope 3 information from suppliers	2026–2028
GX-ETS Mandatory Phase	Japan	From FY2026 (for businesses with direct emissions ≥ 100,000 t/year)	Large domestic emitters	Emission allowance costs are reflected in product prices and procurement terms	2026–
BRSR Core Expansion	India	Expanded to top 1,000 listed companies by market cap from FY2026-27	NSE/BSE listed companies (phased)	Increased demand for ESG data from export destinations and investors	2026–2027

Europe is in a phase of strengthening indirect pressure while narrowing the "direct net" of regulation. In Japan, the countdown to mandatory disclosure has begun, with requests to suppliers for Scope 3 data expected to surge from 2027. In India, the expansion of BRSR Core is converging with demands from export markets, and ESG scores are becoming a de facto "requirement for access to capital" for listed mid-sized companies.

A Comparison of Realities in the Three Regions

Europe: The reduction in the direct scope of application due to Omnibus I is a political concession to regulatory fatigue, but the full transition to CBAM, the implementation of ESPR, and the CSDDD are proceeding as planned. The European companies analyzed (Brembo, CERATIZIT, Constantia Flexibles, Dürr, Georg Fischer, SIG Group, etc.) have all achieved SBTi validation, EcoVadis Gold or higher, and CDP B or higher, and are now using these as supplier selection criteria. CERATIZIT achieving EcoVadis Platinum (December 2025), Dürr's EcoVadis Platinum, and Georg Fischer's CDP A rating are typical examples. For their SME trading partners, a de facto screening criterion has begun to operate: "If you don't have a comparable score, you can't even get a seat at the table."

Japan: Triggered by the mandatory application of SSBJ standards to Prime-listed companies (from the March 2027 term), demands for more accurate data for Scope 3 Category 1 (Purchased goods and services) will cascade down to suppliers. The 2024 White Paper on Small and Medium Enterprises in Japan also shows an increase in the percentage of SMEs that have received requests for decarbonization cooperation from their business partners. While listed mid-sized companies like Azbil, Yorozu, Daido Steel, and Taiyo Yuden have already obtained CDP A ratings and SBTi validation, many unlisted SMEs face a significant gap between implementing energy-saving measures and obtaining a score. The GX-ETS will mandate compliance with emission allowances for large emitters from FY2026, and the pass-through of these costs could affect procurement prices.

India: While BRSR Core currently focuses on large listed companies, its expansion by SEBI is converging with ESG data requests from overseas export customers (especially European OEMs). Leading firms like Aarti Industries (CDP A, EcoVadis Gold), Granules India (CDP A, EcoVadis Gold, SBTi-validated), and EPL Limited (CDP A, EcoVadis Platinum, SBTi-validated) have already responded to the demands of their Western customers. However, mid-sized component manufacturers like RACL GearTech are caught between financial headwinds (a 65% decrease in net profit in FY25) and the costs of ESG compliance. While the Indian government's PLI scheme is promoting domestic manufacturing in the EV and renewable energy sectors, a certain level of ESG score is becoming a de facto prerequisite to access these subsidies.

The Growing Importance of CDP and EcoVadis Scoring

In 2025, the number of companies disclosing to CDP exceeded 22,100, driven by requests from investors (representing $127 trillion in assets, 640 institutions) and major purchasing organizations (over 270 companies). Since 2024, EcoVadis has shifted its medal award criteria from a fixed score to a percentile-based system. This means the old standard of "a score of 70 is safe" no longer applies; companies are now evaluated based on their relative ranking against industry peers. Even if a company's score remains unchanged, its medal rank can drop if competitors improve.

In fact, Endress+Hauser maintained its Gold medal with a score of 78 in 2025 but was downgraded to Silver with the same score in 2026. This is clear evidence that evaluation standards are becoming stricter in real time. SBTi surpassed 10,000 validated companies in January 2026, with a sharp increase in the use of the simplified process for SMEs. Kyohatsu Kogyo (協発工業) (Aichi Prefecture, SME SBT validated in 2021, 5-year review completed in 2026) and Okawa Printing (大川印刷) (achieved Scope 2 zero, SBTi-validated) demonstrate that compliance is possible even for Japanese SMEs, but they are still in the minority.

A statement you can use for internal explanations: "Companies that received an EcoVadis score three years ago and have not updated it are at risk of having their scores effectively downgraded due to the shift to the percentile system. It is necessary to confirm the validity of your 2026 score and assess whether a re-evaluation is necessary."

Five Sources of Pressure on Small and Mid-Sized Manufacturers

Figure 2: A Structural Map of the Five Pressures

Type of Pressure	Source	Required Response	Risk of Delayed Response
① Regulatory Compliance	CSRD/CSDDD (EU), SSBJ/GX-ETS (Japan), BRSR Core (India)	Emissions data preparation, due diligence systems	Non-compliance with export/transaction requirements after 2027
② Scoring Assessment	CDP, EcoVadis, SBTi (customer-driven requests)	Undergo assessment, obtain validation, maintain/improve score	Exclusion from tenders, supplier switching
③ Supply Chain Demands	Purchasing departments of Tier 1-2 large companies	Provide Scope 3 Cat. 1 data, calculate PCF	Failure to meet continued-sourcing criteria
④ Data Readiness	Quality of GHG inventory, third-party verification	Primary data collection, standardization of calculation methods, external verification	Inability to obtain score, incomplete CDP response
⑤ Costs & Subsidies	Capital investment, assessment fees vs. energy-saving/GX subsidies	Prioritize investments, utilize subsidies	Increased compliance costs, widening gap with competitors

① Regulatory Compliance: Even for those outside the direct application thresholds, indirect demands will intensify around 2027, driven by large customers' obligations for more accurate Scope 3 reporting. For suppliers exporting to Europe, in particular, submitting carbon intensity data for CBAM is already a real-world challenge.

② Scoring Assessment: EcoVadis is a relative evaluation of approximately 150,000+ companies (as of 2026). Obtaining and maintaining a Gold rating or higher (equivalent to the top 5%) is increasingly being integrated into the supplier selection criteria of European OEMs. Companies that have not been assessed are, in a sense, silently losing points.

③ Supply Chain Demands: A survey by major firms (Trellis/Sphera, 2024-25) indicated that the biggest challenge in Scope 3 reporting is the "quality of and access to supplier data," with about half of companies strengthening their supplier engagement

Chapter 2: The Global Regulatory Landscape

Conclusion: "Out of Scope" from Regulation Does Not Mean "Out of Scope" from Requirements

With the Omnibus I directive (published in the Official Journal of the European Union on 2026-02-26), the direct application thresholds for the CSRD were raised to meet two of the following: over 1,000 employees, net turnover exceeding €450M, and total assets exceeding €25M. The number of companies subject to the CSDDD was also reduced by approximately 70% from the original proposal. As a result, the majority of small and medium-sized manufacturing enterprises (SMEs) with fewer than 500 employees are now **outside the direct scope** of these regulations.

However, in practice, being "out of scope" does not mean exemption. Large corporations are obligated to report Scope 3 emissions under the CSRD and will cascade data provision requests down the supply chain from **Tier 1 → Tier 2 → Tier 3** through disclosure requests from EcoVadis, CDP, and SBTi. What SMEs on the regulatory periphery actually face are not statutory provisions but requirements as a condition for continuing business. This dual structure—**being outside the scope of regulation while still receiving de facto requirements**—is the core of procurement and sustainability practices from 2026 onward.

Suggested internal briefing takeaway: **"Being out of the CSRD's scope is not a reason to postpone action. As long as our Tier 1 customers are subject to the CSRD, their Scope 3 data requests will reach us within six months."**

EU Regulations: Transition to Full Implementation

CBAM: Full Implementation with Penalties from 2026-01-01

The Carbon Border Adjustment Mechanism (CBAM) entered its full implementation phase on January 1, 2026. It covers six categories: iron and steel, aluminum, cement, fertilizers, electricity, and hydrogen. Importers are obligated to purchase and submit CBAM certificates corresponding to the embodied carbon emissions of the previous year's imports by the end of May of the following year. The penalty for non-submission is **€100/tCO2e** (with a provision for a ceiling of three times the average carbon price for that year), which, unlike the 2023-25 transition period, establishes a definitive financial impact.

There are two main spillover impact pathways for manufacturing SMEs. First, Indian and Japanese Tier 1 and Tier 2 suppliers exporting steel and aluminum products to Europe must provide their emission intensity data (actual values or certified default values) to importers. If actual values are not provided, a default value set by the European Commission will be applied. This default value is set at the level of the top 10% of the most emission-intensive producers for the given product—meaning that **using actual values is always more advantageous**. Second, component manufacturers that use CBAM-covered goods as primary materials will also be indirectly affected through rising procurement costs.

While BKT (India) has achieved "energy positive" operations at its Bhuj plant and Okawa Printing (Japan) has reached zero Scope 2 emissions, the task of converting these achievements into a format usable for CBAM certification—namely, calculating Product Carbon Footprints (PCF) at the product level from the entity level—is a separate requirement and remains unaddressed by many SMEs.

CSRD / Omnibus I: The Dual Structure Functions Even for Those Out of Scope

Following Omnibus I, the direct scope of the CSRD was effectively narrowed to large European companies (equivalent to the former category of "large listed companies"). However, the following two points are practically significant.

① **Optional Application for Listed SMEs**: The simplified standards for listed SMEs (VSME) remaining in the CSRD annex have had their voluntary application period extended to 2028, but information requests from business partners will continue even after opting out.

② **Large Corporations' Scope 3 Reporting Obligation**: Companies with over 1,000 employees are required to report on Scope 3 (ESRS E1-6), and the data source for this is their suppliers. Scope 3 Category 1 (Purchased goods and services), as required by ESRS E1-6, is the category for which SME suppliers will receive the most frequent inquiries.

CSDDD: The Mainstream of Human Rights DD Remains Unchanged Despite 70% Reduction

The amended CSDDD following Omnibus I narrowed the scope to companies with over 5,000 employees and net turnover exceeding €1.5B. The deadline for member states to implement this into national law is July 2027. A side effect of this reduced

Chart 3: Impact of the U.S. Situation

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United States (Regulatory Freeze + Continued Trade Regulations)		
① UFLPA (Import Detentions Continue)	② IRA Tax Credits (Maintained, but with uncertainty)	③ SEC Climate Disclosure (Frozen)
Linked with EU Forced Labor Reg	Accelerates relocation of European manufacturing to the U.S.	Major global firms continue voluntary disclosure
Strengthens traceability for suppliers exporting to Europe	Concerns over EU deindustrialization	CDP requests & TCFD alignment are de facto maintained
Strengthens Japanese firms' management of Chinese suppliers	Political impetus to strengthen CBAM & Industrial Acceleration Act (IAA)	Widening "asymmetry" with EU/Japanese regulations
Requests for proof of origin & material tracing to SMEs		Increased relative influence of EU's CBAM & CSRD
		India's BRSR: Pursues its own path while referencing EU compliance

Global Standards: The Current Status of ISSB, SBTi, TNFD, and CDP

IFRS S1/S2 (finalized by the ISSB in June 2023) has been effectively adopted in Japan as the SSBJ standards, and in India, SEBI is considering its alignment with BRSR Core. In Europe, the focus is on interoperability with ESRS, with further adjustments expected in discussions following Omnibus I.

The SBTi surpassed 10,000 certified companies in January 2026. This is largely due to a surge in the use of the simplified application process for its SME version. As demonstrated by the cases of Kyohatsu Kogyo and Okawa Printing, a race to be the "first in the transport equipment sector" or "first in the printing industry" is emerging even among Japanese manufacturing SMEs. The methodology adjustment in April 2026 (a change in the minimum reduction rate calculation for companies with recent base years) is a revision that makes it easier for SMEs to set realistic targets, giving uncertified companies a reason to reconsider the timing of their applications.

With companies like Daido Steel beginning TNFD disclosures in 2024, the manufacturing sector is seeing moves to preempt the institutionalization of "biodiversity" disclosure, following the trend of climate change. However, direct disclosure requests to SMEs are limited at present, and the situation is at a stage of monitoring regulatory developments from 2027 onwards.

In 2025, CDP received disclosures from over 22,100 companies, and the introduction of "Essential Criteria" has increased the importance of third-party verified data. More than 270 major purchasing organizations issue disclosure requests to their suppliers through CDP, which in effect means that some business partners "cannot be bid for without a CDP score." Combined with EcoVadis's shift to a percentile-based system (from 2024), the cost of maintaining scores is in a structure of continuous increase due to intensifying relative competition.