Corporate sustainability due diligence
How to integrate human rights and environmental concerns in value chains

OVERVIEW

Companies can play a key role in building a sustainable economy and society. At the same time, their global value chains can pose risks to human rights and the environment. A growing number of EU companies have taken initiatives to deploy due diligence processes, often using existing voluntary international standards on responsible business conduct. Some Member States have meanwhile started developing their own legal frameworks on corporate due diligence.

In a legislative-initiative resolution adopted in 2020, Parliament called on the Commission to introduce mandatory due diligence legislation to avoid fragmentation and to give businesses and citizens legal certainty. In February 2022, the Commission proposed a directive laying down rules on corporate due diligence obligations, directors’ duties, civil liability and protection of persons reporting breaches.

The legislative file is subject to the ordinary legislative procedure. The Council reached political agreement on a general approach in December 2022. In Parliament, eight committees submitted opinions to the Committee on Legal Affairs (responsible for the dossier), which adopted its report on the Commission proposal in April 2023. Parliament voted on the report during its June 2023 plenary session. The co-legislators then entered into interinstitutional negotiations on the final text.


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<tr>
<th>Committee responsible:</th>
<th>Committee on Legal Affairs (JURI)</th>
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<tr>
<td>Rapporteur:</td>
<td>Lara Wolters (S&amp;D, the Netherlands)</td>
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<td>Shadow rapporteurs:</td>
<td>Axel Voss (EPP, Germany)</td>
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<td></td>
<td>Adrián Vázquez Lázara (Renew, Spain)</td>
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<td></td>
<td>Heidi Hautala (Greens/EFA, Finland)</td>
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<td>Jorge Buxadé Villalba (ECR, Spain)</td>
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<td>Gilles Lebreton (ID, France)</td>
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<td>Manon Aubry (The Left, France)</td>
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| Next steps expected: | Vote in plenary |

Ordinary legislative procedure (COD) (Parliament and Council on equal footing – formerly 'co-decision')
Introduction

EU companies, especially large ones, rely on complex global value chains. Given the significant number of suppliers both in the EU and in third countries, as well as the overall complexity of value chains, EU companies may encounter difficulties in identifying and mitigating risks in their value chains linked to meeting their obligations in the areas of human rights and the environment, especially considering that the COVID-19 crisis has worsened the situation of parts of the workforce in the global supply chains.

According to a 2020 Commission study, only 37% of business respondents (operating across the EU and the world) currently conduct environmental and human rights due diligence and only 16% cover the entire supply chain, often relying on voluntary international standards.

A number of Member States have already introduced or are considering introducing national rules on due diligence, but their differences in terms of scope, risks covered, level of detail, enforcement and liability can pose challenges to EU companies operating in the EU single market.

Parliament has long advocated a stronger legal framework to oblige EU companies to shoulder their responsibility towards human rights and environmental norms in international supply chains. Parliament has adopted two resolutions on the issue in recent years. On 17 December 2020, it adopted a non-legislative own-initiative resolution on sustainable corporate governance. On 10 March 2021, Parliament adopted a legislative-initiative resolution on corporate due diligence and corporate accountability.

On 23 February 2022 the Commission presented its proposal for a corporate sustainability due diligence directive (CSDDD). The proposal sets out obligations for companies regarding adverse impacts on ‘actual and potential’ human rights and the environment, with respect to their own operations, the operations of their subsidiaries, and the value chain operations carried out by entities with which the company has a business relationship. The proposal also includes penalties and civic liability for violations of the obligations.

Context

Before embarking on its current proposal, the Commission had attempted to establish a framework for sustainable corporate governance. The fact that the Commission changed the name of its initiative signals a more restricted focus on due diligence, with a few provisions on directors’ duties in relation to sustainability in the decisions on behalf of their company.

At EU level, rules on sustainable corporate governance have focused mainly on setting reporting requirements under the Non-Financial Reporting Directive (NFRD), as regards environmental, social and human rights-related risks, impacts, measures (including due diligence) and policies. The NFRD, which entered into force in 2014, was recently replaced by the Corporate Sustainability Reporting Directive (CSRD), which entered into force on 5 January 2023. The latter extended the number of companies covered by the NFRD (from 11 700 to around 50 000) and added sustainability reporting to the company due diligence process. The directive also introduced rules on principal, actual or potential adverse impacts relating to the company’s value chain (that is, its operations, products and services, business relationships and supply chain), as well as rules on actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential adverse impacts. The CSRD and the CSDDD examined here are closely inter-related and complementary to each other. The CSDDD will also complement the Sustainable Finance Disclosure Regulation (SFDR) and the Taxonomy Regulation, by imposing obligations on companies to provide data and information on risks within their value chains that are linked to the respect of human rights or environmental impacts. These data and information would be relevant for assessing environmental, social, and governance (ESG) risks, and for developing ESG investments.
EU environmental law does not generally apply to value chains outside the EU, even though they may be accountable for up to 80-90% of the environmental harm resulting from EU production. The Environmental Liability Directive established a framework for environmental liability with regard to preventing and remedying environmental damage. This framework is based on the ‘polluter pays’ principle for companies’ own operations, but it does not cover companies’ value chains. The civil liability introduced by the CSDDD will therefore be complementary to the Environmental Liability Directive.

Finally, the proposed directive will also complement Directive 2011/36/EU on preventing and combating trafficking in human beings and protecting its victims, the Employers’ Sanctions Directive, the Conflict Minerals Regulation, the proposal for a regulation on deforestation-free supply chains, the proposal for a new batteries regulation, the future sustainable products initiative (SPI), and the communication on the power of trade partnerships.

Existing situation

In recent years, an increasing number of EU companies have taken measures to deploy due diligence processes, often using the existing international voluntary standards on responsible business conduct. In order to expand the scope of corporate due diligence, some EU Member States have started developing their own legal frameworks in this area. Although all of these frameworks seek alignment with existing international standards, they differ from each other in terms of scope, risks covered, level of detail, enforcement and liability. Moreover, as noted by the Commission, emerging EU and national laws on corporate due diligence differ too. The resulting fragmentation and barriers within the EU single market risk creating additional administrative burden and costs for companies operating across borders. A legislative act at EU level would bring legal certainty and allow for a level playing field for companies operating in the single market.

Comparative elements

The EU’s two largest economies – France and Germany – have adopted national due diligence laws of a mandatory nature. France was the first country in the EU and worldwide to adopt a general due diligence law (Loi sur le devoir de vigilance) in 2017. Germany adopted a law on due diligence (Sorgfaltspflichtengesetz) in July 2021, after a survey of Germany companies with more than 500 employees between 2018 and 2019 showed that less than 20 % sufficiently integrate voluntary due diligence in their management. The Netherlands adopted in 2019 a Child labour due diligence law requiring enterprises to make sure no child labour occurs in their supply chains.

Table 1 – A comparison of some aspects of the French and German due diligence laws

<table>
<thead>
<tr>
<th>Elements of the law</th>
<th>France</th>
<th>Germany</th>
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<tr>
<td>Scope</td>
<td>Large companies with over 5 000 employees in France and over 10 000 in the world</td>
<td>Enterprises with more than 3 000 employees (1 000 employees from 1 January 2024) that have their central administration, principal place of business, administrative headquarters, statutory seat or branch office in Germany</td>
</tr>
<tr>
<td>Business relations covered</td>
<td>Activities of companies under direct and indirect control, and of all contractors and suppliers to which there is ‘an established commercial relation’</td>
<td>Companies’ own operations and supply chain operations (direct and indirect suppliers)</td>
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<tr>
<td>Due diligence obligations</td>
<td>A vigilance plan with regard to human rights, health, security of the persons and the environment; the plan, whose main</td>
<td>A risk management system to identify, prevent or minimise the risks of human rights violations and damage to the environment; risk analysis,</td>
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aim is to prevent and mitigate risks, includes elements such as risk mapping, an alert mechanism with the participation of labour unions, and a follow-up mechanism prevention, mitigation, internal complaint mechanism, reporting

Penalties

<table>
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<tr>
<th>Penalties</th>
<th>None – initial provisions were struck down by the Constitutional Council</th>
<th>Administrative fines up to €800 000 or up to 2% of annual global turnover (should the latter be over €400 million)</th>
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Liability

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<tr>
<th>Liability</th>
<th>Civil liability</th>
<th>Civil liability explicitly excluded</th>
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Preparation of the proposal

Consultations, collection and use of expertise

Between 30 July and 8 October 2020, the Commission launched an inception impact assessment (roadmap). Between 26 October 2020 and 8 February 2021, it conducted an open public consultation, which received 473 461 responses, 122 785 citizen signatures and 149 position papers. The Commission further launched a dedicated consultation of social partners, a number of stakeholder workshops and conferences and meetings. Stakeholders generally acknowledged the need for an EU legal framework on due diligence. To support the analysis of the different options, the Commission awarded support contracts to external experts for a study on due diligence requirements through the supply chain and a study on directors' duties and sustainable corporate governance.

Impact assessment

A first draft impact assessment was submitted to the Commission’s Regulatory Scrutiny Board (RSB) on 9 April 2021. After the RSB issued a negative opinion, a revised impact assessment was submitted to it for a second opinion on 8 November 2021. While noting the significant changes made to the report in response to its first round of remarks, the RSB nevertheless issued a second negative opinion on 26 November 2021. On 23 February 2022, the Commission presented its proposal for a directive accompanied by the ‘revised’ impact assessment (IA) report, complemented by a staff working document on the follow-up to the RSB’s second negative opinion. The Commission, also in the light of the consent given by its Vice-President for Inter-Institutional Relations and Foresight, decided to proceed with this initiative for a number of reasons. First, it is aligned with the Commission’s political priority of ‘An economy that works for people’; second, it responds to the urgency of action in the field of value chain due diligence as a contribution to the sustainability transition; and third, it address the risk of increasing the fragmentation of the single market. The Commission also took into account the fact that the initiative was included in the Parliament, Council and Commission’s joint political priorities for 2022. In October 2022, EPRS published an initial appraisal of the Commission’s IA, pointing out some weaknesses, including the limited number of stakeholders from non-EU countries consulted, in particular from developing countries.

The changes the proposal would bring

The proposal would introduce mandatory human rights and environmental due diligence (mHREDD), and a duty for directors to set up and oversee the implementation of due diligence and to integrate it into the corporate strategy.

Scope (Article 2). The new diligence rules would apply to the following companies and sectors:

- EU companies (Group 1): all EU limited liability companies with 500+ employees and €150 million+ in net turnover worldwide
Corporate sustainability due diligence

- **EU companies (Group 2):** other limited liability companies operating in defined high-impact sectors, with 250+ employees and €40 million+ in net turnover worldwide. For Group 2, rules will start to apply 2 years later than for group 1.
- **Non-EU companies active in the EU:** with a threshold for turnover generated in the EU aligned with Group 1 and 2.

Focus: Preventing or mitigating potential adverse impacts

Companies would have to take appropriate measures to prevent, or where prevention is not possible, adequately mitigate potential adverse human rights impacts and adverse environmental impacts, as identified in Article 6. A company would be required to take the following actions, where relevant:

a) develop and implement a **prevention action plan**, with reasonable and clearly defined timelines for action and indicators. The action plan would have to be developed in consultation with affected stakeholders;

b) seek **contractual assurances** from a business partner with which it has a direct business relationship, that it would ensure compliance with the company’s code of conduct and, as necessary, prevention action plan, including by seeking corresponding contractual assurances from its partners, to the extent that their activities are part of the company’s value chain (**contractual cascading**). The contractual assurances would have to be accompanied by the appropriate **measures to verify compliance**;

c) provide **support for an SME** with which the company has an established business relationship, in order to facilitate the SME's compliance with the company’s code of conduct or prevention action plan. The cost of the independent third-party verification of compliance should not fall on the SME.

As regards potential adverse impacts that could not be prevented or adequately mitigated, the company would be required to **refrain from entering into new or extending existing relations** with the partner in connection with, or in the value chain of which, the impact has arisen. Member States would have to provide for the availability of an option to terminate the business relationship in contracts governed by their laws.

Source: developed from Article 7 of the Commission proposal.

The proposal would apply to companies’ own operations and subsidiaries, and their value chains (direct and indirect established business relationships). While not directly included in the scope of the proposal, SMEs could be affected by its provisions in their capacity as contractors or subcontractors to companies that are within its scope. Therefore, the proposal includes accompanying measures that would support all of the companies – including SMEs – that may be indirectly affected. Measures include the development of individually or jointly dedicated websites, platforms or portals and potential financial support for SMEs.

**Human rights and environmental standards** (Article 3). Due diligence under the proposed directive would be carried out with respect to all adverse human rights and environmental impacts identified in its **annex**, which fall under the scope of international human rights, fundamental freedoms and environmental conventions as mentioned in the annex. Moreover, the proposal is in line with existing international soft law standards, in particular the **UN’s guiding principles** on business and human rights, the **OECD guidelines** for multinational enterprises and the **OECD due diligence guidance** for responsible business conduct.

**Compliance** (Articles 4-10). In order to comply with the corporate due diligence duty, companies would need to:

- integrate due diligence into their policies (Article 5);
- identify actual or potential adverse human rights and environmental impacts (Article 6);
- prevent or mitigate potential impacts (Article 7);
- bring to an end or minimise actual impacts (Article 8);
- establish and maintain a complaints procedure (Article 9);
- monitor the effectiveness of the due diligence policy and measures (Article 10);
publicly communicate on due diligence (Article 11).

**Climate change obligation** (Article 15). The proposed directive would require certain large companies (including EU and non-EU ones but excluding those operating in defined high-impact sectors) to adopt a plan to ensure that the company's business model and strategy are compatible with the transition to a sustainable economy, including limiting global warming to 1.5°C in line with the Paris Agreement. The plan would have to identify the extent to which climate change poses a risk to or has an impact on a company's operations. In case climate change is identified as posing a 'principal risk' for, or as having a 'principal impact' on, a company's operations, the company should include emissions reduction objectives in its plan. Companies should duly take into account the fulfilment of these obligations when setting the remuneration policy, if the variable part of the remuneration is linked to a director's contribution to the company's business strategy and long-term interests and sustainability.

**Enforcement** (Articles 17-21). Member States would be required to designate one or more bodies to supervise national compliance with the obligations laid down in the proposed directive. These supervisory authorities should have adequate powers and resources to carry out the tasks assigned to them under the new directive, including the power to request information and carry out investigations related to compliance with the obligations. They would be able to initiate an investigation on their own motion or on the grounds of substantiated concerns submitted by any natural or legal person. Administrative sanctions would be determined by each Member State and enforced by the supervisory authorities. A European network of supervisory authorities would be established to facilitate cooperation, coordination and alignment.

**Civil liability and reporting of breaches** (Articles 22, 23, 27). Companies would be held liable for damage if they fail to comply with obligations to prevent, mitigate, minimise or put an end to potential adverse impacts, or if this failure gives rise to an adverse impact that could otherwise have been avoided. A company would not be liable for damages caused by an adverse impact arising as a result of the activities of an indirect partner with whom it has an established business relationship; however, the company would be liable in case it was unreasonable to expect that the action actually taken by the indirect partner (including as regards verifying compliance) would be adequate to prevent, mitigate, bring to an end or minimise the extent of the adverse impact. The proposed directive would allow application of the provisions of the Directive on the protection of persons who report breaches of EU law (Directive (EU) 2019/1937) for the protection of persons reporting breaches of the proposed directive.

**Directors’ duty of care** (Articles 25-26). Directors of EU companies would be responsible for providing for and overseeing the due diligence actions referred to in Article 4 and in particular the due diligence policy referred to in Article 5, with due consideration for relevant input from stakeholders and civil society organisations. The directors would report to the board of directors in that respect. Member States would have to amend their laws, regulations and administrative provisions on breaches of directors’ duties, in order to include the consequences of directors’ decisions on human rights, climate change and other environmental issues.

**Advisory committees**

In July 2022, the European Economic and Social Committee (EESC) adopted a mandatory opinion on the Commission proposal. It called for policy coherence between national policies and European legislation that covers similar areas or also includes due diligence rules. It asked for the co-legislators to keep in mind the challenging situation for micro, small and medium-sized enterprises and ensure that support tools are ready at EU and national level once the due diligence legislation enters into force. The opinion emphasised the importance of involving trade unions and workers’ representatives in the due diligence processes. The Committee was also concerned that the Commission proposal contained numerous unclear legal concepts that were open to interpretation.
and needed to be better defined. Lastly, it called for recognition that due diligence requires a risk-based approach and can involve prioritisation based on a risk assessment.

In September 2020, the EESC also adopted an exploratory opinion on sustainable supply chains and decent work in international trade, produced at the request of the German Council Presidency. The EESC urged a more effective and consistent regulatory framework to achieve decent work, respect for human rights and sustainability in global value and supply chains; to promote global and EU social and environmental objectives; to foster fair competition between economic operators; and to support European economic activities. Due diligence should explicitly cover trade union and workers' rights, which form an essential part of decent work.

**National parliaments**

The proposal for a directive was submitted to the national parliaments, with a subsidiarity deadline of 24 May 2022. Scrutiny was carried out in the parliaments of all 27 Member States. The Swedish Parliament sent a reasoned opinion.

**Stakeholder views**

**BusinessEurope**, a confederation of national business organisations, supports an EU framework on due diligence, but considers that 'the aim to make supply chains more sustainable needs to be achieved in a way that is workable for companies and must not unilaterally make European companies responsible for factors way beyond their control'. In its opinion, it is 'unrealistic to expect that European companies can control their entire value chains across the world, including “indirect” third party suppliers or even customers'. BusinessEurope acknowledges the aim to partly exclude SMEs from the proposed obligation, even though they will still be impacted indirectly. It considers that 'the inclusion of the financial sector bears the risk of unwanted effects and could cause another access to finance problem'. BusinessEurope warns that the 'intrusion into the careful balance on directors' duties creates the risk to disrupt the primary function of boards, in accordance with national company laws'.

**EcoDa**, an organisation representing national institutes of directors, considers the Commission proposal 'unclear and [im]precise when it comes to the duties of board directors’ and one that 'provides relatively little useful clarification on the notion of directors’ duty of care'. According to EcoDa, the increased risk of legal disputes involving stakeholders who disagree with decisions taken by the board, could get 'European businesses into legal jeopardy and could make our companies even more risk averse'. On the other hand, EcoDa welcomes that the proposed directive respects the principle of proportionality by excluding SMEs and by including non-European companies.

**EuroCommerce**, an organisation representing the retail and wholesale sector, acknowledges the importance of the issue of supply chain due diligence, but warns on the fact that 'the nature of retail and wholesale means dealing with a constantly changing multiplicity of actors in highly differentiated, often global value chains'; therefore it asks the co-legislators 'to adopt a measure which takes these specificities into account and provides clear definitions and a proportionate allocation of responsibilities'. Given that the sector it represents relies on complex and diverse supply chains across the world, EuroCommerce's position is that 'it can only have limited impact and leverage beyond the own-brand products it sources directly and in ensuring that tier-1 suppliers respect the rules and can give reliable assurances that they demand the same from their suppliers'. Eurocommerce stresses how important it is that the 'EU due diligence framework is consistent with existing European legislation.

**Accountancy Europe**, an organisation representing qualified accountants, auditors and advisors, welcomes the proposal, but states that ‘the European Parliament and the Council will need to improve clarity on certain aspects’. Given that business impacts take place throughout the entire value chain, the proposal needs to clarify the concept of 'established business relationships'. Moreover, the organisation highlights the issue of information from suppliers: 'Companies with
parts of their supply chain outside of the EU will need access to reliable information on their suppliers. Clarity and legal certainty will be essential for directors and assurance practitioners'. Accountancy Europe stresses the fact that ‘reliable due diligence will require external verification’. It furthermore notes that this proposal is inter-related with the proposal on a corporate sustainability reporting directive, ‘but the scope and implementation dates of the two directives are significantly different, and ... this may cause implementation difficulties and costs’.

**Principles for responsible investment** (PRI), a UN-supported network of investors dedicated to promoting sustainable investment, welcomes the due diligence obligations, particularly where they are aligned with international standards, but argues that the proposed directive needs certain improvements, such as increased coherence with EU legislation on sustainable finance. PRI furthermore considers the scope of the proposal as not being broad enough, something that risks leaving gaps for investors; it therefore calls on the Commission to introduce a mandatory due diligence proposal covering all businesses operating in the EU, regardless of sector or size.

**BEUC**, an organisation representing consumers, strongly supports the initiative because ‘a lack of transparency along the supply chain does not only hinder informed choice of already environmentally and socially engaged consumers. It also prevents consumers who are less conscious about their environmental and social impacts to develop greater awareness’. It argues that ‘this initiative should apply not only to large but to all companies operating or placing products on the EU market. The EU should also include climate change in these due diligence requirements’. BEUC asks that due diligence rules be properly enforced and that easy access to justice be guaranteed. Finally, it recommends taking into account the broader ‘sustainability puzzle’.

**Finance Watch**, a non-governmental organisation that conducts research and advocacy on financial regulation, welcomes proposals on mandatory corporate sustainability due diligence, but considers that ‘they are too limited in scope, leaving out 99 % of EU companies’. It is also concerned about the four-year delay for high-risk sector companies with between 250 and 500 employees, and the fact that the proposal exempts them from the measures aimed at combating climate change in Article 15. Finance Watch argues also that ‘environmental due diligence should refer to EU law and include climate-related considerations’. The NGO ‘welcomes the requirement for companies to adopt a transition plan. However, according to the proposal, emissions reduction objectives would only be required in case climate change is identified as a principal risk for, or a principal impact of, the company’s operations’. Moreover, in its opinion, ‘leaving the assessment up to every company leaves too much leeway and opens the door to circumvent the rules’.

**Oxfam**, a confederation of charitable organisations focusing on global poverty, argues that the proposal ‘is a far cry from what is needed to protect people and the planet from irresponsible business practices’ and that its scope is so limited that 99 % of companies will be left outside it. Oxfam is not happy with the arrangement whereby companies could both fulfil their duty of care (in the supply chain) through contractual assurances from their direct business partners, and outsource verification of compliance. It criticises the provisions under which ‘companies will ... be required to adopt a climate transition plan in line with the 1.5°C objective of the Paris Agreement, accompanied with emission reduction objectives only when climate change is a risk to the company itself’.

**Friends of the Earth Europe**, a network of organisations dedicated to environmental issues, considers that the proposal is a milestone, but that it ‘fails to ensure liability for climate damage or guarantee justice for affected people worldwide’. In its opinion, the proposal ‘leaves gaping loopholes that will allow corporations to escape liability by claiming they have met their obligations despite not taking real action to stop harms’. It argues that the proposal falls well short of what true liability would entail, as it allows companies to claim compliance with due diligence rules by obtaining ‘contractual assurances’ from their suppliers about their own compliance with the company’s code of conduct. According to the NGO, ‘the proposal also fails to ease the massive burden of proof for people seeking justice for corporate abuses in EU courts. 
Legislative process

The Commission adopted its legislative proposal (COM(2022) 71) on 23 February 2021. The proposal falls under the ordinary legislative procedure (2022/0051(COD)). In Parliament, the Committee on Legal Affairs (JURI) is responsible for the file, with Lara Wolters (S&D, the Netherlands) as rapporteur. The draft report was published on 7 November 2022. Additionally, opinions on the proposal were submitted by the Committees on Industry, Research and Energy (ITRE), International Trade (INTA), Foreign Affairs (AFET), Development (DEVE), Environment, Public Health and Food Safety (ENVI), Internal Market and Consumer Protection (IMCO), Economic and Monetary Affairs (ECON), and Employment and Social Affairs (EMPL). On 25 April 2023, the JURI committee adopted its report by 19 votes to 3, with 3 abstentions.

Parliament position

At its plenary session of 1 June 2023, the Parliament voted on the JURI committee report and adopted amendments to the Commission proposal by 366 votes to 225, with 38 abstentions. The amendments relate to:

Companies' obligations: Parliament specified that the directive should lay down rules on companies' obligations regarding actual and potential negative impacts on human rights and the environment that they have caused, contributed to or are directly involved in, with regard to their own activities and those of their subsidiaries.

Companies would be required to identify and, where appropriate, prevent, bring to an end or mitigate the negative impact of their activities on human rights and the environment, such as child labour, slavery, labour exploitation, pollution, environmental degradation and loss of biodiversity. They should also monitor and assess the impact of their business partners, that is, not only suppliers but also partners in areas such as sales, distribution, transport, storage and waste management.

Scope of application: the new rules would apply to EU-based companies from any sector, including financial services, with more than 250 employees and a worldwide turnover of more than €40 million, as well as to parent companies with over 500 employees and a worldwide turnover of more than €150 million. Non-EU companies with a turnover above €150 million, if at least €40 million was generated in the EU, would also fall within the proposal's scope of application.

Integration of due diligence: companies should integrate due diligence into their corporate policies, but also identify, prioritise, prevent, mitigate, remedy, eliminate and minimise potential and actual adverse impacts on human rights, the environment and good governance; establish or participate in a mechanism for the notification and out-of-court handling of complaints; monitor and verify the effectiveness of actions taken in line with the directive; communicate publicly on their due diligence and consult relevant stakeholders throughout this process.

Prevention of potential negative impacts: companies would be required to establish contractual arrangements with partners with whom they have a business relationship; adapt their business models and strategies, including purchasing practices, in order to prevent potential adverse impacts; and take appropriate measures to ensure that the composition, design and commercialisation of a product or service is in line with EU law and does not lead to adverse individual or collective impacts.

Mitigating actual negative impacts: companies should take steps to remedy or contribute to the remedying of any adverse impact and any harm they have caused to people or the environment. Remedial measures would aim to restore the affected individuals, groups, communities and/or the environment to a situation equivalent to or as close as possible to that which existed prior to the adverse impact.
Exchanges with stakeholders: companies should engage in dialogue with those affected by their actions, including human rights defenders and environmental defenders. Companies should inform their employees and representatives thereof of their due diligence policy and its implementation.

Guidelines: the Commission should issue clear and easily understandable guidelines, including general and sector-specific guidance, in order to facilitate compliance in a practical manner. Each Member State should designate one or more national helpdesks.

Combating climate change: companies should implement a transition plan to limit global warming to 1.5°C. Companies with more than 1 000 employees on average should have an effective policy in place to ensure that part of any variable remuneration for directors is linked to the company’s transition plan.

Sanctions: non-compliant companies would be liable for damages and could be sanctioned. Sanctions include taking a company’s goods off the market or imposing fines worth at least 5% of the company’s net worldwide turnover.

Council general approach

In the Council, the Commission presented the proposal to the Competitiveness Council on 24 February 2022, and meetings were then held in the Council preparatory bodies. In November 2022, the Czech Presidency proposed a number of compromise texts, and a political agreement was reached at the Competitiveness Council on 1 December 2022. A qualified majority supported a general approach as the Council negotiating position on the CSDD proposal. The Council’s text includes changes on various subjects:

Scope. The Council proposes a phase-in approach for application of the directive. Three years from the entry into force of the directive, the rules would first apply to very large EU companies with more than 1 000 employees and €300 million net worldwide turnover, and to non-EU companies with €300 million net turnover generated in the EU. Four years from the entry into force of the directive, the rules would apply to EU and non-EU companies in group 1. Five years from the entry into force of the directive, the rules would apply to EU and non-EU companies in group 2. Group 1 and group 2 companies would be subject to CSDD, if the Commission thresholds were met for 2 consecutive years.

Definitions. The Council proposes to abandon the concept of ‘established business relationship’ as proposed by the Commission, in favour of using only the definition of ‘business partner’. The term ‘value chain’ would be replaced by ‘chain of activities’, meaning a move from the concept of entire ‘value chain’ towards mainly the supply chain concept, including only in a limited manner the downstream partners. The Council proposes to strengthen the risk-based approach.

Regulated financial undertakings. The Council would leave to Member States the decision to apply the directive to regulated financial undertakings.

Climate change. The Council proposes amendments to align the CSDD text as much as possible to the CSRD; the Council proposes to delete the provision linking the climate change obligation to the variable part of directors’ remuneration.

Directors’ duties. The Council’s text would delete the two articles in the Commission proposal dedicated to directors’ duty of care.

Civil liability. The Council made significant amendments to Article 22. According to the Council text, a company should not be held liable if the damage was caused only by business partners in its chain of activities. The Council mentions expressly the right to full compensation for victims, which should not lead to over-compensation.
Next steps

Parliament and Council entered into interinstitutional negotiations in June 2023, and trilogues are ongoing.

EUROPEAN PARLIAMENT SUPPORTING ANALYSIS


OTHER SOURCES

European Parliament, Corporate sustainability due diligence, Legislative Observatory (OEL).

European Parliament, Corporate due diligence and corporate accountability, Legislative Observatory (OEL).

Business & Human Rights Resource Centre, More than 100 companies and investors call for effective EU corporate accountability legislation, 8 February 2022.

Business & Human Rights Resource Centre and KnowTheChain, Closing the gap. Evidence for effective human rights due diligence from five years measuring company efforts to address forced labour, 2 January 2022.


European Commission, Study on due diligence requirements through the supply chain, external study, February 2020.

Joint NGOs, Unpacking the upcoming EU law to stop corporate abuse, press kit, November 2021.

Joint NGOs, Connecting the dots in sustainable corporate governance, policy briefing, 21 June 2021.


ENDNOTES

1 See Study on due diligence requirements through the supply chain (Chapter 4.1, Overview of current practices, p. 48), Commission, January 2020.

2 Here an overview, at global level, of countries that have drafted or are in the process of drafting a national action plan (NAP) on business and human rights. The overview also lists other initiatives outside the government sector.

3 For further details, see Towards a mandatory EU system of due diligence for supply chains (section on the 'European Parliament's position'). A parliamentary Working Group on Responsible Business Conduct has been strongly involved in working on aspects related to the topic.

4 Further information about the concepts and relations of ‘sustainable corporate governance’ and ‘due diligence’ is available in the Finance Watch Policy briefing on Sustainable Corporate Governance of 21 June 2021.


6 See impact assessment report, Section 1.2.2, pp. 3-4.

7 The Commission communication on The power of trade partnerships: together for green and just economic growth identifies how to enhance the contribution of EU trade agreements to promoting the protection of the environment and labour rights worldwide. It fosters shared ownership by all EU institutions and Member States to achieve concrete changes, including by means of sanctions.
According to the impact assessment report (pp. 4-5), supply chain due diligence instruments are included in the Conflict Minerals Regulation, in the EU Timber Regulation, and in the proposal on a battery regulation.

See impact assessment report, Section 2.2.2.4, pp. 27-28.

Detailed information on the consultation strategy and on the conclusions regarding the stakeholder consultations is contained in Annex 2 of the impact assessment report.

The impact assessment report is accompanied by an executive summary.

According to the Commission’s Better Regulation rules, a positive opinion from the Regulatory Scrutiny Board is required for a file to proceed to the adoption stage. However, the vice president for inter-institutional relations and foresight can allow work on an initiative to go on despite a second negative opinion by the Regulatory Scrutiny Board. The explanatory memorandum of the Commission proposal flags that the opinions of the Regulatory Scrutiny Board are an assessment of the quality of the impact assessment and not an assessment of the related legislative proposal.

Art. 2.1(b) identifies the following sectors as having a high impact: i) the manufacture of textiles, leather and related products (including footwear), and the wholesale trade of textiles, clothing and footwear; ii) agriculture, forestry, fisheries (including aquaculture), the manufacture of food products, and the wholesale trade of agricultural raw materials, live animals, wood, food, and beverages; iii) the extraction of mineral resources regardless from where they are extracted (including crude petroleum, natural gas, coal, lignite, metals and metal ores, as well as all other, non-metallic minerals and quarry products), the manufacture of basic metal products, other non-metallic mineral products and fabricated metal products (except machinery and equipment), and the wholesale trade of mineral resources, basic and intermediate mineral products (including metals and metal ores, construction materials, fuels, chemicals and other intermediate products).

This section aims to provide a flavour of the debate and is not intended to be an exhaustive account of all different views on the proposal. Additional information can be found in related publications listed under ‘European Parliament supporting analysis’.

BEUC considers the ‘new rules on due diligence will only be one piece of the puzzle and need to be complemented by other ambitious regulations in the field of sustainable products, sustainable food policies, sustainable energy production, sustainable finance, competition law or better consideration of environment and human rights in EU trade negotiations’.

According to the Commission proposal, Group 1 is composed of companies with 500+ employees and at least €150 million in net turnover generated worldwide (EU companies) or generated in the EU (non-EU companies).

According to the Commission proposal, Group 2 is composed of companies operating in high-impact sectors, with at least 250 employees and €40 million net turnover generated worldwide (EU companies) or generated in the EU (non-EU companies).

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