Corporate Sustainability Due Diligence

2022/0051(COD) - 01/06/2023 - Text adopted by Parliament, partial vote at 1st reading/single reading

The European Parliament adopted by 366 votes to 225, with 38 abstentions, **amendments** to the proposal for a Directive of the European Parliament and of the Council on corporate sustainability due diligence and amending Directive (EU) 2019/1937.

The matter was referred back to the committee responsible for inter-institutional negotiations.

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, not only suppliers, but also sales, distribution, transport, storage, waste management and other areas.

Scope of application

The new rules will apply to EU-based companies, regardless of their sector, including financial services, with **more than 250 employees and a worldwide turnover over EUR 40 million** as well as to parent companies with over 500 employees and a worldwide turnover of more than EUR 150 million. Non-EU companies with a turnover higher than EUR 150 million, if at least EUR 40 million was generated in the EU, will also be included.

Integration of due diligence

Companies covered by the Directive should:

- integrate due diligence into their corporate policies, identify and, where necessary, 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 accordance with the requirements set out in the Directive,

- communicate publicly on their due diligence and consult relevant stakeholders throughout this process.

Member States should ensure that parent undertakings can take action to help ensure that their subsidiaries falling within the scope of the Directive comply with their obligations.

Companies should apply a due diligence policy that is proportionate and commensurate to the degree of severity and the likelihood of the adverse impact and commensurate to the size, resources and capacities of the company, taking into account the circumstances of the specific case, including the nature of the

adverse impact, characteristics of the economic sector, the nature of the company's specific activities, products, services, the specific business relationship.

In conflict-affected and high-risk regions, companies should uphold their obligations under international humanitarian law and demonstrate heightened, conflict-sensitive due diligence in their operations and business relationships.

Prevention of potential negative impacts

Companies would be required to take the following steps, as appropriate:

- consider establishing contractual arrangements with partners with whom the company has a business relationship, obliging them to comply with the company's code of conduct and, where appropriate, a prevention action plan;

- take necessary modifications, improvements to, withdrawals of or investments in, the company's own operations, such as into management, production or other operational processes, facilities, products and product traceability, projects, services and skills;

- adapt business models and strategies, including purchasing practices, including those which contribute to living wages and incomes for their suppliers, in order to prevent potential adverse impacts, and develop and use purchase policies that do not encourage potential adverse impacts on human rights or the environment;

- take appropriate measures to ensure that the composition, design and commercialisation of a product or service is in line with Union law and does not lead to adverse impacts, be it individual or collective. In this regard, particular attention shall be paid to potential adverse impact on children.

Mitigating actual negative impacts

Where a company has caused or contributed to an actual adverse impact, it should take steps to remedy or contribute to the remedy of that adverse impact and any harm it has 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

The new rules would also require companies to engage in dialogue with those affected by their actions, including human rights and environmental defenders. Companies would also be required to regularly monitor the effectiveness of their due diligence policies. To facilitate investor access, information on a company's due diligence policy should also be available on the European Single Access Point (ESAP).

Employees and their representatives should be informed by their company of its due diligence policy and its implementation.

Guidelines

To provide support to companies or to Member State authorities, the Commission, in consultation with Member States, the European cross-industry and sectoral social partners and other relevant stakeholders, 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 for corporate sustainability due diligence.

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 will be liable for damages and can be sanctioned by national supervisory authorities. Sanctions include measures such as "naming and shaming", taking a company's goods off the market, or fines of at least **5% of the net worldwide turnover**. Non-EU companies that fail to comply with the rules will be banned from public procurement in the EU