Corporate sustainability due diligence directive

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What are the obligations for companies and their directors?

- This Directive establishes a **corporate due diligence duty**.

- The core elements of this duty are identifying, bringing to an end, preventing, mitigating and accounting for negative human rights and environmental impacts in the company's own operations, their subsidiaries and their value chains.

- In addition, certain large companies need to have a plan to ensure that their business strategy is compatible with limiting global warming to 1.5 °C in line with the Paris Agreement. Directors are incentivised to contribute to sustainability and climate change mitigation goals.

What are the obligations for companies and their directors?

- The Directive also introduces **duties for the directors** of the EU companies covered.
- These duties include setting up and overseeing the implementation of the due diligence processes and integrating due diligence into the corporate strategy.
- In addition, when fulfilling their duty to act in the best interest of the company, directors must take into account the human rights, climate change and environmental consequences of their decisions.

Which companies will the new EU rules apply to?

- **Large EU limited liability companies**:

  - **Group 1: +/- 9,400 companies** - 500+ employees and net EUR 150 million+ turnover worldwide.

  - **Group 2: +/- 3,400 companies in high-impact sectors**. - 250+ employees and net EUR 40+ million turnover worldwide, and operating in defined high impact sectors, e.g. textiles, agriculture, extraction of minerals. For this group, the rules start to apply two years later than for group 1.

Which companies will the new EU rules apply to?

- **Non–EU companies: +/- 2,600 companies in Group 1 and +/- 1,400 in Group 2**
  - Third country companies active in the EU with turnover threshold aligned with Group 1 and 2, generated in the EU.

- **SMEs**
  - Micro companies and SMEs are not concerned by the proposed rules. However, the proposal provides supporting measures for SMEs, which could be indirectly affected.

How will the new rules be enforced?

The rules on **corporate sustainability due diligence** will be enforced through:

- **Administrative supervision**: Member States will designate an authority to supervise and impose effective, proportionate and dissuasive sanctions, including fines and compliance orders. At European level, the Commission will set up a European Network of Supervisory Authorities that will bring together representatives of the national bodies to ensure a coordinated approach.
- **Civil liability**: Member States will ensure that victims get compensation for damages resulting from the failure to comply with the obligations of the new proposals.
- The rules of **directors' duties** are enforced through existing Member States' laws. The directive does not include an additional enforcement regime in case directors do not comply with their obligations under this directive.

Why does the EU need to foster sustainable corporate behavior and responsible corporate governance?

- A broad range of stakeholder groups, including civil society representatives, EU citizens, businesses as well as business associations, have been calling for mandatory due diligence rules. 70% of the businesses who responded to the public consultation sent a clear message: **EU action on corporate sustainability due diligence is needed**.
- Businesses play a key role in creating a sustainable and fair economy and society. A third of companies recognize the need to act and take measures to address adverse effects of their actions on human rights or the environment, but progress is slow and uneven. The increasing complexity and global nature of supply chains makes it challenging for companies to get reliable information on suppliers' operations. The fragmentation of national rules on corporate, sustainability-related due diligence obligations further slows down the take-up of good practices. Stand-alone measures by some Member States are not enough to help companies exploit their full potential and act sustainably.