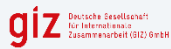




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The EU Corporate Sustainability Due Diligence Directive

Information for Responsible Business Helpdesks to inform and capacitate suppliers on human rights and environmental due diligence

Background

The legislation aims at improving respect for human rights and environmental standards in global value chains. The German Supply Chain Act (LkSG) came into effect on 1 January 2023 and the Corporate Sustainability Due Diligence Directive (CSDDD) now extends similar requirements to the entire EU according to the UNGP and OECD Guidances:

- The CSDDD does not apply to companies directly. Every **EU member state must create their own national law** along the CSDDD's minimum requirements.
- **Germany will most likely adapt the LkSG to reflect higher standards of the CSDDD**. The CSDDD does not require member states to lower existing standards.
- New or adapted member state laws are expected to be in force from 2027 and follow a phased approach regarding company scope.

Legislation only applies to large companies

As a minimum, member states must apply CSDDD rules to EU companies with at least 1000 employees and 450 million Euro global annual net turnover. They must also apply them to non-EU companies with an annual net turnover over 450 million Euro in the EU.

Small and medium sized companies (SMEs) do not fall under the LkSG nor the CSDDD and thus will not be held accountable by the responsible authorities and will not have to pay any fines. However, the laws impact suppliers of EU companies indirectly.

CSDDD brings important improvements for rights holders

Compared to the LkSG, the CSDDD introduces some important improvements, especially for rights holders. They include, for example:

- Due diligence obligations in the CSDDD cover not only the whole upstream but also part of the downstream value chain (e. g. end of life).
- The CSDDD obliges companies to **meaningfully engage with stakeholders** (like trade unions) to ensure positive impact.

- LkSG requires companies to adopt responsible purchasing practices. The CSDDD clarifies that they must also work towards **payment of living wages and living incomes** in their value chain. The ILO core labor norms are referred to.
- In case of violation of human and environmental rights, rights holders must have access to justice and remedy. The CSDDD is more **ambitious on civil liability**, ensuring that **rights holders/individuals can demand remedy effectively also in civil courts**.
- The CSDDD demands support for SMEs by EU member states and buyers, for example as part of their remedial measures. Model contract clauses of the EU Commission could contribute to **fair contracts between buyers and suppliers**.

CSDDD requires higher standards on environmental risks

- The CSDDD entails similar requirements to the LkSG on environmental risks in the area of soil, water, or hazardous chemicals.
- CSDDD is more **ambitious on climate risks** and biodiversity. Companies need to set up a climate action plan ("transition plan") to contribute to the *Paris Agreement* (1.5 degree target)



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Possible Consequences for Suppliers

Information/transparency: Provision of information on structure, branches and risks for obliged buyers.

Selecting a direct supplier: Buyers expecting the adherence of human rights and environmental standards and select suppliers accordingly.

New clauses in contracts: Commitment to human rights and environmental standards might be included into contracts, including monitoring and training mechanisms.

Monitoring mechanisms: Checks on human rights adherence in form of audits or (third party) inspections will likely increase.

Remedial action: Buyers might take steps to remedy violations of human rights or environmental standards themselves and/or ask cooperation of suppliers to take remedial action.

Building capacities rather than ending relations: Instead of ending business relations in case of violations, buyers should assist their suppliers in capacity building.

Complaints: Suppliers will be increasingly requested to set up an effective company-internal complaint mechanisms and ensure protection of those utilizing the procedure.

Opportunities for Suppliers

Fairness: The adaptation of purchasing practices to minimize risks and to improve labor, environmental and social standards is an opportunity for suppliers to negotiate favorable prices, supply times and conditions.

Resilience: By keeping records of business processes, risks, existing regulations and remedial measures, suppliers can gain important information about their own supply chain.

Cementing buyer-supplier relationship: An improved dialogue with the buyer can strengthen trust, credibility and might foster long-term relationships.

Competitiveness: Strong due diligence processes of suppliers can improve their standing with their own customers.

Efficiency: The usage of renewable energy sources and as well as improved wastewater and chemicals management can cut costs. Healthy, content workers are more productive.

In-depth analysis of the EU CSDDD



[Human Level Briefing Note \(March, 2024\).
The EU Corporate Sustainability Due
Diligence \(EU CSDDD\): The Final Text.](#)

What can I do as a supplier?

- Get familiar with **due diligence obligations**
- **Appoint and train staff members** and integrate requirements through **regular refresher** courses
- Keep an **ongoing record** of processes to be able to provide the necessary information
- Communicate the **need for support** to be able to meet the requirements to the buyer
- Check existing **management systems** and **certification schemes**
- **Know risks** within the own business operations and supply chain to compare their information against the findings of auditors
- **Seek help of support structures** like the Responsible Business Helpdesks and other service providers