European Commission

# Directive on Corporate Sustainability Due Diligence

## Frequently asked questions

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## 1. General overview

### 1.1. What is the Corporate Sustainability Due Diligence Directive?

- The Corporate Sustainability Due Diligence Directive (the Directive) sets out a **corporate due diligence duty** for large companies to identify and address adverse human rights impacts (such as child labour) and environmental impacts (such as pollution) in their own operations, those of their subsidiaries and in their "chain(s) of activities".

- In addition, the Directive sets out an obligation for large companies to adopt and put into effect a transition plan for climate change mitigation which aims to ensure, through best efforts, that the business model and strategy of the company are compatible with the transition to a sustainable economy and with the limiting of global warming to 1,5° C in line with the Paris Agreement and the objective of achieving climate neutrality as established in Regulation (EU) 2021/1119, including its intermediate and 2050 climate neutrality targets.

### 1.2. What are the basic due diligence duties for companies?

The core due diligence duties for companies in the scope of the Directive include the following actions:

- Integrating due diligence into the corporate policies and risk management systems.

- Identifying adverse human rights and environmental impacts in the company's operations as well as those of its subsidiaries and of its business partners in the chain of activities; and prioritising them according to their severity and likelihood.

- Addressing negative impacts that have been, or should have been, identified, where necessary in the order of prioritisation. Companies have to prevent and/or mitigate potential impacts and, when negative impacts have already occurred, bring them to an end or, if not immediately possible, at least minimize their extent. Companies also have to provide remedies if they caused the adverse impact or contributed to it through acts or omissions.

- As a measure of "last resort" when all other actions have failed, and where severe impacts are at stake and only where these impacts outweigh the foreseeable negative consequences of disengagement, companies are required to suspend or terminate a business relationship.

Companies are also required to:

- engage with stakeholders, i.e. consult them at certain stages of the due diligence process (in particular during the identification of impacts), based on meaningful information (i.e. of sufficient quality and level of detail to allow them to fully participate) provided to stakeholders; companies may do so through industry or multi-stakeholder initiatives (except for the consultation of their own employees and their representatives);

- establish and maintain a complaints and notification procedure;

- monitor the effectiveness of due diligence measures;
- communicate publicly on due diligence according to the Corporate Sustainability Reporting Directive and the European Sustainability Reporting Standards (with some exceptions).

## 2. Objectives

### 2.1. Why was there a need for this legislation?

- The transition to a sustainable economy is a key political priority for the EU and companies are set to play a key role in creating a sustainable and fair economy and society.
- While the existing voluntary frameworks at international level (UN, OECD) have been helpful in familiarising companies with corporate sustainability due diligence, research shows that companies are not sufficiently integrating sustainability aspects into their operations.
- Companies also face legal uncertainty and unnecessary administrative burdens due to an unclear and fragmented legal landscape across the Single Market, with several Member States having adopted their own due diligence laws while others having considered doing so. Around 70% of companies participating in the 2021 Open public consultation therefore agreed that a harmonized EU legal framework on due diligence for human rights and environmental impacts was needed.
- Moreover, targeted studies ([1] [2]) show that integrating sustainability considerations into business operations and value chains improves risk management, resilience, innovativeness, and overall competitiveness.
- The EU is not alone in moving in this direction. Other countries (e.g. Canada, Korea) are also considering horizontal due diligence laws and we expect more to do the same. There are also ongoing negotiations at UN level on a legally binding instrument (LBI) on business and human rights that would encompass (mandatory) due diligence. European companies will thus be prepared and ahead in reaping the benefits of the sustainability transition.

### 2.2. Are there international standards on corporate sustainability due diligence?

- The 2011 United Nations Guiding Principles on Business and Human Rights (UNGPs) state that companies should address adverse human rights impacts in which they are involved through their own operations and those of their direct and indirect business relationships.

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([1]) 2021, ESG and financial performance: Uncovering the Relationship by Aggregating Evidence from 1,000 Plus Studies Published between 2015 – 2020; NYU-RAM_ESG-Paper_2021 Rev_0.pdf

([2]) 2015, ESG and Financial Performance: Aggregated Evidence from More than 2000 Empirical Studies by Gunnar Friede, Timo Busch, Alexander Bassen :: SSRN

- The OECD Guidelines for Multinational Enterprises (OECD Guidelines), last updated in 2023, the related Guidance on Responsible Business Conduct and sectoral guidance specify and further develop this concept of due diligence and specifically extend this to environmental matters. The recommendations of the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy, most recently amended in 2022, also embed the human rights due diligence concept.

- The Directive to a large extent aligns with these voluntary frameworks, with certain necessary adaptations linked to its mandatory nature.

- There are also ongoing negotiations at UN level on a legally binding instrument (LBI) on business and human rights (see above 2.1).

### 2.3. Why was voluntary action by companies not sufficient to address human rights and environmental impacts?

- Many companies are already conducting some form of sustainability due diligence. For instance, in the 2020 Study on due diligence, a third of respondents from across all sectors said that their companies undertake work in this area, taking into account all human rights and environmental impacts.

- However, research shows that when companies take voluntary action, they often focus on the first link in the supply chain (tier 1) while human rights and environmental harm typically occurs further away in the value chain. Furthermore, very few companies cover all human rights and environmental matters in their due diligence processes.

- Overall, progress had been slow and uneven. Also, the obligations of companies under general tort law are not always clear, which called for providing more legal certainty. This is why it was necessary to put in place specific, binding legal rules.

## 3. Entry into force / application

### 3.1. When will the rules start applying?

- The Directive was published in the Official Journal of the European Union on 5 July and entered into force on 25 July 2024.

- Member States have until 26 July 2026 to transpose the Directive into national law.

- One year later, on 26 July 2027, the rules will start to apply to companies, with a gradual phase-in between 3 and 5 years after entry into force.
  - 3 years (26 July 2027): EU companies with more than 5 000 employees and €1 500 million worldwide turnover, as well as non-EU companies with more than €1 500 million turnover generated in the EU.
  - 4 years (26 July 2028): EU companies with more than 3 000 employees and €900 million worldwide turnover, as well as non-EU companies with more than €900 million turnover generated in the EU.

- 5 years (26 July 2029): All other companies in scope (see below point 4.1.).

### 3.2. What is the interplay of the Directive with other EU sustainability initiatives?

- The Directive complements other recent EU initiatives aimed at protecting human rights and the environment, such as the Deforestation Regulation or the Forced Labour Regulation.

- The Directive establishes a general horizontal framework (*lex generalis*) for sustainability due diligence for very large EU and non-EU companies. Sectoral laws pursuing the same objectives but providing for more extensive or more specific obligations (*lex specialis*) supersede the Directive's general requirements in case of conflict. An example of *lex specialis* in this context is Regulation 2023/1115 on the making available on the Union market and the export from the Union of certain commodities and products associated with deforestation and forest degradation, which provides a sectoral framework for deforestation and includes more specific rules regarding some aspects of due diligence for certain products.

- Furthermore, the Directive makes cross-reference to existing legislation for certain duties. For instance, as regards public communication on due diligence, the Directive relies on the reporting under the Corporate Sustainability Reporting Directive (CSRD), thereby avoiding duplication for companies in the scope of both sets of rules. For the small number of companies that are not already covered under the CSRD, it complements the existing rules by providing a simplified and aligned reporting framework.

## 4. Personal Scope

### 4.1. Which companies are covered by the obligations in the Directive?

- EU-based companies: approx. 6 000 companies in total
  - limited liability companies and partnerships with more than 1 000 employees and a net worldwide turnover of more than EUR 450 million (in any sector);
  - ultimate parent companies of a corporate group that meets the thresholds on a consolidated basis;
  - franchisors/licensors meeting certain conditions and thresholds, namely:
    - the underlying agreements ensure a common identity, a common business concept and the application of uniform business methods; and
    - they generate royalties of more than EUR 22 500 000 in the last financial year; and
    - the company had or is the ultimate parent company of a group that had a net worldwide turnover of more than EUR 80 million in the last financial year.

- Non-EU companies: approx. 900 companies in total
    - companies of a legal form comparable to LLCs/partnerships with a net turnover of more than EUR 450 million generated in the European Union (in any sector);
    - ultimate parent companies of a corporate group that meets the threshold on a consolidated basis;
    - franchisors/licensors meeting certain conditions and thresholds, namely:
        - the underlying agreements ensure a common identity, a common business concept and the application of uniform business methods; and
        - they generate royalties of more than EUR 22 500 000 in the last financial year; and
        - the company had or is the ultimate parent company of a group that had a net worldwide turnover of more than EUR 80 million in the last financial year.

  The Directive only applies if the above conditions are met in two consecutive financial years. Specific rules apply to the calculation of the number of employees: part-time employees are considered on a full-time equivalent basis and temporary agency workers and other workers in non-standard forms of employment are included if they fulfil the criteria for determining the status of worker as established by the Court of Justice of the European Union.

- While the personal scope of application of the Directive also covers financial undertakings, financial services provided in the context of relationships with clients are excluded from its material scope. The possible inclusion of the client relationships will be considered under a specific review clause within two years after entry into force of the Directive. Financial undertakings are nevertheless required to adopt and put into effect a climate transition plan, including absolute emission reduction targets for scope 3 greenhouse gas emissions, where appropriate.

### 4.2. How are SMEs affected by the new rules?

- SMEs do not directly fall under the scope of the Directive. They therefore do not have obligations and cannot be subject to public enforcement or civil liability under the Directive.
- However, they may be impacted as direct or indirect business partners in the chain(s) of activities of larger companies in scope. As such, they may receive requests to collect and share information on adverse actual or potential impacts, and to address those in line with the obligations of the company in scope.

- To protect SMEs and minimise their burden, the Directive includes both provisions aimed at supporting them and safeguards against the shifting of compliance burdens by large companies. For instance, in-scope companies are required to direct their information requests to business partners at the level of the chain of activities where impacts are most likely to occur. Also, they will have to adapt their purchasing practices (where these contribute to negative impacts), make investments in their chain of activities, build capacity and provide (financial or non-financial) support to the SME partner under certain conditions.

- To help them integrate sustainability considerations into their business operations, specific support such as information and guidance about due diligence steps, tools and capacity building will be made available for SMEs.

### 4.3. Are companies from third countries treated differently from EU companies?

- No. The obligations under the Directive, both in terms of due diligence and the climate transition plan, as well as the rules in terms of public and private enforcement are the same for EU and non-EU companies in scope.

- As for how the personal scope of application is defined, the main criterion used for EU and non-EU companies (turnover) is the same, but the application differs.

  - For EU companies what matters is the *worldwide* turnover; at the same time, an additional criterion applies (number of employees).

  - For non-EU companies the turnover threshold needs to be met through turnover generated *in the Union*, and it is therefore applied on a much narrower basis (but no employee criterion applies).

- Unlike for EU companies, it would be very complicated for stakeholders or supervisory authorities in the Member States to check the number of employees in non-EU companies to establish whether they meet a specific employee threshold, or not. Many non-EU companies do not have to report on the number of their employees, and even if they do, the relevant definitions of employees might differ considerably since there is no international standard providing for such definition. Therefore, this criterion is not used for non-EU companies. Overall, much fewer non-EU companies (around 900) are covered than EU companies (around 6,000).

- Non-EU companies in scope are expected to designate an authorised representative to communicate with supervisory authorities in the Member States and provide them with relevant information. The company or the authorised representative must inform the competent supervisory authority that the company meets the relevant turnover threshold and is therefore in the scope of the Directive.

## 5. Material Scope

### 5.1. Which human rights are covered?

- The Directive covers specific human rights included in the international human rights and labour conventions listed in the Annex of the Directive, for example, the right to life or the prohibition of child labour.

- The list of conventions is based on those referenced in the United Nations Guiding Principles on Business and Human Rights (cf. Principle 12 of the UNPGs and the accompanying Interpretative Guide) and reflects internationally recognised human rights standards.

### 5.2. Which environmental impacts are covered?

- The adverse environmental impacts covered by the Directive are based on the obligations and prohibitions set out in the multilateral conventions listed in the Annex of the Directive, for example the obligation to prevent the pollution from ships or the obligation to avoid or minimise adverse impacts on biological diversity. The listed conventions are widely ratified by countries worldwide.

- Only environmental conventions whose requirements are sufficiently precise and clear, and which create prohibitions and obligations that can be implemented directly by companies without the need for additional measures by State parties, were selected.

- In addition, the Annex also covers (in point 15) any measurable environmental degradation – such as harmful soil change, water or air pollution, harmful emissions, excessive water consumption, degradation of land and any other impact on natural resources – that impairs human rights or substantially affects ecosystem services that contribute to human wellbeing. These environmental impacts are significant because they can lead to direct or indirect harm to human health, safety, and livelihoods. For example, polluted drinking water can cause health issues, and land degradation can affect food security by impairing the natural bases for food production. Ecosystem services are the various benefits that humans derive from healthy ecosystems, such as for example provision of food and genetic resources, natural pollination of crops, clean air and water, decomposition of wastes, or flood and climate control.

### 5.3. Which business activities are covered by the due diligence duty?

- To foster sustainable and responsible corporate behaviour, and advance the sustainability transition, it is necessary to cover global ‘chains of activities’ where most adverse human rights and environmental impacts occur.

- Under the Directive, the concept of “chain of activities” covers both upstream and downstream activities:

  - The activities of upstream business partners related to the production of goods or the provision of services by the company, including the design, extraction, sourcing, manufacture, transport, storage and supply of raw materials, products or parts of products and the development of the product or the service. For instance, for a clothing manufacturer the example of an upstream business

partner would be a textile factory that produces fabric used in the manufacturing of cloths. For a car manufacturer, a direct upstream business partner might be a tyre producer, an indirect upstream business partner might be a producer of rubber that is used in the production of those tyres.

  - The activities of downstream business partners related to the distribution, transport and storage of the product, where the business partner carries out those activities "for the company or on behalf of the company". Using the same clothing manufacturer example, a downstream business partner might be a retail store that sells the finished clothing products to consumers. As regards the impacts of the products or services through their use, companies in scope are required to identify adverse impacts linked to their own operations, and make the necessary modifications to their business plan, overall strategies and operations, including the design of products/services, purchasing and distribution practices.

- The coverage of the Directive stems from the nature of due diligence as a corporate risk and impact management tool that must be integrated into a company's policies and risk management systems. It is not limited to a specific product or service and does not depend on where the company operates or where its business partners are located. This is consistent with the approach taken by authoritative international due diligence instruments such as the OECD Guidelines or the UNGPs.

## 6. CONTENT OF OBLIGATIONS

### 6.1. What is the meaning of risk-based due diligence?

- The due diligence requirements laid down in the Directive follow a risk-based approach. This means on the one hand the companies can prioritize their actions when they cannot address all impacts and on the other hand that they have to adopt appropriate measures when identifying and addressing adverse impacts. "Appropriate measures" are measures "capable of achieving the objectives of due diligence by effectively addressing adverse impacts in a manner commensurate to the degree of severity and the likelihood of the adverse impact, and reasonably available to the company, taking into account the circumstances of the specific case, including the nature and extent of the adverse impact and relevant risk factors".

- Companies are required to take appropriate measures to identify and assess actual and potential adverse impacts arising from their own operations or those of their subsidiaries and, where related to their chains of activities, those of their business partners.

- As part of the obligation to identify impacts, taking into account relevant risk factors, companies are required to take appropriate measures to: (a) map their own operations, those of their subsidiaries and, where related to their chains of activities, those of their business partners, in order to identify general areas where adverse impacts are most likely to occur and to be most severe; (b) based on the results of such mapping, carry out an in-depth assessment of their own operations, those of their subsidiaries and, where related to their chains of activities, those of their business partners, in the areas where adverse impacts were identified to be most likely to occur and most severe. Following identification, where companies are not able to address all identified impacts at the same time, they are required to prioritise among them, taking into account their severity and likelihood.

### 6.2. What practical measures do companies need to adopt to prevent, mitigate and bring to an end adverse impacts?

Companies are required to take the following measures, where relevant:

- developing and implementing prevention and corrective action plans (only for complex issues);
- seeking to obtain contractual assurances from a direct business partner, including cascading requirements through the chain of activities;
- making the necessary financial or non-financial investments, including in their chains of activities (for example, upgrading infrastructures);
- providing support (such as capacity building) to their SME business partners where necessary in light of the resources, knowledge and constraints of the SME;
- providing financial support (such as direct financing, low-interest loans, guarantees of continued sourcing, or assistance in securing financing) to their SME business partners where compliance with the code of conduct or the prevention action plan would jeopardise the viability of the SME;
- adapting their business plans, strategies and operations (including purchasing practices, design and distribution practices); and
- collaborating with other entities to resolve the issues including with a view to increase their leverage over business partners.

### 6.3. Are companies required to disengage?

- Under the Directive, companies are required to prioritise engagement with business partners in their chain(s) of activities.
- The risk of disengagement is mitigated through the following considerations and safeguards in the Directive:
  - disengagement is only required in case of severe impacts and only as a "last resort" measure when all other measures have failed;

- those other measures include, for instance, necessary investments and targeted support for the SME business partner under certain conditions (see above 6.2);

- they also include adopting and implementing an enhanced prevention or corrective action plan designed for the specific adverse impact, and using or increasing the company's leverage through the temporary suspension of the business relationship, prior to any termination;

- before disengaging, the company has to assess whether the negative impacts of disengagement can reasonably be expected to be manifestly more severe than the adverse impacts to be addressed;

- in case of disengagement, the company needs to take steps to prevent or at least mitigate the adverse impacts of disengagement, and to provide reasonable notice to the business partner before termination.

### 6.4. What are companies' obligations regarding the transition plan for climate change mitigation?

- Companies have a legal obligation adopt and put into effect a transition plan for climate change mitigation which aims to ensure, through best efforts, that the business model and strategy of the company are compatible with the transition to a sustainable economy and with the limiting of global warming to 1,5° C in line with the Paris Agreement and the objective of achieving climate neutrality as established in Regulation (EU) 2021/1119 (European Climate Law), including its intermediate and 2050 climate neutrality targets.

- Companies are required to set time-bound targets related to climate change for 2030 and in five-year steps up to 2050 based on conclusive scientific evidence and, where appropriate, absolute emission reduction targets for greenhouse gas for scope 1, scope 2 and scope 3 greenhouse gas emissions for each significant category, set decarbonisation levers and implement key actions to reach their targets, including, where appropriate, changes in the product and service portfolio of the company and the adoption of new technologies.

- For companies that publish a transition plan in accordance with the Corporate Sustainability Reporting Directive (CSRD), the obligation to "adopt" a plan is considered to be met.

- If a company fails to adopt a transition plan with the required content, or to update the plan, including the actions to reach the targets, it may face administrative sanctions.

## 7. ENFORCEMENT

### 7.1. How will the administrative enforcement regime work?

- Administrative enforcement includes injunctions (i.e. orders to cease or adopt certain conduct) and sanctions (including fines) by the competent national supervisory authorities.

- The Directive requires that such sanctions are effective and dissuasive, but also proportionate.

- (Non-)compliance with the obligations resulting from the Directive (as transposed into national law) will also qualify as an environmental or social aspect that contracting authorities may take into account as part of the award criteria for public and concession contracts.

- A European Network of Supervisory Authorities will ensure a coordinated approach among national authorities and allow for cooperation in enforcement cases and information sharing.

### 7.2. How will the civil liability regime work?

- When companies intentionally or negligently fail to comply with their duty to prevent, mitigate, bring to an end, minimise adverse impacts, and this failure causes or contributes to damage, they can be held liable for the damage suffered. They will not be liable if only the business partner(s) in their chain of activities caused the damage.

- In case the company is liable, it will have to provide full compensation to the victim for the damage suffered. However, this shall not lead to overcompensation, for instance through punitive damages.

- Injured parties may authorise a trade union, a non-governmental human rights or environmental organisation or other non-governmental organisation based in a Member State to bring actions on their behalf, under the conditions set out in national law.

### 7.3. How will the rules be enforced with respect to third-country companies?

- If the non-EU company does not have a subsidiary/branch in any Member State, the competent supervisory authority shall be that of the Member State in which the company generated most of its net turnover in the EU. The company will have to designate an authorised representative empowered to receive communications from, and cooperate with, the competent supervisory authority.

- The competent supervisory authority may take enforcement action, including the imposition of fines, against a non-EU company and take any measures available under national law for their execution. If the company fails to comply with a fining decision, the authority may issue a public statement on the responsibility of the company.

- Non-compliance with the obligations resulting from the Directive qualifies as an environmental or social aspect that contracting authorities may take into account as part of the award criteria for public and concession contracts.

## 8. BURDEN LIMITATION & SAFEGUARDS

### 8.1. What are the costs for companies?

- To comply with the new rules, companies may incur costs related to establishing and operating due diligence processes and procedures.

- In addition, companies may also incur additional transition costs, including expenditure and investments to adapt a company's own operations and value chains to comply with the due diligence obligation, if needed.

### 8.2. How is compliance facilitated and burden reduced for companies?

- A range of measures facilitate compliance by, and limits the burden on, the large companies in scope:

    - The risk-based approach to due diligence allows companies to limit in-depth assessments of adverse impacts to those areas identified as high risk. Where it is not feasible to prevent, mitigate, bring to an end or minimise identified adverse impacts at the same time, companies are allowed to prioritise, i.e. focus their due diligence on high-risk areas.

    - Resource and information sharing within corporate groups and with other legal entities as well as through industry initiatives allows for burden sharing. The Commission will issue guidance on fitness criteria for industry schemes, multi-stakeholder initiatives and third-party verifiers.

    - Termination of the business relationship is only required as a last resort and under strict conditions.

    - No new reporting requirements are created for companies already reporting under the Corporate Sustainability Reporting Directive (CSRD). Only for companies not reporting under the CSRD will there be a simplified and aligned reporting standard as regards corporate sustainability due diligence (to be adopted as a delegated act by the Commission by 31 March 2027).

    - The use of digital tools and technologies, on which the Commission will issue guidelines, will facilitate due diligence.

- Aside from limiting burdens on companies in scope, the Directive clarifies that Member States may take a company's due diligence performance into account as part of the award criteria in public procurement and for concession contracts.

### 8.3. What are the safeguards in place for companies' business partners?

- A series of provisions ensure that during the data gathering and the impact mitigation process the compliance burden cannot be offloaded to business partners in the chain of activities, and that these partners will be supported in their transition:

    - Companies are required to focus information requests on business partners at the level of the chain of activities where the adverse impact is most likely to occur, which relieves other business partners of unnecessary requests.

- Companies in scope are required to make the necessary modifications to their business strategies and operations, including purchasing practices, to address related impacts, and use fair and non-discriminatory terms when seeking contractual assurances from their SME business partners. The Commission will issue guidelines on these aspects, including for model contract clauses that ensure a fair allocation of tasks and avoid burden-shifting to business partners.

- Companies in scope are required to provide targeted and proportionate support to their SME business partners, including financial (under certain conditions, see above 6.2), and to make investments, where necessary, including in the chain of activities.

- Companies are required to bear the costs of the independent third-party verification, while the SME may decide to bear (part of) the costs and will then be able to use the verification report vis-à-vis other business partners.

- Member States will provide information and support through dedicated websites, platforms or portals, with specific consideration for SMEs, and may also provide financial support.

### 8.4. How will companies be supported in fulfilling their obligations?

- The Directive sets out expectations for the European Commission and for Member States to provide information and support to companies (both EU and non-EU) with a view to facilitate compliance.

- In practice, the Commission will issue general and sector-specific guidelines, including on:

  - risk factors;

  - how to conduct due diligence in accordance with the Directive, such as the identification process, the prioritisation of impacts, stakeholder engagement and responsible disengagement;

  - model contractual clauses for the relationship with business partners;

  - fitness criteria and a methodology for companies to assess the fitness of industry and multi-stakeholder initiatives as well as third-party verifiers;

  - data and information sources as well as digital tools that could support compliance;

  - climate transition plans.

- Member States are expected to set up, individually or jointly, dedicated websites, platforms or portals to disseminate this guidance.

- Member States and the Commission are expected to adopt measures to accompany the implementation of the Directive, including by facilitating access to information or financial support. This might include supporting tools such as hotlines, databases, capacity-building, training, and funding. A dedicated EU helpdesk related to the Directive will be established to assist companies and stakeholders.

### 8.5. What is the role of industry and multi-stakeholder initiatives?

- Industry and multi-stakeholder initiatives are expected to play an important role in facilitating compliance with companies' obligations under the Directive. They will allow companies to pool resources, act jointly, and thus increase their leverage to effect meaningful positive change across their value chains.

- However, it is important to note that companies will remain responsible for the selection of specific initiatives and ultimately for compliance with their own due diligence obligations.

- The Commission will issue guidance setting out fitness criteria and a methodology for companies to assess the fitness of industry and multi-stakeholder initiatives.

## 9. IMPACTS OF THE DIRECTIVE

### 9.1. What are the impacts on individuals?

The main benefits for individuals are:

- Better protection of human rights.
- Contribution to a healthier environment for present and future generations, including climate change mitigation.
- Involvement in corporate decision-making through meaningful stakeholder engagement.
- More rights to hold companies to account (through complaints processes to the company, supervisory authority or courts)
- Better access to remedy for victims of human rights or environmental abuses, through judicial (civil liability) and non-judicial mechanisms (complaints mechanisms established by the companies).

### 9.2. What are the impacts on companies?

For the first time ever, companies operating in the EU market will have common and clear rules on corporate sustainability due diligence. The main benefits will be the following:

- Harmonised legal framework in the EU, creating legal certainty and a level playing field.
- Greater customer trust and employee commitment.
- Better awareness of negative human rights and environmental impacts.
- Better risk management (including of liability risks), enhanced resilience, increased innovation and competitiveness.
- Increased attractiveness for employees who prioritize sustainability performance, sustainability-oriented investors and in public procurement procedures.

### 9.3. How will the Directive ensure that EU companies remain competitive?

- Companies' competitiveness increasingly relies on their ability to ensure sustainable practices all along their value chains. Consumers are more and more aware of the choices they make with their purchases, raising demands for sustainable and responsibly sourced products and services. Employees, in particular younger ones, are sensitive to the sustainability performance of their employer. At the same time, investors are also increasingly considering sustainability issues when looking for investment opportunities.

- By creating a level playing field and requiring companies to better address the impacts in their value chains, the Directive will not only improve companies' competitiveness, but also their efficiency and financial performance, preparedness for potential shocks or resource shortages and long-term resilience.

### 9.4. What is the impact on developing countries?

- The new rules are expected to bring multiple benefits for partner countries in which entities that are part of the chains of activities of companies in scope operate, such as:

    - better protection of human rights and the environment;
    - more sustainable business operations;
    - increased take-up of international standards;
    - investment from EU companies, capacity building and support for business partners;
    - financial support for SMEs (under certain conditions, see above 6.2);
    - improved living conditions for people;
    - better access to justice and remedy for victims of adverse impacts.

- These benefits can substantially be amplified through mutually reinforcing initiatives, including strengthening the rules and enforcement framework regarding human rights and environmental protection in third countries, the development of sustainability standards, support for multi-stakeholder alliances and industry coalitions, or accompanying support provided through EU development policy and other international cooperation instruments.