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Just and sustainable economy: Commission lays down rules for companies to respect human rights and environment in global value chains

Today, the European Commission has adopted a proposal for a Directive on corporate sustainability due diligence. The proposal aims to foster sustainable and responsible corporate behaviour throughout global value chains.

Companies play a key role in building a sustainable economy and society. They will be required to identify and, where necessary, prevent, end or mitigate adverse impacts of their activities on human rights, such as child labour and exploitation of workers, and on the environment, for example pollution and biodiversity loss. For businesses these new rules will bring legal certainty and a level playing field. For consumers and investors they will provide more transparency. The new EU rules will advance the green transition and protect human rights in Europe and beyond.

A number of Member States have already introduced national rules on due diligence and some companies have taken measures at their own initiative. However, there is need for a larger scale improvement that is difficult to achieve with voluntary action. This proposal establishes a

corporate sustainability due diligence duty to address negative human rights and environmental impacts.

The new due diligence rules will apply to the following companies and sectors

- **EU companies**
 - Group 1: all EU limited liability companies of substantial size and economic power (with 500+ employees and EUR 150 million+ in net turnover worldwide).
 - Group 2: Other limited liability companies operating in defined high impact sectors, which do not meet both Group 1 thresholds, but have more than 250 employees and a net turnover of EUR 40 million worldwide and more. For these companies, rules will start to apply 2 years later than for group 1.
- **Non-EU companies** active in the EU with turnover threshold aligned with Group 1 and 2, generated in the EU.

Small and medium enterprises (SMEs) are not directly in the scope of this proposal.

This proposal applies to the company's own operations, their subsidiaries and their value chains (direct and indirect established business relationships). In order to comply with the corporate due diligence duty, **companies need to:**

- integrate due diligence into policies;
- identify actual or potential adverse human rights and environmental impacts;
- prevent or mitigate potential impacts;
- bring to an end or minimise actual impacts;
- establish and maintain a complaints procedure;
- monitor the effectiveness of the due diligence policy and measures;
- and publicly communicate on due diligence.

More concretely, this means more **effective protection of human rights included in international conventions**. For example, workers must have access to safe and healthy working conditions. Similarly, this proposal will help to avoid adverse environmental impacts contrary to **key environmental conventions**. Companies in scope will need to take appropriate measures ('obligation of means'), in light of the severity and likelihood of different impacts, the measures available to the company in the specific circumstances, and the need to set priorities.

National administrative authorities appointed by Member States will be responsible for supervising these new rules and may impose **fines in case of non-compliance**. In addition, victims will have the opportunity to take **legal action for damages** that could have been avoided with appropriate due diligence measures.

In addition, group 1 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.

To ensure that due diligence becomes part of the whole functioning of companies, **directors of companies need to be involved**. This is why the proposal also introduces directors' duties to set up and oversee the implementation of due diligence and to integrate it 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. Where companies' directors enjoy variable remuneration, they will be incentivised to contribute to combating climate change by reference to the corporate plan.

The proposal also includes, **accompanying measures**, which will support all 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. In order to provide support to companies the Commission may adopt guidance, including about model contract clauses. The Commission may also complement the support provided by Member States with new measures, including helping companies in third countries.

The aim of the proposal is to ensure that the Union, including both the private and public sectors, acts on the international scene in full respect of its international commitments in terms of protecting human rights and fostering sustainable development, as well as international trade rules.

As part of its 'Just and sustainable economy package', the Commission also presents today a [Communication on Decent Work Worldwide](#). It sets out the internal and external policies the EU uses to implement decent work worldwide, putting this objective at the heart of an inclusive, sustainable and resilient recovery from the pandemic.

Members of the College said

Věra **Jourová**, Vice-President for Values and Transparency, said: "This proposal aims to achieve two goals. First, to address consumers' concerns who do not want to buy products that are made with the involvement of forced labour or that destroy the environment, for instance. Second, to support business by providing legal certainty about their obligations in the Single Market. This law will project European values on the value chains, and will do so in a fair and proportionate way."

Didier **Reynders**, Commissioner for Justice said: "This proposal is a real game-changer in the way companies operate their business activities throughout their global supply chain. With these rules, we want to stand up for human rights and lead the green transition. We can no longer turn a blind eye on what happens down our value chains. We need a shift in our economic model. The momentum in the market has been building in support of this initiative, with consumers pushing for more sustainable products. I am confident that many business leaders will support this cause."

Thierry **Breton**, Commissioner for the Internal Market, said: "While some European companies are already leaders in sustainable corporate practices, many still face challenges in understanding and improving their environmental footprint and human rights track record. Complex global value chains make it particularly difficult for companies to get reliable information on their suppliers' operations. The fragmentation of national rules further slows down progress in the take up of good practices. Our proposal will make sure that big market players take a leading role in mitigating the risks across their value chains while supporting small companies in adapting to changes."

Next steps

The proposal will be presented to the European Parliament and the Council for approval. Once adopted, Member States will have two years to transpose the Directive into national law and communicate the relevant texts to the Commission.

Background

European companies are global leaders in sustainability performance. Sustainability is anchored in EU values and companies show a commitment to respecting human rights and to reducing their impact on the planet. Despite this, companies' progress in integrating sustainability, and in particular human rights and environmental due diligence, into corporate governance processes remains slow.

To address these challenges, in March 2021, the European Parliament called on the Commission to submit a legislative proposal on mandatory value chain due diligence. Similarly, on 3 December 2020, the Council in its conclusions called on the Commission to present a proposal for an EU legal framework on sustainable corporate governance, including cross-sector corporate due diligence along global value chains.

The Commission's proposal responds to these calls, taking closely into account the responses gathered during an [open public consultation on the sustainable corporate governance initiative](#) launched by the Commission on 26 October 2020. In preparing the proposal, the Commission also considered the broad base of evidence collected through two commissioned studies [on directors' duties and sustainable corporate governance \(July 2020\)](#) and [on due diligence requirements in the supply chain](#) (February 2020).

More Information

[Proposal for a Directive on corporate sustainability due diligence + Annex](#)

[Questions and Answers on corporate sustainability due diligence](#)

[Factsheet on corporate sustainability due diligence](#)

[Webpage on corporate sustainability due diligence](#)

Details

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