

# Corporate Sustainability Due Diligence

2022/0051(COD) - 24/04/2024 - Text adopted by Parliament, 1st reading/single reading

The European Parliament adopted by 374 votes to 235, with 19 abstentions, a legislative resolution on 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 European Parliament's position adopted at first reading under the ordinary legislative procedure amends the proposal as follows:

## *Subject matter and scope*

The proposed Directive lays down rules on obligations for companies regarding **actual and potential human rights adverse impacts and environmental adverse impacts**, with respect to their own operations, the operations of their subsidiaries, and the operations carried out by their business partners in the chains of activities of those companies.

This Directive should apply to companies established in the Union with more than **1 000 employees** on average and a net worldwide turnover exceeding **EUR 450 million**. It should also apply to companies with franchising or licensing agreements in the EU ensuring a common corporate identity with worldwide turnover higher than EUR 80 million if at least **EUR 22.5 million** was generated by royalties. Non-EU companies, parent companies and companies with franchising or licensing agreements in the EU reaching the same turnover thresholds in the EU should also be covered.

## *Due diligence*

Companies should integrate due diligence **into all their relevant policies and risk management systems** and have in place a due diligence policy that ensures risk-based due diligence.

The due diligence policy should be developed in prior consultation with the company's employees and their representatives, and contain all of the following: (a) a **description** of the company's approach, including in the long term, to due diligence; (b) a **code of conduct** describing rules and principles to be followed throughout the company and its subsidiaries, and the company's direct or indirect business partners; (c) a description of the processes put in place to integrate due diligence into the company's relevant policies and to implement due diligence.

Member States should require companies to retain documentation regarding the actions carried out to fulfil their due diligence obligations for the purpose of demonstrating compliance, including supporting evidence, for at least 5 years from the moment when such documentation was produced or obtained.

Companies should 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.

## *Bringing actual adverse impacts to an end*

Member States should ensure that companies take appropriate measures to bring actual adverse impacts that have been, or should have been, identified to an end. They should:

- neutralise the adverse impact or minimise its extent;
- seek contractual assurances from a direct business partner that it will ensure compliance with the company's code of conduct and, as necessary, a prevention action plan;
- make necessary financial or non-financial investments in, adjustments or upgrades of, for example, facilities, production or other operational processes and infrastructures;
- make necessary modifications of, or improvements to, the company's own business plan, overall strategies and operations, including purchasing practices, design and distribution practices;
- provide **targeted and proportionate support** for a small and medium-sized enterprise (SME) which is a business partner of the company, where necessary in light of the resources, knowledge and constraints of the SME, including by providing or enabling access to capacity-building, training or upgrading management systems.

### ***Remediation***

Where a company has caused or jointly caused an actual adverse impact, the company should provide remediation. Where the actual adverse impact is caused only by the company's business partner, voluntary remediation may be provided by the company. The company may also use its ability to influence the business partner causing or jointly causing the adverse impact to enable remediation.

Member States should ensure that a company can be held **liable** for damage caused to a natural or legal person, provided that the company intentionally or negligently failed to comply with the obligations. Where a company is held liable, a natural or legal person should have the right to full compensation for the damage, in accordance with national law.

### ***Monitoring and penalties***

The Commission should set up a **European network** of supervisory authorities to support cooperation and the exchange of best practice. Member States should provide companies with **detailed online information** on their duty of care obligations via practical portals containing the Commission's guidance. They should also set up or designate a supervisory authority responsible for investigating and imposing sanctions on companies that fail to comply with their obligations.

When pecuniary penalties are imposed, they should be based on the company's net worldwide turnover. The maximum limit of pecuniary penalties should be not less than **5 % of the net worldwide turnover** of the company in the financial year preceding that of the decision to impose the fine.