EUROCHAMBRES

A balanced compromise on Corporate Sustainability Due Diligence will shape the future of EU companies

The European Parliament's Committee on Legal Affairs recently adopted its draft report on the proposed Corporate Sustainability Due Diligence Directive after lengthy discussions between the political groups and in close consultation with stakeholders on how to turn it into a workable, proportionate and sustainable framework that withstands the test of time. The proposal, aimed at fostering more sustainable and responsible behaviour from companies in supply chain operations, has proved to be highly controversial since its inception, having been blocked twice by the Commission's Regulatory Scrutiny Board and received an unenthusiastic reaction from many stakeholders. Eurochambres has consistently reiterated that sustainability is key to ensuring long-term economic growth and that European businesses are ready to do their part if the EU institutions adopt a well-balanced regulatory framework on corporate due diligence.

The chamber network served as a principal interlocutor in the parliament's report discussions and believes that the vote is an important step towards setting the standard on how European companies should operate in the EU and in world markets and ensuring more resilient and sustainable supply chains. By changing the scope of the proposal, MEPs in the lead committee have responded constructively to the calls of Eurochambres and secured that SMEs are not covered. Other important provisions that have stayed in the text focus on guaranteeing more harmonisation by including a single market reference, permitting parent companies to undertake due diligence on behalf of their subsidiaries, and allowing companies to prioritise their due diligence plan according to the most salient risks. This is a sensible approach as the ability to correctly identify, prioritise and manage potential and actual environmental and human rights risks lies within businesses.

Furthermore, the effectiveness of companies' due diligence plans will according to the Legal Affairs Committee text be supported by the creation of a dedicated digital portal for companies to access free of charge information on sector, product and exposure, guidance and specific methodology for better risk management and much-needed financial support provided by member states to SMEs.

However, before the vote in plenary, MEPs need to reflect carefully on the need to:

- Further mitigate the reporting burden falling on companies operating in complex supply chains.
- Avoid the disruption of member states' legal systems when it comes to corporate governance, directors' duties and variable remuneration. There is no need for this matter to be further regulated at EU level.
- Withdraw prescriptive references on tackling climate change and emissions reduction targets since they have no links to due diligence and are also absent from the OECD guidance and the UNGPs.
- Reduce the current threshold on sanctions for non-compliance and uphold the possibility for companies to continue trading and exporting to avoid serious disruptions in the supply chain.

Entrepreneurs need a stable legal environment, a *conditio sine qua non* for responsible trading. As such, EU institutions should make clear that adopted acts are consistent with overarching goals, while consistent with the Commission's objective to reduce reporting requirements for companies by 25%.

In the interests of Europe's global competitiveness, Eurochambres also recommends that EU lawmakers pursue a more assertive and proactive open strategic autonomy agenda and guarantee that sustainability objectives help rather than hinder European businesses' role in securing the supply of critical goods.