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Published in:
ERA Forum

Publication status and date:
Published: 19/06/2024

DOI (link to publisher):
[10.1007/s12027-024-00791-y](https://doi.org/10.1007/s12027-024-00791-y)

Document Version
Publisher's PDF, also known as Version of record

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Citation for the published version (APA):
Ciacchi, S. (2024). The newly-adopted Corporate Sustainability Due Diligence Directive: an overview of the lawmaking process and analysis of the final text. *ERA Forum*, 25(1), 29-48. <https://doi.org/10.1007/s12027-024-00791-y>

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The newly-adopted Corporate Sustainability Due Diligence Directive: an overview of the lawmaking process and analysis of the final text

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Accepted: 10 June 2024
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Abstract

This article provides an overview of the process leading up to the adoption of the Corporate Sustainability Due Diligence Directive (CSDDD) and delivers a comprehensive analysis of the Directive's final text. The article contextualises the design process of the CSDDD within the international normative framework on sustainability due diligence and elaborates on key events surrounding the inter-institutional negotiations between the European Commission, the European Parliament and the Council of the European Union on the Directive. The article then delves into the content of the newly adopted text, highlighting key differences between the final version and the Commission's original proposal.

Keywords CSDDD · Directive · Due diligence · Supply chain · Adopted text

In recent years, “sustainability due diligence” has become one of the cornerstones of corporate sustainability policy in the European space. Following the growing popularity of the concept of human rights due diligence in the international soft law framework, and the implementation of mandatory laws of this nature in several European Union Member States, the momentum of the sustainability due diligence movement seems to be at its peak. With the proposed Corporate Sustainability Due Diligence Directive (‘CSDDD’, ‘the Directive’) moving towards adoption, the dream of a harmonised, horizontal sustainability due diligence framework in the European Union is steadily approaching reality. The path towards the adoption of the Directive has been

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a turbulent road, marked by difficulties, setbacks, and a healthy dose of sabotage. It appears that the project has been able to withstand these hurdles against all odds, albeit coming out the other side diminished and weathered.

Following the publication of the European Commission's proposed text in February 2022, the proposed Directive underwent a negotiation process involving the Commission, the European Parliament and the Council of the European Union.¹ The back and forth between the European Union institutions was closely followed by many interested parties. On 15 December 2023, the Council and European Parliament reached a provisional political agreement on the proposed Directive, taking a much-awaited step forward towards the final phase of the Union's ordinary legislative procedure. In January of this year, the agreement's text was circulated.²

February and March 2024 marked a dramatic time in the history of the CSDDD. The agreement's text was supposed to be approved in the Council with a routine, 'rubberstamp' vote on 9 February. Approaching the vote, controversies ensued, following the circulation of rumours that Germany would withdraw its support for the agreement. Soon thereafter, the position of several other Member States came into question. In an effort to secure the required qualified majority before the vote, the Belgian Presidency of the council postponed it several times.

After further renegotiations of the text, the CSDDD was finally adopted by the Council's Committee of the Permanent Representatives of the Governments of the Member States to the European Union ('Coreper') on 15 March 2024,³ and approved by the European Parliament's Committee on Legal Affairs (JURI) the following week.⁴ At the time of writing, at the end of March 2024, the text is now finalised and is expected to be approved in a plenary session of the European Parliament on 24 April 2024. Following the publication of the finalised text in the Official Journal of the European Union, the Directive will enter into force.

In the first part of this article, an overview is provided of the background and reasons behind the initiation of the CSDDD project in the European Union. This section touches upon the contextualisation of the CSDDD within the international soft law framework of sustainability due diligence and provides an overview of the events leading up to the adoption of the final text of the proposed Directive in Coreper in March 2024.

In the second part of the article, the contents of the proposed Directive are broken down, providing a comparison between the European Commission's originally proposed text, and the latest version of the agreement (the 'adopted text').⁵ In doing

¹Proposal for a Directive of the European Parliament and of the Council on Corporate Sustainability Due Diligence and amending Directive EU 2019/1937, COM/2022/71 final [2022] [33] (hereafter "CSDDD European Commission's proposal").

²The text was shared by MEP Axel Voss in a LinkedIn post on 30.1.24, Retrieved at: https://www.linkedin.com/posts/axel-voss-a1744969_cs3d-4ct-finalpdf-activity-7158052468679917568-MkId?utm_source=share&utm_medium=member_desktop.

³Schickler [38].

⁴EU Today [20].

⁵Proposal for a Directive of the European Parliament and Council on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937 and Regulation (EU) 2023/2859 (Text with EEA relevance) 2022/0051(COD) [2024] [34] (hereinafter "adopted text"). The text adopted by the European Parliament

so, this piece provides commentary on the doctrinal implications and expectations of the forthcoming CSDDD, whilst highlighting the debates, discussions and bargaining process that ultimately shaped the proposed Directive's text. In the final section, the paper elaborates on the twists and turns of the negotiation process, and what this could mean for the future of sustainability due diligence in the European Union.

1 The journey of sustainability due diligence in the European Union

This section explores the background for the development of the Corporate Sustainability Due Diligence Directive proposal by the European institutions. In doing so, it illustrates how the CSDDD's project was influenced by normative developments in the international legal framework and national legal systems. This overview provides context for the Sustainable Corporate Governance Initiative as the first stepping stone towards the proposed CSDDD.

1.1 Influences from international soft law

The concept of sustainability due diligence originates from the framework of international law. It was born as "human rights due diligence" (HRDD) and was eventually expanded to encompass the broader notion of sustainability, including human rights and environmental concerns.⁶ HRDD was first introduced under the umbrella of the United Nations and was first institutionalised with the publication and endorsement of the UN Guiding Principles of Business and Human Rights (UNGPs, the Principles) in 2011.⁷ Since then, sustainability due diligence has consolidated its position in the international soft law framework for corporate social responsibility, appearing in instruments such as the Organization for Economic Cooperation and Development's (OECD) Guidelines for Multinational Enterprises (OECD Guidelines),⁸ and the International Labour Organisation's (ILO) Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy.⁹

The build-up of the authoritativeness and relevance of sustainability due diligence in the international framework constituted an important influence over the policy

on 24 April 2024 is available at: https://www.europarl.europa.eu/doceo/document/TA-9-2024-0329_EN.html.

⁶Although the UN Guiding Principles were primarily focused on human rights, they already recognised the interplay of human rights and environmental protection. See, for example, UNGP Principle 13. French and German corporate due diligence laws reference both the environment and human rights. More recently, the European Union has adopted the terminology of sustainability due diligence over human rights due diligence, as seen in the Proposed Directive.

⁷United Nations, Office of the High Commissioner for Human Rights, *Guiding Principles on Business and Human Rights: Implementing the United Nations "Protect, Respect and Remedy" Framework*, [ST/HR/PUB/11/4 [2011] [40].

⁸Human rights due diligence was introduced in the Guidelines in 2011. Organization for Economic Cooperation and Development, *OECD Guidelines for Multinational Enterprises*, 2011 Edition [30].

⁹See the 2017 version of the Tripartite Declaration. International Labour Organisation, *Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy*, Fifth edition 2017 [24].

developments in this field in the European space.¹⁰ To this day, the UN Guiding Principles remain an important frame of reference in the development of European Union legislation on this topic. Indeed, adherence to the Principles has been one of the parameters against which the proposed texts for the Corporate Sustainability Due Diligence Directive were assessed and criticised by several commentators.¹¹

1.2 Sustainability due diligence in the European Union: the member states

Following the institutionalisation of sustainability due diligence in the international environment, legislative processes on mandatory human rights and environmental due diligence legislation were initiated in several European Union Member States. The front runner in this respect was the French legal system, which implemented the first mandatory human rights due diligence law in 2017 – *i.e.*, the *Loi de Vigilance*.¹² Legislation was initiated in Germany and the Netherlands shortly thereafter.¹³

The proliferation of these hard law regulatory initiatives on sustainability due diligence at the national level became an important component in the decision of the European institutions to develop European Union legislation on the matter. Indeed, it became clear that in the absence of EU-level harmonisation on sustainability due diligence, the field would likely be plagued by legal fragmentation.¹⁴ Today, one can see that these pioneering legal instruments had great influence over the choices made at European Union level regarding the design of the CSDDD.¹⁵

1.3 Sustainability due diligence in the European Union: the European Union institutions

1.3.1 The sustainable corporate governance initiative

Since 2011, the European Union's institutions have demonstrated support for the concept of sustainability due diligence and the UN Guiding Principles of Business and Human Rights project.¹⁶ However, the first concrete steps towards the development of legislative intervention in this area began in 2020, with the launch of the Sustainable Corporate Governance Initiative (the Initiative).¹⁷ As the name suggests, the

¹⁰See Ciacchi and Cerqua [5], p. 506–513.

¹¹See for example Holly and Andreasen Lysgaard [23], p. 11–13.

¹²Loi n° 2017-399 du 27.3.2017 relative au devoir de vigilance des sociétés mères et des entreprises donneuses d'ordre (1) [27].

¹³In Germany this culminated in the German Supply Chain Act in 2021. *Gesetz über die unternehmerischen Sorgfaltspflichten zur Vermeidung von Menschenrechtsverletzungen in Lieferketten* [22] (*Sorgfaltspflichtengesetz* or Supply Chain Act). The Dutch *Wet zorgplicht kinderarbeid* [43] (Child Labour Due Diligence Act) was adopted in 2019, but never entered into force. At the moment the Dutch legislator is working on developing a horizontal sustainability due diligence law. See the new draft bill: *Wet verantwoord en duurzaam internationaal ondernemen* (Responsible and Sustainable International Business Conduct).

¹⁴CSDDD European Commission proposal, Explanatory Memorandum, p. 3.

¹⁵Ciacchi and Cerqua [5], p. 525.

¹⁶For example, see European Commission [12]. and European Parliament [19].

¹⁷European Commission [15].

Sustainable Corporate Governance Initiative was originally geared towards intervening in the legal framework for corporate governance. Due diligence and value chain management concerns were framed as complementary factors. Over time, the focus was eventually re-centred on due diligence. The Inception Impact Assessment of July 2020 highlighted the need to deliver on commitments to the Sustainable Development Goals (SDGs),¹⁸ climate targets,¹⁹ sustainable corporate governance,²⁰ and long-term value creation.²¹ Moreover, it referenced the need to catch up with the above-mentioned developments in the individual Member States' legal systems.

The same year, the European Commission launched public consultations on the goals and plans of the Sustainable Corporate Governance Initiative, receiving more than 400,000 public responses and 855 replies to targeted questionnaires.²² Respondents included, *inter alia*, business organisations, investors, local community representatives, trade unions, environmental organisations, non-governmental organisations, and other stakeholders. The highlights of the summary report of the consultations reflected a broadly favourable response to the idea of a horizontal sustainability due diligence obligation.²³ The responses on corporate governance matters (specifically on introducing a directors' duty of care) were more divided, with opposite reactions coming from NGOs and business organisations, the former responding favourably whilst the latter expressed disagreement and concern.²⁴

During this time, the Commission's plans to intervene in matters of corporate governance were heavily criticised on the basis of the dubious academic validity of the background studies that the Commission had relied on to prepare the consultation document.²⁵ This negative backlash focused on the legitimacy of the Commission's claims regarding "short-termism" in corporate governance. Perhaps also due to this discourse, the short-termism angle was eventually dropped as the Sustainable Corporate Governance Initiative shifted its focus away from corporate governance and toward sustainability due diligence.

1.3.2 The Corporate Sustainability Due Diligence Directive

Following the above-mentioned succession of events, the European Commission published the results of its work on 23 February 2022, in the form of the proposed Corporate Sustainability Due Diligence Directive. After this, the Commission, the Council and the European Parliament undertook inter-institutional negotiations aimed at reaching a compromise on the final text of the proposed Directive. At this stage, the Council and the Parliament developed their own version of the Directive's text.

¹⁸United Nations [41].

¹⁹Specifically referring to the goal of climate neutrality by 2050.

²⁰As per the European Commission [16].

²¹European Commission [13].

²²European Commission [14], p. 2–3.

²³European Commission [14], p. 4.

²⁴European Commission [14], p. 6.

²⁵For example, see European Company Law Experts Group [17].

These versions, or “mandates”, reflected each institution’s bargaining position.²⁶ Since February 2023, there have been several rounds of these informal political and technical negotiations, also known as “trilogues”.²⁷

The texts of the Council and Parliament’s mandates, as well as the evolution of the political trilogues in the past year, reflect two rather different conceptualisations of the normative character of sustainability due diligence policy. Typically, the Council mandate was shown to take the more “conservative” approach on most points, in contrast to the comparatively more “progressive” Parliament mandate. Overall, the negotiations evolved along similar lines to those that had emerged with the above-mentioned public consultations. Namely, the institutions were found to be relatively more in agreement on the scope of the due diligence obligation, whilst they clashed on issues of corporate governance. Overall, the trilogues were also affected by persistent lobbying efforts on different fronts.²⁸

On 14 December 2023, the Council and Parliament announced that they had reached a compromise on a provisional agreement,²⁹ showcasing wins and losses on both sides. Subsequently, in a rather shocking turn of events, the Council failed to vote in favour of the final text, putting the whole CSDDD project in serious jeopardy and leading to the dramatic period of uncertainty of February and March 2024.

1.3.3 The CSDDD in jeopardy: sabotage at the eleventh hour and the last-minute rescue

The period of uncertainty surrounding the confirmation of the CSDDD proposal in the Coreper meeting can be traced back to the national politics of key Member States. The ensuing delays, switching of positions and renegotiations went a long way to undermine and jeopardise the CSDDD project, as well as damaging the credibility and integrity of the European Union institutions and the European Union lawmaking process.

The timeline evolved as follows. The provisional agreement on the CSDDD was set to be voted in Coreper on 9 February 2024. A few days before the vote, it became known that Germany would abstain from supporting the agreed-upon text. Shortly thereafter, concerns were raised by several other Member States including Italy, Austria and Finland.³⁰ On the day of the vote, it became apparent that the Directive would not be approved in its current state; its confirmation was therefore postponed by the Belgian Presidency of the Council. In the following weeks, the vote was postponed

²⁶Amendments adopted by the European Parliament on 1.6.2023 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, P9_TA(2023)0209 [2023] [1] (hereafter “Parliament’s mandate”). Proposal for a Directive of the European Parliament and Council on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937 - General Approach, 15024/1/22 REV 1 [2023] [32] (hereafter “Council’s mandate”).

²⁷In the trilogues, the Commission adopts a mediating role. For more on the trilogues see EUR Lex [9].

²⁸Cerqua [3], p. 59.

²⁹Europarl.europa.eu [10], Consilium.europa.eu [8].

³⁰Schickler [37].

no less than five times. During this time, the support of other Member States came into question, with the notable addition of France.³¹

Much of the sabotage against the proposed Directive has been attributed to a minority party in the German government's coalition: the Free Democratic Party (FDP).³² The FDP liberals had been consistently very vocal in their opposition to the CSDDD project and reportedly stirred up dissent both in Council and Parliament.³³ In February, amidst the postponements of the vote, reports emerged of a backroom deal between German Finance Minister Christian Lindner (FDP) and the Italian government, supposedly ensuring Italy's abstention from the CSDDD vote in exchange for Germany's help in blocking the EU Packaging and Packaging Waste Regulation (PPWR).³⁴ The obstructive efforts of this newly formed blocking minority were then bolstered by the French delegation which, at the eleventh hour, proposed increasing the employee threshold of the proposed scope of application from 500 to 5000.³⁵

Through its extraordinary efforts, the Belgian Presidency was able to renegotiate and redraft parts of the text and meet some of the Member State's lingering concerns. The changes, explored in greater detail in the coming section below, include a heavy compromise on the personal scope, further amendments to the civil liability provision and changes in the definition of supply chains pursuant to the material scope of the sustainability due diligence obligation. The Presidency's commendable endeavour was eventually successful in eliciting the qualified majority required for the agreement to be confirmed, by a narrow margin.³⁶ The CSDDD in its final version was approved at the Coreper meeting on 15 March 2024.³⁷ Notably, this was the very last day which would allow the proposal to be voted on and adopted by the European Parliament under its current mandate – *i.e.*, before the next European Parliament elections. The final version of the Directive's text is to be adopted by the European Parliament on 24 April. The vote is widely expected to have a positive outcome.³⁸

2 Breaking down the directive: key changes in the adopted text

The adopted text presents key, significant changes from the original proposal of the European Commission, especially after the last-minute amendments of March 2024.

³¹McGowan [29].

³²European Coalition for Corporate Justice [11].

³³Brunetti and Packroff [2].

³⁴Riebeling [36].

³⁵Cerqua and Barge [4], p. 6.

³⁶At the time of writing, it is still unclear which Member States of the blocking minority were swayed, although it would be more likely that the position of France and/or Italy changed, rather than that of Germany.

³⁷Schickler [38].

³⁸On 24 April, the CSDDD was indeed adopted by the European Parliament and is expected to enter into force in the second half of 2024.

Noting these changes can provide insights into the “give-and-take” inherent in the bargaining process between the European institutions. Ultimately, the formulations adopted in the final version of the Directive will have significant implications for the future of corporate sustainability in the European Union.³⁹

This section addresses the proposed Directive’s content article by article, highlighting key differences in the first and final version of the text, and commenting on their implications.

2.1 The subject matter

Art. 1 CSDDD establishes the subject matter of the proposed Directive as the obligation on companies to carry out human rights and environmental due diligence on their own business activities, those of their subsidiaries and those of the “business partners” in their “chain of activities”.⁴⁰ The use of the terms “business partners” and “chain of activities” is a departure from the highly criticised formulation of the Commission’s proposed text “established business relationships”.⁴¹

In addition to the sustainability due diligence obligation, and the corresponding liability, Art. 1 CSDDD refers to the obligation to adopt a climate change transition plan.⁴² Although this obligation was already present in the Commission’s proposed text, it was not originally mentioned in Art. 1. In the adopted text, climate change seems to be given a more central role, as it is now showcased as the third core component of the Directive.⁴³

2.2 The personal scope

The scope of application of the proposed Directive is laid out in Art. 2 CSDDD of the adopted text. This is the Article that was most amended during the emergency renegotiations of February and March 2024.

Originally, the Directive was supposed to apply to two types of companies: ‘large’ EU and non-EU companies, and “midcap” EU and non-EU companies in high-impact sectors. The lower threshold for companies in high-risk sectors was present in all versions of the proposed text, including the December 2023 provisional agreement. In the finalised adopted text, however, this provision was entirely deleted. The employee and turnover thresholds for what classifies as “large companies” were also increased in the last-minute amendments. Accordingly, in-scope companies now include:

³⁹Please note that this section refers to the article numeration of the text adopted by the European Parliament on 24 April. This differs from the article numeration of the versions of the Directive that were circulating before this date.

⁴⁰Art. 1(1)(a) CSDDD adopted text.

⁴¹*E.g.*, see: Shift [39], p. 5; Lafarre [25]; Holly and Andreasen Lysgaard [23], p. 14–17.

⁴²Art. 1(1)(c) CSDDD adopted text.

⁴³This formulation of Art. 1 of the adopted text is taken from the Council’s mandate.

- EU companies with more than 1000 employees (previously 500), with a net worldwide turnover of EUR 450 million or above (previously 150) in the last financial year.⁴⁴
- Non-EU companies having generated EUR 450 million or above in the Union (previously 150).⁴⁵
- Companies that do not meet the above threshold but are the “ultimate parent company” of a company group that does.⁴⁶

The text specifies that the Directive only applies to companies that have met these thresholds for two consecutive financial years.⁴⁷ In addition, the adopted text includes specifications and nuances concerning the applicability of the proposed Directive to company groups, and to franchising and licensing agreements.⁴⁸

In view of the new employee and turnover thresholds, the Directive is expected to apply to around 5000 companies, circa .05% of companies in the European Union.⁴⁹ This amendment brings the number of companies coming within the scope of the Directive to less than half of the 13,000 that would have fallen under the scope of the European Commission’s original Proposal.⁵⁰

In its Explanatory Memorandum, the Commission explained the choice to exclude small and medium-sized enterprises (SMEs) from the personal scope of the Directive as being to avoid imposing excessive financial and administrative burdens on firms that do not have pre-existing due diligence frameworks, although nevertheless foreseeing a spillover effect caused by the fact that small and medium-sized enterprises engage in relationships with companies which come within the Directive’s scope.⁵¹ The latest threshold amendments reflect even stronger precautions being taken against the overburdening of SMEs.

2.3 The material scope

2.3.1 Definitions

To gain a comprehensive understanding of the boundaries and contents of the proposed Directive’s material scope, it is necessary, first, to consider Art. 3 CSDDD on “definitions”. These selected definitions provide additional context for the due diligence obligation outlined below.

In Art. 3, the proposed Directive defines “adverse environmental impact” and “adverse human rights impact”, as meaning violations of the international environmental

⁴⁴Art. 2(1)(a) CSDDD adopted text.

⁴⁵Art. 2(2)(a) CSDDD adopted text.

⁴⁶Art.2(1)(b) and 2(2)(b) CSDDD adopted text.

⁴⁷Art. 2(5) CSDDD adopted text. This clause was introduced in the Council’s mandate.

⁴⁸See Recitals 28 and 29 and Art. 2(1)(c) and 2(2)(c) CSDDD adopted text.

⁴⁹McGowan [28].

⁵⁰According to the European Commission’s estimations. See: CSDDD European Commission proposal, Explanatory Memorandum, p. 14. See also: Verbruggen [42], p. 41.

⁵¹CSDDD European Commission proposal, Explanatory Memorandum, p. 14.

and human rights law treaties and conventions listed in the Annex to the Directive.⁵² In the adopted text, the definition of adverse human right impact includes non-listed human rights abuses, provided that they meet three criteria: the human right is capable of being abused by a company or legal entity; the right relates to a legal interest protected by one of the instruments in Part I Sect. 2 of the Annex; and the company could have reasonably foreseen the risk of such an impact.⁵³ Art. 3(1)(l) provides parameters to delineate “severe adverse impacts”. These include the nature of the object of the damage and its nature, (in terms of *inter alia* scale, scope and irreversibility).⁵⁴ Recital 32 highlights some of the international instruments now included in the Annex to the adopted text, including the 1998 ILO Declaration on Fundamental Principles and Rights at Work.

Art. 3(1)(f)(i) defines a company’s “direct business partner” as an entity with whom it has “a commercial agreement related to the operations, products or services of the company or to whom the company provides services”; Art. 3(1)(f)(ii) defines “indirect business partner” as an entity whose business operation relates to the company’s own operations, products or services.

Art. 3(1)(g) defines a company’s “chain of activities” as including a company’s upstream business partners involved in the production of goods and services, and downstream business partners involved in the “distribution, transport and storage” of products. One of the last-minute changes was to exclude “disposal” from the downstream chain of activities.

Recital 26 clearly states that the definition of a chain of activities does not include downstream business partners having anything to do with a company’s “services”. Thus this definition excludes the downstream business partners of financial undertakings. This exclusion, often called the “financial sector exemption” or “Blackrock exemption” had been one of the central points of contention in the trilogues.⁵⁵ The adopted text’s definition corresponds to the Council mandate version of the text.

Art. 3(1)(o) defines “appropriate measures” as measures by which a company can “effectively” address adverse human rights and environmental impacts. The “appropriateness” of the measures in this sense should be based on the likelihood and severity of harm and the circumstances of each case.

2.3.2 The sustainability due diligence obligation

Art. 5 CSDDD of the adopted text outlines the content of the sustainability due diligence obligation, providing a summary overview of the contents of Articles 7 to 16 CSDDD.

⁵²Art. 3(1)(b) and (c) CSDDD adopted text.

⁵³Art. 3(1)(c)(i) and (ii) CSDDD adopted text.

⁵⁴See also Article 3(1)(v) CSDDD adopted text.

⁵⁵ReclaimFinance [35], WWF [44], ClientEarth [7].

Article 5
Due diligence

1. Member States shall ensure that companies conduct *risk-based* human rights and environmental due diligence as laid down in Articles 7 to 16 ('due diligence') by carrying out the following actions:
 - (a) integrating due diligence into their policies *and risk management systems* in accordance with Article 7;
 - (b) identifying *and assessing* actual or potential adverse impacts in accordance with Article 8 *and, where necessary, prioritising potential and actual adverse impacts in accordance with Article 9;*
 - (c) preventing and mitigating potential adverse impacts, and bringing actual adverse impacts to an end and minimising their extent in accordance with Articles 10 and 11;
 - (d) *providing remediation to actual adverse impacts in accordance with Article 12;*
 - (e) *carrying out meaningful engagement with stakeholders in accordance with Article 13;*
 - (f) establishing and maintaining a *notification mechanism and* complaints procedure in accordance with Article 14;
 - (g) monitoring the effectiveness of their due diligence policy and measures in accordance with Article 15;
 - (h) publicly communicating on due diligence in accordance with Article 16.

[...]

emphasis added

As can be seen, in the adopted text, the wording of the article emphasises the “risk-based” nature of the sustainability due diligence obligation, in stronger alignment with the international soft law framework for human rights due diligence.⁵⁶ Furthermore, from the actions listed in the Article, it is immediately apparent that the adopted text provides for a more comprehensive and developed material scope. (The text in italics in the above citation highlights the new inclusions). The additions originate primarily from the European Parliament’s mandate. They include wording on risk management, a provision on the prioritisation of harms and risks, a provision on remediation and a stronger approach to stakeholder engagement.

Art. 5 paragraph 3 CSDDD also includes text derived from the Council’s mandate, ensuring that the disclosure of information in fulfilment of the proposed Directive’s obligations shall not require the divulgement of trade secrets or otherwise sensitive information.

The adopted text foresees a new provision, Art. 6 CSDDD, dedicated to “due diligence support at group level”.⁵⁷ Overall, when compared to the Commission’s

⁵⁶The risk-based approach is especially championed by the UNGPs. The European Commission text had been criticised for lacking alignment with the Principles and the international soft law framework at large in this respect. See *e.g.*, Holly and Andreasen Lysgaard [23], p. 11–12.

⁵⁷The text of the article is primarily taken from the Parliament’s mandate. However, the Council’s mandate had a very similar provision as well.

proposal, the adopted text pays more attention to the dimension of company groups and the coordination between parent companies and subsidiaries.

Art. 7 CSDDD sets out the obligation to integrate sustainability due diligence in a company's policy and risk management system. Other than the novel wording on risk management, the article presents comparatively more in-depth indications as to how a company should approach the implementation of its due diligence policy. In Art. 7(2) CSDDD, explicit reference is made to employee consultation in the development of said policy. Further, the policy is required to include a delineation of a long-term sustainability due diligence approach, the adoption of a code of conduct and the description of a detailed implementation plan.

The core of the due diligence obligation is found in Articles 8, 10 and 11 CSDDD. Art. 8 establishes the duty to identify and assess actual and potential adverse impacts. The obligation extends to a company's own activities, those of its subsidiaries and those of the business partners in its chain of activities. To fulfil the obligation, companies are required to adopt "appropriate measures" as defined above. The adopted text specifies that the said measures should aim at mapping a company's business and supply chain and carry out an in-depth risk assessment based on the mapping.⁵⁸ The adopted text builds on this point with a complementary article (Art. 9 CSDDD) on the prioritisation of actual and potential adverse impacts. Accordingly, when it is not feasible for a company to assess all sustainability risks and harms connected to their business and supply chain's operations, such risks and harms should be prioritised according to their severity and likelihood.⁵⁹

Art. 10 and 11 CSDDD are similar in their formulation. They relate to the prevention and cessation of adverse impacts, respectively. In the prevention of potential adverse impacts and the cessation of ongoing adverse impacts, companies should take appropriate measures as defined above. These measures should be informed by an assessment of (a) whether the harm may be/was caused only by the company, only by a subsidiary or business partners, or a mixture of both; (b) in whose operations may the harm occur/has the harm occurred (as in the company's, the subsidiary's, or the business partner's); and (c) the ability of the company to influence the business partner's behaviour,⁶⁰ in cases in which the partner may cause/is causing an adverse impact.⁶¹ Both articles provide a non-exhaustive list of appropriate measures.⁶² *Inter alia*, these include references to stakeholder engagement, contractual assurances,⁶³ and capacity building. Both articles also elaborate on how to carry out appropriate measures when interacting with small and medium-sized enterprises.⁶⁴ Finally, both in the case of potential and actual ongoing adverse impacts, companies are required

⁵⁸Art. 8(2)(a) and (b) CSDDD adopted text.

⁵⁹Art. 9(2) CSDDD adopted text.

⁶⁰Including both direct and indirect business partners as defined in Article 3(1)(f) CSDDD adopted text.

⁶¹Art. 10(1) and 11(1) CSDDD adopted text. These formulations originate from the Council's mandate.

⁶²Art. 10(2) and 11(3) CSDDD adopted text.

⁶³A model clause to aid companies in the drafting of contractual assurances will be prepared by the Commission in consultation with Member States and stakeholders, as per Article 18 CSDDD adopted text.

⁶⁴Art. 10(5) and 11(6) CSDDD adopted text.

to consider as a last resort the termination of the business relationship with relevant business partners.⁶⁵

Compared to the Commission's proposal, the adopted text presents two additional articles: Art. 12 and 13 CSDDD. Art. 12 prescribes that a company having singularly or jointly caused an actual adverse impact shall provide remediation to the victim. Where the company has not contributed to causing the said impact, it may engage in voluntary remediation and/or exercise any existing leverage over culpable business partners so as to enable the remediation process. Art. 13 emphasises the importance of carrying out meaningful stakeholder engagement when taking appropriate measures.⁶⁶ The added emphasis on remediation and stakeholder engagement reflects further alignment with the international soft law framework of human rights due diligence.⁶⁷

In the subsequent articles, the proposed Directive elaborates on the obligation to establish a mechanism for notifications and complaints (Art. 14 CSDDD), the obligation to monitor and routinely assess the adequacy of a company's due diligence policy (Art. 15 CSDDD) and the obligation to report on the fulfilment of the proposed Directive's requirements (Art. 16 CSDDD).

2.3.3 Combating climate change

Art. 22 CSDDD introduces obligations specifically directed to the fight against climate change. As mentioned in the text above, this aspect is now included in Art. 1 CSDDD as a core component of the subject matter of the proposed Directive. Art. 22 prescribes that companies shall "adopt and put into effect" a climate change transition plan. The wording expressly refers to this duty as a "best efforts" obligation. Further, the article refers to the Paris Agreement's 1.5° C target and the European Union's climate neutrality commitment. Compared to the Commission's proposed text, the adopted text provides more in-depth guidance regarding what the climate transition plan should look like.⁶⁸

The adopted text also does not contemplate any reference to requiring companies to align climate transition targets to variable executive remuneration, or the use of financial incentives to the same effect.⁶⁹ These aspects were present in the earlier versions of the text but had always been highly controversial and subject to push-back.⁷⁰

⁶⁵Art. 10(6) and 11(7) CSDDD adopted text.

⁶⁶The article goes into further depth regarding how the engagement should be approached.

⁶⁷See, for example, Principle 22 of the UNGPs on remediation, and the frequent mentions of "stakeholder engagement" throughout the text of the Principles.

⁶⁸Art. 22(1)(a)–(d) CSDDD adopted text.

⁶⁹The provision was originally included in Art. 15(3) of the European Commission's proposal. This exclusion is not unexpected, as the clause had been strongly opposed in the trilogues. For more on sustainable executive remuneration and the CSDDD see: *Ciacchi et al.* [6], p. 23–24.

⁷⁰See *e.g.*, Lidman and Hansen [26].

2.4 Level of harmonisation

The adopted text includes a provision on the level of harmonisation. To this effect, Art. 4 CSDDD bars Member States from legislating on sustainability due diligence in a way that diverges from the Directive's due diligence provisions, except in the case of more stringent or more specific legislation.

The provision originates from the European Parliament's mandate and establishes the proposed CSDDD as a minimum harmonisation directive.

2.5 The enforcement system

The proposed Directive foresees a mixed public and private enforcement regime, involving public enforcement authorities as well as a civil liability provision.

2.5.1 Public enforcement

The appointment and powers of the supervisory authorities are fleshed out in Articles 24 and 25 CSDDD of the adopted text. Art. 26 establishes the possibility of individuals submitting "substantiated concerns" to the authorities, whilst Art. 27 instructs the Member States to institute effective, proportionate and dissuasive penalties for infringements of the national laws implementing the proposed Directive. In Art. 27 para. 4 CSDDD, the adopted text provides a list of factors for the determination of the appropriate level of penalties. It foresees that pecuniary penalties shall not exceed a maximum limit of 5% of the company's net worldwide turnover in the last financial year.

2.5.2 The civil liability regime

The civil liability provision is found in Art. 29 CSDDD. Art. 29 of the adopted text presents several key changes when compared to the European Commission's proposed text.⁷¹ First and foremost, the Article's title now emphasises "a right to full compensation". According to the article, a company can incur civil liability under the proposed Directive under the following conditions: (a) the company negligently or intentionally failed to meet the obligations of Art. 10 and 11 CSDDD, "when the right, prohibition or obligation listed in the Annex to this Directive is aimed at protecting the natural or legal person", and (b) as a result of said failure "a damage to the natural or legal person's legal interest protected under national law was caused".⁷²

The specifications "aimed to protect the natural or legal person" and "damage to the natural or legal person's interest protected under national law" were added to the original text by the Council's mandate. Another notable addition from the Council's text is that a company "cannot be held liable if the damage was caused only by its

⁷¹For cross-referencing, in the European Commission's version, as well as the Council's and Parliament's mandates, the civil liability provision corresponds to Article 22.

⁷²See Art. 29(1)(a) and (b) CSDDD adopted text.

business partners in its chain of activities”.⁷³ This means a full exclusion of liability for damages caused solely by a company’s direct or indirect business partner. In comparison, the Commission’s proposed text foresaw a limitation of liability for damages caused by indirect business partners, whilst the Parliament’s mandate foresaw no limitations of any kind in this respect.⁷⁴ Thus, relative to the Commission’s and Parliament’s negotiating positions, the adopted text’s version of Art. 29(1) CSDDD establishes a decidedly restrictive civil liability regime.

Paragraph 2 further specifies that, although natural or legal persons having suffered damage under Paragraph 1 have the right to full compensation, this should not lead to “overcompensation”, for example by the application of punitive or multiple damages.

Art. 29(3) CSDDD of the adopted text includes procedural specifications. The paragraph, originating from the Parliament’s mandate, includes indications regarding the limitation period, injunctive measures and the legal standing of third parties. The paragraph also includes, *inter alia*, the following clause:

“(e) when a claim is brought, that a claimant presents a reasoned justification containing reasonably available facts and evidence sufficient to support the plausibility of its claim for damage and has indicated that additional evidence lies in the control of the company, courts are able to order that such evidence be disclosed by the company in accordance with national procedural law. [...]”

This addition addresses one of the strongest criticisms of the civil liability provision in the Commission’s proposed text, namely, the exceedingly high evidentiary burden on potential victims of human rights and environmental harm to prove their case in court under the proposed Directive.⁷⁵ Paragraph 3(e) does not constitute a reversal of the burden of proof. However, it foresees that, should the claimant build a strong enough case during the proceedings, the company (as the defendant) could be ordered to share the evidentiary burden. Specifically, the claimant must prove that the company is in control of additional evidence that is relevant to the case. In that case, the company can be ordered by the court to disclose material information.⁷⁶

A notable change resulting from the February and March 2024 renegotiations is the removal of the term “in their own capacity” from the paragraph on the legal standing of organisations and their ability to bring cases on behalf of victims. The amendment to Article 29(3)(d) CSDDD is the following:

“(d) Member States shall provide for the reasonable conditions under which any alleged injured party may authorise a trade union, non-governmental human rights or environmental organisation or other non-governmental organisation, and, according to national law, national human rights’ institutions, based in a Member State to bring actions to enforce the rights of the alleged injured party

⁷³Art. 29(1) CSDDD adopted text.

⁷⁴Art. 22(2) of the European Commission’s proposal.

⁷⁵For criticism of the Commission’s proposal approach to the burden of proof, see for example European Parliament Think Tank [18], Paces [31].

⁷⁶The paragraph does stress the importance of limiting the disclosure of information to what is strictly necessary and proportionate (to be determined on a case-by-case basis) and to protect the information which is disclosed. Article 29(3)(e) CSDDD adopted text.

~~in their own capacity~~, without prejudice to national rules of civil procedure. [...]”. [emphasis added].

The change seemingly serves the function of allowing Member States “more flexibility” in the implementation of the provision in their national legal system. This change was likely made to accommodate features of certain Member State’s legal systems.⁷⁷ It remains unclear what the *de facto* implications of this change will be in practice, if any.

2.6 The corporate governance provisions

The European Commission’s proposed text for the CSDDD included two provisions on corporate governance. These are Art. 25 of the proposed text, on the directors’ duty of care, and Art. 26 of the proposed text on “setting up and overseeing due diligence”. Art. 25 introduced a duty of care under which in-scope company directors shall “take into account [...] sustainability matters” when acting in the best interest of the company.⁷⁸ Read in conjunction, these articles would have provided a framework for personal liability for directors - meaning that, should the proposed Directive have established the above duty of care, directors could have been personally sued for failing to meet that duty.⁷⁹

These provisions were entirely deleted and do not appear in the adopted text. To those who had been observing the trilogues, this outcome was rather unsurprising, given the strong push for their exclusion which had come from the Council.

3 Retrospective on the trilogues and future forecasts

The text of the adopted text illuminates the give-and-take at the core of the interinstitutional negotiation process that constitutes the European Union’s ordinary legislative procedure. The final text shows “wins” and “losses” on all sides. However, a shared feeling in the business and human rights space is that the resulting Directive represents a drastically watered-down piece of legislation when compared to the starting ambitions of the European Commission in 2020.⁸⁰ This is especially the case following the last-minute amendments of March 2024.

The European Parliament was able to secure important points. First, they succeeded in increasing the proposed Directive’s alignment with the international framework of business and human rights, especially with regard to the “risk-based” nature of sustainability due diligence. Although this aspect was undermined by the aban-

⁷⁷Cerqua and Barge [3], p. 7–8.

⁷⁸Art. 25(1) European Commission proposal.

⁷⁹Depending on national corporate law, directors’ duties can be enforced by shareholders or other entities internal to the company – i.e. the supervisory board. For more on directors’ duties in the European Union see Gerner-Beuerle *et al.* [21].

⁸⁰See for example ClientEarth [7].

donment of the “high-risk sectors” approach in Article 2 CSDDD on the personal scope of the Directive, it still holds in the finalised formulations of the Directive’s material scope. Further, the Parliament was able to push for a more developed and comprehensive scope for the sustainability due diligence obligation itself and to secure a stronger emphasis on remediation and stakeholder engagement. Notably, the adopted text presents a small – but still important – improvement regarding the issue of the burden of proof, including language that might enable companies to be held accountable for the disclosure of material evidence in civil liability proceedings.

These achievements on the Parliament’s side did not come without “cost”. Indeed, the Council was successful in securing one of its most sought-after concessions, namely the exclusion of downstream segments of the chain of activities of companies in the financial sector. It is rather apparent that this exclusion, pointedly nicknamed the “Blackrock exemption”, was furthered by intense lobbying.⁸¹ Another point secured by the Council consisted of significant restrictions on the civil liability provision - most significantly the complete exclusion of liability for damages caused by a company’s supply chain partners, which, from a certain perspective, counteracts the underlying logic of having a supply-chain sustainability due diligence obligation. Finally, a glaring success in the Council’s negotiation strategy was the complete exclusion of any provision on corporate governance, including the article on director’s duties and the clause on executive remuneration.

For those hoping to see a strong regulatory stance on sustainable corporate practices taken by the European Union, the final version of the CSDDD leaves much to be desired. This is especially so after the renegotiations and redrafting surrounding the Coreper vote. Other than the severe reductions in scope, the strongest concerns arguably relate to the effectiveness of the enforcement system and the expected compliance response by companies. For one thing, there are material concerns that the obligation will degenerate into a box-ticking exercise. Another point relates to the provision on the climate change transition plan which, given its formulation as a “best efforts” obligation, is likely to have only a lukewarm impact. Finally, there are strong uncertainties regarding the potential extraterritorial effects of the proposed Directive, and what consequences these might have on international trade.

Despite its drawbacks, the implementation of the CSDDD, even in this form, still constitutes an important step forward in the development of the European Union’s legal framework for sustainability. The abandonment of the project would have been catastrophic not only for the momentum of sustainability due diligence policy in Europe and the world but for corporate sustainability policy in general. The absence of a harmonised sustainability due diligence framework would have led to a period of legal uncertainty, especially given the legislation in development at national level in several Member States. This would undoubtedly have created an uneven playing field in the single market and inflated compliance costs for transnational companies. The adoption of the CSDDD represents a silver lining in the prospects for future improvements and consolidation of the legal framework for sustainability due diligence over time.

⁸¹Cerqua [4], p. 65–66.

4 Concluding remarks

Different factors had to be balanced in the design, negotiation, adoption and, in the future implementation of the Corporate Sustainability Due Diligence Directive. These include normative goals, the regulatory burden, internal market concerns and the position of the European Union as a political and economic agent on the international stage. Considering the final version of the text, it will be interesting to observe how implementation and enforcement unfold at the level of the Member States.

The unprecedented nature of the politicking surrounding the Council vote shines a rather bleak light on the credibility and strength of the European institutions. However, these controversies also contributed to attracting closer scrutiny of European Union lawmaking and eliciting broad public support for the adoption of the Directive.

Ultimately, the story of the CSDDD tells a fascinating tale of normative development, institutional power plays and the influence of private interests on public affairs. As the sustainability due diligence dream is slowly but surely becoming reality, it is now time to see what the future holds.

Declarations

Competing Interests The author declares no competing interests.

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