

The European Commission falls short of delivering an ambitious and forward-looking due diligence proposal

The European Commission published today the long-awaited Directive on Corporate Sustainability Due Diligence (CSDD). While being strongly anticipated from various sides, the proposal falls short of the expectations of sustainable businesses, civil society actors and affected communities. As stated in the proposal, around 99 % of all companies in the Union, are excluded from the due diligence obligations.

Brussels, 24 February 2022 - The European Commission's new proposal is an important step to reduce harm done to people, society and the planet by companies in global supply chains. However, to ensure that companies are prevented from causing environmental damages and human rights violations, the European Parliament and Member States should broaden significantly the scope, strengthen directors' duties and ensure meaningful engagement with stakeholders, claims the Economy for the Common Good (ECG).

Whilst ECG welcomes the publication of the legislative proposal that will finally introduce EU wide due diligence obligations and prompt companies to act in a more sustainable manner, it misses the forward-looking component. Since the Commission has set in its [Sustainable Finance Action Plan](#) that it aims to attenuate short-termism in capital markets (Action 10), expectations were high that the eagerly awaited proposal could be a real game-changer in this regard. However, the new proposal falls short of the expectations and, if unamended, will not lead to the significant change that society needs.

Broadening the scope of sustainability reporting to include all large companies and small and medium companies (SMEs)

The new proposal does not cover small and medium companies and only very large companies and large companies operating partly in high-impact sectors. With this proposal, the Commission has left out 99% of the EU companies, not considering the fact that size is not always representative of companies' harm. As even small companies might bear human rights and environmental risks throughout their value chains, at ECG we urge the co-legislators to improve the Commission's proposal and to expand the personal scope of the Directive significantly.

Strengthening directors' duties

Although it had initially promised, the European Commission did not deliver on the directors' duties part by excluding many of the expected elements. In this context, ECG sees the need for broadening and strengthening the directors' obligations since due diligence obligations alone are not enough for creating sustainable business conduct. Thus, a robust corporate governance framework is needed to underpin an effective implementation of due diligence. While ECG welcomes the inclusion of the obligation to present plans in line with the Paris Agreement, this requirement should be extended to all companies covered by the CSRD proposal and not solely the largest ones. Furthermore, ECG calls on the EU lawmakers to introduce clear and science-based sustainability targets and to align incentives for actions with such targets. These

expectations are not solely coming from the civil society sector, but also CEOs and investors have been strongly calling for such inclusions.

Meaningful engagement with stakeholders

The Economy for the Common Good is a value-based framework which has as its foundations a set of values such as human dignity, solidarity and social justice, environmental sustainability and democracy. In this light, ECG has set co-determination as one of the guiding values of its reporting framework and therefore, believes that a meaningful engagement with stakeholders and affected communities is key to shaping a companies' due diligence strategy. Thus, the Corporate Sustainability Due Diligence Directive shall duly ensure a continuous and equal dialogue with a wide range of stakeholders.

The ECG movement calls on EU policy-makers in the European Parliament and on Member State representatives to amend the Commission's proposal and to (1) extend the scope to all large companies and to SMEs operating in high-risk sectors, (2) strengthen directors' obligations, and (3) ensure a meaningful engagement with stakeholders.

Find good data about companies who are currently subject to the Non-Financial Reporting Directive (NFRD) and how they were reporting on their intentions and subsequent actions:
allianceforcorporatetransparency.org/

About the Economy for the Common Good

The Economy for the Common Good (ECG) is a social movement advocating for a future-fit economic model which is beneficial to all stakeholders of an organization: employees, suppliers, customers, business partners, the local community and society at large, as well as the Planet and future generations. It is a model which puts the Common Good, meaning the well-being of the people and the respect for all life, as its primary goal and purpose. The ECG movement is constantly growing and gaining supporters across EU Member States.

Further Information: ecogood.org

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