



Ca' Foscari
University
of Venice

Master's Degree programme

in

Global Development and Entrepreneurship

Final Thesis

**The Role of the EU Due Diligence Directive in
Advancing Corporate Sustainability and
Labour Rights**

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Matriculation Number 878688

Academic Year

2024 / 2025

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Introduction

The actions of companies profoundly affect the lives of citizens both in the EU and across the globe. Their influence extends beyond the products and services they provide or the jobs and opportunities they create; it also encompasses working conditions, human rights, health, the environment, as well as innovation, education, and training.

Since these are all major impacts, it is right that European citizens should expect companies to understand and appreciate their various ultimate as well mutually beneficial effects on society and the natural world. This awareness of what they are doing should drive companies to prevent, manage and mitigate any bad consequences, especially along their global supply chains. This commitment is often called corporate social responsibility (CSR) or responsible business conduct (RBC). Consequently, in recent years, the concept of sustainability has assumed an important place in both legal and economic discussions, rising from a voluntary aspect of corporate moral obligation to one with binding force. Within this framework, the European Union has helped guide a change from less ethical models of production to more ecologically sound ones. This shift in direction culminated with the publication of the Corporate Sustainability Due Diligence Directive on June 13, 2024, that represents a major change in the perspective on due diligence. Once regarded as a voluntary component of corporate social responsibility, what is now legally required based on workforce and income for all major corporations, both within Europe and beyond. The directive marks a major progress that forces businesses to find, stop, minimise, and document negative effects on the environment and human rights. This development requires a redefining of corporate responsibilities and a reconfiguration of corporate governance, so affecting significant regulatory and operational consequences. Moreover, the due diligence process outlined in the CSDDD should be developed in the six key steps defined by the OECD Due Diligence Guidance for Responsible Business Conduct. These steps include integrating due diligence into policies and management systems, identifying and assessing both actual and potential adverse human rights and environmental impacts, preventing, ceasing, or minimizing these impacts, evaluating the effectiveness of the measures taken, communicating with stakeholders, and providing remediation where necessary.

This framework is designed to ensure that large corporations take responsibility for the negative impacts their economic activities may have on human rights and the environment, extending this accountability throughout their entire global value chain as

it establishes the principle of civil liability, holding companies accountable for any breaches of clearly defined conduct obligations.

The regulations will also cover companies with non-EU businesses, parent companies, EU franchising or licensing agreements, provided they have a global turnover more than 80 million euros, of which at least 22.5 million euros must come from royalties, and uphold a common corporate identity. These businesses will have to include due diligence into their policies, make required investments, seek contractual guarantees from their partners, improve their business strategies, or assist small and medium-sized business partners to guarantee adherence to the new responsibilities. Companies also have to create a transition strategy that fits their activities with the aim of keeping world temperature under 1.5°C. Member states will be obliged to provide businesses thorough, easily available online resources covering their due diligence obligations through useful portals including Commission guidance. They will also create or assign a supervisory authority in charge of tracking compliance and punishing businesses that fall short of the needed criteria.

Penalties might include public "naming and shaming" as well as fines ranging up to 5% of a company's net worldwide income. The Commission will establish the European Network of Supervisory Authorities to help cooperation and the dissemination of best practices. Companies discovered in breach of their due diligence responsibilities will be liable for damages and will have to fully reimburse the impacted victims.

In order to place the Corporate Sustainability Due Diligence Directive within the broader framework of international regulations, this thesis will critically and thoroughly analyse its articles, evaluating their substantial scope, enforcement difficulties, and future prospects.

European and international legislative sources, official records, academic research, and materials from international organisations will all be consulted in order to provide a thorough evaluation of the directive's effects and potential efficacy in promoting true corporate sustainability.

In particular, the thesis is structured into three chapters.

The first chapter of this thesis looks at the background, objectives, and legislative environment related to the Corporate Sustainability Due Diligence Directive (CSDDD), a major legislative action passed by the European Union in June 2024. This rule marks a significant development in corporate governance, moving from voluntary corporate social responsibility (CSR) to legally binding obligations for big companies functioning either

inside or in relation to the EU market. This chapter delineates the historical evolution of CSR, tracing its conceptual origins in mid-20th-century academic discourse to its institutionalization through international frameworks such as the UN Global Compact, the OECD Guidelines for Multinational Enterprises, and the UN Guiding Principles on Business and Human Rights. It underscores how these voluntary initiatives established the foundation for more stringent regulatory actions in response to persistent issues within global supply chains, including environmental degradation, child labor, and human rights violations.

Furthermore, the directive reflects other existing EU legislation – such as the Directive 2014/95/EU on the disclosure of non-financial and diversity information and the recently adopted Corporate Sustainability Reporting Directive (CSRD) – aimed at increasing company transparency in relation to environmental, social, and governance (ESG) issues. With legally binding due diligence obligations, the CSDDD goes beyond that framework and requires businesses to identify, prevent, mitigate, and account for negative effects on human rights and the environment across their value chains and operations. The chapter also examines the directive's relationship to parallel EU laws like the Deforestation Regulation and the Forced Labour Regulation, as well as how well it aligns with comparable national initiatives in France, Germany, and the Netherlands.

The second chapter investigates the enforcement mechanisms and operational requirements stipulated by the directive. It delineates the practical measures companies must undertake to fulfill their due diligence obligations, which encompass the integration of sustainability policies into corporate governance structures, the regular assessment and prioritization of risks, and the implementation of both preventive and corrective measures. Companies are mandated to conduct ongoing risk assessments utilizing both qualitative and quantitative data, accounting for their own operations as well as those of subsidiaries, suppliers, and other business partners.

A central focus of the second chapter is the directive's emphasis on transparency and reporting. Commencing in 2029, companies will be required to publish an Annual Due Diligence Statement detailing their due diligence processes, identified risks, stakeholder consultations, and remediation efforts. These statements must also be submitted to the European Single Access Point (ESAP), a centralized digital platform designed to enhance public access to corporate sustainability information. Moreover, the directive mandates that companies develop climate transition plans in accordance with the EU's commitments under the Paris Agreement, incorporating measurable targets and periodic

updates into corporate performance evaluations.

This chapter also looks at the enforcement and accountability for non-compliance. The Member States need to establish independent authorities so called supervisory bodies and having powers to investigate breaches, order remedies and levy administrative fines, and which may be up to 5% on global annual turnover. The directive also sets out ways for civil liability, thus potential victims can seek compensation and bring their cases to national courts. Importantly, the directive endorses a participatory enforcement model, wherein workers, communities, non-governmental organizations (NGOs), and other stakeholders actively engage in the identification and reporting of corporate misconduct. The third chapter examines the recently announced "Omnibus" package from the European Commission and its broader implications for sustainability regulation in the EU, with a focus on the Corporate Sustainability Due Diligence Directive (CSDDD). The Omnibus package, formally unveiled on February 26, 2025, represents a legislative endeavour aimed at advancing the EU's sustainability goals and enhancing its competitiveness globally. With an emphasis on simplifying compliance and lowering administrative burdens for companies, it proposes significant modifications to important regulatory instruments, especially the Corporate Sustainability Reporting Directive (CSRD) and the CSDDD.

This chapter provides a comprehensive analysis of the revised CSDDD, emphasising its scope, corporate obligations, and enforcement strategies. The directive's impact on workers' rights and businesses' accountability across their supply chains are given special attention. The chapter also discusses significant responses from a range of groups, including non-profits, labour unions, and business associations, highlighting how contentious the reforms were.

The analysis also examines the directive's effects on workers' rights and the involvement of trade unions, highlighting the importance of integrating labor rights into corporate governance frameworks and due diligence practices. In this process, it assesses both the advantages and the disadvantages that the CSDDD offers for trade union representation and collective bargaining.

In order to ground the discussion in practical examples, this chapter presents cases involving multinational firms such as Nestlé and Inditex, which have been criticized for failing to uphold labor rights and are currently subject to the Corporate Sustainability Due Diligence Directive.

Nestlé is a major player in both the cocoa and coffee trade, and it faced major accusations,

particularly about child labour in West Africa's cocoa suppliers. Reports—including one by the Fair Labour Association in 2012—have found significant code of conduct violations by Nestlé. Given research showing millions of children engage in hazardous work, these issues are firmly ingrained in the cocoa sector.

Inditex is one of the most successful companies operating in the fast fashion sector.

It has, however, been accused of violating human rights, especially in connection with the purported use of Uyghur forced labour in its supply chain. Inditex has been linked in reports to Chinese yarn and textile producers engaged in these practices.

Both Nestlé and Inditex, given their scale and the characteristics of their worldwide activities, are subject to the provisions of the CSDDD. This directive seeks to ensure that companies are responsible for recognizing, preventing, and reducing negative effects on human rights and the environment across their entire value chains. The chapter ends by highlighting major weaknesses of the CSDDD, such as legal ambiguities, inconsistencies in national execution, the omission of small and medium-sized enterprises (SMEs), and challenges to successful enforcement.

Chapter I The Due Diligence Directive

1.1 Regulatory and Policy Context

1.1.1 Historical Background and Evolution of Due Diligence Regulations

The European directive on Corporate Sustainability Due Diligence, published on June 13, 2024, represents a key milestone in the concept of social responsibility of firms. What used to be a voluntary exercise, conducted under the auspices of corporate social responsibility (CSR) is now legally required to all major firms functioning in the EU, regardless of their country of domicile, as long as they satisfy specific criteria for workforce size and revenue, implying that large companies from outside the EU must also adhere to its provisions.

The directive is built upon the variety of initiatives and frameworks that were enacted during the past years and were based on the principle of corporate social responsibility. CSR is a reflection of the expanding idea that companies are responsible for the effects they have on society. "A concept whereby companies integrate social and environmental concerns into their business operations and their interactions with stakeholders on a voluntary basis," is how the European Union defines corporate social responsibility. The EU promotes CSR through international standards and principles, while its core activities are about awareness raising, education, training and research to integrate CSR aspects into corporate governance¹.

While discussions on corporate responsibility began in the 1930s, it was formally defined in the 1950s. For instance, in 1953, Howard Bowen suggested that business executives should make decisions that are consistent with social values, marking the initial academic endeavor to define corporate social responsibility².

Lately, public expectations regarding business behavior began to rise in 1970s, largely driven by the increasing social movements that supported worker rights and environmental sustainability.

The implementation of corporate social responsibility started to gain recognition in the 1980s, with scholars such as Jones (1980)³ conceptualizing it as a decision-making process.

¹ Carroll, A. B. (1999). Corporate Social Responsibility: Evolution of a Definitional Construct. *Business & Society*, 38(3), 268-295.

² Bowen, Howard R. (2013). *Social Responsibilities of the Businessman*. University of Iowa Press.

³ Jones, T. M. (1980). Corporate Social Responsibility Revisited, Redefined. *California Management Review*, 22(3), 59-67.

In 2011, the European Commission formalized its CSR policy and aligned it with international standards to harmonize European and global viewpoints on corporate responsibility. This approach combined comprehensive, cross-sectoral methods with targeted initiatives for particular industries and policy areas.

In March 2019, the European Commission published a staff-working document that examined the application of CSR and Responsible Business Conduct (RBC) principles in order to evaluate its progress⁴.

The Responsible Business Conduct (RBC) was first proposed by the OECD in partnership with companies, trade unions, and non-governmental organizations. The OECD describes RBC as "making a positive contribution to economic, environmental, and social progress while preventing and addressing adverse impacts related to an enterprise's direct and indirect operations⁵." Following OECD recommendations helps the European Commission to support States' initiatives towards RBC coherence.

Although they are related words, corporate social responsibility and responsible business behaviour have different goals and scope as the European Commission explains.

Corporate social responsibility is the voluntary endeavour of a business to respect stakeholders, the environment, and society outside of its legal and regulatory obligations. It covers initiatives for employee well-being, ethical labour practices, environmental sustainability, and charitable endeavours. further self-regulated and carried out to improve brand reputation and stakeholder confidence.

By going beyond merely voluntary behaviour, responsible business conduct reinforces its dedication to moral business practices. Integrating sustainable practices and moral decision-making into its daily operations is highly valued. This tactic aims to prevent harm and promote accountability. Key components of RBC's framework include:

- Adherence to laws and regulations concerning human rights, labor rights, and anti-corruption.
- Conducting thorough due diligence to identify, prevent, and mitigate negative impacts on society and the environment.

⁴ European Commission (2019). Corporate Social Responsibility, Responsible Business Conduct, and Business and Human Rights: Overview of Progress (SWD(2019) 143). Brussels: European Commission

⁵ OECD (n.d.), Responsible Business: Key Messages from International Instruments. Available at: <https://mneguidelines.oecd.org/Brochure-responsible-business-key-messages-from-international-instruments.pdf>

- Engaging with stakeholders to ensure transparency and accountability⁶.

By aligning its practices with international standards such as the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, RBC adopts a more structured and risk-oriented approach, distinguishing it from traditional corporate social responsibility (CSR) efforts⁷.

The Corporate Social Responsibility (CSR) was greatly strengthened in 2015 by the adoption of a number of historic global sustainability initiatives. These initiatives produced groundworks that helped businesses in integrating sustainability, ethical governance, and openness into their business strategies. Among the most important were the United Nations Sustainable Development Goals (SDGs) of the Agenda 2030, the Paris Agreement, and the European Union (EU) Directive 2014/95/EU on non-financial reporting. When taken as a whole, these initiatives raised the bar for companies looking to contribute significantly to global sustainability initiatives. At the 21st Conference of the Parties (COP21) under the United Nations Framework Convention on Climate Change (UNFCCC)⁸, the Paris Agreement⁹ was reached, marking a historic commitment to global climate action. This legally binding agreement aimed to limit increases in global temperatures well below 2°C over pre-industrial levels, with an aspirational target of 1.5°C. It emphasized how crucial it is for businesses to use renewable energy, reduce their carbon footprints, and implement sustainable business practices. Businesses were therefore encouraged to set science-based targets for cutting emissions, make investments in eco-friendly technology and sustainable supply chains, and increase regulatory and stakeholder pressure for climate-related disclosures and sustainability reporting.

The United Nations adopted the 2030 Agenda in September 2015, which included the 17 Sustainable Development Goals (SDGs)¹⁰ as a path for achieving a more sustainable

⁶ [https://single-market-economy.ec.europa.eu/industry/sustainability/corporate-sustainability-and-responsibility_en#:~:text=For%20this%20reason%2C%20EU%20citizens,%20143\)%20in%20March%202019.](https://single-market-economy.ec.europa.eu/industry/sustainability/corporate-sustainability-and-responsibility_en#:~:text=For%20this%20reason%2C%20EU%20citizens,%20143)%20in%20March%202019.)

⁷ OECD (2024), Review of G7 Government-led Voluntary and Mandatory Due Diligence Measures for Sustainable Agri-food Supply Chains, OECD Publishing, Paris, <https://doi.org/10.1787/f05af4a1-en>.

⁸ Asadnabizadeh, M. (2019) Development of UN Framework Convention on Climate Change Negotiations under COP25: Article 6 of the Paris Agreement perspective. *Open Political Science*, Vol. 2 (Issue 1), pp. 113-119. <https://doi.org/10.1515/openps-2019-0012>

⁹ United Nations. (2015). *Paris Agreement*. Adopted on December 12, 2015. Retrieved from <https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement>

¹⁰ United Nations. (2015). *2030 Agenda for Sustainable Development*, adopted September 2015. Retrieved from <https://sdgs.un.org/2030agenda>

world. These goals regard many different issues, mainly divided in the three pillars of sustainability: environmental, economic and social sustainability. Along with making investments in moral business practices such as sustainable resource management, fair labor practices, and gender equality, this framework encouraged businesses to integrate sustainability into their core strategies and establish consistent reporting protocols for assessing their contributions to global sustainability goals.

In 2015, the European Union enacted Directive 2014/95/EU¹¹, requiring big businesses with more than 500 workers to report non-financial data about environmental, social, and governance (ESG) considerations. A major turning point in the development of corporate social responsibility practices across Europe was marked by this regulatory development. The directive held companies responsible for their social and environmental effects by mandating transparency in crucial areas like environmental impact, anti-corruption efforts, and human rights policies.

The introduction of this requirement not only compelled organizations to assess their operations from a broader and more ethical perspective but also motivated them to actively adopt sustainable practices that align with established global standards of responsibility. For example, enterprises were now required to delineate how their operations affect the environment, how they managed potential corruption-related risks, and how they ensured the safeguarding of human rights both internally and within their supply chains.

In particular, corporate governance was significantly impacted by the directive's emphasis on accountability and transparency. Consumers, workers, and governmental organisations were among the stakeholders who developed greater trust as a result of learning more about how businesses were handling important ESG issues¹². This augmented transparency favored the reputation of companies and aligned their operations with the escalating demand for responsible business practices in a progressively conscientious global marketplace.

The mandate for thorough ESG reporting not only benefited stakeholders but also caused a change in investor behaviour. After realising the long-term benefits of sustainable

¹¹ European Union. (2014). Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups. Official Journal of the European Union

¹² Kotsantonis, S., & Serafeim, G. (2019). *Four things no one will tell you about ESG data*. Journal of Applied Corporate Finance, 31(2), 50-58.

practices, financial analysts and institutional investors started giving ESG factors more weight when making investment decisions. As a result, companies with strong ESG performance were seen as more innovative and stable, drawing in investors who valued sustainability alongside profitability. The need for businesses to incorporate ESG considerations into their core business plans was further highlighted by this shift towards responsible investing¹³.

Consequently, the rise of global climate commitments, the establishment of sustainability benchmarks, and the necessity for non-financial reporting all highlight the expanding role of corporate social responsibility as an essential element of modern business strategy.

An important achievement in corporate governance is the shift from Corporate Social Responsibility to the Due Diligence Directive for companies¹⁴. At first, corporate social responsibility was primarily concerned with voluntary business policies that aspired to operate ethically and have a positive impact on society.¹⁵

This environment was altered, nevertheless, by the advent of significant international frameworks, such as the United Nations Guiding Principles on Affairs and Human Rights, which increased demand for more stringent regulations¹⁶.

Moreover, in this changing context, enterprises are compelled to modify their production models but also to fundamentally reevaluate the normative foundations of their social legitimacy. Such a transformation highlights the profound cultural and regulatory imperatives associated with sustainability, thereby establishing corporate responsibility as a central component of contemporary economic governance rather than a marginal issue.

This shift is embodied in the Corporate Sustainability Due Diligence Directive, which requires businesses to apply accountability, increase supply chain transparency, and incorporate sustainability issues into their core operations.

¹³ Friede, G., Busch, T., & Bassen, A. (2015). *ESG and financial performance: Aggregated evidence from more than 2000 empirical studies*. *Journal of Sustainable Finance & Investment*, 5(4), 210-233

¹⁴ European Parliament. (2020). *Corporate social responsibility (CSR) and its implementation into EU company law: Study requested by the JURI Committee* (Policy Department for Citizens' Rights and Constitutional Affairs, Directorate-General for Internal Policies, PE 658.541). European Parliament. <https://www.europarl.europa.eu/supporting-analyses>
[https://www.europarl.europa.eu/RegData/etudes/STUD/2020/658541/IPOL_STU\(2020\)658541_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2020/658541/IPOL_STU(2020)658541_EN.pdf)

¹⁵ Cochran, Philip. (2007). *The evolution of Corporate Social Responsibility*. *Business Horizons*.

¹⁶ Heal, G. (2005) *Corporate Social Responsibility: An Economic and Financial Framework*. The Geneva Papers on Risk and Insurance Issues and Practice

This order, which reflects a growing understanding of the company's duty in the next generation of global crises, thereby represents a paradigm shift from voluntary CSR initiatives to legally binding requirements.

This regulatory shift reflects a broader redefinition of the company's role in contemporary society. As Borzaga, Brino, and Faleri (2023) observe, “we will therefore address these critical issues in order to assess whether it is feasible to envision a model of enterprise that goes beyond profit goals and shareholder interests, embracing instead a value-based and inclusive framework that also takes into account the positions of all those, including workers, who interact with it” (p. 434).¹⁷

As a result of this evolving scenario, policy initiatives have become essential instruments for influencing business conduct in the direction of sustainability. More and more governments and international organizations are enacting laws requiring businesses to disclose their environmental effects, follow sustainability guidelines, and take part in the supply chain for materials.

1.1.2 The European Union's Approach to Corporate Due Diligence

The European Union has made great efforts to include social and environmental concerns into its legislative framework in response to the growing popularity of corporate social responsibility. The Corporate Sustainability Reporting Directive¹⁸ (CSRD) requires businesses to reveal comprehensive details on their environmental, social, and governance (ESG) policies¹⁹. In particular, it represents a substantial advancement in fostering transparency and accountability in corporate sustainability practices.

Building upon the principles established by the previous EU Directive 2014/95/EU²⁰, the CSRD mandates that companies disclose comprehensive information regarding their environmental, social, and governance (ESG) policies. This increased need not only

¹⁷ Borzaga, M., Brino, V., & Faleri, C. (2023). Governance societaria sostenibile. *Presentazione. Lavoro e diritto*, 37(3). <https://doi.org/10.1441/108232>

¹⁸ Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting

¹⁹ World Economic Forum. *Environmental, Social, and Governance (ESG) Metrics: A Guide for Companies and Investors*. World Economic Forum, 2020. <https://www.weforum.org/reports/esg-metrics-guide>.

²⁰ European Parliament & Council. (2014). *Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups*. Official Journal of the European Union, L 330, 1–9

broadens the scope of sustainability reporting but also greatly increases the depth of detail companies must provide, so guaranteeing that stakeholders have a clear knowledge of how businesses handle these important issues.

Moreover, the CSRD marks a cultural change in the corporate sector by supporting sustainability not only as a separate, compliance-oriented tool but also as a fundamental component of top-level corporate decision-making. Recognizing the need of businesses to match their operations with more general societal goals, corporate boardrooms are driven more and more to see ESG elements as fundamental to long-term business success. This change motivates companies to use proactive approaches meant to reduce risks and produce favourable social and environmental results instead of only following legal requirements.

Consequently, the CSRD helps to enable a basic change in corporate interaction with ethical standards. The guidance calls for a change from reactive reporting to proactive, strategic involvement with sustainability, so arming businesses not only to meet regulatory expectations but also to grab chances for innovation in fields including renewable energy, circular economy models, and inclusive governance practices. This shift captures the growing agreement that long-term value creation depends on corporate sustainability, so benefiting companies as well as society at large.

The Non-Financial Reporting Directive²¹ (NFRD), which required sustainability disclosures from big businesses, was adopted in 2014, setting the groundwork for these initiatives. By placing emphasis on transparency, the EU hoped to induce a business climate in which companies could be held responsible for their non-financial performance, even steps improving stakeholder trust and promoting ethical business conduct. Although this period was one of gradual legislation and soft law initiatives, the gradual shift in the regulatory landscape revealed the EU's roadmap to governance.

These changes paved the way for the Corporate Sustainability Due Diligence Directive (CSDDD), which requires businesses to detect, stop, and lessen negative effects on the environment and human rights while reaffirming the significance of corporate responsibility in global supply chains. The introduction of the Corporate Sustainability Due Diligence Directive (CSDDD)²² represents a significant advancement from

²¹ Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups

²² European Commission. (2022). Proposal for a Directive of the European Parliament and of the Council on Corporate Sustainability Due Diligence. COM(2022) 71 final

traditional reporting requirements to enforceable due diligence obligations. This shift reinforces the European Union's broader objective of promoting corporate responsibility as an essential component of global business operations. By mandating that businesses actively manage and mitigate adverse impacts within their value chains, the CSDDD exemplifies the EU's commitment to enhancing its regulatory framework regarding sustainability, with a particular emphasis on environmental protection and the respect for human rights as integral facets of corporate governance.

The CSDDD was created in direct response to the growing demand for corporate responsibility in global supply chains, where businesses frequently fail to recognise the reality of environmental degradation and violations of human rights. The adoption of this directive is a significant step in ensuring that companies adopt a more proactive and ethical stance in the global economy and adhere to the highest standards of sustainability and social responsibility. But in Europe, the idea of due diligence is not new. France made history in 2017 when it became the first nation to enact the Law on the Duty of Vigilance, a law requiring due diligence²³. Large French corporations are required by this law to identify and reduce the risks of major human rights abuses, health and safety problems, and environmental harm in their supply chains. The French Vigilance Law is regarded as revolutionary and has established a standard for comparable obligatory due diligence requirements throughout Europe. Large French corporations must develop and successfully implement a due diligence plan, also known as a "vigilance plan," in accordance with this law. This plan must encompass reasonable due diligence measures aimed at identifying risks and preventing significant harm to human rights, fundamental freedoms, individual health and safety, and the environment at every stage of their supply chain. Importantly, it must account for risks and damage resulting not only from the corporation's own actions but also from those of its controlled entities, subcontractors, or suppliers with whom it has established business relationships. The law also creates enforcement procedures that include both judicial and private scrutiny. Non-governmental organisations (NGOs) and impacted stakeholders can formally alert

²³ French Republic. (2017). *Loi n° 2017-399 du 27 mars 2017 relative au devoir de vigilance des sociétés mères et des entreprises donneuses d'ordre* [Law No. 2017-399 of March 27, 2017, on the duty of vigilance of parent companies and ordering companies]. <https://www.legifrance.gouv.fr/jorf/id/JORFTEXT000034290626>

Selin Parlak de Oliveira Serra (2025) *Corporate Governance and Due Diligence Analysis Under the Corporate Sustainability Due Diligence Directive (CSDDD): Legal and Extraterritorial Challenges*. Stanford-Vienna European Union Law Working Paper No. 105, Available at: <https://law.stanford.edu/wp-content/uploads/2025/02/EU-Law-WP-105-de-Oliveira-Serra.pdf>

businesses to any violations of their due diligence requirements. Nonetheless, there have been a number of difficulties in putting the French Vigilance Law into practice. One major issue is the lack of clarity regarding which companies fall under the law's scope, as the French government has yet to publish an official list. Furthermore, there is no systematic monitoring of compliance with the due diligence requirements, particularly concerning the vigilance plans that companies have released to date. In the absence of government action, NGOs have taken the initiative to compile their own list of companies that seem to meet the law's criteria, revealing that 17% of them have not published a requisite due diligence plan²⁴.

Another issue is that when businesses do release vigilance plans, the information is frequently vague or shallow. The general language of the law, which gives businesses a great deal of discretion, and the lack of official guidelines regarding the substance and execution of these plans are the two main causes of this ambiguity. Additionally, businesses might be reluctant to reveal a lot of information in their vigilance plans. At least sixteen official notices have been sent out since the Law on the Duty of Vigilance was passed, some of which have resulted in court summonses and liability claims. Owing to the broad scope of the law, the claims that have been submitted so far have covered a wide range of detrimental effects on human rights and the environment, such as problems with plastic pollution, deforestation, labour rights abuses, and climate change. TotalEnergies was the first business to face legal challenges in 2019 regarding climate change, violations of human rights, and environmental harm brought on by an oil project in Tanzania and Uganda. France's Law on the Duty of Vigilance allows courts to hold corporations accountable for negligence, yet many cases have been plagued by procedural delays and dismissals.

After deliberations over jurisdiction, it was decided that civil cases of this kind would be heard by the Paris Judicial Court.

Plaintiffs must provide a formal notice that accurately reflects the complaints in their summons prior to filing a lawsuit, which presents difficulties as vigilance plans may change. To make things even more difficult for plaintiffs, a judge has even suggested that new official notices be sent out for every updated plan. Moreover, companies must

²⁴ Asser Institute (2024). *Is mandatory human rights and environmental due diligence a paper tiger? Lessons from the French experience.* <https://www.asser.nl/about-the-asser-institute/news/is-mandatory-human-rights-and-environmental-due-diligence-a-paper-tiger-lessons-from-the-french-experience/>

receive a formal warning prior to any litigation; informal discussions do not meet this requirement. Identifying the appropriate corporate entity responsible for a vigilance plan adds another layer of complexity, making it difficult for organizations to determine the correct party to pursue in court.

In October 2019, the Netherlands enacted the Child Labour Due Diligence Act²⁵, which requires companies to ensure that the goods and services they bring to the Dutch market are not produced using child labour. Under this legislation, companies within its purview must undertake due diligence in their supply chains. This entails looking at any reasonable suspicions that their products could have come from child labour, emphasising easily found and accessible sources. A company has to create and carry out an action plan to handle a reasonable suspicion of child labour in its supplier chain.

This Act encourages companies to utilize the ILO–International Organisation of Employers (IOE) Child Labour Guidance Tool for Business²⁶ during their investigations and in the development of their action plans. Furthermore, businesses are required to declare that they have conducted due diligence to prevent child labour in their products and services intended for Dutch consumers. The Act does not, however, specify the precise form or contents of this declaration, which begs questions about businesses' providing of insufficient due diligence information. The Child Labour Due Diligence Act covers both individuals and legal entities, so including Dutch and foreign businesses providing goods and services to Dutch end-users. It notably leaves out Dutch businesses abroad that do not promote their goods or services back here in Netherlands. Although the Act mostly addresses the last level of the supply chain, businesses are expected to take into account the possible hazards of child labour all through the supply chain engaged in the production of their goods or services. It is important to note that the Child Labour Due Diligence Act addresses only child labour and is not a general framework for human rights due diligence (HRDD)²⁷. The Act establishes administrative and criminal penalties for

²⁵ Dutch Parliament (2019). *Wet zorgplicht kinderarbeid* [Child Labour Due Diligence Act]. <https://zoek.officielebekendmakingen.nl/stb-2019-401.html>

²⁶ International Labour Organization (ILO), & International Organisation of Employers (IOE). (2018). *Child labour guidance tool for business*. International Labour Organization. https://www.ilo.org/global/standards/WCMS_651129/lang--en/index.htm

²⁷ United Nations. (2011). *Guiding Principles on Business and Human Rights: Implementing the United Nations 'Protect, Respect and Remedy' Framework*. (The UN's Guiding Principles on Business and Human Rights offer a comprehensive framework for HRDD, addressing a wide range of human rights issues, including but not limited to child labor. This contrasts with the German Child Labour Due Diligence Act, which focuses solely on the issue of child labor.)

companies that fail to comply with their obligations regarding investigations, action plans, and declarations. However, it lacks provisions for providing remedies to actual victims of child labour, leaving an important gap in the legislation.

Building upon the foundations laid by the French Law on the Duty of Vigilance and the Dutch Child Labour Due Diligence Act—both of which emphasize corporate responsibility for human rights and child labor in global supply chains—the European Union's Corporate Sustainability Due Diligence Directive (CSDDD) enhances this approach. It provides a more complete and uniform framework that helps companies to properly recognise, avoid, and minimise a greater range of human rights and environmental hazards all around their operations and supplier chains. Early in the 2010s, the European Union particularly began talking about due diligence in relation to corporate responsibility and sustainability. Following the announcement by European Commissioner for Justice Didier Reynders in 2020 that the Commission will implement mandatory due diligence rules, signifying the start of the race for a directive, the discussion veered more urgently in 2020. Emphasising how urgently it is to stop companies from making money at the price of environmental sustainability and human rights, the European Parliament reaffirmed momentum in March 2021 when it passed a resolution calling for mandatory corporate due diligence laws.²⁸

The European Commission introduced the Corporate Sustainability Due Diligence Directive in February 2022, which sets out the legal obligations for companies to assess, prevent, and mitigate environmental and human rights risks across their supply chains²⁹. The idea sought to change corporate governance such that companies gave social responsibility equal weight alongside financial performance. Most importantly, it included clauses pertaining to corporate responsibility and monetary fines that let impacted people and communities file legal actions.

As the legislation passed the parliamentary process, debates arose over its implementation and scope. Whether the rule should apply to small businesses engaged in high-risk sectors or only to big multinational corporations was one of the main points of argument. Another point of contention was the scope of due diligence obligations across supply chains,

²⁸ Zamfir, I. (2021, October 22). *Corporate Due Diligence and Corporate Accountability: "An Economy that Works for People"*. European Parliament, Legislative Initiative Procedure 2020/2129(INL). Members' Research Service. Retrieved from <https://www.europarl.europa.eu>

²⁹ European Commission. (2022). Proposal for a Directive of the European Parliament and of the Council on Corporate Sustainability Due Diligence. COM(2022) 71 final

especially with respect to indirect vendors. Human rights and environmental organisations pushed for stronger accountability procedures, while some corporate groups expressed concerns about the cost of compliance. The main provisions of the directive were finalised in December 2023 when the European Parliament and the Council came to a political agreement following protracted negotiations. The law primarily targets large corporations, but it also applies to medium-sized businesses that operate in high-risk industries. It creates required due diligence requirements for companies to actively evaluate and manage environmental and human rights risks throughout supply chains. It also establishes corporate liability, which permits lawsuits against noncompliant businesses. In order to integrate corporate operations with the Paris Climate Agreement, the regulation also requires the incorporation of sustainability into corporate governance. The conservative factions in the European Parliament, particularly the Identity and Democracy group, which includes the Lega, along with the European Conservatives and Reformists, represented by Fratelli d'Italia, stood united against the directive.³⁰ Meanwhile, the European People's Party was divided, with the Forza Italia delegation opting not to support the measure. At a press conference following the vote, Social Democrat Lara Wolters, the directive's rapporteur for the EU Parliament, emphasized that "increasing the thresholds was not part of the December agreement," which had already seen over 16 hours of negotiations among EU institutions. "Ultimately, what matters is the outcome," she added. "We begin with larger companies, and in the future, we will expand the scope to include the financial sector". She also pointed out that a vital aspect of the directive's implementation involves preventing companies from exploiting loopholes to divide into smaller entities, assuring that "this will not be possible".³¹ After three attempts, the new European corporate sustainability regulations finally cleared member states' scrutiny in March 2024³².

However, the compromise on the due diligence directive was less robust than desired: it now mandates that only companies with over 1,000 employees and a global turnover of at least €450 million must mitigate negative impacts on human rights and the environment

³⁰ <https://www.eunews.it/en/2024/04/24/eu-parliament-green-light-to-corporate-due-diligence-directive-watered-down-by-member-states-its-results-that-count/#:~:text=The%20two%20groups%20on%20the,not%20to%20support%20the%20directive.>

³¹ <https://www.socialistsanddemocrats.eu/newsroom/due-diligence-europe-will-finally-have-new-rules-responsible-business-conduct>

³² <https://www.reuters.com/sustainability/boards-policy-regulation/eu-envoys-clear-proposed-supply-chain-audit-law-belgian-presidency-says-2024-03-15>

throughout their supply chains.

In order to overcome the delay caused by the agreement of EU institutions, the Belgian presidency of the EU Council was compelled to make "important changes" to the original text, addressing concerns from both state and business entities. Discussions at the Committee of Permanent Representatives of the 27 member countries (COREPER³³) revealed that, while several governments, including those of Italy and France, recognized the directive's potential benefits, it came at the cost of significant rollbacks.

During the vote among ambassadors, Germany, Hungary, the Czech Republic, Bulgaria, Slovakia, and Lithuania reportedly abstained, while Sweden and Austria expressed reservations. Both Rome and Paris supported the directive, effectively dismantling the blocking minority that had previously hindered the interinstitutional agreement on two occasions in February³⁴.

"In the EU, it matters how products are made," the Belgian EU presidency said in celebration of the directive's unblocking, highlighting an initiative aimed at "promoting sustainable and responsible corporate behaviour while prioritising human rights and environmental concerns." In contrast to previous drafts, which sought to enforce ethical and environmental standards throughout the supply chain for all businesses with more than 500 employees and a global turnover exceeding €150 million, the directive's actionable scope has significantly shrunk. It also aimed to give medium-sized businesses operating in industries like construction, food production, agriculture, and textiles comparable responsibilities.

In response to the opposition raised on February 28, 2024, by 14 national governments (including Sweden, France, Italy, Germany, Bulgaria, Slovakia, Hungary, Luxembourg, Estonia, Finland, Lithuania, the Czech Republic, Malta, and Austria), the EU Council was compelled to propose an increase in the thresholds for applying certain regulations. Specifically, the requirement was raised from 500 to 1,000 employees and from a turnover of 150 million to 300 million euros, leveraging Finland's support in the process.

However, the Belgian presidency introduced a new compromise proposal that adjusted the minimum turnover for the directive's application to 450 million euros.

³³ Coreper I is made up of the deputy permanent representatives from each member state. The meetings are led by the deputy permanent representative of the country currently holding the presidency of the Council of the European Union.

³⁴ <https://www.eunews.it/en/2024/03/15/governments-water-down-eu-directive-on-corporate-due-diligence-will-affect-only-large-companies/>

Palazzo Chigi characterized this proposal as a “balanced and effective” solution, emphasizing that it places the onus on larger companies, which are in a better position to oversee their supply chains and contribute to alleviating the effects of economic activities on climate change, as well as upholding the human rights of those impacted by these activities.

In this way, not only small and medium-sized enterprises would be entirely exempt from these obligations, but significant exceptions also apply to many companies that would typically be classified as large. For instance, the well-known Italian cosmetics and fragrance brand Kiko S. p. A., owned by the Percassi Group, reported a turnover of €405 million in the 2022 rankings compiled by *Quotidiano Nazionale*. If the European directive was upheld despite the considerable amendments made by the council after an initial agreement, Kiko would have fall outside the scope of supply chain oversight requirements³⁵.

Even after several adjustments, Germany chose not to support the final version of the directive³⁶. As the largest economy in the EU, Germany has already taken significant steps to regulate corporate supply chains through its own legislation, known as the Act on Corporate Due Diligence Obligations in Supply Chains³⁷. It officially came into effect on January 1, 2023 and it was published in the Federal Law Gazette on July 22, 2021, following the conclusion of the parliamentary process. This marked the first instance in which German enterprises are legally obligated to uphold human rights within their global supply chains.

The German legislation encompasses all types of suppliers, requiring companies to proactively monitor their direct suppliers while adopting a more reactive stance toward indirect suppliers, responding to substantiated claims or reports of violations. It requires the development of a risk management system, frequent risk analyses, and the application of preventative actions to solve any negative effects on human rights resulting from their suppliers. Companies are also obliged to create channels for complaints, so enabling rights holders and whistleblowers to anonymously document abuses.

Like the latest EU directive, the success of the German law will rely on efficient execution and company dedication to fit these new rules, so promoting corporate responsibility on

³⁵ <https://www.eunews.it/2024/03/15/paes-ue-due-diligence-aziendale/>

³⁶ <https://blog.3bee.com/en/why-the-csddd-was-rejected-by-the-european-council/>

³⁷ Germany. (2021). *Gesetz über die unternehmerischen Sorgfaltspflichten in Lieferketten* [Act on Corporate Due Diligence Obligations in Supply Chains]. Bundesgesetzblatt, 2021 (April 22). <https://www.bgbl.de/xaver/bgbl/start.xav?startbk=Bundesrecht>

a more general level. The Supply Chain Act asks enterprises with their central administration in Germany to be more responsible and to uphold human rights by adhering to specific due diligence obligations³⁸.

Among these responsibilities is the establishment of a risk management system designed to detect, stop, or reduce the dangers of environmental damage and human rights abuses. The Act requires businesses to submit reports on a regular basis, specifies the necessary corrective and preventive actions, and establishes complaints procedures.

Importantly, these due diligence obligations extend beyond the enterprise's immediate business operations to encompass the actions of contractual partners and indirect suppliers, meaning that an enterprise's responsibility now spans the entire supply chain, rather than ending at its factory gates.

The Act applies to enterprises with a workforce of at least 3,000 employees, with a further extension in 2024 to those employing a minimum of 1,000 employees in Germany and entered into force in 2023.

Moreover, the Supply Chain Act makes reference to a complete list of eleven internationally accepted human rights conventions. To stop infringement of protected rights, the legal interests defended by these conventions form the basis for defining necessary behaviours or restrictions regarding corporate actions. These comprise prohibitions against child labour, slavery, and forced labour; neglect of occupational safety and health obligations; failure to pay fair wages; disrespect of the right to form trade unions or employee representation; denial of access to food and water; and illegal seizure of land and livelihoods. If companies fail to comply with these legal obligations, this can lead to significant administrative fines, which may reach up to €8 million or 2% of the annual global revenue. The turnover-based fine system applies solely to enterprises with an annual turnover exceeding €400 million. Additionally, enterprises subjected to fines over a certain threshold may face exclusion from public contract awards.

The complete implementation of the Corporate Sustainability Due Diligence Directive³⁹ is planned in 2026–2027, therefore businesses will need to adjust by improving transparency and reorganizing supply networks. By going beyond voluntary promises to a legally binding framework that places a premium on sustainability, moral business

³⁸ <https://www.csr-in-deutschland.de/EN/Business-Human-Rights/Supply-Chain-Act/supply-chain-act.html>

³⁹ Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence and amending Directive (EU) 2019/1937 and Regulation (EU) 2023/2859, Article 37. <https://www.corporate-sustainability-due-diligence-directive.com/>

conduct, and accountability, the directive represents a dramatic change in the EU's regulatory approach. Since businesses outside the union must abide by it in order to conduct business in the European market, its effects will go beyond the EU. Complementing the Corporate Sustainability Due Diligence Directive, other recent EU regulations further strengthen protections for human rights and the environment. The directive strengthens the EU's commitment to ethical supply chains by being in line with laws like the Deforestation Regulation⁴⁰ and the Forced Labor Regulation⁴¹. These regulations specifically target issues related to deforestation and forced labor, enhancing the Corporate Sustainability Due Diligence Directive (CSDDD) by introducing more rigorous due diligence requirements for certain high-risk commodities. These regulations act as *lex specialis*—specialized laws that take precedence over the broader due diligence standards outlined in the CSDDD—making them vital tools for achieving the EU's sustainability objectives⁴².

Although both laws are intended to address particular problems, they enhance the EU's legal foundation for ethical business practices, which supports the CSDDD's overarching objectives. They urge businesses to take proactive measures to guarantee that their supply chains don't support human rights abuses or environmental degradation. When taken as a whole, these laws demonstrate the EU's all-encompassing approach to sustainable business, which places environmental preservation and human rights at the centre of business operations. In summary, the European Union's commitment to corporate sustainability and accountability has advanced significantly with the passage of the Corporate Sustainability Due Diligence Directive. The CSDDD creates a strong framework for companies to recognise and reduce risks related to environmental harm and human rights abuses across their supply chains by combining with other essential laws. The effective implementation and enforcement of these regulations are essential for

⁴⁰ European Union. (2023). *Regulation (EU) 2023/1115 of the European Parliament and of the Council on deforestation-free products*. Official Journal of the European Union. <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32023R1115>

⁴¹ European Union. (2024). *Regulation (EU) 2024/3015 of the European Parliament and of the Council on the prohibition of products made with forced labor*. Official Journal of the European Union. <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32024R3015>

⁴² [https://www.whitecase.com/insight-alert/time-get-know-your-supply-chain-eu-adopts-corporate-sustainability-due-diligence#:~:text=What%20next?,approach%20for%20high%2Drisk%20sectors.&text=Ruth%20Benbow%20\(Knowledge%20Manager%2C%20London,the%20development%20of%20this%20publication.](https://www.whitecase.com/insight-alert/time-get-know-your-supply-chain-eu-adopts-corporate-sustainability-due-diligence#:~:text=What%20next?,approach%20for%20high%2Drisk%20sectors.&text=Ruth%20Benbow%20(Knowledge%20Manager%2C%20London,the%20development%20of%20this%20publication.)

encouraging both EU and non-EU companies to adopt sustainable and ethical practices, ultimately promoting increased responsibility and transparency within global business operations.

1.1.3 Relationship with Other International Regulations and Frameworks

The Corporate Sustainability Due Diligence Directive of the European Commission is focused on the EU regulatory landscape, but it is also aligned with important international principles of the United Nations, of the OECD and ILO's tripartite declaration⁴³.

As stated by Lucia Ruggeri (2024), "The European path to corporate sustainability due diligence is, however, only apparently the result of choices made autonomously in Brussels because the role assigned to uniform standards and the guiding principles developed at international level is significant in the CSDDD."⁴⁴

These connections offer a wider perspective on the importance of the directive, its potential effects, and how it aligns with global trends aimed at promoting corporate responsibility and sustainability.

The directive draws inspiration from the UN Guiding Principles on Business and Human Rights (UNGPs)⁴⁵, which were adopted by the United Nations in 2011.

These ideas are the most authoritative normative act to support ethical business practices and fight against violations of human rights inside corporate operations and worldwide supply chains. Three basic pillars—protect, respect, and remedy—built on the Guiding Principles define them. Every pillar describes particular, doable actions governments and businesses can take to carry out their obligations in stopping human rights violations in their operations as well as offering remedies when such abuses do arise.

In line with international human rights law, the Guiding Principles underline that States have an obligation to protect people from human rights abuses committed by every

⁴³ European Commission. (2020). *Study on due diligence requirements through the supply chain*. European Commission. <https://ec.europa.eu>

⁴⁴ Ruggeri L. (2024). *Corporate Due Diligence Between the Needs for the Implementation of Sustainability and Protection of Human Rights*. The Italian Law Journal. https://theitalianlawjournal.it/data/uploads/special_issue_24/002.-ruggeri.pdf

⁴⁵ United Nations. (2011). *Guiding principles on business and human rights: Implementing the United Nations "Protect, Respect and Remedy" Framework*. United Nations Human Rights Office. https://www.ohchr.org/documents/publications/guidingprinciplesbusinesshr_en.pdf

Hazrati, M., Annamayer, E. (2024). *Evaluating EU Directives on Corporate Sustainability Reporting and Due Diligence Through the Lens of the 'JUST' Framework*. In: Phillips, A., Kaschny, L. (eds) *New Engagement Strategies for Energy Justice*. Just Transitions. Palgrave Macmillan, Cham. https://doi.org/10.1007/978-3-031-74519-5_8

member of society, including companies. States under this obligation have to act aggressively to stop, probe, punish, and offer remedies for violations of human rights inside of their own companies.

Furthermore advised by the Guiding Principles are clear expectations for businesses functioning within their territory or jurisdiction, so ensuring they respect human rights norms in every nation and context in which they engage their activities.

It can be said that the duty to respect human rights encompasses all internationally recognized rights articulated in the International Bill of Human Rights⁴⁶ and the International Labour Organization's Declaration on Fundamental Principles and Rights at Work⁴⁷. While the specific measures that businesses must undertake to fulfill this responsibility may vary based on their size or complexity, the obligation itself is universal, applying to all businesses regardless of their size, industry, or geographic location.

In the end, both frameworks are committed to advancing corporate responsibility in a globalised world where multinational corporations' operations usually transcend national boundaries.

The United Nations Guiding Principles on Business and Human Rights established a framework for corporate responsibility in relation to human rights. The UNGPs define that the Human Rights Due Diligence is the process through which a business identifies and addresses the human rights impacts of its operations, products, and the networks of suppliers and business partners it engages with. This process involves not only evaluating internal procedures and systems but also actively engaging with external groups that may be affected by the company's activities.

But their voluntary character meant that no legally enforceable system was in place. While the UNGPs set clear guidelines for companies to engage in human rights due diligence, compliance was predicated more on companies' will than on legal obligations. This voluntary approach produced uneven application, with many companies—particularly in high-risk industries and worldwide supply chains—not acting sufficiently to support human rights standards.

The European Union acknowledged that merely relying on voluntary commitments would

⁴⁶ UN General Assembly, International Bill of Human Rights, A/RES/217(III)A-E, 10 December 1948, <https://www.refworld.org/legal/resolution/unga/1948/en/15182>

⁴⁷ International Labour Organization (ILO), *ILO Declaration on Fundamental Principles and Rights at Work*, -, June 1988, <https://www.refworld.org/legal/resolution/ilo/1988/en/15751>

not be sufficient to achieve comprehensive compliance and accountability. In response, the EU introduced the Corporate Sustainability Due Diligence Directive, which legally mandates companies to perform due diligence concerning human rights and environmental risks⁴⁸. This rule requires businesses to find, stop, and minimise any negative effects on human rights and the environment, so addressing the flaws in the UN Guiding Principles. It also describes unambiguous enforcement rules including fines and liability for non-compliance.

Another significant factor behind the EU's shift toward binding regulation was the increasing demand for corporate accountability from civil society, investors, and consumers⁴⁹. Numerous cases involving forced labor, child labor, environmental degradation, and unsafe working conditions within global supply chains have come to light, underscoring the inadequacies of voluntary frameworks. While certain EU member States, including France and Germany, have already enacted national laws mandating due diligence, a comprehensive EU-wide regulation is essential to prevent fragmentation and create a level playing field for businesses across Europe.

The European Union intends to become the most regulated market in the world and set a new standard for corporate responsibility and sustainability by putting this directive into effect.

Similarly, the Corporate Sustainability Due Diligence Directive aligns closely with the OECD Guidelines for Multinational Enterprises⁵⁰.

Long regarded as a pillar of responsible business practices, these rules provide a complete framework for businesses to negotiate their operations while maintaining important values including respect of human rights, fair labour standards, environmental stewardship, and anti-corruption policies. They support the inclusion of these principles into corporate policies and practices so fostering sustainable development and reducing negative consequences on the environment and society.

⁴⁸ Bonnitcha, J. and McCorquodale, R. (2017) 'The concept of "due diligence" in the UN Guiding Principles on Business and Human Rights', *European Journal of International Law*, 28, pp. 899–902

⁴⁹ <https://www.worldbenchmarkingalliance.org/news/what-will-the-state-of-corporate-accountability-look-like-three-years-from-now/#:~:text=The%20Corporate%20Sustainability%20Due%20Diligence,legislation%20to%20enforce%20corporate%20accountability>.

⁵⁰ Organisation for Economic Co-operation and Development (OECD). (2023). *OECD guidelines for multinational enterprises on responsible business conduct*. OECD Publishing. <https://mneguidelines.oecd.org/mneguidelines/>

Though the OECD rules have a broad impact, they remain voluntary depending mostly on corporate goodwill and self-regulation even if they influence everything. But the CSDDD marks a significant change from these voluntary systems to legally binding responsibilities for companies functioning inside the European Union. Unlike the non-binding advice of the OECD, the CSDDD requires businesses to implement comprehensive due diligence procedures to find, stop, and minimise negative effects on human rights and the environment all through their value chains.

The CSDDD places a strong emphasis on the need for companies to evaluate risks and put workable plans in place to lower them. This includes thorough documentation of their due diligence efforts and prompt repairs for any damage brought on by their operations or supply chains.

By including these obligatory criteria into national laws, the directive guarantees that companies cannot rely just on voluntary compliance; they must actively show their dedication to corporate responsibility by actual behaviour.

Given the changing regulatory and cultural scene, it is abundantly necessary to advance mechanisms for worker involvement. Corporate sustainability as defined by the Corporate Sustainability Due Diligence Directive goes beyond simple adherence to a set of formal responsibilities; it requires a basic review of internal governance systems and decision-making procedures. As noted by Bruno Caruso (2024), sustainability "requires a redefinition of traditional worker participation structures, posing new challenges to collective bargaining"⁵¹. Given the wider consequences of corporate social responsibility, this claim emphasises the need of reviewing the roles of trade union representatives, European works councils, and different consultation structures.

Furthermore, the viewpoint of human rights and social rights cannot be seen just as a value reference or aspirational principle; it has to be included as a necessary and operational element inside political procedures. Consequently, workers and their representatives should actively participate in the strategic decisions of the company including risk assessments, procurement policies, and reactions to negative consequences. From this perspective, the directive not only justifies but also increases labour participation as a fundamental component of sustainability, so confirming the direct link between economic democracy and corporate social responsibility.

Furthermore, the CSDDD expands the scope of the OECD Guidelines and creates legal

⁵¹ Caruso, B. (2024). *Impresa partecipata e contratto di lavoro*. CSDLE.it.

enforceability inside the EU market, so building on them⁵². This marks a major change in corporate responsibility since it gives people and communities negatively impacted by a company's disregard of sustainability and human rights criteria legal redress. The directive holds European businesses including non-EU companies running in the EU equally responsible for their worldwide influence. Establishing a direct legal obligation helps the CSDDD greatly close the gap between corporate social responsibility as a voluntary activity and corporate accountability as a legal mandate.

In this sense, the CSDDD supports the EU's dedication to set global ethical and sustainable business standards by example. By putting human rights and environmental protection first in business decision-making, it strengthens the global movement towards thorough corporate responsibility. The CSDDD becomes increasingly important as the EU keeps claiming its influence in global sustainability and human rights concerns since it helps to create a more responsible, open, and sustainable international corporate environment.

As already mentioned, in the global debate about accountability and transparency in corporate sustainability, the CSDDD is essential. It aligns with well-known programs like the Sustainability Accounting Standards Board (SASB) and the Global Reporting Initiative by highlighting the necessity of public reporting and the disclosure of sustainability-related risks and actions.

The Global Reporting Initiative (GRI) is an independent, nonprofit organization with an international reach that offers a widely acknowledged framework for sustainability reporting. Its mission is to “sustainably improve the world by enabling organizations to understand and communicate their impacts on people and the planet”⁵³.

Founded in 1997 through a partnership between the United Nations Environment Programme (UNEP) and the Coalition for Environmentally Responsible Economies (CERES), GRI has become a cornerstone in the field of sustainability.

The GRI Standards are extensive guidelines for reporting on sustainability⁵⁴. They tackle

⁵² Feigerlová, M. (2025). Influence of the OECD Guidelines and Jurisprudence in the Legislative Process of the EU Directive on Corporate Sustainability Due Diligence. In: Davaanyam, O., Krajewski, M. (eds) Exploring Corporate Human Rights Responsibilities in OECD Case Law. DFGW 2023. Interdisciplinary Studies in Human Rights, vol 14. Springer, Cham. https://doi.org/10.1007/978-3-031-75717-4_9

⁵³ Global Reporting Initiative. (2021). *GRI standards: Sustainability reporting standards*. GRI. <https://www.globalreporting.org/>

⁵⁴ <https://esgthereport.com/what-is-the-global-reporting-initiative/>

a wide range of social, environmental, and economic concerns, enabling businesses all over the world to evaluate and report on their sustainability performance. Organisations can improve stakeholder engagement, increase transparency, and efficiently manage operational risks by following these guidelines.

The Sustainability Accounting Standards Board⁵⁵ (SASB) is a nonprofit organization dedicated to creating a consistent framework for businesses to report on sustainability issues. In order to accomplish this, SASB has created industry-specific guidelines that assist businesses in disclosing sustainability data that investors consider essential because it has a big influence on financial performance. The SASB was established in 2011 in response to the increasing demand for a common language that facilitates transparent communication between businesses and investors about the elements influencing long-term financial performance, health, and enterprise value.

For instance, a chemical company might concentrate on environmental issues like greenhouse gas emissions and water management, whereas a telecommunications company might give more importance to social concerns like customer privacy and data security.

In 2021, SASB partnered with the International Integrated Reporting Council⁵⁶ (IIRC) to form the Value Reporting Foundation⁵⁷ (VRF). More recently, the VRF merged with the U. K. - based International Financial Reporting Standards (IFRS) Foundation, leading to the establishment of the International Sustainability Standards Board (ISSB). This consolidation aims to further the SASB's mission of promoting transparent and actionable sustainability reporting.⁵⁸

These systems support more openness in corporate reporting, so motivating businesses to disclose their social, environmental, and governance (ESG) performance. By mandating such disclosures for specific companies, the Corporate Sustainability Due Diligence Directive reinforces this framework and emphasises the importance of transparency as a tool for global corporate responsibility. The EU directive ensures that European companies fulfil their local obligations while also actively supporting global efforts to

⁵⁵ <https://sasb.ifrs.org/>

⁵⁶ <https://integratedreporting.ifrs.org/the-iirc-2/council/>

⁵⁷ <https://www.valuereportingfoundation.org/>

⁵⁸ <https://www.ifrs.org/news-and-events/news/2022/08/ifrs-foundation-completes-consolidation-with-value-reporting-foundation/#:~:text=The%20IFRS%20Foundation%20has%20today,SASB%20Standards%20as%20a%20priority.>

enhance business sustainability practices by aligning with these international standards. Within the framework of corporate sustainability strategies defined by the Corporate Sustainability Due Diligence Directive, labour law becomes even more important. This direction advocates a radical reorganisation of the link between economic activity and social protection, transcending simple control of corporate behaviour concerning environmental impacts and human rights. As noted by Tiziano Treu (2024), "due diligence is configured not only as an obligation to prevent violations of human and social rights, but also as a tool for the renewed centrality of labor law in sustainable governance strategies"⁵⁹.

From this point, labour law is no longer limited to the boundaries of the nation-state or the conventional spheres of influence; rather, it now follows global value chains and assumes a systematic function in the defence of rights. Its inclusion into the required due diligence systems restores a legally binding aspect to social rights—especially in terms of worker protection—which can no more be limited to self-regulating policies or simple ethical disclosures.

Thus, the directive helps to improve the enforceability of corporate social responsibility by converting sustainability objectives into operational requirements influencing industrial relations, corporate organisation, and community involvement programs. Labour law thus confirms its role as a fundamental regulatory tool in the evolution of a new business model aiming at harmonising competitiveness with basic rights.

Moreover, there is a significant connection between the Corporate Sustainability Due Diligence Directive and the International Labour Organization (ILO)⁶⁰.

The CSDDD closely corresponds with the basic ideas of the ILO. In the fields of labour rights, workplace conditions, and social responsibility especially, this link is clearly seen. Companies are required by the Corporate Sustainability Due Diligence Directive to assess and minimise labour effects and human rights impacts all through their supply chains. This need closely corresponds with fundamental values established by the International Labour Organisation (ILO), namely the eradication of child and forced labour, the encouragement of freedom of association, and the dedication to non-discrimination. Both approaches stress the need of equitable working conditions and involving stakeholders.

⁵⁹ Treu, T. (2024). *Impresa sostenibile: implicazioni per il diritto del lavoro*. CSDLE.it.

⁶⁰ <https://www.ilo.org/resource/news/new-eu-ilo-action-advance-decent-work-supply-chains-through-sectoral-social>

Therefore, the CSDDD supports better worldwide labour standards and strengthens the ILO's activities by making sure businesses respect labour rights and actively support social development.

In essence, the Corporate Sustainability Due Diligence Directive emphasises how important the European Union is in forming a worldwide regulatory environment for corporate sustainability. This directive reflects and reinforces the values set by international agreements such the UN Guiding Principles and the OECD Guidelines, even if it has own unique legal criteria. In this sense, the EU leads the global movement towards more ethical, environmentally friendly, open corporate operations. The growing convergence of local rules with international norms suggests a time when businesses, wherever in origin, will be held to consistent and strict standards on their effect on human rights and the environment.

1.2 Definition and Content of Due Diligence

1.2.1 Defining Due Diligence in the Corporate Context

One important piece of EU legislation, the Corporate Sustainability Due Diligence Directive (CSDDD), aims to make sure businesses act responsibly when it comes to environmental and human rights concerns in their value chains. Adopted on June 13, 2024, and set to take effect on July 25, 2024, the directive targets large companies, both within the EU and beyond, that have significant business activities in the region⁶¹.

The directive mandates legal obligations across the entire value chain, representing "a significant shift from voluntary compliance models towards a mandatory accountability regime across borders"⁶². Therefore, businesses are obliged not only to disclose their operations but also to carry out specific actions meant to find, minimise, and stop negative effects on the environment and human rights.

Under this direction, companies are supposed to include due diligence into their risk control strategies and corporate policies. This means determining both real and possible negative effects on human rights and the environment over their operations, subsidiaries, and supplier chains. Once these hazards are found, businesses have to start mitigating or preventative actions. Moreover, they have to open avenues for impacted people and

⁶¹ https://commission.europa.eu/business-economy-euro/doing-business-eu/sustainability-due-diligence-responsible-business/corporate-sustainability-due-diligence_en

⁶² Serra, S. P. de Oliveira. (2024). *Corporate Governance and Due Diligence Analysis Under the Corporate Sustainability Due Diligence Directive (CSDDD): Legal and Extraterritorial Challenges*. Stanford Law School.

groups to express their worries, so promoting more responsibility. Businesses are also obliged to publicly disclose their results and track the success of their due diligence initiatives. Due diligence is an approach to assessing and managing risks associated with business or investment decisions in a methodical way. Using publicly available information, individual investors can quickly do due diligence on any stock. This habit goes beyond money; for example, it can also include looking over product reviews or background checks on potential workers.

Due diligence is a well-established concept with different legal consequences on national and international levels. Many national legal systems set criteria that demand private companies to conduct due diligence in many different settings. Due diligence usually stands for a standard of behaviour needed to satisfy an obligation in tort law.

This concept dates back to Roman law, which held individuals liable for accidental harm caused to others when that harm stemmed from their failure to meet the expected standard of conduct, embodied by the term "diligens (or bonus) paterfamilias," roughly translated as a prudent head of a household. The diligens paterfamilias standard significantly influenced the development of negligence in many legal frameworks, being explicitly integrated into Roman-Dutch tort law as the appropriate standard of conduct. It also laid the groundwork for the "reasonable man" standard in English common law, as well as similar criteria in various civil law systems⁶³.

In international law, due diligence represents a normative guideline that delineates a State's responsibility concerning the actions of third parties⁶⁴. Typically, States are held accountable for the acts or omissions of individuals exercising State authority, as these actions are attributed to the State—even if such acts exceed the granted authority. However, if a State fails to take reasonable precautions to prevent or respond to third-party actions, it may be held accountable for those actions. Investment and environmental protection are two areas of international law that are covered by this overarching principle.

Moreover, in recent decades, the convergence of international human rights law and corporate responsibility has garnered increasing scholarly and practical attention,

⁶³ Rouas, V. (2022). Achieving access to justice in Europe through mandatory due diligence legislation. In *Achieving Access to Justice in a Business and Human Rights Context: An Assessment of Litigation and Regulatory Responses in European Civil-Law Countries* (pp. 287–331). University of London Press.

⁶⁴ Angelet, Nicolas: *Due Diligence in International Law: From Environmental and Economic Law to Migrant Protection*, *VerfBlog*, 2024/7/30, <https://verfassungsblog.de/due-diligence-in-international-law/>, DOI: [10.59704/a031c298c59a57fb](https://doi.org/10.59704/a031c298c59a57fb).

particularly regarding the duty of States to exercise due diligence⁶⁵. Historically, international human rights obligations were understood as binding just to States. Modern interpretations, which show up in soft law tools and jurisprudence, now highlight State obligation to take reasonable steps to prevent, investigate, and redress human rights violations committed not only by public authorities but also by private entities including corporations functioning within their territory or jurisdiction.

In this regard, due diligence not only guarantees corporate responsibility but also acts as a link between State obligations and the human rights obligations of corporate entities.

Consequently, the due diligence principle becomes a fundamental legal norm since a State's neglect to control corporate behaviour could lead to worldwide responsibility.

Due diligence became a standard practice and a widely recognized term in the United States with the enactment of the Securities Act of 1933⁶⁶. This legislation placed a responsibility on securities dealers and brokers to fully disclose any material information related to the instruments they were selling. If they failed to provide this information to potential investors, they could face criminal prosecution⁶⁷.

The act's authors knew that forcing such a responsibility on dealers and brokers would expose them to unfair prosecution should they fail to disclose material facts either unknown to them at the time of the sale or beyond their control. The act included a legal protection in response to this concern: dealers and brokers would not be held liable for information that was not unearthed during their investigations as long as they conducted "due diligence" in looking at the companies whose securities they were selling and honestly reported the results of their investigations.

Due diligence has specific meanings in the business sector. In corporate law, it typically refers to the extensive research a business conducts in order to identify and manage commercial risks before entering into a business transaction. For instance, as a first step in mergers and acquisitions, a business usually conducts a comprehensive examination of the assets, contracts, clients, markets, and financial records of another company. In this context, assessing the risk of legal liability is another crucial factor to consider and handle

⁶⁵ United Nations, "Guiding Principles on Business and Human Rights: Implementing the United Nations 'Protect, Respect and Remedy' Framework," (2011).

⁶⁶ Securities Act of 1933, 15 U.S.C. § 77a (1933). <https://www.govinfo.gov/content/pkg/COMPS-1885/pdf/COMPS-1885.pdf>

⁶⁷ <https://www.ebsco.com/research-starters/business-and-management/due-diligence#:~:text=The%20practice%20became%20standard%20after,all%20their%20information%20to%20investors.>

through due diligence⁶⁸.

In particular, due diligence is a risk-based process. The actions that an organization undertakes to conduct due diligence should align with the severity and likelihood of potential adverse impacts. When both the likelihood and severity of these impacts are significant, a more accurate approach to due diligence is warranted. Furthermore, due diligence should be customized to address the specific nature of adverse impacts related to Responsible Business Conduct (RBC) issues, including human rights, environmental concerns, and corruption. This means that organizations must tailor their strategies to address particular risks, while also considering how these risks may affect diverse groups—such as integrating a gender perspective into their due diligence efforts.

When it is not possible to address all identified impacts simultaneously, an enterprise should prioritize its actions based on the severity and likelihood of the adverse effects. After identifying and addressing the most significant impacts, the enterprise can then focus on less critical ones. If an enterprise is found to be causing or contributing to negative impacts related to responsible business conduct issues, it must immediately cease those activities and take steps to remediate the situation or collaborate in the remediation process. Specifically, when prioritizing risks to human rights, the severity of a potential adverse impact is the key factor; for example, a delayed response that could render the impact irreparable must take precedence in shaping the enterprise's response strategy.⁶⁹

Due diligence is an essential process undertaken by a diverse array of financial and corporate entities, including equity research analysts, fund managers, broker-dealers, individual investors, and corporations assessing potential mergers and acquisitions. Each of these stakeholders utilizes due diligence to evaluate and mitigate potential risks, enhance transparency, and facilitate informed decision-making.

In jurisdictions such as the United States, this duty is overseen by regulatory bodies, including the Securities and Exchange Commission (SEC)⁷⁰ and the Financial Industry Regulatory Authority (FINRA)⁷¹, both of which establish that a reasonable basis must exist for any investment recommendation.

⁶⁸ <https://legal.thomsonreuters.com/blog/due-diligence/>

⁶⁹ OECD (2018), *OECD Due Diligence Guidance for Responsible Business Conduct*, OECD Publishing, Paris, <https://doi.org/10.1787/15f5f4b3-en>.

⁷⁰ Securities and Exchange Commission (SEC). (2003). *Final Rule: Confirmation Requirements and Point of Sale Disclosure Requirements for Transactions in Certain Mutual Funds and Other Securities*. Release No. 33-8358. <https://www.sec.gov/rules/final/33-8358.htm>

⁷¹ Financial Industry Regulatory Authority (FINRA). (2023). Suitability—FINRA Rule 2111. Retrieved from <https://www.finra.org/rules-guidance/rulebooks/finra-rules/2111>

Equity research analysts and fund managers similarly are requests to respect due diligence processes to prepare research reports, manage portfolios, and assess the long-term viability of firms and sectors. Their inquiries typically integrate qualitative considerations, such as management credibility and industry trends, alongside quantitative analyses, which encompass valuation models and financial metrics⁷².

Furthermore, corporate due diligence in the context of mergers and acquisitions extends beyond mere financial evaluation to include legal, operational, and reputational risk assessments. The acquiring company typically scrutinizes contracts, liabilities, compliance records, and potential synergies to ensure strategic alignment and reduce post-transaction risks. In these varied contexts, due diligence serves as a fundamental instrument in upholding market integrity, safeguarding investor interests, and promoting corporate accountability.⁷³

There are also two approaches to conducting due diligence: hard and soft⁷⁴. The hard approach is data-driven, concentrating on financial statements, balance sheets, and income reports. It assesses the financial situation and forecasts of the company using basic analysis and several financial ratios. By contrast, the soft approach to due diligence evaluates qualitative elements including management quality, corporate culture, employee relations, and customer loyalty that go beyond the numbers..

Moreover, the due diligence process is dynamic and continuously evolving, characterized by its adaptability and responsiveness⁷⁵. It incorporates feedback mechanisms that allow enterprises to learn from both successes and setbacks. As such, organizations should strive for ongoing improvement in their systems and processes to effectively prevent and mitigate adverse impacts. Through diligent practice, an enterprise can respond proficiently to potential shifts in its risk profile as circumstances change—whether these alterations stem from shifts in a country’s regulatory environment, the emergence of new sector risks, or the introduction of new products and business relationships.

The due diligence process itself depends on effective communication of information about it. This openness shows that a company is dedicated to good faith and helps it build confidence in its activities and decisions. The company must clearly state how it recognises

⁷² OECD (2019), Due Diligence for Responsible Corporate Lending and Securities Underwriting: Key considerations for banks implementing the OECD Guidelines for Multinational Enterprises

⁷³ <https://www.lexisnexis.com/blogs/amppage/28/due-diligence-mergers-aquisitions>

⁷⁴ <https://www.securedocs.com/blog/hard-vs.-soft-due-diligence>

⁷⁵ OECD (2018), OECD Due Diligence Guidance for Responsible Business Conduct

and handles any real or possible negative effects and transmit this knowledge in line with that.

The material presented should sufficiently show the enterprise's responsiveness to the expected audiences, which include consumers, investors, and stakeholders, so enabling access to them. Moreover, communication has to be done with great attention to commercial confidentiality as well as any security or competitive issue. Different approaches can be used to support this communication so that confidentiality is honoured and still required information can be given.

1.2.2 Objectives of Due Diligence Directive

The purpose of the Corporate Sustainability Due Diligence Directive is to promote sustainable and responsible corporate practices within companies and throughout their global value chains⁷⁶. The new regulations will require companies covered by this directive to recognize and mitigate any negative impacts on human rights and the environment resulting from their activities, both within Europe and beyond.

This rule brings a corporate due diligence requirement. Central to this responsibility is the obligation to find and solve both possible and real negative effects on human rights and the environment inside the company's own operations, its subsidiaries, and, pertinent to its value chain, those of its business partners. Moreover, the Directive requires big businesses to create and apply, to the best of their ability, a climate change mitigating transition plan. This plan must align with the 2050 climate neutrality goal established by the Paris Agreement⁷⁷ and adhere to the intermediate targets set forth in the European Climate Law⁷⁸.

The European Commission has suggested actions meant to lower the bureaucratic obstacles related to the directive, so improving the competitiveness of companies as of February 2025. These measures aim to reduce supply chain openness requirements and corporate sustainability reporting by 25%, so saving perhaps €40 billion initially for European businesses. The Commission's broader economic strategy also includes the

⁷⁶ Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence and amending Directive (EU) 2019/1937 and Regulation (EU) 2023/2859

⁷⁷ Paris Agreement to the United Nations Framework Convention on Climate Change, Dec. 12, 2015

⁷⁸ Regulation (EU) 2021/1119 of the European Parliament and of the Council of 30 June 2021 establishing the framework for achieving climate neutrality and amending Regulations (EC) No 401/2009 and (EU) 2018/1999 ('European Climate Law')

"Clean Industrial Deal"⁷⁹, which focuses on supporting energy-intensive sectors, along with a comprehensive energy plan aimed at reducing costs for both businesses and consumers while still adhering to net-zero targets. However, these proposals require the approval of the European Parliament and a majority of EU member states.

While certain industry groups support these legislative relaxations, others—including environmental groups and some EU legislators—warn that such rollbacks may reduce corporate responsibility about social and environmental issues. Businesses functioning inside the EU have to be alert about these continuous changes since they could greatly affect CSDD compliance criteria.

Moreover, the Directive guarantees those impacted by the neglect of these obligations access to justice and legal remedies. Crucially, this Directive does not reduce Member States' responsibilities for ensuring environmental protection in line with international law and respect of human rights.

The six steps listed in the Guidance for Responsible Business Conduct should be included in the due diligence procedure described in this directive⁸⁰. These steps are designed to help companies identify and address negative impacts on human rights and the environment. The process includes the following stages:

1. Integrating due diligence into policies and management systems;
2. Identifying and assessing any adverse human rights and environmental impacts;
3. Preventing, halting, or minimizing actual and potential negative impacts;
4. Monitoring and evaluating the effectiveness of these measures;
5. Effectively communicating the findings; and
6. Providing appropriate remediation.

To enhance the effectiveness of due diligence and alleviate the burden on companies, it is important that they are permitted to share resources and information within their corporate groups and with other legal entities. Parent companies that are subject to this directive should be allowed to fulfill certain due diligence obligations on behalf of their subsidiaries covered by the same directive, provided that this arrangement facilitates effective compliance⁸¹.

⁷⁹ European Commission (2025) The Clean Industrial Deal: A joint roadmap for competitiveness and decarbonisation, Brussels, COM(2025) 85 final

⁸⁰ OECD (2018), OECD Due Diligence Guidance for Responsible Business Conduct

⁸¹ Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence and amending Directive (EU) 2019/1937 and Regulation (EU) 2023/2859

The directive also seeks to standardise due diligence criteria so creating a level playing field among EU members. This strategy guarantees that businesses running across many countries follow a consistent set of guidelines and reduces regulatory fragmentation. Establishing this consistency guarantees that all companies are governed by the same ethical and environmental standards and helps to avoid unfair competition.

The adoption of the Corporate Sustainability Due Diligence Directive (CSDDD) is a part of a whole attempt by legal systems to react to the structural changes driven by economic globalisation. The movement of production, risk outsourcing, and corporate organisational model fragmentation define this worldwide change. As noted by Vania Brino (2023), “the identity of labor law has been compromised by the processes of denationalization of the economy, with the company assuming the role of the true linchpin of the world-system” (p. 708)⁸². The spread of legally autonomous but economically dependent entities, transnational supply networks, and subcontracting has made assigning responsibility within global value chains ever more difficult. These chains are arranged in a multipolar and multilayered pattern, which makes conventional legal systems insufficient to properly handle the actual power dynamics and obligations in effect.

Due diligence is no longer envisioned as a voluntary or self-regulatory mechanism; rather, it is positioned as a legal obligation capable of addressing what Brino (2023) refers to as the “deterritorialization” of law (p. 709), or the growing disjunction between economic operations and national legal controls. By imposing a duty of care on companies that extends throughout their value chains, the directive seeks to bridge the protection gaps resulting from the disaggregation of production and the pluralization of legal relationships among entities.

Moreover, this change reflects a clear normative ambition: to restore the primacy of fundamental social rights—especially labour rights—in a situation when the imperatives of global market logic sometimes hide or marginalise these rights. Thus, the CSDDD acts as a deliberate counterbalance to the asymmetries brought about by globalisation. Defined not as a matter of ethical posture but rather as a concrete legal obligation with worldwide consequences, its clauses restore both relevance and enforceability to the principle of corporate responsibility. In this sense, the Directive marks a major breakthrough in balancing legal responsibility with economic power, so restoring enforceable norms into

⁸² Brino, V. (2023). *Corporate sustainability due diligence: quali implicazioni per i diritti dei lavoratori?* Diritti umani e diritto internazionale, 17(3), 707-729. <https://doi.org/10.12829/109413>

a field usually under soft law and voluntary codes of conduct.

By outlining precise standards and mechanisms for enforcement, the directive benefits not only those who are directly impacted by corporate operations but also promotes a more robust, moral, and sustainable global economy..

1.3 Scope of Application of the Directive

1.3.1 Definition of companies subject to the regulation

Under the Corporate Sustainability Due Diligence Directive, companies that were founded in accordance with the laws of a Member State are required to adhere to due diligence obligations when they meet specific requirements pertaining to turnover and, in certain situations, employee numbers. The directive only applies if the company has met the criteria for each of the last two consecutive financial years, even though these criteria are related to individual financial years.

European Union law and national law should consider the employee counts and turnover of a company's branches—locations, excluding the head office, legally dependent on the company and so regarded as part of it. This strategy also holds true for clusters of businesses should the verges be computed consolidatedly. Unless otherwise, the thresholds a company must satisfy to fit this Directive are understood as computed on an individual basis.

The companies required to comply with the due diligence obligations are those established within the European Union. These companies must have more than 1,000 employees on average and a net global turnover exceeding €450,000,000 in their most recent financial year for which annual financial statements have been prepared or should have been prepared⁸³.

Furthermore, companies that engage in franchising or licensing agreements within the European Union, which are accompanied by royalties and ensure a consistent brand identity, a unified business concept, and standardized business practices, should also comply. This requirement applies when these royalties exceed €22,500,000 in the last financial year, provided that the company had a net worldwide turnover of over €80,000,000 in that same period.

Regarding the number of employees, the calculation must include temporary agency

⁸³ Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence and amending Directive (EU) 2019/1937 and Regulation (EU) 2023/2859

workers and workers posted under Article 1(3), point (c), of Directive 96/71/EC of the European Parliament and of the Council⁸⁴.

Additionally, other workers engaged in non-standard forms of employment should be included in the employee count as long as they meet the worker status criteria established by the Court of Justice of the European Union (CJEU) and seasonal workers should be accounted for proportionally to the number of months they are employed.

The due diligence requirements also apply to the ultimate parent companies of corporate groups satisfying the given criteria. But if the parent company just serves as a holding entity for shares in its operational subsidiaries without managing or making financial or operational decisions for the group or its subsidiaries, then one operational subsidiary set up inside the EU will satisfy these obligations.

Although small and medium-sized businesses (SMEs) are not covered by this rule, their contracts as subcontractors or contractors to the included businesses may nevertheless be affected. The primary goal is to alleviate any financial or administrative burdens on SMEs, many of which are already facing challenges due to the ongoing global economic and health crisis⁸⁵.

As a result, businesses must provide their small and medium-sized business partners with focused and affordable support that takes into consideration their resources, expertise, and challenges. This assistance might take the form of making training, capacity building, or management system upgrades more accessible.

In cases where adherence to the code of conduct or preventive action plan could threaten the financial stability of the SME, companies should provide proportionate financial assistance. This assistance might include direct funding, low-interest loans, commitments for ongoing sourcing, or help in securing financing. The term "jeopardizing the viability of an SME" should be understood as posing a risk of bankruptcy or placing the SME in a precarious financial situation.

With the Commission's support, Member States should create and run easily navigable websites, portals, or platforms—individually or in partnership—to provide companies with company-specific advice and assistance. Member states may also give SMEs financial support and aid in improving their operational capabilities.

⁸⁴ Directive 96/71/EC of the European Parliament and of the Council of 16 December 1996 concerning the posting of workers in the framework of the provision of services

⁸⁵ The Danish Institute for Human Rights', The Corporate Sustainability Due Diligence Directive for non-EU stakeholders https://www.humanrights.dk/files/media/document/CSDDD-for-non-EU-stakeholders_Businesses_EN.pdf

This support should also be made accessible and, if necessary, adjusted and expanded, to upstream economic operators in third countries. Furthermore, companies that partner with SMEs are encouraged to assist them in meeting due diligence requirements by applying fair, reasonable, non-discriminatory, and proportionate expectations.

1.3.2 Sector-Specific Applications and Considerations

Sectors with significant risks to human rights and environmental integrity are given special attention by the Corporate Sustainability Due Diligence Directive (CSDDD). The directive gives special attention to sectors of the economy that present serious threats to human rights and the environment⁸⁶. The shoe, fashion, and textile industries—all of which have a lengthy history of unethical behavior—are particularly under investigation. Issues like forced labour, worker exploitation, poor working conditions, and serious environmental harm are becoming more and more of a problem for these industries. The prevalence of forced labor—particularly child labour and exploitative employment practices—remains a significant problem in light of reports revealing hazardous, unhealthy, and unfair working conditions for many workers.

Furthermore concerning are the environmental effects of these sectors, which include harmful behaviours including microplastic pollution, chemical waste disposal, and too high water consumption.

Companies also have to evaluate and minimise possible environmental damage and violations of human rights not only inside their own operations but also across their whole supply chains, especially in nations with less strict laws. This may require improved traceability of raw materials, more rigorous supplier evaluations, and the adoption of sustainable practices such as reducing carbon emissions and utilizing eco-friendly materials⁸⁷.

The Corporate Sustainability Due Diligence Directive (CSDDD) addresses existing shortcomings in supply chain oversight while offering a framework for businesses to actively advance environmental and human rights protection in their day-to-day operations. For industries like textiles, fashion, and footwear, this directive calls for a commitment to enhanced transparency and accountability. The long-term objective is to

⁸⁶ European Commission (2020) Study on due diligence requirements through the supply chain, Brussels

⁸⁷ <https://epthinktank.eu/2022/05/18/corporate-sustainability-due-diligence-could-value-chains-integrate-human-rights-and-environmental-concerns-eu-legislation-in-progress/>

minimize harmful practices and cultivate a more sustainable and ethical global economy⁸⁸.

Ignoring these rules might cause legal consequences, damage to reputation, and a loss of consumer confidence. In this regard, the CSDDD is an indispensable tool for bringing business activities into line with social and environmental expectations. All of which help to further more general worldwide goals of human rights and environmental protection, it provides a road map for businesses to engage in responsible sourcing, guarantee fair treatment of workers, and adopt sustainable environmental practices.

With an aim of empowering agricultural producers who sometimes find themselves at a disadvantage in negotiations, this directive especially targets the biggest companies, those with a net worldwide turnover exceeding €450 million.

Moreover, by including companies based in third countries, this directive ensures that agricultural producers within the EU are protected from unfair competition and detrimental practices, whether from operators inside or outside the Union⁸⁹.

As well to increase due diligence standards are the extraction and commerce of raw resources including oil, gas, and metals. This field is frequently connected with human rights abuses, dangerous workplace environments, and major environmental impacts. Companies into resource extraction have to embrace responsible sourcing policies, lower their environmental impact, and support ethical labor standards.

1.3.3 Geographic Reach: Applicability to EU and Non-EU Companies

The single market of the EU is fundamental for enabling sustainable economic transitions, thus regular regulatory control is absolutely essential. Individual Member States' fragmented approach runs the risk of compromising efficacy, hence stressing the need of a coherent EU framework.

By means of preventing and mitigating actual or potential human rights and environmental damage in corporate operations, the Corporate Sustainability Due Diligence Directive seeks to fully use the potential of the single market to support the transition to a sustainable economy and promote sustainable development. Given the

⁸⁸ Espínola, M.P., Mason, T., Rebagliati, S. *et al.* Opportunities & challenges in EU due diligence policy implementation for the textile sector. *ERA Forum* 25, 529–542 (2024). <https://doi.org/10.1007/s12027-024-00816-6>

⁸⁹ OECD (2024), *Review of G7 Government-led Voluntary and Mandatory Due Diligence Measures for Sustainable Agri-food Supply Chains*, OECD Publishing, Paris, <https://doi.org/10.1787/f05af4a1-en>.

transnational character of the problems at hand, individual Member States cannot sufficiently pursue these objectives. Many businesses run worldwide and across the European Union with value chains spanning several Member States and third countries. Consequently, efforts undertaken by individual Member States may prove ineffective and could lead to fragmentation of the internal market. Therefore, it is more effective for the European Union to implement measures at the Union level, in line with the principle of subsidiarity outlined in Article 5 of the Treaty on European Union (TEU)⁹⁰.

Furthermore, adhering to the principle of proportionality as specified in that article, the Corporate Sustainability Due Diligence Directive ensures that its measures are limited to what is necessary to achieve these objectives.

The geographic scope of the directive includes third-country companies that have significant operations within the EU, in addition to companies based in the EU. This strategy encourages fair competition and aids in the eradication of regulatory arbitrage⁹¹. Regardless of a company's country of origin, the directive aims to prevent and address environmental damage and human rights violations due to the transnational nature of corporate operations and supply chains.

The European Union's Corporate Sustainability Due Diligence Directive targets EU companies with an average of more than 1,000 employees over two consecutive financial years, along with a net worldwide turnover exceeding €450 million in the most recent financial year. Such companies are required to embed due diligence into their policies and risk management frameworks, identify and evaluate any actual or potential adverse impacts on human rights and the environment throughout their operations, and implement measures to prevent or mitigate these impacts.

Non-EU businesses are subject to the Directive's requirements if they made more than €450 million in net revenue in the EU in the fiscal year before the most recent one. As a result, they must perform the same due diligence as their EU counterparts. This guarantees that their operations within the EU comply with the guidelines established by the Directive. Moreover, in regions affected by conflict and characterized by high risk, as

⁹⁰ European Union, *Treaty on European Union (Consolidated Version)*, *Treaty of Maastricht*, Official Journal of the European Communities C 325/5; 24 December 2002, 7 February 1992 https://eur-lex.europa.eu/resource.html?uri=cellar:2bf140bf-a3f8-4ab2-b506-fd71826e6da6.0023.02/DOC_1&format=PDF

⁹¹ Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence and amending Directive (EU) 2019/1937 and Regulation (EU) 2023/2859

outlined in Regulation (EU) 2017/821⁹², the likelihood and severity of human rights abuses tend to be elevated. When incorporating due diligence into their policies and risk management frameworks, businesses need to take these realities into account. In order to ensure compliance with international humanitarian law as outlined in the 1949 Geneva Conventions, it is imperative that their codes of conduct and due diligence procedures be customised to the particular difficulties of high-risk and conflict-affected environments⁹³. When conducting thorough assessments as part of their identification and evaluation processes, companies should recognize the specific geographic and contextual risks inherent in such situations. To assist in this endeavor, companies can refer to the Commission’s guidance on assessing risks associated with conflict-affected and high-risk areas, along with the UN Development Programme’s guidance titled “Heightened Human Rights Due Diligence for Business in Conflict-Affected Contexts: A Guide”⁹⁴. By using established international frameworks and taking a risk-based approach, businesses can significantly improve the effectiveness of their due diligence efforts. In addition to promoting moral business conduct and sustainable global supply chains, this approach raises corporate accountability. It also encourages long-term resilience, ethical business practices, and greater stakeholder trust. By doing this, it reaffirms the EU’s dedication to human rights and sustainability globally.

1.3.4 Supply Chain and Third-Party Considerations

The scope of the Corporate Sustainability Due Diligence Directive is not confined to companies that fall directly under the Directive, but it also affecting both upstream and downstream business partners⁹⁵.

As such, businesses under the CSDDD will have to engage thorough due diligence not only inside their own business but also inside those of their suppliers. In reality, then, they

⁹² Regulation (EU) 2017/821 of the European Parliament and of the Council of 17 May 2017 laying down supply chain due diligence obligations for Union importers of tin, tantalum and tungsten, their ores, and gold originating from conflict-affected and high-risk areas

⁹³ International Committee of the Red Cross (ICRC). (1949). *Geneva Conventions of 12 August 1949*. <https://ihl-databases.icrc.org/en/ihl-treaties/gc1949>

⁹⁴ United Nations Development Programme. (2022). *Heightened human rights due diligence for business in conflict-affected contexts: A guide*. UNDP. <https://www.undp.org/publications/heightened-human-rights-due-diligence-business-conflict-affected-contexts-guide>

⁹⁵ Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence and amending Directive (EU) 2019/1937 and Regulation (EU) 2023/2859

will call for more frequent monitoring, audits of their business associates, and inspections. Companies have to act appropriately to map their operations, those of their subsidiaries, and, if necessary, the activities of their business partners. Finding the places where negative effects most likely to develop and where they could be most severe depends on this mapping. After this initial mapping, businesses should carefully evaluate their own operations, those of their subsidiaries, and pertinent business partners, paying especially attention to the found areas of possible negative impact.

Especially crucial for the business to minimise possible negative effects from the beginning is embracing and customising particular practices as necessary. Particularly in cases driven by strict deadlines or specific requirements set by the company, these practices can also be essential in addressing negative consequences resulting from the combined activities of the company and its business partners. Furthermore, by enhancing value distribution across the entire supply chain, responsible purchasing and distribution practices play a crucial role in combating child labor, a significant issue in regions plagued by high poverty levels⁹⁶.

While regulated financial entities are obliged to conduct due diligence primarily for the upstream segments of their operations, the unique characteristics of financial services, along with the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct⁹⁷, offer valuable insights into the measures that are both suitable and effective for these entities to implement in their due diligence processes. Additionally, the MNE Guidelines emphasize the importance of recognizing the distinctive nature of financial services.

Additionally, businesses might have to change their contracts to include clauses pertaining to human rights and sustainability, which would put additional obligations on suppliers. They may also think about providing programs like training and capacity building to help smaller businesses comply with the Corporate Sustainability Due Diligence Directive. More detailed information about suppliers' operations and sourcing procedures will be needed in order to assist businesses in meeting their due diligence requirements.

To tackle these risks effectively, the company should engage with entities that can best

⁹⁶ European Commission (2020) Study on due diligence requirements through the supply chain, Brussels

⁹⁷ OECD (2023), *OECD Guidelines for Multinational Enterprises on Responsible Business Conduct*, OECD Publishing, Paris, <https://doi.org/10.1787/81f92357-en>.

prevent or mitigate potential adverse impacts, whether independently or in collaboration with the company or other legal entities, while ensuring compliance with applicable laws, including competition regulations⁹⁸.

Working with another company—especially one that acts as an indirect business partner and has a direct contractual relationship with the pertinent party—may be necessary to help to offset possible negative effects. Many times, especially in cases when the company itself has little control, creating alliances with other organisations is the best approach to prevent bad results.

Furthermore covered by the Corporate Sustainability Due Diligence Directive are the responsibilities of ultimate parent companies of corporate groups satisfying these requirements. Either the parent company itself or, should its main purpose be to hold shares in operational subsidiaries without making management or financial decisions impacting the group, a single operational subsidiary situated in the Union can satisfy the obligations described in the directive.

Particularly, the directive is based on a turnover criterion to specify the extent of this control over third-country businesses. This criteria creates a geographical link between these businesses and Union territory. One good indicator of the possible influence these businesses could have on the internal market is turnover. Like in international law, such effects call for the Union law to be applied to businesses functioning outside of its boundaries.

To accurately evaluate the relevant turnover of the companies involved, it is advisable to employ the methods for calculating net turnover as outlined in Directive 2013/34/EU of the European Parliament and the Council⁹⁹. Additionally, to enhance the effective enforcement of the directive, it is recommended that an employee threshold not be applied to determine which third-country companies fall under its provisions. This is because the definition of “employees”¹⁰⁰ in the CSDDD is rooted in EU law and does not easily

⁹⁸ <https://blogs.law.ox.ac.uk/oblb/blog-post/2024/07/cooperate-or-not-cooperate-expectations-csddd-dangers-cooperation-light-eu>

⁹⁹ Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, and repealing Council Directives 78/660/EEC and 83/349/EEC. Official Journal of the European Union, L 182, 29.6.2013, p. 19–76.

¹⁰⁰ "An employee (or worker) is a person who, for a certain period of time, performs services for and under the direction of another person in return for remuneration." This definition comes from Case C-66/85 (Lawrie-Blum v. Land Baden-Württemberg) and it is used consistently by the Court of Justice of the European Union (CJEU) to determine employment status across various areas of EU law. It is different from the definitions outside the European Union. For example, in the USA

translate to contexts beyond the Union.

Without a clear and consistent methodology for determining the number of employees in third-country companies, including uniform accounting frameworks, imposing such a threshold would only lead to legal uncertainty and complicate the responsibilities of supervisory authorities. Accordingly, the definition of ‘turnover’ should align with Directive 2013/34/EU¹⁰¹, which has already established reliable methods for calculating net turnover. This is feasible since the definitions of turnover and revenue are comparable in international accounting standards.

Moreover, it is advisable for the company or its authorized representative to notify the relevant supervisory authority, to facilitate the identification of third-country companies that generate sufficient revenue within the Union to be subject to the Corporate Sustainability Due Diligence Directive. This notification should occur in the Member State where the authorized representative is located, or alternatively, in another Member State where the company has generated the majority of its net revenue within the Union during the financial year immediately preceding the last year it is deemed subject to the directive.

Companies have to give constant interaction with their business partners top priority in order to proactively prevent and lessen possible negative effects throughout their whole supply chains. This means encouraging honest communication, teaming to find possible hazards, and working together on plans of action to handle and reduce those hazards.

Early and consistent engagement with suppliers helps businesses to solve problems before they become such that severe actions like termination or suspension are required. Consequently, breaking off the business relationship should be considered as a last resort instead of a first reaction.

Furthermore, the directive should include explicit guidelines stating that businesses must only extend existing contracts or enter into new ones with the problematic partner as a last resort if reasonable efforts are not made to sufficiently address the negative effects.

This strategy would guarantee that businesses don't maintain or deepen their ties with

"An employee is any individual employed by an employer." (29 U.S. Code § 203(e)(1))

This means that someone who is legally protected as an “employee” with full rights in the EU might not be considered an employee—and thus not entitled to the same rights or protections—in countries like the U.S., where the definition is narrower and more flexible.

¹⁰¹ Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC

organisations that seriously jeopardise the environment, human rights, or other important areas of concern.

A key point to consider is that when suppliers do not meet the requirements established by companies under this directive, the option to temporarily suspend or even terminate the business relationship exists as a last resort. Such acts should only be taken when continuous involvement and communication cannot sufficiently solve or reduce negative effects.

The ending or suspension of relationships should be seen as an extraordinary action carried out only after all other remedies have been tried without success¹⁰².

But before turning to such extreme policies, the directive should also allow the temporary suspension of commercial ties, particularly with reference to the activities generating negative effects. This suspension should be temporary rather than permanent so that the supplier and the business have time to resolve the found problems¹⁰³.

Companies should work with their business partners over this period to create and carry out a thorough action plan meant to stop the recurrence of the negative effects. This action plan should guarantee that progress can be properly tracked and assessed by including particular, quantifiable objectives together with a logical and reasonable execution schedule. Companies should aggressively search for alternative alliances that fit their operational requirements and dedication to minimise negative effects in parallel with their action plan.

Apart from cutting relations with troublesome vendors, the aim is to build a more strong and sustainable supply chain generally. Companies can lessen their reliance on high-risk partners and improve the stability and sustainability of their operations by looking at different alliances and supplier diversification.

Ultimately, businesses can not only follow the Corporate Sustainability Due Diligence Directive but also significantly help to create more resilient, ethical, and sustainable worldwide supply chains by means of cooperative partnerships, stressing openness, and proactive actions.

¹⁰² Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence and amending Directive (EU) 2019/1937 and Regulation (EU) 2023/2859

¹⁰³ European Commission (2020) Study on due diligence requirements through the supply chain, Brussels

Chapter II Enforcement Mechanisms of the Directive

2.1 Obligations and Responsibilities for Companies

2.1.1 Mandatory Due Diligence Steps and Requirements

The Corporate Sustainability Due Diligence Directive is based on the principle defined by the OECD in the Due Diligence Guidance for Responsible Business Conduct¹⁰⁴. This document describes the six steps that multinational companies must follow to implement due diligence practices. These steps include:

- Policy and Systems Integration: this involves the development, implementation, and seamless integration of policies and risk management systems for relevant activities.
- Identification: businesses need to concentrate on recognising and evaluating possible threats to the environment and human rights.
- Prevention and Minimization: a prevention action plan should be put into place to minimize damage, mitigate risks, and address any actual negative impacts that may arise.
- Monitoring: businesses will have to assess the implementation and effectiveness of its due diligence measures at least once a year to ensure continual improvement.
- Communication: it is necessary to maintain transparency by publicly sharing the company's progress through an annual statement.
- Providing Remediation: when adverse effects transpire, organisations are dedicated to returning impacted people, communities, or environments as nearly as possible to their pre-impact state.

Following these guidelines, the directive requires mandatory steps for the companies in the spotlight to implement the required to identify, prevent, and mitigate adverse environmental and human rights impacts within their operations and supply chains¹⁰⁵.

In order to ensure a clear framework for identifying and managing potential negative effects, companies must first incorporate the due diligence principle into their corporate policies and management strategies.

This means that companies must assess their own operations, subsidiaries and value

¹⁰⁴ OECD (2023), *OECD Guidelines for Multinational Enterprises on Responsible Business Conduct*, OECD Publishing, Paris, <https://doi.org/10.1787/81f92357-en> (OECD, 2023).

¹⁰⁵ Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence and amending Directive (EU) 2019/1937 and Regulation (EU) 2023/2859 (European Parliament and of the Council)

chains to detect actual or possible adverse impacts, such as human rights violations, environmental damage or unethical labor practices¹⁰⁶.

Examples might involve entering a new economic sector or geographical area, launching new products, adopting technologies that could have greater adverse impacts, or undergoing restructuring, mergers, or acquisitions.

Business plans, strategies, and operations should also be changed by companies including their buying policies to develop and apply policies supporting supplier living wages and incomes. These laws ought to also seek to prevent any detrimental effects on the environment and human rights. Companies should make required changes to their design and distribution methods to guarantee good and efficient due diligence. This covers possible negative consequences before and after the product is produced in both the upstream and downstream parts of their activities.

Organisations are supposed to react appropriately to either prevent or minimise identified hazards. This can cause internal policy changes, contract revisions, or proactive stakeholder engagement to support ethical corporate behaviour.

Furthermore, fresh hazards could come from direct alerts, stakeholder involvement, or publicly available reports. Even after acting appropriately, companies should be ready to explain the causes of their data shortfall and show that they are making reasonable attempts to acquire the information as soon as they discover they are unable of getting all required knowledge about their supply chains.

One of key components is putting in place a complaints system that lets impacted parties express their worries and seek corrections.

Transparency is essential in this journey, as it necessitates that businesses publicly share their policies, actions, and progress in addressing human rights and environmental challenges. By taking these steps, companies can not only align with the directive's objectives but also cultivate a more sustainable and responsible business environment¹⁰⁷.

In addition, to effectively identify and assess adverse impacts, companies should utilize both quantitative and qualitative information, including relevant disaggregated data that can be reasonably obtained¹⁰⁸. Suitable methods and resources, such as public reports,

¹⁰⁶<https://www.bsr.org/en/blog/corporate-sustainability-due-diligence-directive-seven-recommendations>

¹⁰⁷<https://www.sgs.com/en-it/news/2024/01/what-is-the-eus-corporate-sustainability-due-diligence-directive?>

¹⁰⁸ Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence and amending Directive (EU) 2019/1937 and Regulation

must support this comprehensive process. For instance, when evaluating environmental risks, companies should collect information on baseline conditions at high-risk sites or facilities within their operational chain.

When assessing potential adverse impacts, companies need to consider a diverse range of risk factors that derive from an overarching evaluation. These factors may include company-specific risks, such as whether a business partner falls outside the scope of this directive, as well as operational risks, geographic and contextual risks—like the effectiveness of law enforcement concerning specific adverse impacts—product and service-related risks, and sector-specific risks.

Moreover, it is essential for companies to analyze how their business partners' models and strategies, including trading, procurement, and pricing practices, may contribute to these potential adverse impacts.

Moreover, companies should use a more focused approach to reduce the load on smaller businesses obtaining data. Companies should avoid asking pointless questions of partners who do not pose a major risk when relevant data on negative effects can be obtained from several levels of the supply chain. Rather, driven by a comprehensive risk assessment, the emphasis should be on gathering comprehensive information from partners located in areas where negative effects are most likely.

Especially, spotting negative effects should be a dynamic and continuous process that always takes the human rights and environmental background into account. Companies have to do evaluations right after any major change, at least once a year, over the course of their operations or business relationships, and whenever new risks are fairly expected. As previously stated, whether through their own actions or in collaboration with subsidiaries and business associates, companies have a critical obligation to put policies in place that prevent or lessen any adverse effects that they may directly cause or contribute to. Even when outside parties contribute to harm, this obligation is still in place. It is important to note that jointly causing an adverse impact does not require an equal level of involvement from a company and its partners; rather, it includes any scenario where a company's actions or inactions, in conjunction with those of its subsidiaries or partners, lead to detrimental effects. This is particularly relevant in cases when a company significantly helps or motivates a business partner to cause damage, as long as the contributions are not small or negligible. Companies should still try to minimise or

(EU) 2023/2859. Article 41.

eliminate negative effects by using their influence even in cases when they are linked to negative impacts in their supply chains but are not directly responsible for them via partners. This could entail motivating corporate partners to adopt ethical behaviour by means of tools including market power, pre-qualification criteria, or connecting business incentives to human rights and environmental performance. Companies can enhance their influence by collaborating, either by directly engaging with the business partner responsible for the impact or by involving another company, which has a direct relationship with that partner¹⁰⁹.

Companies should try to obtain contractual assurances from their direct business partners regarding compliance with the code of conduct and, if necessary, the prevention action plan. This entails obtaining similar assurances from partners whose activities are linked to the supply chain of the company. These contractual assurances should be drafted in a way that ensures accountability for both the company and its partners. Furthermore, suitable procedures ought to be established to confirm adherence to these guarantees. Nevertheless, based on particular situations, the duty to obtain these guarantees may change. To effectively prevent potential adverse impacts, companies should also consider making financial or non-financial investments, adjustments, or upgrades aimed at mitigating risks, and collaborate with other companies, all while adhering to Union laws. When negative impacts are already occurring, businesses must make an effort to stop or reduce it; this includes taking corrective actions or, in extreme cases, the ending of the relationship with the problematic business partner. A solution can be suspending business relationships with partners to enhance their leverage and improve the likelihood of addressing any negative impacts.

In cases where success is unlikely—such as in situations involving state-imposed forced labor—or when an enhanced prevention action plan fails to mitigate the adverse impact, it is essential for companies to terminate their business relationship regarding the activities at hand, if the potential damage is significant.

In particular, to facilitate this obligation, Member States should include provisions in their laws that allow for contract termination in such circumstances¹¹⁰.

¹⁰⁹ Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence and amending Directive (EU) 2019/1937 and Regulation (EU) 2023/2859. Articles 41-50. <https://eur-lex.europa.eu/eli/dir/2024/1760/oj/eng>

¹¹⁰ ESRS implementation support initiatives at Member State level, available at: https://finance.ec.europa.eu/document/download/23692f87-9484-4eef-ae40-205b34618e93_en?filename=finance-events-240516-report-ESRS_en.pdf.

Organisations should carefully consider whether the negative consequences of suspending or ending a business relationship would be significantly worse than the unavoidable or insufficiently mitigated impacts they are trying to avoid. Companies should take proactive steps to avoid, lessen, or completely address the effects of their decisions when they decide to temporarily suspend or end their relationship. Additionally, they should provide reasonable notice to the business partner and continuously review their decision.

Moreover, compliance with the directive's requirements will not be expected from all companies at once; instead, the implementation will occur in a phased manner.

From 26 July 2027, companies that had more than 5.000 employees on average and generated a net worldwide turnover of more than €1.500.000.000 in the last financial year are forced to implement the requirements of the directive.

Secondly, from 26 July 2028, companies that had more than 3 000 employees on average and generated a net worldwide turnover of more than €900.000.000 in the last financial year preceding 26 July 2028 for which annual financial statements have been or should have been adopted, have to start implementing the directive¹¹¹.

Finally, from 26 July 2029 the impositions of the Corporate Sustainability Due Diligence Directive will apply to all remaining companies.

For what concerns companies that are formed in accordance with the legislation of a third country, those that generated a net turnover of more than €1.500.000.000 in the Union, in the financial year preceding the last financial year preceding 26 July 2027, have to comply with the directive from 26 July 2027. While the companies that generated a net turnover of more than €900.000.000 in the Union, in the financial year preceding the last financial year preceding 26 July 2028, must adopt this directive from from 26 July 2028.

2.1.2 Risk Assessment and Preventative Measures

Companies have a crucial role to play in promoting sustainable business practices that respect human rights and environmental stewardship in the modern, globalised economy. The European Union's Corporate Sustainability Due Diligence Directive requires businesses to recognise, stop, lessen, and resolve adverse sustainability effects in their value chains.

¹¹¹ Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence and amending Directive (EU) 2019/1937 and Regulation (EU) 2023/2859. <https://eur-lex.europa.eu/eli/dir/2024/1760/2025-04-17/eng>

A key component of corporate due diligence is the ongoing assessment of risks associated with environmental and human rights violations related to business activities¹¹². Companies should create strong mechanisms for evaluating both direct and indirect risks while considering their immediate and long-term effects. Preventive measures must be customized to address specific risks and should reflect best practices in line with international sustainability standards¹¹³. To raise compliance with sustainability practices, this entails putting responsible sourcing policies into effect, building thorough monitoring systems, and encouraging supplier and business partner cooperation. Companies can significantly reduce risks and contribute positively to long-term environmental and social well-being by including these preventative actions into their operational systems.

Companies have to do constant, comprehensive risk analyses to identify both real and possible negative effects all around their supply chains and operations. Drawing on internal audits, outside evaluations, and public reports, this assessment should combine quantitative and qualitative information. Companies have to take into account hazards not only from their own operations but also from those of their suppliers, subsidiaries, and other business partners. One should consider a wide range of elements including geographic, sectoral, operational, and company-specific risks.

Moreover, the risk assessment process must be dynamic¹¹⁴: companies are expected to regularly update their evaluations, especially following significant changes in operations, supply chains, or the external environment in order to be in line with the dynamic and evolving nature of the risks attributable to business activities¹¹⁵.

Businesses have to guarantee compliance with legal requirements not only for their own activities and those of their subsidiaries but also for their suppliers all through the value chain. This covers all activities related to the manufacturing of goods or the rendering of services as well as all upstream and downstream commercial contacts.

As such, the participating businesses have to carefully look at the sources of the given

¹¹² European Commission. (2020). *Study on due diligence requirements through the supply chain*. European Commission. <https://ec.europa.eu>

¹¹³ De Schutter, O. *Towards mandatory due diligence in global supply chains*. Prepared at the request of the International Trade Union Confederation (ITUC)

¹¹⁴ <https://www.pwc.com/gx/en/services/legal-business-solutions/esg-legal/csddd-environmental-and-social-performance.html#:~:text=Risk%20analysis%20at%20the%20core,incorporated%20into%20on going%20business%20processes>.

¹¹⁵ Brino V. (2022) *Governance societaria sostenibile e due diligence: nuovi orizzonti regolativi*. Lavoro Diritti Europa. Rivista nuova di Diritto del Lavoro

products, the production techniques used, and the effects on the environment and climate connected with their manufacturing. Managing the whole supply chain could provide major difficulties in cases involving imports from developing nations.

In particular, organizations should undertake a continuous and comprehensive risk assessment to adequately prepare for the requirements set forth by the new regulation in a legally compliant manner. Utilizing a business partner audit as a fundamental component of their Compliance Management System (CMS) allows companies to simultaneously meet and document their due diligence responsibilities¹¹⁶.

An integrated framework meant to meet legal criteria, follow internal policies, and match industry standards is a Compliance Management System. Good CMS helps companies to keep constant regulatory adherence and reduce their non-compliance risk.

Given its name, a CMS is clearly a complete system. It consists of a set of tools, business procedures, and internal controls that together help to reduce compliance risks and enable the fulfilment of compliance obligations rather than of any one technological component or process. A CMS might include anything from compliance programs to risk assessments.

Moreover, an effective digital reporting system, compliant with the stipulations of the new regulation concerning the implementation of a complaints mechanism, is another proven element of the CMS. By integrating these tools, the relevant departments will be adequately and legally equipped to meet the obligations established by the EU Supply Chain Act.¹¹⁷

After identifying risks, companies are obligated to take proactive steps to prevent or mitigate those risks, thereby reducing the likelihood of adverse outcomes. This involves crafting and implementing action plans with clear objectives aimed at addressing identified risks. Preventive measures may include revising supplier contracts to ensure compliance with human rights and environmental standards, investing in capacity-building initiatives to help suppliers meet these standards, and conducting regular monitoring and audits to verify compliance¹¹⁸. Furthermore, companies are expected to

¹¹⁶ <https://www.ibm.com/think/topics/compliance-management-system>

¹¹⁷ <https://www.eqs.com/compliance-blog/eu-supply-chain-law/>

The EU Supply Chain Act, formally designated as the Corporate Sustainability Due Diligence Directive is frequently referenced by various appellations due to the distinctions between legal terminologies and public discourse.

¹¹⁸ Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence and amending Directive (EU) 2019/1937 and Regulation (EU) 2023/2859

weave sustainability and human rights considerations into their internal management systems, making these issues integral to everyday operations.

The directive underlines how businesses have to make sure their business partners follow similar guidelines. This responsibility goes beyond direct operations and requires businesses to use their influence—by means of market power, contractual obligations, or cooperative projects—to inspire compliance among associates. Therefore, the rule emphasises that businesses have not only to recognise hazards but also regularly implement proactive policies to stop and minimise damage, so matching their activities with environmental obligations and human rights. This dedication is entwined with the more general idea that businesses have an obligation to uphold human rights and reduce environmental impact in all spheres of their activities and corporate contacts.

To adhere to the Corporate Sustainability Due Diligence Directive and advance sustainable development, corporations must adopt proactive preventative measures, which can be categorized into five principal areas: governance and policy integration, risk assessment, preventative and corrective actions, monitoring and reporting, and collaboration with industry stakeholders¹¹⁹.

Under Articles 10 and 11¹²⁰, companies that fit within the designated scope must meet commitments to address and reduce actual impacts as well as to prevent or mitigate potential impacts.

These businesses have a responsibility to put in place suitable measures that are both reasonably accessible and proportionate to the likelihood and severity of the negative impact. Such actions should be taken to either prevent possible negative effects or, in the event that prevention is not practical or immediately possible, to sufficiently mitigate them. Examples of measures that may be considered appropriate include the formulation of action plans, financial or non-financial investments, adjustments to the company's business plan, strategy, and operations, collaboration with other companies or stakeholders, and targeted support for small and medium-sized enterprises.

An organisation may ask an indirect business partner for contractual guarantees in situations where actual or potential negative effects cannot be avoided or adequately mitigated by the implementation of suitable measures. This approach aims to ensure

¹¹⁹ <https://www.corporate-sustainability-due-diligence-directive.com/>

¹²⁰ Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence and amending Directive (EU) 2019/1937 and Regulation (EU) 2023/2859 <https://eur-lex.europa.eu/eli/dir/2024/1760/oj>

compliance with the company's code of conduct and/or corrective and preventive action plans. Any such contractual assurances must be accompanied by suitable measures for verifying compliance.

Companies must first integrate sustainability principles into their corporate governance frameworks in order to enable efficient due diligence. One essential step is creating a well-defined Due Diligence Policy that outlines the company's responsibilities for environmental and human rights. To guarantee that sustainability is incorporated into strategic decision-making procedures, the board of directors must expressly take on the duty of overseeing due diligence projects. Furthermore, enterprises should establish a Code of Conduct that delineates ethical expectations for suppliers and business associates. This code should be consistent with international standards such as the United Nations Guiding Principles on Business and Human Rights (UNGPs)¹²¹ and the OECD Guidelines for Multinational Enterprises¹²². By integrating these concepts into governance frameworks, businesses lay the groundwork for moral business conduct.

Corporate sustainability depends on doing due diligence in identifying possible risks across the supply chain. Finding operational locations, high-risk suppliers, and subcontractors should be made easier for businesses by value chain mapping. Regular risk assessments aid in assessing the risks associated with business operations as well as social, environmental, and human rights issues. Companies should aggressively include stakeholders in consultations if they want these assessments to be more accurate. To get understanding of possible sustainability hazards, this process entails conversations with labour unions, local communities, staff, and non-governmental organisations (NGRs). Effective risk analysis helps companies to carry out focused initiatives meant to stop negative effects before they start.

When risks are found, businesses have to use aggressive plans to prevent and handle possible infractions. Before business ties are formed, this process starts with suppliers and partners screening to guarantee compliance with sustainability criteria. Companies should also include contractual sustainability clauses into supplier contracts so that partners answer for following ethical and environmental norms.

¹²¹ United Nations. (2011). *Guiding Principles on Business and Human Rights: Implementing the United Nations 'Protect, Respect and Remedy' Framework*.

¹²² Organisation for Economic Co-operation and Development (OECD). (2023). *OECD guidelines for multinational enterprises on responsible business conduct*. OECD Publishing. Available at: <https://mneguidelines.oecd.org/mneguidelines/>

Capacity building constitutes another essential preventative measure. Training courses for suppliers, staff, and business partners will help companies build compliance and sustainability consciousness. Furthermore, the creation of grievance systems lets staff members and interested parties document issues about ethical violations, labour rights, or environmental damage. These systems have to be easily available, open, and provide efficient paths of correction.

Companies have to set thorough monitoring and reporting systems if they are to ensure continuous compliance with sustainability criteria. Effective implementation of due diligence policies across the supply chain depends on regular audits and inspections—internal and external.

They should also start continuous improvement projects to handle cases of non-compliance and help suppliers carry out corrective action. By fully revealing due diligence procedures, found risks, and mitigating strategies, publication of open annual sustainability reports helps to improve corporate responsibility. Public reporting not only fulfils legal requirements but also increases stakeholder confidence and strengthens business reputation.

Addressing sustainability issues, which are often complex, requires collaboration. Companies can improve their due diligence efforts by participating in industry initiatives and multi-stakeholder collaborations that support ethical business practices. Organizations such as the Global Compact¹²³, Fair Labor Association¹²⁴, and Sustainable Supply Chain Initiative¹²⁵ offer valuable guidance for the implementation of sustainable operations.

Moreover, the application of technology and digital tools—such as blockchain-based supply chain tracking and AI-driven risk assessment models—can significantly enhance transparency and improve monitoring capabilities¹²⁶.

Moreover, the Directive depends on a preventive rationale that presupposes rational and profit-oriented behavior from corporate actors. As noted by Julia Sinnig and Dirk A. Zetzsche, “externalities and the use of public goods rarely have an immediate impact on individuals in distant places,” and “the relative distance in terms of regional and temporal impact emphasizes the propensity to accept higher costs for goods and services

¹²³ <https://unglobalcompact.org/>

¹²⁴ <https://www.fairlabor.org/>

¹²⁵ <https://mneguidelines.oecd.org/g7-sustainable-supply-chains-initiative.htm>

¹²⁶ <https://globalnetworkinitiative.org/the-most-important-piece-of-tech-regulation-youve-never-heard-of/>

today”¹²⁷.

This observation underscores a fundamental limitation of the CSDDD: it “assumes that actors are rational, self-interested, and focused on profit maximization with a limited time horizon. Dependence on this assumption implies that the overwhelming majority of investors would disregard distant negative environmental and social impacts in their investment decisions. ”

Consequently, the expectation that companies will assess and mitigate long-term, distant impacts in the absence of robust enforcement mechanisms and incentives may result in superficial or merely symbolic compliance. The Directive should be strengthened in order to address this problem by means of continuous monitoring systems and a shift towards a more long-term, responsibility-driven investment justification.

At last, the efficient application of the Corporate Sustainability Due Diligence Directive calls for a proactive strategy to find and avoid risks connected to sustainability. Businesses can guarantee compliance with the directive by including due diligence policies into governance systems, doing extensive risk analyses, enforcing preventive and corrective action, preserving open monitoring systems, and working with industry colleagues. More importantly, these deeds help to build a more ethical and sustainable worldwide economy. Companies who embrace sustainability as a fundamental concept will not only satisfy legal requirements but also guarantee long-term competitive advantages as the terrain of corporate responsibility changes.

Many negative effects, meanwhile, start slowly and might only show themselves over a long period; examples include systematic worker exploitation and environmental damage. Early on detection of these hazards can be challenging, and they usually elude traditional assessment techniques. Companies who run worldwide supply chains also face a great degree of uncertainty because of regulatory, cultural, and information asymmetries found in third countries, which complicates accurate risk assessment.

¹²⁷ Sinnig J. and Zetzsche D. A. (2025), “*The EU's Corporate Sustainability Due Diligence Directive: From disclosure to mandatory prevention of adverse sustainability impacts in supply chains*” European Journal of Risk Regulation. <https://www.cambridge.org/core/services/aop-cambridge-core/content/view/94BFE293A854586C5B3F2589D5E2F2E3/S1867299X24001004a.pdf/div-class-title-the-eu-s-corporate-sustainability-due-diligence-directive-from-disclosure-to-mandatory-prevention-of-adverse-sustainability-impacts-in-supply-chains>

2.1.3 Reporting and Transparency Requirements

The Corporate Sustainability Due Diligence Directive requires businesses to develop and implement action plans to prevent and mitigate potential harm to the environment and human rights. These action plans serve as strategic frameworks that ensure compliance with environmental standards and promote moral business practices throughout supply chains. The main elements and responsibilities connected with these action plans are described in the next parts.

To effectively mitigate potential negative impacts, it is imperative to promptly develop and implement an action plan, particularly in situations where the complexity of the required preventive measures necessitates such an approach. These plans should delineate clear, reasonable, and precise deadlines, accompanied by qualitative and quantitative indicators for assessing progress¹²⁸.

Action plans may be developed in collaboration with industry groups or multi-stakeholder initiatives and must be tailored to the specific activities of companies, their affiliates, and business partners¹²⁹.

When warranted, companies must extend targeted and proportionate support to their business partners, which may include financial assistance in the form of direct funding, low-interest loans, or guarantees of continued supply. This support is particularly critical when compliance with the code of conduct or the action plan may jeopardize the economic sustainability of small and medium-sized enterprises.

Contracts with SMEs that mandate guarantees must incorporate terms that are fair, reasonable, and non-discriminatory. Furthermore, if compliance verification measures are implemented for an SME, the company must cover the costs of third-party independent verification¹³⁰.

The Corporate Sustainability Due Diligence Directive introduces robust reporting and transparency requirements to ensure corporate accountability regarding human rights and

¹²⁸ Parlak de Oliveira Serra, S. (2025). *Corporate governance and due diligence analysis under the Corporate Sustainability Due Diligence Directive (CSDDD): Legal and extraterritorial challenges* (European Union Law Working Papers No. 105). Stanford – Vienna Transatlantic Technology Law Forum. <https://law.stanford.edu/wp-content/uploads/2025/02/EU-Law-WP-105-de-Oliveira-Serra.pdf>

¹²⁹ Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence and amending Directive (EU) 2019/1937 and Regulation (EU) 2023/2859, Article 10.2 <https://eur-lex.europa.eu/eli/dir/2024/1760/oj/eng>

¹³⁰ Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence and amending Directive (EU) 2019/1937 and Regulation (EU) 2023/2859, Article 10.5

environmental sustainability. Among the key obligations are the Annual Due Diligence Statement and the European Single Access Point (ESAP)¹³¹. These measures are designed to enhance corporate disclosures, provide public access to sustainability information, and align business operations with global climate goals.

A fundamental requirement under the CSDDD is the Annual Due Diligence Statement¹³², which mandates companies to disclose their efforts to identify, mitigate, and address adverse environmental and human rights impacts. The statement must include:

- Due Diligence Policies and Processes: a description of the company's approach to risk assessment and responsible business conduct.
- Results of Risk Assessments: key risks and negative effects found in the business's supply chain and operations.
- Actions Taken: a detailed account of corrective measures implemented to prevent and mitigate these risks.
- Stakeholder Engagement: a report on consultations with workers, affected communities, and other relevant stakeholders.
- Remediation Efforts: details about any remediation offered for environmental or human rights violations.
- Effectiveness Monitoring: metrics and key performance indicators (KPIs) used to evaluate the success of due diligence measures.

This statement must be published annually within 12 months following the end of the financial year and made publicly available on the company's website.

To ensure accessibility and facilitate regulatory compliance, companies will also be required to submit their statements to the European Single Access Point (ESAP).

The European Single Access Point (ESAP) serves as a centralized digital platform for corporate sustainability disclosures. Its main goal is to improve openness by means of a publicly available database whereby businesses submit their due diligence reports and other material connected to sustainability. Through simple access to corporate sustainability data for investors, authorities, and the general public, the European Single Access Point (ESAP) seeks to increase openness. To enable automated analysis, all reports have to be turned in digitally and readable by machines. Organisations should also

¹³¹[https://www.european-financial-data-space.com/European_Single_Access_Point_\(ESAP\).html](https://www.european-financial-data-space.com/European_Single_Access_Point_(ESAP).html)

¹³²[https://www.trusty.id/post/eudr-compliance-the-due-diligence-statement#:~:text=The%20Due%20Diligence%20Statement%20\(DDS,Annex%201%20of%20the%20regulation.](https://www.trusty.id/post/eudr-compliance-the-due-diligence-statement#:~:text=The%20Due%20Diligence%20Statement%20(DDS,Annex%201%20of%20the%20regulation.)

provide consistent metadata, covering information including their industry sector, size, and risk exposure, so preserving consistency and clarity. Moreover, ESAP is in harmony with established frameworks such as the Corporate Sustainability Reporting Directive (CSRD) and the EU Taxonomy Regulation, with the objective of simplifying reporting and minimizing duplication.¹³³

Businesses are required to submit their due diligence statements to ESAP starting in 2029; the European Commission will have further technical guidelines in place by March 31, 2027. In line with the European Green Deal¹³⁴ and Paris Agreement¹³⁵ commitments, the Corporate Sustainability Due Diligence Directive requires large corporations to develop a Climate Change Transition Plan to ensure their business model aligns with the goal of limiting global warming to 1.5°C. At the heart of the transition plan are science-based targets, which must delineate explicit emission reduction objectives for the year 2030, accompanied by supplementary interim targets established at five-year intervals up to 2050 and that should align with the European Union's climate neutrality aspirations.

The scope of emission reductions has to be broad, including not only direct emissions from operations owned by the company (Scope 1) but also indirect emissions resulting from purchased energy (Scope 2), as well as emissions throughout the value chain, including those generated by suppliers and during the whole product life (Scope 3). Companies are expected to use actionable strategies to reach these goals, which might include programs meant to improve energy efficiency, increase the use of renewable energy sources, and lower emissions across their supply chains. Appropriate budgeting and investment strategies highlighting the gravity of their climate commitments will help these initiatives be supported.

Furthermore, executive pay should be linked with the effective achievement of sustainability goals, so underlining the need of climate action inside political systems.

Last but not least, the transition plan should be thoroughly reviewed and updated every year; the Annual Due Diligence Statement will show the company's development and any shortcomings found will be resolved by means of determination and application of

¹³³ [https://www.european-financial-data-space.com/European_Single_Access_Point_\(ESAP\).html](https://www.european-financial-data-space.com/European_Single_Access_Point_(ESAP).html)

¹³⁴ European Commission. (2019). *The European Green Deal* (COM(2019) 640 final). <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52019DC0640>

¹³⁵ United Nations. (2015). *Paris Agreement*. https://unfccc.int/sites/default/files/english_paris_agreement.pdf

corrective actions.

Reviewing compliance will be responsibility of national supervisory authorities to guarantee adherence to these transparency and reporting obligations. Companies neglecting their responsibilities could have to pay fines or engage in corrective action. By 2027 the European Commission is scheduled to adopt delegated acts clarifying the reporting criteria and guaranteeing conformity with current EU sustainability policies.

The CSDDD seeks to promote ethical corporate behaviour, sustainable global business practices, and well-informed investor and consumer decision-making through the implementation of these disclosure requirements. Moreover, companies within the defined scope are obligated to engage in meaningful stakeholder consultation. Stakeholders, encompassing both internal and external parties, must be meaningfully consulted throughout the following stages of the due diligence process¹³⁶:

1. During the gathering of essential information pertaining to actual or potential adverse impacts, in order to identify, assess, and prioritize these impacts;
2. In the formulation of prevention and corrective action plans, as well as the enhancement of existing plans;
3. When making decisions regarding the termination or suspension of business relationships;
4. In the implementation of appropriate measures to remediate adverse impacts;
5. In the establishment of qualitative and quantitative indicators for monitoring purposes.

It is imperative that companies provide stakeholders with sufficient information while actively addressing any barriers to engagement. In instances where engagement with external stakeholders proves insufficient to fulfill the requirements set forth by the Corporate Sustainability Due Diligence Directive, companies are encouraged to seek insights from qualified experts who can offer credible assessments of adverse impacts¹³⁷. Companies must carry out periodic assessments of their own operations and measures, those of their subsidiaries and, where related to the chain of activities of the company,

¹³⁶ https://www.corporate-sustainability-due-diligence-directive.com/CSDDD_Article_13.html?

¹³⁷ Mosco, G. D., & Felicetti, R. (2022). Prime riflessioni sulla proposta di direttiva UE in materia di Corporate Sustainability Due Diligence. *Analisi Giuridica dell'Economia*, 1, Gennaio–Marzo. <https://doi.org/10.1433/104835>

European Commission. (2020). *Study on due diligence requirements through the supply chain*. European Commission. <https://ec.europa.eu>

De Schutter, O. *Towards mandatory due diligence in global supply chains*. Prepared at the request of the International Trade Union Confederation (ITUC)

those of their business partners, to assess the implementation and to monitor the adequacy and effectiveness of measures to address adverse actual or potential impacts.

In particular, companies must perform due diligence assessments at least once every 12 months, or more frequently if there are good reasons to believe that there are new or increased risks of negative effects, in order to maintain transparency and accountability. When major changes occur, like adjustments to supply chains, operational procedures, or external circumstances, these assessments must be conducted as soon as possible.

Following the outcomes of these evaluations, corporations are required to amend their due diligence policies, update the catalog of identified adverse impacts, and revise the corresponding mitigation or remediation measures as deemed necessary.

Additionally, companies must prepare an annual statement and post it on their websites for public consumption. In order to effectively communicate progress, build stakeholder trust, and show a commitment to responsible corporate conduct, this report must comply with the disclosure requirements set forth in the Corporate Sustainability Due Diligence Directive.

2.2 Sanctions for Non-Compliance

2.2.1 *Administrative Sanctions and Financial Penalties*

Administrative sanctions play a crucial role in guaranteeing that businesses fulfil their sustainability due diligence responsibilities under the Corporate Sustainability Due Diligence Directive¹³⁸. Financial penalties for non-compliance can be severe; they can amount to at least 5% of a company's global net revenue for the previous fiscal year. These sanctions are intended to be severe enough to discourage businesses from ignoring their obligations and to emphasise how crucial it is that they incorporate human rights and environmental sustainability concerns into their operational frameworks.

Specifically, the Corporate Sustainability Due Diligence Directive comprises five articles pertaining to administrative enforcement. Article 24 mandates Member States to establish one or more supervisory authorities. Article 25 delineates the powers bestowed upon these supervisory authorities, while Article 26 addresses the procedure for submitting substantiated concerns regarding corporate non-compliance to the authorities. Article 27 elaborates on the potential penalties—referred to as sanctions in the Commission's

¹³⁸ Mosco, G. D., & Felicetti, R. (2022). Prime riflessioni sulla proposta di direttiva UE in materia di Corporate Sustainability Due Diligence. *Analisi Giuridica dell'Economia*, 1, Gennaio–Marzo. <https://doi.org/10.1433/104835>

proposal—and Article 28 establishes a European Network of Supervisory Authorities¹³⁹. One or more supervisory authorities are tasked with making sure that the duties outlined in national laws passed in accordance with Articles 7 to 16 and Article 22 of the CSDDD are followed. The independence and impartiality of these supervisory authorities are highly valued in the directive. It is stipulated that authorities, their personnel, and any third-party entities engaged by the authorities, including auditors and experts, must exercise their powers in an "impartial, transparent manner and with due regard for obligations of professional secrecy".

The intensification of enforcement mechanisms stipulated by the Corporate Sustainability Due Diligence Directive (CSDDD) should be contextualized within a broader evolution of legal thought that reflects the limitations of traditional regulatory frameworks reliant on voluntarism and corporate self-regulation. As Vania Brino (2023) articulates, “legal systems have evolved, moving from the predominance of soft law to an unprecedented strengthening of hard law tools, in the awareness that self-regulation alone is no longer sufficient to guarantee the protection of fundamental rights” (p. 711).¹⁴⁰ This transformation is a response to the increasing evidence of regulatory shortcomings within transnational supply chains, where voluntary codes of conduct have frequently proven inadequate in preventing labor abuses and environmental degradation.

The directive sets a dual enforcement structure. First of all, it forces businesses to find, minimise, and stop negative effects connected to their operations and business contacts on their own initiative. Second, it gives autonomous national authorities strong supervisory and sanctioning powers, including the authority to start investigations, mandate corrective actions, and apply reasonable fines. Comprising preventive and punitive components, this dual approach seeks to counteract evasive behaviour historically allowing parent companies to distance themselves from the misbehaviour of entities within their supply chains.

Additionally, the CSDDD is an example of a new regulatory rationality that views hard and soft law as complementary elements that can be combined into a multi-tiered framework intended to promote both proactive corporate engagement and legal

¹³⁹ Marcu, A., Mehling, M., & Ruiz, A. (2024). *Evaluation of the Corporate Sustainability Due Diligence Directive*. ERCST

¹⁴⁰ Brino, V. (2023). *Corporate sustainability due diligence: quali implicazioni per i diritti dei lavoratori?* *Diritti umani e diritto internazionale*, 17(3), 707-729. <https://doi.org/10.12829/109413>

enforceability. As Brino (2023) observes, “the regulatory framework under construction is based on the prevention of illicit conduct and on the ex ante promotion of accountability and transparency paths for economic action” (p. 712). In this respect, the Directive transcends a purely punitive rationale, seeking instead to cultivate a culture of compliance and accountability that engages economic actors prior to the occurrence of violations, while still maintaining essential coercive instruments to ensure legal efficacy.

Characterised by a mix of obligations, monitoring systems, and remedial strategies—including civil liability and stakeholder grievances—the resulting enforcement system shows an unparalleled evolution in EU corporate regulation. It seeks to restore efficient protection for human rights and labour standards across jurisdictional boundaries and directly addresses the structural flaws in worldwide value chains. Thus, in a setting shaped by transnational corporate power, the Directive not only improves the enforceability of social and environmental rules but also redefines the regulatory role of the state.

Authorities also have to uphold legal and functional independence free from any outside influence—direct or indirect—including those from the businesses they monitor. This need seeks to reduce the risks of corporate capture or other conflicts of interest, which is especially relevant considering the often limited knowledge of national authorities concerning the principles and main criteria of sustainability due diligence. There is worry about these authorities depending too much on the opinions and experiences offered by businesses and consultants.

The mandate for independence should not, however, be taken to suggest that supervisory authorities are free from legal and policy control by higher authorities, such national ministries.

Public disclosures of violations can have negative effects on a company's reputation in addition to financial ones. Each Member State of the European Union will designate a supervisory authority to enforce the Corporate Sustainability Due Diligence Directive. Then, the European Commission will set up the European Network of Supervisory Authorities that will bring together the representatives of national bodies to ensure a coordinated approach¹⁴¹.

National authorities have authority to mandate the stop of any recurrence of such

¹⁴¹ Parlak de Oliveira Serra, S. (2025). *Corporate governance and due diligence analysis under the Corporate Sustainability Due Diligence Directive (CSDDD): Legal and extraterritorial challenges* (European Union Law Working Papers No. 105). Stanford – Vienna Transatlantic Technology Law Forum.

behaviour as well as the termination of any infringement of clauses passed in line with the directive. Moreover, depending on the degree of the behaviour in issue, they could call for the application of appropriate corrective actions. Such authorities also have the power to enforce temporary actions meant to reduce the possibility of major and permanent damage as well as financial fines.

Especially important is the clause allowing supervisory authorities to seek information, start investigations either *ex officio* or in response to reports from authorised agencies, and, most importantly, to carry out inspections inside companies located in other member states, depending on the cooperation of the pertinent national authority. Should the results of these investigations show that a company has neglected due diligence, the supervisory authority could order the application of corrective actions. This does not, however, rule the application of financial penalties or the possible creation of civil liability for damages caused to impacted parties.

Regulatory authorities possess the capacity to issue public warnings, thereby rendering instances of non-compliance visible to consumers, investors, and business partners¹⁴². A company's reputation and position in the market may be greatly impacted by such disclosures, particularly in sectors where maintaining customer trust necessitates moral and environmentally friendly business practices.

When violations continue, authorities may take corrective action requiring businesses to change particular policies or even cut ties to suppliers linked to environmental damage or violations of human rights. Ignoring these corrective instructions could result in increasing penalties including limits on specific company operations. Moreover, businesses that regularly ignore the requirements of the directive run the risk of being excluded from public procurement prospects or government funding, so creating major long-term financial and operational consequences.

Regular monitoring, corporate audits, and investigations started by complaints from stakeholders including non-governmental organisations (NGOs), trade unions, or impacted communities constitute part of the enforcement tools. Should authorities find that a company has neglected its due diligence responsibilities, they have authority to impose penalties quickly, so avoiding protracted legal processes. This proactive approach

¹⁴² Bonfanti, A. (n.d.). *Corporate Sustainability Due Diligence Directive: A human rights-based assessment*. In the framework of the project *Global value chains, human rights and the law. The Italian, European and international path towards accountability (202284YHRN)*, Progetto di Ricerca di Rilevante Interesse Nazionale (PRIN), funded by the European Union - Next Generation EU - Ministero dell'Università e della Ricerca.

is meant to guarantee that companies apply the necessary policies to fit the criteria established by the CSDDD and approach compliance with the seriousness it deserves.

The goal of the directive is ultimately to foster a culture of corporate responsibility, in which case fines are not only punitive in character but also a strong incentive for businesses to include ethical and sustainable practices into their strategic business operations.

The administrative enforcement regime established by the Corporate Sustainability Due Diligence Directive adheres to the conventional model of oversight and supervision of compliance, conducted by independent authorities possessing the requisite competencies and the authority to impose sanctions on corporations for noncompliance. Overall, the powers conferred upon these authorities in the CSDDD appear to be sufficient; however, the effectiveness of administrative enforcement will hinge upon the incorporation of Articles 24 to 28 of the CSDDD into national legislation, as well as the financial and human resources allocated by Member States to the supervisory authorities¹⁴³.

One notable aspect of the administrative enforcement regime is the provision that allows stakeholders, whether they be individuals or legal entities, to submit well-founded concerns to the authorities. This provision mandates that the authorities investigate the matter. Additionally, it allows individuals or groups with a legitimate interest to ask for judicial review of the decisions made by the appropriate authority. By means of this mechanism, stakeholders will have the ability to hold authorities accountable in accordance with the standards of the CSDDD, thereby indirectly holding companies accountable. The administrative enforcement of national laws based on the CSDDD may be a useful part of the wider range of remedies available if Member States successfully incorporate this right into their domestic legal systems without unduly limiting the definition of legitimate interests.

2.2.2 *Civil Liability and Potential Legal Consequences*

Corporations that fail to fulfill their due diligence obligations risk exposure to civil liability lawsuits initiated by affected parties, including local communities, employees, and other stakeholders. Such legal actions may result in court-ordered compensation for damages and mandates for corrective measures to address the harm caused¹⁴⁴.

¹⁴³ Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence and amending Directive (EU) 2019/1937 and Regulation (EU) 2023/2859. Article 29.

¹⁴⁴ Anne-Marie Weber, *Expanding the Toolbox of Sustainable Business Law*, 42 *Pace Env't L.*

Before the appropriate national courts, victims are entitled to bring civil liability claims. Damages resulting from the operations of the business, its subsidiaries, or its commercial relationships with frequently cooperating entities that are identifiable, avoidable, or mitigated by due diligence are covered by civil liability. Even though this liability is typically categorised as extra-contractual, it would be advantageous to hold third parties accountable for their actions in order to stop businesses from hiding behind the corporate veil.

Numerous legal provisions specify the liability of companies that fail to fulfil their due diligence obligations. It is the responsibility of member states to implement regulations that penalise noncompliance with the due diligence requirements outlined in Articles 7 and 8 and hold businesses responsible for losses incurred. To further enhance corporate responsibility, Parliament has introduced a new provision extending the limitation periods for compensation claims and allowing victims to seek injunctive relief. Additionally, trade unions, civil society organizations, and other public interest entities are authorized to represent victims or groups of victims in judicial proceedings concerning adverse impacts ¹⁴⁵.

According to the Corporate Sustainability Due Diligence Directive, Member States must hold businesses accountable for harm done to natural or legal persons in the event that the business "intentionally or negligently" disregards its duties under Articles 10 and 11¹⁴⁶. These responsibilities relate to stopping or reducing negative effects as well as preventing and mitigating them. Liability, however, is restricted to situations in which the claimant is expressly protected by the applicable rights, obligations, or prohibitions, and in which non-compliance causes direct harm. National courts based on domestic law handle the issue of causality determination. Nonetheless, the CSDDD specifically releases businesses from responsibility when damages result from business partners engaged in company operations. On the other hand, the company will be held jointly and severally liable should damage be shared by the company and its subsidiary or business partner. Under the CSDDD, full compensation cannot cause overcompensation and forbid punitive, multiple, or other too high damages. Member States have the power to set

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¹⁴⁵ Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence and amending Directive (EU) 2019/1937 and Regulation (EU) 2023/2859. Article 22, p. 2 bis

¹⁴⁶ Marcu, A., Mehling, M., & Ruiz, A. (2024). *Evaluation of the Corporate Sustainability Due Diligence Directive*. ERCST

conditions under which national human rights institutions, trade unions, and civil society groups could start collective redress systems on victim behalf. Awarding public contracts and concessions may also depend on compliance with the CSDDD; failure to follow its criteria could thus violate contractual obligations.

To ensure effective access to justice and compensation for victims of adverse impacts, Member States must establish regulations governing corporate civil liability. Liability is triggered when a corporation intentionally or negligently fails to prevent or mitigate potential adverse impacts or neglects to address existing impacts, thereby causing harm to natural or legal persons¹⁴⁷.

Damage to an individual's legally protected interests must be interpreted according to national law and may include, but is not limited to, death, physical or psychological injury, deprivation of personal liberty, loss of human dignity, or damage to property. Additionally, the Directive's Annex stipulates that damages must arise from corporate non-compliance with obligations to address adverse impacts, protecting the rights of those directly affected. This clause specifically excludes derivative damages, or harm suffered indirectly by those who are not the direct victims of the negative effects. For instance, if a company violates workplace safety standards, resulting in harm to an employee, that employee's landlord cannot file a claim against the company for economic losses incurred due to the employee's inability to pay rent. The directive does not explicitly address the concept of causality in civil liability. However, it stipulates that companies will not be held liable if the damage is solely attributable to business partners within their operational chains, as defined by the concept of being "directly linked" in an international context.¹⁴⁸ Victims should be entitled to complete compensation for losses in line with national legislation and in line with accepted legal doctrines. Punitive damages and other forms of too generous compensation are absolutely forbidden, though.

Adverse effects should be minimised using a phased approach since their degree and probability demand prioritising. Companies will not be held accountable for damages resulting from lower-priority issues that have not yet been addressed if it is not possible

¹⁴⁷ Marcu, A., Mehling, M., & Ruiz, A. (2024). *Evaluation of the Corporate Sustainability Due Diligence Directive*. ERCST

¹⁴⁸ Bonfanti, A. (n.d.). *Corporate Sustainability Due Diligence Directive: A human rights-based assessment*. In the framework of the project *Global value chains, human rights and the law. The Italian, European and international path towards accountability (202284YHRN)*, Progetto di Ricerca di Rilevante Interesse Nazionale (PRIN), funded by the European Union - Next Generation EU - Ministero dell'Università e della Ricerca.

to handle all found negative effects concurrently. Still, the validity of a company's prioritising choices will be evaluated to see whether it has sufficiently satisfied its responsibilities, so affecting liability conclusions.

Apart from fines, businesses found guilty for environmental violations could be subject to protracted legal investigation, which would cause disturbance to their operations and business ties. Not only does ensuring legal compliance help to reduce litigation risks, but it also supports a company's dedication to moral and environmentally friendly business operations.

Finally, by mandating that companies proactively prevent and mitigate risks within their supply chains and business operations, the Corporate Sustainability Due Diligence Directive strengthens legal protections for victims and reinforces ethical business conduct¹⁴⁹. Nevertheless, the success of these policies will mostly rely on their execution by Member States and the readiness of courts to maintain corporate liability. It is imperative to make sure that enforcement systems stay strong and that victims have free access to justice going ahead. A sustainable and fair economic environment will depend on finding a balance between corporate responsibility and business viability.

2.2.3 Reputational Risks and Market Consequences

The most important effect of required due diligence on environmental and human rights issues is its capacity to enforce behaviours that have hitherto been controlled by non-binding instruments, including guidelines, recommendations, and declarations that do not impose direct obligations on companies. Although these tools are relevant in the political domain for public decision-makers and in the field of business ethics for private entities, the directive mandates that member states adopt its provisions by national transposition laws. This criterion guarantees that every big company functioning inside the internal market is subject to same obligations and responsibilities, so establishing a consistent regulatory framework for all of them. This strategy thus addresses the asymmetry resulting from the uneven application of national regulations, which have been applied inconsistently throughout different countries within the Union, so producing possible competitive distortions.

Several levels of risk, cost, and competitiveness issues are introduced by the Corporate Sustainability Due Diligence Directive, which could have a big impact on businesses

¹⁴⁹ Anne-Marie Weber, *Expanding the Toolbox of Sustainable Business Law*, 42 *Pace Env't L. Rev.* 155 (2024)

inside and outside the European Union. Legal ambiguity and the possibility of litigation are two of the main risks connected to the Directive. By establishing a civil liability framework for companies that fail to satisfy their due diligence obligations, the CSDDD increases the prospect of heightened legal exposure¹⁵⁰. Although the legislation refrains from reversing the burden of proof—a measure intended to guard against unwarranted claims—companies may nevertheless find themselves navigating an increasingly complex landscape of lawsuits, some of which may ultimately be unfounded. This legal pressure is further exacerbated by the uncertainty surrounding how various national courts may interpret the provisions of the Directive, which creates an environment characterized by regulatory unpredictability.

When evaluating their compliance obligations as mandated by the European Union's Corporate Sustainability Due Diligence Directive, businesses must take reputational risks and market ramifications into account. Apart from fines related to laws and finances, non-compliance with the directive might seriously damage the brand reputation, investor confidence, and general market image of a company.

One main risk results from public revelation of infractions. Regulatory authorities have the power to publish public announcements pointing out non-compliant businesses, so subjecting them to examination by consumers, investors, and corporate partners. In a world when ethical business practices and sustainability are ever more important for corporate reputation, this kind of exposure might lead to a loss of consumer confidence, a drop in brand value, and a competitive disadvantage. Companies thought to be neglecting human rights and environmental standards could find it difficult to keep current customers and draw in new ones, particularly as consumers are moving towards companies with strong ethical values.

One more essential dimension is investor confidence. Nowadays, more and more institutional investors consider environmental, social, and governance (ESG) criteria while making investments.

Companies found to be non-compliant with the CSDDD could run across declining stock values, exclusion from investment portfolios focused on sustainability, and divestment concerns. The growing relevance of ESG-related rules and reporting guidelines shows that neglecting due diligence responsibilities could limit access to capital markets, reduce

¹⁵⁰ Marcu, A., Mehling, M., & Ruiz, A. (2024). *Evaluation of the Corporate Sustainability Due Diligence Directive*. ERCST

funding possibilities, and lower credit ratings.

Moreover, keeping market access depends on following the due diligence criteria of the directive. Companies who run supply chains linked to sustainability-oriented partners could be kicked out of procurement procedures should they fail to meet the necessary environmental and human rights requirements. This problem is especially relevant in sectors where government agencies and corporate clients impose strict sustainability criteria while choosing suppliers.

In addition to financial and market-related consequences, non-compliance can have long-term detrimental effects on talent recruitment and employer branding. Employees, particularly those from younger demographics, are giving sustainability and corporate responsibility more weight when making career decisions. Companies with a poor reputation in these domains may struggle to attract and retain top talent, potentially compromising their long-term success and competitiveness¹⁵¹.

Another significant concern is the directive's extraterritorial reach. Its application to multinational firms, including those with headquarters outside the EU but substantial profits there, has been seen by some as regulatory overreach. This approach has come under fire, particularly from developing nations who may see it as a unilateral imposition of European norms. Such a stance bears the risk of undermining international cooperation, particularly when interpreted as a violation of national sovereignty, in addition to possibly inciting political opposition or retaliatory actions.

Economic costs represent an additional dimension of the challenges posed by the Directive. For companies based in the EU that fall within its scope, the European Commission has estimated recurring compliance costs to be approximately €760 million annually, along with initial setup expenses amounting to €220 million. Non-EU firms operating within the EU would also incur substantial financial obligations, with projected costs of €240 million each year and €70 million in initial expenditures¹⁵². These estimates primarily encompass procedural costs related to the implementation of due diligence systems and the management of reporting obligations, as well as transitional investments aimed at mitigating harm or adapting operations in accordance with sustainability objectives.

¹⁵¹ [www.europarl.europa.eu/RegData/etudes/STUD/2020/654191/EPRS_STU\(2020\)654191_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/STUD/2020/654191/EPRS_STU(2020)654191_EN.pdf)

¹⁵² Marcu, A., Mehling, M., & Ruiz, A. (2024). *Evaluation of the Corporate Sustainability Due Diligence Directive*. ERCST

Beyond direct costs, the directive imposes indirect financial burdens, particularly on small and medium-sized enterprises (SMEs) that, while not directly regulated, often constitute part of the value chains of larger companies¹⁵³. These smaller enterprises may be compelled to comply with supplier codes of conduct, provide requisite documentation, or undergo audits, thereby creating barriers to market entry and exacerbating resource constraints. Moreover, "sustainability leakage" results from EU businesses cutting off suppliers in high-risk areas in an attempt to reduce liability. Such withdrawals could just send business to less regulated rivals, so compromising the main goals of the CSDDD by neglecting to promote real improvements in human rights or environmental standards. Unexpected effects on competitiveness could result from the Directive. Strict due diligence laws run the risk of restricting corporate flexibility and responsiveness in sectors where supply chains are already centralised or intrinsically difficult to alter. Because of the possible legal and reputational risks, businesses may be more cautious when pursuing novel ideas or forming new partnerships. There may be limitations on supplier diversification and a reduction in overall corporate agility. Concerns have been raised regarding the potential for an uneven competitive landscape. Small and medium-sized enterprises located within the European Union, particularly those operating in high-impact sectors, may face a disproportionate burden in comparison to foreign competitors that do not meet the threshold for EU market regulation and, therefore, remain exempt from such oversight¹⁵⁴. This issue is further exacerbated by the directive's specific governance obligations—such as those concerning the duties of directors—which are applicable solely to companies established within the EU. Under such situation, some companies could be motivated to move their headquarters to countries with less legal requirements.

The Directive can also unintentionally help to concentrate markets. Larger companies could choose to buy their suppliers in search of total control over their supply chains, so reducing the number of independent market players. Although such vertical integration might improve control, it also increases competition risk and might complicate market access for smaller or new businesses. The concentration of market power among a small

¹⁵³ Sinnig, J., & Zetzsche, D. A. (2025). The EU's Corporate Sustainability Due Diligence Directive: From disclosure to mandatory prevention of adverse sustainability impacts in supply chains. *European Journal of Risk Regulation*. <https://doi.org/10.1017/err.2025.4>

¹⁵⁴ Bueno, N., Bernaz, N., Holly, G., & Martin-Ortega, O. (2024). The EU Directive on Corporate Sustainability Due Diligence (CSDDD): The final political compromise. *Business and Human Rights Journal*. <https://doi.org/10.1017/bhj.2024.5>

number of powerful companies may finally compromise the main goals of the EU—justice, openness, and economic vitality.

The European Commission has responded to these difficulties by suggesting several support systems including hotlines, model contracts, and EU-funded projects meant to help businesses—especially SMEs and suppliers in developing nations. Although these measures represent positive advancements, their effectiveness remains uncertain. A considerable disparity persists between the Directive’s ambitious goals and the practical support necessary to facilitate its implementation without jeopardizing competitiveness or inclusivity.¹⁵⁵

Moreover, the CSDDD “refrains from providing additional guidance on how to reconcile competing goods where conflicts among them occur”¹⁵⁶ this omission leaves companies with considerable discretion—and associated uncertainty—when managing the trade-offs between environmental, social, and governance considerations. Such a lack of clarity raises concerns regarding the practical implementation of the directive, as it provides insufficient guidance for decision-making in circumstances where the fulfillment of one obligation may compromise another.

In summary, the reputational risks associated with the CSDDD extend well beyond mere regulatory fines. The directive underlines the premise that sustainability is no longer merely a compliance issue but rather a fundamental business strategy crucial for maintaining trust, securing investments, and ensuring long-term viability in the market.

2.3 Actors and Control Mechanisms

2.3.1 Role of Governmental and Regulatory Authorities

The Regulatory Scrutiny Board (RSB) is an autonomous entity within the European Commission that serves to advise the College of Commissioners¹⁵⁷. It is essential in giving the Commission's impact assessments and evaluations during the early stages of the legislative process centralised quality assurance and support. The effectiveness of later evaluations is improved by the Board's impact assessment activities, and vice versa.

¹⁵⁵ Giovannone, M. (2024). The European Directive on ‘Corporate Sustainability Due Diligence’: The potential for social dialogue, workers’ information and participation rights. *Italian Labour Law e-Journal*, 17(1), 85–102. <https://doi.org/10.6092/issn.1561-8048/19692>

¹⁵⁶ J. Sinnig and D. A. Zetzsche (2025), “The EU's Corporate Sustainability Due Diligence Directive: From disclosure to mandatory prevention of adverse sustainability impacts in supply chains” *European Journal of Risk Regulation*. <https://doi.org/10.1017/err.2024.100>

¹⁵⁷ Marcu, A., Mehling, M., & Ruiz, A. (2024). *Evaluation of the Corporate Sustainability Due Diligence Directive*. ERCST

The Board is responsible for reviewing and issuing opinions and recommendations concerning all draft impact assessments, fitness checks, and significant evaluations of existing legislation undertaken by the Commission. Additionally, it offers overarching guidance on better regulation policy to the Secretariat-General of the Commission¹⁵⁸.

The Regulatory Scrutiny Board (RSB) was instrumental in the development of the Corporate Sustainability Due Diligence Directive. Prior to the directive's formal proposal, an impact assessment was conducted to determine any potential repercussions. The RSB has been tasked with reviewing these assessments to ensure their quality, methodological soundness, and in-depth analysis.

In 2021, the RSB initially declined to approve the CSDDD impact assessment, citing significant issues with its methodology, calibre, and insufficient evaluation of the economic impacts. As a result, changes were made prior to the European Commission promoting the idea. Legislative actions may be impacted, delayed, or reformulated as a result of the RSB's inspection, which provides the necessary feedback on regulatory projects. Regarding the CSDDD, the final form of the directive was greatly shaped by the RSB's concerns about compliance loads and feasibility.

This analysis carried out by the RSB at the European Union level corresponds with the responsibility of national supervisory authorities, charged with monitoring and implementing the guidelines set by the CSDDD within every Member State.

This procedure guarantees that businesses follow the directive's due diligence requirements.

The national supervisory authorities will carry out investigations when needed and may ask organizations to provide information if suspected of not being compliant with the obligations of the directive.

Moreover their role consists of controlling the companies' transition plans, how they will be designed, adopted but these bodies are not required to supervise the implantation of them.

If a supervisory authority identifies an act of non-compliance or an omission that constitutes non-compliance, it is empowered to take a range of enforcement measures¹⁵⁹.

¹⁵⁸ *Communication to the Commission – Regulatory Scrutiny Board: Mission, tasks and staff*”, Strasbourg, 19.5.2015, C(2015)3262 final. Available at: https://commission.europa.eu/document/download/a56c4562-6ce2-477a-9cafc2a0c7141e4a_en?filename=communication-on-the-regulatory-scrutiny-board-mission-tasks-and-staff_may2015_en.pdf

¹⁵⁹ Bonfanti, A. (2024). *Corporate Sustainability Due Diligence Directive: A human rights-based*

These measures may include:

- Corrective Orders: a company may be ordered by the authority to stop engaging in non-compliant behaviour or to take particular steps to comply. The business may also be told to stop engaging in the forbidden behaviour in the future and, if required, to take corrective action within a specified period of time.
- Penalties: they are set by member states and must be reasonable, effective, and deterrent. The severity of the infraction is one of several factors that are taken into consideration when determining the penalties. At least 5% of the offending company's net worldwide turnover from the prior fiscal year must be the maximum penalty. Additionally, when a corporate group's ultimate parent company is subject to a pecuniary penalty, the parent company's reported consolidated turnover serves as the basis for the calculation.
- Interim Measures: the authority may take temporary steps to stop or lessen the effects of non-compliance when there is an immediate risk of serious and irreversible harm.
- Market Restrictions: in accordance with applicable Union laws, Member States may also remove or forbid the placement, availability on the market, and export of goods, according to the Corporate Sustainability Due Diligence Directive (CSDDD)¹⁶⁰.

These enforcement systems are meant to guarantee adherence to legal criteria and advance European Union corporate responsibility.

Furthermore, should there be reasonable grounds, based on objective circumstances, to believe that a company is not following the national provisions adopted in line with the Directive, each natural or legal entity must be given the right to submit a thorough report to the supervisory authority.¹⁶¹

These monitoring and enforcement clauses taken together create a complete governance structure that improves the Corporate Sustainability Due Diligence Directive's credibility

assessment. In the framework of the project *Global value chains, human rights and the law. The Italian, European and international path towards accountability (202284YHRN)*, Progetto di Ricerca di Rilevante Interesse Nazionale (PRIN), funded by the European Union - Next Generation EU - Ministero dell'Università e della Ricerca.

¹⁶⁰ Holly G. (2024) *The Eu Corporate Sustainability Due Diligence Directive Maximising Impact Through Transposition And Implementation*. The Danish Institute for Human Rights. e-ISBN: 978-87-7570-253-4

¹⁶¹ Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence and amending Directive (EU) 2019/1937 and Regulation (EU) 2023/2859. Articles 24-25.

and potency. Moreover, they underline the European Union's will to uphold human rights, encourage ethical business behaviour, and forward environmental sustainability by means of a cohesive and enforceable legal framework relevant to every Member State.

2.3.2 *Third-Party Auditors and Certification Bodies*

Third-party auditors and certification bodies are required to confirm corporate compliance with sustainability due diligence criteria under the Corporate Sustainability Due Diligence Directive (CSDDD). Independent verification systems give credibility, improve openness, and help to reduce legal and reputational risk as businesses are expected to find, prevent, and minimise negative human rights and environmental effects over their operations and supply chains. Usually covering corporate policies, supply chain monitoring, and the success of risk reducing measures, these audits are a vital defence against greenwashing, making sure businesses make real sustainability commitments instead of only making platitudes. Conversely, certification bodies issue compliance certifications to businesses that satisfy specific sustainability criteria. Such certifications, which may pertain to environmental management (ISO 14001) or social responsibility (SA8000)¹⁶², can significantly enhance a company's credibility among investors, consumers, and business partners. Possessing recognized certifications may also facilitate compliance with CSDDD requirements, serving as evidence of a company's proactive stance toward due diligence.

Beyond just confirming compliance, third-party auditors and certification organisations also help businesses find weaknesses and improve their sustainability plans. Businesses can strengthen their due diligence procedures, increase supply chain transparency, and reduce the risks of non-compliance by working with these independent organisations¹⁶³. It is important to underline, though, that the directive does not let businesses pass accountability to outside auditors. A company still has responsibility for properly managing sustainability risks even if it has earned certifications or gone through audits. The legitimacy of third-party auditors and certification organisations will be more important as enforcement mechanisms related to the CSDDD are developed. Standards for independent assessments must be followed by authorities in order to guarantee

¹⁶² European Commission. (2020). *Study on due diligence requirements through the supply chain*. European Commission. <https://ec.europa.eu>

¹⁶³Zoboli L. (2024) *Il greenwashing e la tutela della corretta comunicazione d'impresa*. Rivista di Diritto bancario, dottrina e giurisprudenza commentata. Pubblicazione trimestrale, Aprile/giugno. ISSN: 2279-9737. rivista.dirittobancario.it

thorough, unbiased audits that support the goals of the directive. Employing external verification systems can be a strategic advantage for businesses overseeing complex global supply chains since it strengthens stakeholder trust and reaffirms their dedication to ethical business practices.

Numerous certification frameworks and auditing standards are aligned with the Corporate Sustainability Due Diligence Directive (CSDDD), thereby assisting organizations in demonstrating compliance with its sustainability due diligence mandates. These frameworks and standards provide comprehensive guidance on managing human rights, environmental impacts, and governance issues within corporate operations and supply chains. The following are some of the most pertinent frameworks:

- ISO 14001¹⁶⁴ (Environmental Management Systems): it is one of the most well-known environmental management standards. It gives businesses a methodical framework for handling their environmental obligations, covering important topics like pollution control, resource use, and waste management. Businesses can demonstrate their dedication to environmental due diligence, a key component of the CSDDD, by adhering to ISO 14001. An independent audit is required as part of the certification process to assess how well an organisation manages its environmental impact¹⁶⁵.
- ISO 26000¹⁶⁶ (Social Responsibility): human rights, labour practices, environmental effects, ethical business practices, consumer concerns, and community involvement are all covered in ISO 26000's guidelines for conducting business in a socially responsible way. ISO 26000 is a useful tool for businesses seeking to comply with the CSDDD because it allows them to align their operations with the principles of corporate social responsibility (CSR), even though it is not a certification standard. It offers a structure for incorporating social responsibility into business strategy, guaranteeing that companies take into account the wider societal effects of their activities¹⁶⁷.
- SA8000¹⁶⁸ (Social Accountability International): it is centred on social responsibility, specifically in relation to working conditions and labour rights.

¹⁶⁴ <https://www.iso.org/standard/60857.html>

¹⁶⁵ <https://www.bureauveritas.it/needs/iso-14001-certificazione-del-sistema-di-gestione-ambientale>

¹⁶⁶ <https://www.iso.org/standard/42546.html>

¹⁶⁷ <https://www.bureauveritas.it/needs/assessment-esg-secondo-la-uni-en-iso-26000>

¹⁶⁸ <https://www.csqa.it/it-it/certificazioni/sostenibilita/sa-8000>

Organisations must adhere to this standard in order to maintain safe working conditions, pay fair wages, and end discrimination, child labour, and forced labour. In order to show their commitment to human rights and to addressing social impacts within their supply chains, companies that want to align with the CSDDD may seek SA8000 certification.

- Fair Trade Certification¹⁶⁹: it is a global certification program that makes sure businesses, particularly in developing countries, follow rules about ethical trading, sustainable environmental practices, and fair wages. Organisations can demonstrate their dedication to responsible sourcing and comply with the CSDDD's requirements for responsible supply chain management by obtaining Fair Trade certification. Businesses operating in industries like agriculture, textiles, and handicrafts will find this certification especially pertinent¹⁷⁰.
- Global Reporting Initiative (GRI) Standards¹⁷¹: for sustainability reporting, which covers a broad range of environmental, social, and governance (ESG) issues, the GRI Standards are widely used. The GRI framework was created to help businesses report on their sustainability performance in an open and consistent manner. Despite the fact that GRI does not grant certification, the standards it offers are very similar to the CSDDD's emphasis on openness and thorough due diligence when disclosing environmental and human rights threats. Businesses that follow GRI reporting guidelines can clearly demonstrate their efforts to monitor, control, and report on their sustainability performance.
- B Corp Certification¹⁷²: for businesses that meet high standards for social and environmental performance, accountability, and transparency, the B Corporation (B Corp) certification is a well-known benchmark. Organisations must conduct a thorough evaluation of their effects on a range of stakeholders, such as workers, clients, suppliers, and the environment, in order to achieve B Corp status. Businesses can demonstrate their dedication to ethical and sustainable practices by obtaining this certification, which is in line with the guidelines provided by the Corporate Sustainability Due Diligence Directive (CSDDD).

¹⁶⁹<https://www.fairtrade.net/en/why-fairtrade/how-we-do-it/how-does-the-label-work/how-fairtrade-certification-works.html>

¹⁷⁰<https://insights.figlobal.com/regulations/nowhere-to-hide-csddd-and-third-party-certification-schemes>

¹⁷¹<https://www.globalreporting.org/standards/>

¹⁷²<https://www.bcorporation.net/en-us/certification/>

- The United Nations Guiding Principles on Business and Human Rights (UNGPs)¹⁷³: these are generally accepted as the international framework for addressing the effects of business operations on human rights, despite not being a certification or auditing standard in and of themselves. The UNGPs are the foundation upon which many third-party auditors and certification bodies base their assessments of businesses' human rights due diligence procedures. According to the principles, companies have an obligation to abstain from violating human rights and to take proactive measures to rectify any negative effects on human rights that they may be connected to.
- ECOSOC's ISO 37001 (Anti-Bribery Management Systems)¹⁷⁴: organisations can use the framework provided by ISO 37001 to put in place an efficient anti-bribery management system. In order to prevent, identify, and lessen bribery in business practices, this standard places a strong emphasis on the implementation of policies, procedures, and controls. Adherence to anti-bribery standards strengthens overall governance and is consistent with the CSDDD's commitment to ethical business conduct, even though its primary focus is sustainability.
- Sustainable Development Goals (SDG) Reporting¹⁷⁵: many businesses have adopted the United Nations Sustainable Development Goals (SDGs) as a framework for assessing and disclosing their contributions to global sustainability, in line with the CSDDD's emphasis on tackling environmental and social issues. SDG reporting has become a crucial tool for companies to demonstrate their efforts in accomplishing more general environmental and social goals, even though it is not a certification.

Businesses can improve their due diligence procedures and more successfully handle the environmental, social, and governance risks outlined in the CSDDD by pursuing certifications or coordinating with these recognised frameworks. These standards serve as a means of proving compliance to stakeholders, such as investors, consumers, and regulators, in addition to offering a roadmap for enhancing sustainability practices.

¹⁷³ United Nations. (2011). Guiding Principles on Business and Human Rights: Implementing the United Nations “Protect, Respect and Remedy” Framework.

¹⁷⁴ <https://www.iso.org/standard/37001>

¹⁷⁵ United Nations. (2015). 2030 Agenda for Sustainable Development, adopted September 2015. Available at: <https://sdgs.un.org/2030agenda>

2.3.3 *Role of Civil Society and Non-Governmental Organizations (NGOs)*

The role and significance of EU stakeholders in business operations cannot be overstated, especially when it comes to shaping and enforcing corporate governance standards. These stakeholders—encompassing businesses, trade unions, non-governmental organizations (NGOs), civil society groups, and regulatory bodies—play a crucial part in advancing corporate sustainability and accountability. These entities, which frequently represent vulnerable or marginalized populations, possess a substantial capacity to hold corporations accountable for their adherence to human rights and environmental standards. Their participation ensures that businesses not only meet regulatory requirements but also genuinely address the implications of their operations on society and the environment.

Stakeholder participation in control and implementation processes is a crucial component of the Corporate Sustainability Due Diligence Directive. As noted by Aria Huys (2024), "the Directive seeks to ensure that corporate sustainability is not a matter of soft commitments, but rather a legally enforceable duty extending to the respect of labor rights throughout the supply chain"¹⁷⁶. In this regard, the directive transcends merely establishing a new set of obligations for corporations; it redefines the roles of both internal and external stakeholders involved in the enforcement phase.

Moreover, as stated by Vania Brino in "Governance societaria e due diligence: nuovi orizzonti regolativi", in recent years the need to introduce new normative instruments to regulate the impact of businesses has been increased. This change caused by the pressure exerted by international institutions, non-governmental organizations and civil society, following the emergence of a new widespread awareness regarding the expectations expressed at a global level towards transnational corporations. As a matter of fact, "in 2019 more than 100 NGOs had signed a joint declaration calling for EU legislative action on human rights and due diligence"¹⁷⁷.

Trade union officials, civil society groups, and stakeholders' participation is no longer seen as optional but rather as a necessary element of the new sustainable government model. These actors are therefore important members of the supervisory system since the creation of complaint systems, cooperative participation in due diligence procedures, and

¹⁷⁶ Huys, A. (2024). *Blowing the whistle on labour rights infringements? The protection of reporting persons under the Corporate Sustainability Due Diligence Directive and the Whistleblower Directive*. Kluwer Law Online.

¹⁷⁷ Brino V. (2022) *Governance societaria sostenibile e due diligence: nuovi orizzonti regolativi*. Lavoro Diritti Europa. Rivista nuova di Diritto del Lavoro

involvement in the validation of the efficacy of corrective actions. This evolution reflects the understanding that inclusive and open governance that efficiently mobilises knowledge, data, and grassroots social pressure is the only way to guarantee the protection of social rights inside worldwide supply chains.

In this regard, the directive strengthens the concept of "dialogical responsibility," in which corporate responsibility is aimed not only at public authorities but also at society and employees. This relationship is distinguished by listening, consulting, and group action. One of the primary contributions of civil society and NGOs to the CSDDD lies in their capacity for monitoring and reporting on corporate activities¹⁷⁸. Furthermore, NGOs frequently advocate for enhanced corporate accountability¹⁷⁹. Representing the interests of workers, communities, and the environment, they interact with government agencies and international organisations to support more strict rules and efficient enforcement systems. By offering knowledge on important issues including supply chain transparency, environmental stewardship, and human rights, NGOs can affect the larger policy environment inside the framework of the CSDDD. Their efforts could result in the creation of more strict criteria or the creation of extra tools and resources meant to help businesses properly apply and document their due diligence procedures.

Furthermore, civil society groups are quite important in motivating businesses to follow best practices in sustainability and due diligence as well as in participation with them.

NGOs can greatly affect corporate decision-making by means of advocacy campaigns, public pressure, and direct company interaction, so encouraging companies to surpass minimum legal requirements in favour of more ambitious sustainability projects. This participation can help businesses to become more transparent, strengthen their due diligence initiatives, and adopt more ethical business models.

Civil society groups are also vital to the grievance mechanisms established under the CSDDD¹⁸⁰. They facilitate the filing of complaints by affected communities and employees, ensuring that their concerns are addressed and resolved. Under the directive, businesses are required to establish grievance procedures, and NGOs can serve as

¹⁷⁸ Selin Parlak de Oliveira Serra, Corporate Governance and Due Diligence Analysis Under the Corporate Sustainability Due Diligence Directive (CSDDD): Legal and Extraterritorial Challenges, Stanford-Vienna European Union Law Working Paper No. 105, <http://tlf.stanford.edu>.

¹⁷⁹ <https://www.amnesty.eu/news/ngos-call-for-effective-corporate-sustainability-due-diligence-directive-csddd>

¹⁸⁰ <https://www.germanwatch.org/en/88884>

intermediaries by assisting individuals or groups with the filing of complaints, ensuring that their views are heard, and assisting in the appropriate responses from the company or authorities. Lastly, capacity building constitutes another essential function that civil society and NGOs perform¹⁸¹. Numerous organizations offer training, resources, and support to companies, aiding them in comprehending their due diligence obligations and in the effective execution thereof. This support is particularly crucial for small and medium-sized enterprises, which may lack the necessary resources or expertise to conduct comprehensive due diligence independently.

The implementation of the CSDDD has been challenging, despite the significance of these contributions. Many stakeholders have expressed concerns regarding the scope, relevance, and possibility of unintended consequences of the directive. As a matter of fact, there are also substantial apprehensions about incorporating the Corporate Sustainability Due Diligence Directive into national legislation, especially in relation to existing due diligence laws.¹⁸² As the CSDDD is being implemented, various stakeholders and NGOs, such as BusinessEurope, EcoDa, and Oxfam, have shared their perspectives on the draft directive.

BusinessEurope, a Brussels-based confederation representing enterprises of all sizes across the European Union, has expressed support for the CSDDD and emphasized the necessity of a legal framework for sustainable due diligence. However, its President cautioned that efforts to enhance the sustainability of supply chains must be practical for companies and should not place European businesses in a position of liability for factors beyond their control.¹⁸³ Similarly, EcoDa has called for clearer guidelines on directors' responsibilities to prevent potential legal disputes.¹⁸⁴

Oxfam¹⁸⁵ has criticized the directive for failing to adequately address human rights and environmental concerns, arguing that its scope is too limited as it only applies to large

¹⁸¹ <https://www.fundsforngos.org/all-proposals/a-sample-proposal-on-strengthening-civil-society-organizations-through-capacity-building/#:~:text=It%20involves%20equipping%20these%20organizations,sustainable%20development%20and%20social%20change>.

¹⁸² Joint Trade Association. (2024, November 5). *Towards EU due diligence rules that work for all*. https://www.businesseurope.eu/sites/buseur/files/media/position_papers/sme/2024-11-05_joint_trade_association_statement_towards_eu_due_diligence_that_works_for_all.pdf

¹⁸³ <https://www.businesseurope.eu/publications/eu-corporate-sustainability-due-diligence-directive-businesseurope-reacts-to-the-council-adoption/>

¹⁸⁴ <https://ecoda.eu/?s=due+diligence>

¹⁸⁵ <https://www.oxfamitalia.org/news-e-appronfodimenti/approvazione-csddd-ultimi-aggiornamenti/>

companies.

Moreover, Eurochambres¹⁸⁶ has highlighted that while small and medium-sized enterprises (SMEs) are exempt from the directive, they may still encounter indirect compliance burdens through their interactions with larger companies.

Additionally, stakeholders such as Accountancy Europe and Finance Watch have urged for greater clarity on key terms and a broader scope to encompass more businesses under the directive, advocating for consistency with the Corporate Sustainability Reporting Directive (CSRD).¹⁸⁷

Under the Corporate Sustainability Due Diligence Directive (CSDDD), civil society organisations and non-governmental organisations (NGRs) are essentially important partners in advancing responsible business practices as well as monitors and advocates. Their contributions in capacity-building, advocacy, stakeholder involvement, and monitoring help businesses find their way towards the sustainability goals stated in the directive. Nonetheless, continuous debates on the execution of the directive showcase the need of a balanced approach that takes into account both the immediate needs for human rights and environmental protection as well as the pragmatic difficulties businesses encounter.

¹⁸⁶ <https://www.eurochambres.eu/publication/joint-trade-association-statement-towards-eu-due-diligence-that-works-for-all/>

¹⁸⁷Parlak de Oliveira Serra, S. (2025). *Corporate governance and due diligence analysis under the Corporate Sustainability Due Diligence Directive (CSDDD): Legal and extraterritorial challenges* (European Union Law Working Papers No. 105). Stanford – Vienna Transatlantic Technology Law <http://tlf.stanford.edu>.

Chapter III – The Corporate Sustainability Due Diligence Directive and Its Effects on Labour Rights: Analysis Through Case Studies

3.1 The Corporate Sustainability Due Diligence Directive after the Omnibus Package

3.1.1 Overview of the final compromise and key changes

On February 26, 2025, the European Commission launched a wide-ranging legislative effort referred to as the "Omnibus" package, which is designed to improve the EU's competitiveness in the global market while also promoting its sustainability objectives. This proposal aims to make EU regulations easier to understand, lessen administrative workloads, and create a more appealing atmosphere for investment and innovation¹⁸⁸. It signifies a planned initiative to connect economic development with environmental care and aids the wider goals of the European Green Deal as well as the shift towards a sustainable economy.

The initiative follows important developments, such as the September 2024 publication of Mario Draghi's report, *The Future of European Competitiveness*¹⁸⁹. In addition to pointing out significant challenges facing the EU, such as the necessity of industrial decarbonisation and the shift to digital techniques, the report highlighted discrepancies in sustainability reporting. In retaliation, the Commission introduced the Competitiveness Compass, emphasising the EU's resolve to drastically reduce regulations. A key tool for accomplishing these objectives is the Omnibus package, especially in areas like corporate responsibility, sustainable finance, and the EU Taxonomy.

Numerous legislative proposals in related fields, including due diligence, sustainable finance reporting, the Carbon Border Adjustment Mechanism, and EU investment initiatives, are combined in the Omnibus package¹⁹⁰. The proposed modifications are intended to make compliance easier, particularly for small and medium-sized businesses (SMEs) and small mid-cap firms, which usually struggle with complex reporting requirements. The initiative's main goal is to hold the biggest companies with the biggest environmental impacts to the highest standards. This strategy aims to increase the availability of sustainable financing for a greater range of businesses while reducing

¹⁸⁸ European Commission. (2025, February 26). *Omnibus I – COM(2025)80*. Secretariat-General. https://commission.europa.eu/publications/omnibus-i_en

¹⁸⁹ Draghi, M. (2024). *The future of European competitiveness: Report to the European Commission*. European Commission. https://commission.europa.eu/topics/eu-competitiveness/draghi-report_en

¹⁹⁰ <https://www.whitecase.com/insight-alert/eu-omnibus-package-coming-what-expect>

administrative costs.

The package's main components are changes to the Corporate Sustainability Due Diligence Directive (CSDDD) and the Corporate Sustainability Reporting Directive (CSRD)¹⁹¹. According to the suggested changes, the CSRD would only be applicable to the largest companies—those that employ more than 1,000 individuals and meet specific financial criteria—thus excluding approximately 80% of businesses that were initially included¹⁹². Moreover, the Commission suggests postponing the reporting requirements by two years, allowing companies that are set to report in 2026 or 2027 more time to get ready. A voluntary reporting standard for small and medium-sized enterprises (SMEs) is being created by the European Financial Reporting Advisory Group (EFRAG)¹⁹³ to restrict the amount of information that larger companies can demand from their smaller partners.

Flexibility will be enhanced by the modifications to the EU Taxonomy reporting regulations. Other large companies may choose to report voluntarily, but only those covered by the CSDDD will be obliged to do so. In recognition of the dynamic nature of sustainability practices, the Commission also recommends allowing businesses to reveal their partial adherence to the taxonomy. A revised materiality threshold, a 70% reduction in reporting templates, and a more efficient method for the "Do No Significant Harm" (DNSH) criteria—which will primarily concentrate on standards pertaining to chemical management and pollution prevention—are among the other simplifications. When calculating the Green Asset Ratio (GAR), financial institutions in the banking sector will be permitted to omit exposures to entities that are not covered by the CSRD. This will improve the suitability of the requirements.

To make it more focused and practical, the due diligence framework is being redesigned. Systematic due diligence requirements that concentrate primarily on direct business partners will alleviate the burden of managing entire supply chains. Unless certain circumstances necessitate more frequent reviews, business partner assessments will now be conducted every five years rather than annually.

This regulatory evolution supports a more inclusive model of corporate governance. As Brino (2023) notes, “a new business model must be promoted, one that is capable of

¹⁹¹ <https://natlawreview.com/article/omnibus-package-changes-sustainability-and-due-diligence-reporting-requirements>

¹⁹² https://finance.ec.europa.eu/publications/commission-simplifies-rules-sustainability-and-eu-investments-delivering-over-eu6-billion_en

¹⁹³ EFRAG. (2024). Voluntary sustainability reporting standard for SMEs. Brussels.

internalizing, alongside the interests of shareholders, those of all who interact with the company,” highlighting a shift towards a broader, stakeholder-oriented vision of corporate purpose (p. 439)¹⁹⁴.

Additionally, national legal systems will be able to assume responsibility while ensuring victims' compensation rights as the EU's civil liability regulations are repealed. Major corporations will have until July 2028 to comply with the new regulations, and assistance will be offered starting in 2026 to aid in the transition.

While the EU's decision to postpone the Corporate Sustainability Due Diligence Directive has drawn a lot of criticism, some authors see it as a calculated move. According to De Benetti (2025), this postponement can offer businesses a significant chance to strengthen their ESG readiness, implement training programs, implement robust data management systems, and increase transparency and credibility across the value chain—all of which will strengthen their position and reduce the possibility of greenwashing. Additionally, she points out that “large corporate entities are required to begin mandatory sustainability reporting this year, which implies that suppliers or partners who do not choose to align voluntarily may face a considerable competitive disadvantage.”¹⁹⁵

The Commission seeks to make it easier for people to access key EU financial resources, such as InvestEU and the European Fund for Strategic Investments, in order to boost investment. By reinvesting previously earned profits and redistributing unused funds, the proposed changes are expected to bring in an additional €50 billion in public and private investment. It is anticipated that the simplification of these financial instruments will save beneficiaries and partners around €350 million in implementation costs.

The Omnibus package is anticipated to offer notable benefits. The changes could result in a reduction of approximately €6.3 billion in annual administrative costs. It is anticipated that companies exempt from the EU Taxonomy and CSRD requirements will save €1.6 billion and €0.9 billion in one-time expenses, respectively. If a temporary "stop the clock" action is taken to postpone reporting requirements, co-legislators will have immediate support and more time to complete the proposed changes. Additionally, it is anticipated that modifications to the European Sustainability Reporting Standards (ESRS) and the CSRD will lower recurring compliance expenses by an extra €4.4 billion a year.

¹⁹⁴ Brino, V. (2023). *La governance societaria sostenibile: un cantiere da esplorare per il diritto del lavoro? Lavoro e diritto*, 37(3). <https://doi.org/10.1441/108233>

¹⁹⁵ De Benetti C. (2025). *La direttiva “Stop the Clock”. Le opportunità (da non perdere) offerte dal rinvio della corporate sustainability reporting directive*. *Rivista Giuridica AmbienteDiritto.it* - ISSN 1974 - 9562 - Anno XXV - Fascicolo n. 2/2025

The European Parliament and the Council have been given these recommendations for examination; the Commission supports fast approval of necessary components, particularly the postponed reporting deadlines. Designed following careful trilogue negotiations, the final agreement text shows a more pragmatic and targeted approach for sustainability control. The CSDDD's range has been restricted to include only big businesses and high-risk sectors, so drastically reducing the total number of companies affected. From strict liability to obligations emphasising more on procedures than results, the legal vocabulary has become less harsh. Customised instructions are being developed to assist compliance in many different sectors, and the implementation deadlines have been stretched.

This reform marks a legislative shift in the EU from a rigid, homogeneous model to a more flexible framework stressing results. It aims to preserve sustainability goals while letting companies lead a major part in the competitive and environmentally friendly change of the European Union.

3.1.2 Scope, obligations, and enforcement mechanisms: implications for labour rights

Significant changes to the scope, character of obligations, and enforcement procedures of the Corporate Sustainability Due Diligence Directive (CSDDD), as amended by the European Commission's Omnibus Package, have direct ramifications for labour rights both inside and outside the EU. These modifications alter the EU's stance on corporate responsibility for labour standards in international supply chains, even as they seek to lessen administrative burdens and increase competitiveness¹⁹⁶.

The final directive applies to companies with more than 500 employees and a net turnover exceeding €150 million. Additionally, it captures firms in designated high-risk sectors—such as textiles, agriculture, and extractives—that employ at least 250 individuals and generate a turnover of at least €40 million¹⁹⁷. Although this scope excludes many small and medium-sized enterprises (SMEs), it focuses on larger and more impactful players in global value chains. These entities are therefore expected to bear responsibility for

¹⁹⁶ European Commission (2024). *Questions and Answers – Omnibus Package*. https://ec.europa.eu/commission/presscorner/detail/en/qanda_25_615

¹⁹⁷ European Commission. (2022). *Proposal for a directive on corporate sustainability due diligence*. COM(2022) 71 final. <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52022PC0071>

identifying, preventing, mitigating, and acknowledging adverse human rights and environmental impacts, including serious labour rights violations such as forced labour, child labour, and unsafe working conditions.

The stated obligations of the CSDDD have a procedural component. The directive requires businesses to show that they have taken "appropriate measures" to address potential and actual negative impacts across their supply chains and operations, rather than defining results. Without imposing strict outcome criteria, this approach seeks to promote systematic risk management and signifies a move towards process-based accountability. The enforcement system has been a main focus of attention, particularly with relation to civil liability. Originally, the CSDDD offered an EU-wide civil liability system whereby victims could pursue compensation should a company neglect due diligence responsibilities. Under specific criteria, Member States were also obliged to let trade unions and non-governmental groups file claims on behalf of impacted people.

The Omnibus Package does, however, suggest the elimination of the harmonised civil liability system at the European level. Rather, enforcement will rely just on Member States' current national legislation, which brings variation in the protection of rights and liability adjudication. Member States still have obligations to guarantee that victims may pursue compensation and access justice; nevertheless, the efficacy of this clause will mostly rely on the strength and objectivity of national legal systems. Moreover, the elimination of the EU-level requirement for minimum penalties of at least 5% of world net flow eliminates a strong deterrent, so possibly compromising enforcement.

The updated rule also limits the scope of due diligence mostly to Tier 1 corporate partners and reduces the frequency of required assessments from annual to every five years. While this simplification benefits companies by reducing compliance costs, it may reduce oversight of labour conditions in lower tiers of supply chains, where the risk of labour abuses is often greatest. Labour rights advocates argue that this could result in blind spots in the monitoring of subcontracted or offshore production units, where violations are both prevalent and difficult to trace¹⁹⁸.

Moreover, the directive no longer guarantees the right for civil society actors to initiate legal proceedings on behalf of victims, thereby potentially diminishing the enforcement capacity of vulnerable workers who lack the resources to navigate legal systems

¹⁹⁸ Business & Human Rights Resource Centre. (2024). *EU due diligence: Impacts and gaps*. <https://www.business-humanrights.org>

independently¹⁹⁹. Although national authorities retain oversight functions and the power to impose corrective actions, the absence of a harmonized enforcement mechanism could lead to forum-shopping and fragmentation of legal accountability across the EU.

Nonetheless, the rule sets a legal basis for transnational corporate responsibility in the field of labour rights. Notwithstanding its constraints, there is a growing agreement among businesses about the need of considering their social and environmental footprints, including the treatment of employees in far-off locations of their supply chains. The updated directive marks a major, if measured cautiously, step towards more efficient labour standards governance inside the globalised economy.

In essence, the Omnibus Package begs important issues regarding the EU's capacity to regularly and fairly enforce labour rights protections even while it brings significant simplifications for companies. Achieving a balance between regulatory efficiency and social responsibility remains a central challenge in the evolving architecture of EU sustainability policy²⁰⁰.

3.1.3 Critical reactions from stakeholders: business, unions, NGOs

The Omnibus Package seeks to change significant sustainability legislation including the InvestEU Regulation, the Corporate Sustainability Reporting Directive (CSRD), the Corporate Sustainability Due Diligence Directive (CSDDD), and the Carbon Border Adjustment Mechanism (CBAM)²⁰¹. Labour unions, environmental groups, and civil society have all responded remarkably strongly against this project. Under the cover of "simplification," these groups have voiced worries about what they believe to be a concerted effort to undercut important social and environmental protections.

Stakeholders' responses to the last compromise have differed, so highlighting the conflict between ambition and pragmatism. Business groups, including BusinessEurope, expressed their support about the more exact legal definitions and the less scope of the directive. These changes are seen by them as necessary for reducing legal uncertainty and avoiding unnecessary burden. Still, many people still show worries about the costs of compliance and the possible legal risks, especially for multinational companies

¹⁹⁹ European Coalition for Corporate Justice. (2024). *Civil society response to the CSDDD changes*. <https://corporatejustice.org>

²⁰⁰ European Commission. (2024). *Competitiveness Compass*. https://ec.europa.eu/info/publications/competitiveness-communication_en

²⁰¹ <https://natlawreview.com/article/omnibus-package-changes-sustainability-and-due-diligence-reporting-requirements>

supervising complex worldwide supply chains.

On the other hand, labour advocacy groups and trade unions have voiced their displeasure with what they see as a weakening of the original proposal. The European Trade Union Confederation (ETUC) and other worker-centered groups argue that the limited civil liability provisions and the exclusion of smaller businesses could undermine the directive's ability to bring about significant change. Concerns were also raised about the due diligence process's lack of strong mechanisms encouraging employee participation and collective bargaining.

Similar critiques were made by non-governmental organisations, particularly those devoted to environmental justice and human rights. Although they acknowledge the training as a major breakthrough, they argue that unclear and insufficient enforcement strategies could reduce its overall effectiveness. Numerous non-governmental organisations are worried that if thorough monitoring and enforcement measures are not put in place, the directive may give the wrong impression of progress while failing to provide justice to the affected communities and workers.

Non-governmental organizations and labor unions swiftly criticized both the content and the methodology of the package. One of the most frequently criticized elements is the lack of transparency in its development. The European Commission did not follow the usual public consultation processes²⁰². Instead, it held a private meeting on 6 February 2025, which included 58 representatives from various companies, primarily from the oil and gas industry, and only 10 representatives from non-governmental organizations (NGOs). Both the European Environmental Bureau (EEB) and a group of European trade unions as undemocratic and in violation of the Commission's own Better Regulation Guidelines have criticized this strange and random consultation process, which lacks openness or evaluation of its effects.

In a collective announcement, European labor unions, such as the European Trade Union Confederation (ETUC), demanded the removal of the Omnibus Package, labeling it a "direct assault on workers' rights and environmental safeguards". The unions emphasized that the Commission's strategy favors corporate deregulation at the expense of the welfare of workers and the environment, while intentionally ignoring the perspectives of those most impacted by the suggested modifications.

The European Federation of Food, Agriculture and Tourism Trade Unions (EFFAT)

²⁰² <https://verfassungsblog.de/eu-omnibus-informal-workers/>

expressed a strong disapproval of the proposal, stating it is a "direct assault on workers' rights". They contend that the reduction of responsibilities for companies—such as obligations for due diligence and the implementation of transition plans—will weaken social justice and workplace safeguards, particularly in at-risk industries. "The Commission has decided to prioritize corporate interests over its duty to safeguard individuals and the environment," stated EFFAT in its formal response.²⁰³

Environmental organizations express similar concerns. The European Environmental Bureau (EEB), the largest environmental network in Europe, characterized the Omnibus Package as a "Trojan horse for aggressive deregulation."²⁰⁴ Faustine Bas-Defosse, the Director for Nature, Health, and Environment at EEB, stated:

"It is now clear that 'simplification' is just a Trojan horse for aggressive deregulation. The Omnibus Simplification Package is not just an attack on corporate environmental accountability, it is a blow to democracy. In just four months, the Commission has rewritten agreed EU rules without any democratic process, impact assessment, or consultation. All without a shred of evidence that these yet-to-be-implemented rules would harm competitiveness. What this package does create, however, is legal uncertainty, rewarding laggards while penalising companies that were moving early to monitor and report their environmental impact"²⁰⁵.

Now we know that 'simplification' is just a slang word for aggressive deregulation. In addition to undermining corporate environmental responsibility, the Omnibus Simplification Package also goes against democratic values. The Commission has changed long-standing EU regulations in just four months without consulting anyone, carrying out impact analyses, or adhering to democratic processes. All without any proof that these regulations, which have not yet been implemented, would have a detrimental impact on competition. The update of the Corporate Sustainability Due Diligence Directive (CSDDD) is a key focus. Stakeholders argue that requiring "plausible information" to begin investigations beyond direct partners and restricting mandatory human rights and environmental due diligence (mHREDD) to Tier-1 suppliers only

²⁰³ <https://www.etuc.org/sites/default/files/document/file/2025-03/Joint%20European%20Trade%20Union%20statement%20on%20the%20Omnibus%20I%20Deregulation%20package%20EN.pdf#:~:text=The%20Commission%20has%20pushed%20this%20omnibus%20package,and%20an%20unusual%20and%20arbitrary%20%E2%80%9Cconsultation%E2%80%9D%20process>

²⁰⁴ <https://eeb.org/omnibus-a-trojan-horse-for-aggressive-deregulation-say-ngos/>

²⁰⁵ <https://eeb.org/omnibus-a-trojan-horse-for-aggressive-deregulation-say-ngos/>

undermines legal and corporate accountability. This represents a significant reversal from the more proactive, upstream-focused approach put forth in the original CSDDD and reflects the more limited duties delineated in Germany's Lieferkettengesetz (LkSG).

Critics have interpreted the weakened enforcement tools, such as the elimination of EU-wide civil responsibility and the cancellation of the 5% global turnover fine, as a call to flout regulations. Stakeholders fear a fragmented and uneven framework that incentivises businesses to move their operations to areas with laxer regulations if Member States do not enforce the law consistently.

Equally troubling is the elimination of the requirement for companies to carry out their climate transition strategies. Non-governmental organizations caution that this creates opportunities for extensive greenwashing. This permits companies to declare long-term commitments to sustainability without any legal obligation to take action, thereby directly undermining the EU Climate Law and the aim of the European Green Deal, which is to achieve climate neutrality by 2050.

In addition to its impact on Europe, the package jeopardises the rights and well-being of millions of people in the Global South. The updated framework does not address or protect the informal economy, which is where most human rights violations and environmental damage take place. Critics claim that the Commission disregarded recommendations from its own Regulatory Scrutiny Board, which urged a more thorough examination of third-country effects, particularly in developing nations.

Trade unions and non-governmental groups argue that workers in the informal sector—who usually lack official documentation, legal protections, or channels of complaint—are practically left out of the due diligence process. In numerous areas of the Global South, where informal employment accounts for more than 70% of the workforce, this exclusion presents both ethical and practical challenges. It weakens the EU's objectives for sustainability and development and poses a risk to disconnect the important connections between formal businesses and the informal economies that provide support to them.

Moreover, according to Michele Corgatelli, the exact identification of business actions that could violate the directive is still influenced by considerable interpretative ambiguity. This matter is particularly significant, as we are now faced with mandatory legal responsibilities that can be enforced, rather than merely soft law²⁰⁶. Unless terms like

²⁰⁶ Corgatelli M. (2025). «Adverse Impact» and «Risk» in the Corporate Sustainability Due

“risk” and “adverse impact” are precisely defined to enable an objective evaluation of corporate actions, there exists a significant possibility that the enforcement of the directive may persist as soft law, lacking tangible legal consequences.

Finally, seeing the Omnibus Package as a major reversal of EU social and environmental policies, unions, NGOs, and environmental groups have responded unitedly. The package is seen as encouraging corporate responsibility, so undermining democratic protections, and so sidelining the people the EU's sustainability goals aim to support rather than simplifying present rules.

3.2 Implications for Workers' Rights and Trade Union Involvement

3.2.1 *Impact on value chain labour conditions*

The European Union's approach to corporate accountability has advanced significantly with the passage of the Corporate Sustainability Due Diligence Directive (CSDDD), especially with regard to how labour rights are treated in supply chains and business operations.

Moving beyond a paradigm of voluntary corporate social responsibility, the CSDDD establishes binding legal obligations that integrate labor rights into the core of corporate governance and risk management practices.²⁰⁷

At its essence, the directive mandates that corporations engage in proactive and sustained initiatives to identify, prevent, and remediate negative impacts on fundamental labor rights. This obligation encompasses severe violations such as child labor, forced labor, and hazardous working conditions, while also addressing systemic issues including wage exploitation, excessive working hours, insufficient social protection, and infringements on the freedom of association. Importantly, these obligations extend beyond a company's immediate workforce to encompass subsidiaries and established business relationships, which include global suppliers and subcontractors.

The CSDDD also improves public accountability and transparency. Businesses must report their due diligence procedures, conclusions, and steps taken to resolve labour rights issues that have been identified. In addition to fostering trust, this mandate for public reporting puts pressure on businesses to show ongoing progress rather than just meeting

Diligence Directive: Outstanding Issues. Il Mulino – Rivisteweb. doi: 10.1435/116531)

Banca Impresa Società (ISSN 1120-9453)

²⁰⁷ Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence and amending Directive (EU) 2019/1937 and Regulation (EU) 2023/2859

legal requirements.

Last but not least, the Corporate Sustainability Due Diligence Directive (CSDDD) represents a shift in the regulatory landscape where protecting workers' rights has progressed from an ethical principle to a legal requirement. This directive urges businesses to create supply chains that are robust, equitable, and focused on human welfare, going beyond simple auditing and surface-level compliance. The directive has the potential to significantly improve working conditions for employees, especially those employed in lower-tier and high-risk production settings, provided it is strictly enforced and companies are willing to take meaningful action. Businesses' willingness to view labour rights as an integral part of sustainable and ethical business practices, rather than as a liability, will determine how well this regulatory framework works.

Legislators are increasingly emphasizing the significance of social sustainability standards, such as the United Nations Guiding Principles on Business and Human Rights (UNGPs) and the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises on Responsible Business Conduct. Legal departments, including labour attorneys, along with specialists in sustainability and human rights, are integral to assisting their organizations in navigating these developments. Their responsibilities encompass the identification and analysis of risks pertinent to company employees, workers throughout the value chain, and affected communities, in addition to ensuring the implementation of socially sustainable practices across the supply chain through contractual assurances from supply chain partners.²⁰⁸

Reporting on sustainability policies and performance has transitioned from being a matter of individual corporate discretion to a mandated requirement under the Corporate Sustainability Reporting Directive (CSRD)²⁰⁹. Organizations falling within the directive's purview are obligated to report on their strategies, impacts, risks, and opportunities in alignment with the European Sustainability Reporting Standards (ESRS)²¹⁰.

While the CSRD primarily focuses on reporting obligations, it also generates inquiries that extend beyond mere compliance. Thus, the legal function, in collaboration with

²⁰⁸ <https://www.pwc.com/gx/en/services/legal-business-solutions/esg-legal/workforce-policies-across-value-chain.html>

²⁰⁹ European Union. (2022). *Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Directive 2013/34/EU as regards corporate sustainability reporting*. Official Journal of the European Union. <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32022L2464>

²¹⁰ European Financial Reporting Advisory Group (EFRAG). (2023). *European sustainability reporting standards (ESRS)*. European Union. <https://efrag.org/ESRS>

sustainability, reporting, and compliance teams, must guarantee adherence to ESRS requirements while recognizing this as an opportunity to foster sustainable business value. The ESRS S1 and ESRS S2 set forth reporting requirements for "social" factors, which include employees of a company (S1) and those in the value chain (S2). The problem for organisations is that they have a wide range of responsibilities that go beyond the areas they can directly control and cover the whole value chain. The information that must be disclosed includes details about the composition of the workforce, working conditions, collective bargaining, nondiscrimination, health and safety, well-being, diversity, and inclusion. Employees, people working for the company, or people affected by its operations—including value chain workers—may be the subjects of the data.

Organisations operating under the CSRD have a fundamental obligation to comply with applicable laws and regulations. This includes following employment standards, labour laws, and health and safety guidelines. These rules are already incorporated into laws that control employment contracts, working hours, minimum wages, leave benefits, and rules pertaining to harassment, discrimination, and diversity reporting in many jurisdictions. Organisations must make sure they stay in compliance with the CSRD as well as any new national or industry requirements pertaining to human rights as individual nations continue to pass new laws.

Such developments are intrinsically tied to the aforementioned UN and OECD principles. The Corporate Sustainability Due Diligence Directive seeks to promote moral business conduct by expanding upon the OECD Guidelines. It mandates that companies under its jurisdiction perform due diligence on human rights.

It is imperative for the legal department to engage collaboratively with teams specializing in labor law, sustainability, human rights, risk management, and compliance. Moreover, these teams have to be fully aware of business operations and the value chain as well as the required tools to enable rights-holder involvement and apply technology-driven solutions for handling the vast amount of data needed to fulfil due diligence requirements. It is important to realise that top management must be involved since compliance responsibility rests on the highest level of the company.

Key labor rights include: freedom of association, collective bargaining, social dialogue, a living wage, and pay transparency.

The freedom of association principle ensures that employers and employees have the right to have their opinions heard and to form or join groups that support their interests, such trade unions. Still, the increasing adaptability of the labour market—especially as shaped

by the platform or "gig" economy—has made this right increasingly unreachable to a greater section of the population.

Fundamentally anchored in the Constitution of the International Labour Organisation (ILO), collective bargaining is closely related to the freedom of association. Underlying legal systems including national labour laws and international labour standards, this process of negotiation is carried out via trade unions or other representative organisations. It helps companies and their employees to come to decisions defining the terms and conditions of employment.

Due diligence and contract management carried out all along the extended value chain provide certain difficulties. Relevant problems could include declining union membership, anti-union policies carried out by companies, and legal limits in some areas that compromise the effectiveness of collective bargaining. The ILO defines social dialogue as encompassing all forms of negotiation, consultation, or exchanges of information that occur between government representatives, employers, and workers regarding matters of mutual interest pertaining to economic and social policy²¹¹. These social dialogue processes may be informal or institutionalized, often combining elements of both. They can occur at national, regional, or enterprise levels and may involve inter-professional and sectoral collaboration. Structures such as works councils, collective bargaining agreements, and consultative commissions facilitate social dialogue, performing a crucial role in fostering cooperation and ensuring the participation of workers in decision-making processes that impact their work and lives.

Potential challenges within these processes may arise from power imbalances, political instability, a lack of trust among the parties involved, and the continually evolving nature of work in the platform economy.

Recently, the International Labour Organization (ILO) reached a consensus regarding the concept of a living wage²¹². This acknowledgment asserts, "Decent wages are central to economic and social development and to the advancement of social justice. They also play an essential role in reducing poverty and inequality while ensuring a decent and dignified life".

While the undertaking of due diligence in this area is comparatively straightforward with respect to a company's own workforce, it becomes significantly more complex for

²¹¹ <https://www.ilo.org/topics-and-sectors/social-dialogue-and-tripartism>

²¹² <https://www.ilo.org/resource/news/ilo-reaches-agreement-issue-living-wages>

workers within the value chain. Factors contributing to this complexity include limited visibility into value chain partners and the disparities between minimum wages and living wages across different countries.

The absence of pay transparency is a major obstacle to attaining gender pay parity. Achieving wage equality is crucial because the current pay gap affects women's quality of life for a long time, makes them more susceptible to poverty, and feeds the ongoing pension pay gap, which is around 30% in the EU²¹³

In April 2023, the European Council passed a new pay transparency directive. Companies operating in the European Union are now obligated by this directive to reveal salary data and to implement corrective measures if their gender pay gap exceeds 5%. The directive also lays out penalties for employers who break these rules and includes provisions for compensating victims of pay discrimination.

Businesses are also required by the Corporate Sustainability Reporting Directive (CSRD) to report on their performance in this important area. In compliance with the Corporate Sustainability Due Diligence Directive (CSDDD), they must identify, resolve, and steer clear of any adverse effects that may arise from a lack of pay transparency in their extended operations. Following these recommendations is probably going to be very difficult. Companies will need thorough awareness of all employees having employment contracts as well as all job candidates both inside their own businesses and those of their suppliers in order to follow the rules.

Engaging staff members, compiling the necessary information to fully grasp pay practices, and investigating the nature of any current pay discrepancies should be basic steps towards compliance. The identification of human rights risks is grounded in a comprehensive framework of international principles and primarily focuses on the potential adverse impacts on individuals resulting from a company's operations, supply chains, and other business relationships²¹⁴. This process is a critical component of conducting effective human rights due diligence.

Numerous organizations maintain extensive supply chains and typically conduct thorough assessments of their suppliers predominantly for those deemed to be high-risk, critical, or significant in terms of expenditure during the supplier qualification phase.

²¹³ <https://www.pwc.com/gx/en/services/legal-business-solutions/esg-legal/workforce-policies-across-value-chain.html>

²¹⁴ <https://www.ipieca.org/resources/labour-rights-risk-identification-in-the-supply-chain>

At this point, a risk assessment is absolutely crucial since working with suppliers who have a good history and a solid awareness of labour rights management helps the company to reduce risk.

Commercial activities have phases ranging from supplier selection to contract execution and performance evaluation all through the contract length.

As such, businesses should take into account the whole supplier life when spotting or mitigating possible hazards.

Establishing an efficient risk management system and improving labour rights performance across the supply chain require a methodical approach to supplier lifecycle management, from initial identification through supplier development. This strategy requires access to supplier performance and data, a strong understanding of inherent risks, and the capacity to recognise risks and red flags. Supply chain mapping is one of the most crucial phases in conducting an exhaustive due diligence process. Collaboration between the organization's commodity and procurement specialists is usually required for effective mapping. Mapping makes it possible to screen suppliers based on risk after the main risk categories and factors have been determined.

The importance of labour rights and the vital role trade unions and social stakeholders play in establishing, negotiating, and defending these rights across intricate global value chains are highlighted by the changing landscape of corporate due diligence.

3.2.2 Challenges and opportunities for trade union protection and collective bargaining

The CSDDD demonstrates a distinct regulatory objective to ensure that enterprises functioning within the EU market take significant responsibility for labor conditions across their entire value chains. In practical terms, this requires that labor rights risk assessments be incorporated into the essential structure of business decision-making, including procurement policies and contract conditions with external parties²¹⁵. Organizations are required to consistently observe and assess the effects of their activities on individuals, modifying their approaches to reduce potential hazards to employee welfare. It is important to note that when damage takes place, the directive requires the provision of effective remedies. This ensures that workers who face exploitation or abuse

²¹⁵ European Commission. (2022). *Proposal for a Directive on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937 (COM/2022/71 final)*. <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52022PC0071>

have available options for seeking redress, including mechanisms for complaints at the company level and possibly legal action within EU jurisdictions²¹⁶.

The change of the relationship between companies and employees across several nations is one of the most important features of the CSDDD. European companies cannot now claim ignorance of labour conditions in far-off parts of their supplier chains. In line with the directive, they have to actively engage trade unions, worker representatives, other civil society organisations, not only to gather data but also to jointly create fair labour practices. The guideline encourages an inclusive method of conducting due diligence, wherein impacted employees are considered essential stakeholders instead of mere passive recipients of policies.²¹⁷

Nonetheless, the directive highlights various structural difficulties that could hinder the successful implementation of trade union protections and collective bargaining rights. A significant challenge is present due to the decreasing levels of union membership on a global scale, especially in industries characterized by informal or unstable employment conditions²¹⁸. This decrease is worsened by strict legal regulations in some areas, opposition from employers, and the division of the workforce—issues that have been amplified by the growth of platform-driven and gig economy models. These elements together diminish the ability of trade unions to mobilize workers and advocate for shared demands, particularly in the lower levels of the supply chain where labor exploitation is more common.

Additionally, in areas where state policy or social norms limit trade union activity, organizations encounter challenges in recognizing valid worker representatives or creating effective communication channels. This prompts significant inquiries regarding the manner in which European companies ought to meet their responsibilities under the CSDDD in high-risk situations. There exists a potential danger of organizations depending on pseudo-representative entities or employer-led social dialogue platforms that may not possess the requisite independence to facilitate authentic collective

²¹⁶ Business & Human Rights Resource Centre. (n.d.). *Corporate due diligence & access to remedy*. <https://www.business-humanrights.org/en/big-issues/corporate-legal-accountability/eu-corporate-due-diligence/>

²¹⁷ European Trade Union Confederation (ETUC). (2022). *ETUC position on the Corporate Sustainability Due Diligence Directive*. <https://www.etuc.org/en/document/etuc-position-corporate-sustainability-due-diligence-directive>

²¹⁸ Fair Wear Foundation. (2021). *The importance of trade unions in human rights due diligence*. <https://www.fairwear.org>

bargaining.²¹⁹

Despite these challenges, the CSDDD presents a unique opportunity to improve trade union involvement and support collective bargaining systems as fundamental components of corporate governance. Incorporating stakeholder involvement and social dialogue into the due diligence process helps the directive create chances for trade unions to actively participate not only in monitoring labour conditions but also in influencing corporate policies concerning fair wages, workplace safety, working hours, and non-discrimination. The recognition of workers' points of view by the company can help to promote equitable labour conditions and support ongoing industrial harmony and efficiency.

Trade unions and workers' organisations must grow their capacity to engage in international advocacy, use worldwide networks, and cooperate with civil society groups to apply pressure on multinational companies if they are to fully seize these chances. Furthermore, companies have to make sure their due diligence policies are set up to efficiently include trade union comments at all levels—from risk assessment to remedial action. This calls for realising that the freedom of association is a fundamental principle and making sure worker representatives have enough room, tools, and protection to operate freely and successfully.

Under the CSDDD, the link between legal obligations and collective labour rights exposes a larger movement towards social dialogue as a normal practice in corporate due diligence. If carried out honestly, this approach has the potential to not only address labour rights violations but also support trade unions since they are essential players in advancing environmentally friendly and rights-respecting corporate practices.

3.2.3 *The future role of social partners in corporate due diligence*

The future of corporate due diligence will rely more heavily on the cooperative engagement of social partners, including employers, trade unions, worker representatives, and civil society organizations, in influencing the sustainability and human rights agenda throughout global supply chains. Although the Corporate Sustainability Due Diligence Directive (CSDDD) and comparable legislative frameworks have raised corporate responsibility concerning labor rights, the involvement of social partners will be essential to guarantee that these regulations are applied effectively, thereby benefiting workers and

²¹⁹ International Labour Organization (ILO). (2022). *ILO Declaration on Fundamental Principles and Rights at Work (1998, revised 2022)*. <https://www.ilo.org/declaration/lang--en/index.htm>

improving corporate accountability. The changing role of social partners will encompass not only conventional collective bargaining and consultation but also proactive participation in wider corporate governance and decision-making processes that influence the future of work²²⁰.

As companies encounter increasing demands to uphold labor rights across their supply chains, social partners will play a pivotal role in leading adherence to these emerging regulatory standards. Trade unions have historically played a crucial role in promoting workers' rights and enabling discussions regarding compensation, workplace conditions, and employment stability. Nevertheless, their obligations will rise as the scope of due diligence grows. Apart from their regular participation in collective bargaining, trade unions and worker representatives will also be asked more often to assist businesses in risk analysis and supply chain identification of possible human rights violations.²²¹ They will be instrumental in making certain that companies not only recognize but also address risks including child labor, forced labor, and hazardous working environments in remote areas of the supply chain.

In order to guarantee that the due diligence procedure is truly participatory, social partners' involvement will be extremely important. As equal stakeholders in the due diligence processes, the CSDDD encourages companies to consult and work together with worker representatives and trade unions²²². This is a change from the conventional approach, where businesses are largely in charge of the due diligence procedure. Employees will be recognised as proactive participants in identifying possible risks and developing mitigation strategies under this emerging framework. Social partners can therefore act as a bridge between employers and workers, encouraging dialogue and helping to develop policies that better reflect the interests and worries of the workforce²²³. Moreover, the future responsibilities of social partners will go beyond merely adhering to legal regulations; they will encompass the development of enduring, sustainable relationships between employees and employers that encourage equitable practices and

²²⁰ ILO. (2020). *Collective bargaining: A policy guide*. https://www.ilo.org/global/topics/collective-bargaining-labour-relations/publications/WCMS_735448/lang--en/index.htm

²²¹ OECD. (2023). *OECD guidelines for multinational enterprises on responsible business conduct*. <https://www.oecd.org/corporate/mne/>

²²² United Nations. (2011). *Guiding principles on business and human rights: Implementing the United Nations "Protect, Respect and Remedy" framework*. <https://www.ohchr.org/en/business/un-guiding-principles-business-and-human-rights>

²²³ Fair Wear Foundation. (2021). *The importance of trade unions in human rights due diligence*. <https://www.fairwear.org>

ongoing enhancements in working conditions. This entails improving transparency and fostering trust, as corporations will be obligated to make public their due diligence procedures and results²²⁴. Collaborative efforts from social partners can contribute to ensuring that this disclosure is not just a routine bureaucratic procedure, but also rather a genuine representation of the company's initiatives to tackle and prevent human rights infringements in their operations and supply chains. They will likewise hold a crucial position in guaranteeing that efficient grievance mechanisms are established for employees who suffer harm, thereby enabling access to remedies via both company-level procedures and, when required, legal options²²⁵.

In practical terms, this could entail collaborative efforts between labor unions and corporate sustainability teams to perform social audits, engage in direct assessments of working conditions, and create clearer, more accessible channels for employees to report instances of abuse. In nations characterized by insufficient labor protections or where employees face significant vulnerabilities, trade unions may collaborate with companies to create direct connections with workers. This initiative would facilitate the monitoring of working conditions, the collection of relevant data, and the dissemination of information regarding workers' rights. These collaborations may include working together on training initiatives aimed at enhancing the skills of employees in recognizing their rights, as well as assisting companies in comprehending the complexities involved in managing labor risks throughout varied and frequently disjointed global supply chains²²⁶.

Ensuring that corporate due diligence not only conforms to the fundamental legal requirements but also promotes the development of fairer and more equitable business practices depends mostly on social partners. They might, for instance, advocate laws including improved workplace safety precautions, salary transparency, and fair wages. Social partners will advocate for policies addressing not only direct violations but also

²²⁴ European Commission. (2022). *Proposal for a Directive on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937 (COM/2022/71 final)*.

<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52022PC0071>

²²⁵ Business & Human Rights Resource Centre. (n.d.). *Corporate due diligence & access to remedy*. <https://www.business-humanrights.org/en/big-issues/corporate-legal-accountability/eu-corporate-due-diligence/>

²²⁶ ILO. (2020). *Collective bargaining: A policy guide*.

https://www.ilo.org/global/topics/collective-bargaining-labour-relations/publications/WCMS_735448/lang--en/index.htm

systemic problems including gender inequality, child labour, and discriminatory practices as businesses improve their due diligence systems. They will ensure that due diligence is a real attempt to link corporate strategies with ideas of social justice and goals of sustainable development, not only a matter of satisfying criteria. Furthermore, the emergence of the "platform" or gig economy presents novel challenges for social partners. In industries where the conventional employer-employee relationship is undefined, such as in the gig economy or among independent contractors, social partners are required to modify their approaches in order to involve these workers, who often lack access to traditional union representation or mechanisms for collective bargaining²²⁷. As an increasing number of individuals participate in unconventional types of employment, social partners will be required to identify innovative methods for incorporating these workers into the due diligence framework and to promote their rights in manners that are suitable for the evolving nature of work.

All things considered, social partners in corporate due diligence will have a multifarious role including collaboration, encouragement, monitoring, and enforcement. Social partners will not only help to guarantee adherence to the CSDDD but also help to create a culture of corporate responsibility whereby labour rights are seen as a necessary element of the main goals of sustainability. Social partners must be totally integrated into the corporate governance and decision-making procedures if the due diligence process is to really help workers. This integration will ensure that the points of view of affected employees are valued, respected, and addressed.

3.3 International Labour Standards and the EU Framework

3.3.1 *The role of the ILO in corporate responsibility*

The International Labour Organization (ILO) is an agency of the United Nations specialized in the promotion of social justice and the recognition of human and labour rights internationally.

It was established in 1919, by the Treaty of Versailles, which concluded the First World War, based on the principle that social justice is a prerequisite for achieving universal and enduring peace, in particular “it was founded on the conviction that universal and lasting peace can be established only if it is based on social justice” as stated by the ILO itself²²⁸.

²²⁷ OECD. (2023). *OECD guidelines for multinational enterprises on responsible business conduct*. <https://www.oecd.org/corporate/mne/>

²²⁸ International Labour Organization. (2015). *Decent work is a key to social justice, economic*

It is headquartered in Geneva, Switzerland, and operates in field offices in more than 40 countries around the world.

Moreover, the ILO convenes governments, employers, and workers from its 187 member states to adopt a human-centered approach to the future of work. This approach emphasizes the creation of decent employment opportunities, the protection of rights at work, the establishment of social protection measures, and the facilitation of social dialogue.

In particular, its activities include: comprehensive research and data collection on various topics related to the world of work and the publishing of influential reports, studies, and working papers are produced and managed, along with the stewardship of globally recognized statistical databases derived from national labor market data.

Furthermore, the ILO oversees a multitude of development cooperation projects across all regions of the world. These initiatives, implemented in partnership with donor countries and organizations, are designed to foster the conditions necessary for the successful implementation of the ILO's decent work agenda.

Every year, the International Labour Conference²²⁹ is held to discuss urgent global workforce issues, create new international labour standards, and approve the International Labour Organization's (ILO) work plan and budget.

Governments, employers, and employees from its 187 member states are all equally represented in this agency's tripartite structure. All major labour sector stakeholders are guaranteed a say in the development of working standards and policies thanks to this special model.

At the heart of the ILO's structure is the International Labour Conference that assembles representatives from each member country, specifically two from the government, one representing employers, and one representing workers and it meets once a year in Geneva. The Conference is responsible for establishing global labour standards, resolving important labour market issues, and approving the ILO's overall policy framework and budget.

Complementing the Conference is the Governing Body²³⁰, which functions as the ILO's executive council and convenes three times a year. This body is entrusted with making

growth and peace.

https://www.ilo.org/sites/default/files/wcmsp5/groups/public/%40dgreports/%40dcomm/documents/publication/wcms_374809.pdf

²²⁹ <https://www.ilo.org/international-labour-conference>

²³⁰ <https://www.ilo.org/ilo-governing-body>

decisions regarding ILO policy, establishing the agenda for the Conference, and overseeing the execution of its resolutions and it comprises 56 titular members: 28 representatives from governments, 14 representatives of employers, and 14 representatives of workers.

In addition, the Constitution governs the activities of the General Conference, the different bodies of the International Labour Organisation (ILO), and the creation and application of global labour standards. Part XIII of the 1919 Treaty of Versailles contained the original ILO Constitution. It has changed six times since it was first introduced and has become a unique piece of legislation. The Declaration of Philadelphia, which was adopted by the General Conference in 1944, restated the ILO's core goals and purposes. This Declaration is an integral part of the Constitution and is appended to it. There is also the International Labour Office, that acts as the ILO's permanent secretariat and it is led by a Director-General, the Office is responsible for the day-to-day operations, including research, coordination of technical assistance, and the implementation of programs globally.

Now, the Director-General is Gilbert F. Houngbo, who was elected by the organization's Governing Body in March 2022, for a five-year term²³¹.

This tripartite structure ensures that the ILO remains a platform for dialogue and cooperation among key actors in the labor market, thereby reinforcing its mission to promote decent work and social justice on a global scale.²³²

Another important fact about the ILO is that it was awarded the Nobel Peace prize in 1969 "for creating international legislation insuring certain norms for working conditions in every country"²³³.

As a result, the International Labour Organization's institutional framework and extensive programs lay the foundation for its standard-setting duties. This strengthens its commitment to advancing ethical labour practices globally.

Moreover, the International Labour Organization (ILO) is entrusted with the responsibility of establishing international labor standards through conventions and recommendations that encompass a comprehensive array of labor issues, including, but not limited to, child labor, forced labor, discrimination, freedom of association, wages,

²³¹ <https://www.ilo.org/about-ilo/ilo-director-general>

²³² <https://www.ilo.org/about-ilo/how-ilo-works>

²³³ The Nobel Peace Prize 1969. NobelPrize.org. Nobel Prize Outreach 2025. Tue. 6 May 2025. <https://www.nobelprize.org/prizes/peace/1969/summary/>

working hours, and occupational safety. Member states are urged to ratify and implement these established standards.

Beyond the realm of standard setting, the ILO offers technical assistance, engages in research activities, and fosters dialogue to assist countries in developing equitable and effective labor policies. Among its notable accomplishments is the Declaration on Fundamental Principles and Rights at Work²³⁴, which was adopted in 1998 and amended in 2022. This declaration represents a formal commitment by governments, employers, and organizations representing workers to uphold fundamental human values that are essential to our social and economic existence. It reaffirms the obligations and commitments that are intrinsic to membership in the International Labour Organization (ILO), which include:

- The freedom of association and the effective acknowledgment of the right to collective bargaining;
- The eradication of all forms of forced or compulsory labour;
- The complete abolition of child labour;
- The elimination of discrimination in employment and occupation;
- The provision of a safe and healthy working environment.

The freedom of association and the effective acknowledgment of the right to collective bargaining guarantees to both workers and employers the right to join organizations, not only for the purpose of safeguarding their economic interests but also for the protection of their civil liberties. This principle provides assurances against any acts of interference or discrimination, as well as against all forms of harassment.

Eliminating all kinds of forced or mandatory labour calls for a thorough plan meant to eradicate such practices. Legal, social, and financial aspects of this approach should be included the criminalisation of forced labour, victim protection and access to justice, preventative interventions, and alternative livelihood possibilities offering. According to the Global Estimates on Modern Slavery, the year 2021 saw an estimated 49.6 million individuals living in conditions of modern slavery. Among these, 27.6 million individuals were subjected to forced labor. This statistic indicates that approximately 3.5 individuals out of every 1,000 were victims of forced labor in 2021. Furthermore, within this total, women and girls represented 11.8 million cases of forced labor, while children accounted

²³⁴ International Labour Organization. (1998). *ILO Declaration on Fundamental Principles and Rights at Work and its Follow-up*. Geneva: International Labour Organization. https://www.ilo.org/sites/default/files/2024-04/ILO_1998_Declaration_EN.pdf

for 3.3 million. Notably, the incidence of forced labor has shown an upward trend in recent years. The same report indicates that the number of individuals subjected to forced labor increased by 2.7 million from 2016 to 2021, resulting in a rise in prevalence from 3.4 to 3.5 per 1,000 individuals globally during this period.²³⁵

Forced labor is present in all countries, including those with the highest income levels. More than half of all cases of forced labour occur in upper-middle-income and high-income countries combined. The report also highlights that 86% of forced labour exploitation takes place in the private sector, with the remaining 14% being state-imposed. Furthermore, the issue of forced labour is present everywhere in the world. In particular, the Arab States have the highest prevalence of forced labour, while the Asia-Pacific region has the largest overall number of people engaged in it. It is also crucial to remember that different sectors of the private economy are affected by forced labour to differing degrees, which means that men and women participate in forced labour exploitation to differing degrees.

There are attempts to eradicate child labour in all of its forms since it is a grave infringement on a child's right to an education and a healthy upbringing. This program requires addressing the underlying causes of child labour, such as poverty and a lack of educational opportunities, in addition to putting in place comprehensive policies meant to protect children and promote respectable employment opportunities for adults. The number of children in labour has declined by 94 million since 2000, but according to the Global Estimates, in 2018 approximately 152 million children were engaged in child labor worldwide, comprising 64 million girls and 88 million boys.²³⁶ This figure represents nearly one in ten of all children across the globe. Despite the effort of the ILO and UN to end this abomination, in 2020 the number of children victims of child labour increased, reaching 160 million, 79 million of whom are in hazardous work. This means that there is a long and difficult path to go through in order to reach an end.

The elimination of discrimination in employment and occupation entails the establishment of equal opportunities and equitable treatment for all individuals in accessing employment and various professional fields. This objective encompasses the prevention of any inequitable treatment based on attributes that are not pertinent to job

²³⁵ <https://unipd-centrodirittiumani.it/en/topics/the-role-of-the-international-labour-organization-to-eradicate-forced-labour-a-centenary-analysis-from-1919-to-nowadays>

²³⁶ International Labour Organization. (2023). *Child labour framework of action 2023–2025*. https://www.ilo.org/sites/default/files/2024-06/Child_Labour_Framework_of_Action_2023-2025_EN.pdf

qualifications, including but not limited to race, gender, religion, or disability. The main goal is to create an environment at work where everyone, regardless of background, has the chance to succeed based on their abilities and merits²³⁷.

The provision of a safe and healthy working environment constitutes a fundamental right, encompassing the physical, psychological, and social well-being of individuals in the workplace. It necessitates the establishment of an environment that minimizes hazards, promotes employee health, and cultivates a positive organizational culture. This encompasses various factors, including the provision of appropriate equipment, sufficient lighting and ventilation, ergonomic considerations, and access to essential resources such as break rooms and restrooms.²³⁸

Another important statement of the ILO is the Declaration on Social Justice for a Fair Globalization²³⁹.

This Declaration was adopted in 2008 upon the Philadelphia Declaration of 1944 and the Declaration on Fundamental Principles and Rights at Work of 1998. In particular, it articulates the current vision of the International Labour Organization's mandate in the context of globalization.

The declaration's central theme is the need to make sure that the benefits of globalisation are shared more fairly, stating that economic expansion must be accompanied by a dedication to human rights, respectable employment, and strong social protection.

Four strategic goals that are essential to achieving this goal are outlined in the declaration:

- Promoting employment through the encouragement of sustainable economic growth and enterprise development.
- Safeguarding the rights of workers, particularly those in vulnerable circumstances.
- Enhancing social protection to guarantee that all individuals have access to fundamental income security and healthcare.

²³⁷ International Labour Organization. (1999). *Convention concerning the prohibition and immediate action for the elimination of the worst forms of child labour (No. 182)*. https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:C182

²³⁸ <https://www.britsafe.org/training-and-learning/informational-resources/the-health-and-safety-at-work-act-explained#:~:text=The%20Health%2C%20Safety%20and%20Welfare,from%20falling%20objects%20etc.>

²³⁹ International Labour Organization. (2008). *ILO Declaration on Social Justice for a Fair Globalization*. Geneva: International Labour Organization. <https://www.ilo.org/publications/ilo-declaration-social-justice-fair-globalization>

- Promoting social discourse, which calls for cooperation between employers, governments, and workers.

These goals are thought to be interconnected and ought to be pursued in a way that is integrated, balanced, and tailored to the particular circumstances of every country. The declaration also promotes greater coherence between social and economic policies at the national and international levels and restates the International Labour Organization's role in helping nations achieve these objectives.

The declaration essentially functions as a call to action, imploring those involved to mould globalisation so that it benefits everyone, not just a chosen few, and to create a future where social justice plays a major role in economic growth.

The approach of the International Labour Organization to corporate due diligence is grounded in its fundamental labor standards, which encompass freedom of association, the right to collective bargaining, the eradication of forced and child labor, and the principle of non-discrimination in employment. Within this framework, due diligence transcends the role of a mere risk management instrument and is recognized as a proactive process aimed at integrating respect for workers' rights throughout global supply chains. Enterprises are anticipated to foster meaningful social dialogue, uphold transparency, and adhere to both national labor laws and international standards.

Furthermore, the International Labour Organization (ILO) has formulated sector-specific guidance and technical documentation to assist enterprises in translating labor standards into effective due diligence processes. These resources aid businesses in performing impact assessments, engaging stakeholders, implementing remedial actions, and monitoring results in alignment with the principles of decent work.

By endorsing due diligence rooted in labor rights, the ILO enhances the accountability of multinational corporations and advances the global agenda for sustainable and inclusive development.

Global standards for corporate responsibility are largely established by the International Labour Organisation (ILO), especially in the areas of labour due diligence and human rights. Despite the fact that it does not publish legally binding rules concerning corporate behaviour, the ILO provides a thorough normative framework through its international labour standards, which include Conventions and Recommendations, as well as other guidelines that encourage and inform ethical business practices.

A significant element of this framework is the ILO's Tripartite Declaration of Principles

concerning Multinational Enterprises and Social Policy²⁴⁰, also called MNE Declaration. The MNE Declaration, which was first ratified in 1977 and most recently updated in 2017, offers businesses, governments, and social partners voluntary guidance on how to align their operations with globally accepted labour standards. In order to ensure compliance with the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises, it particularly encourages businesses to conduct due diligence with the goal of identifying, preventing, mitigating, and addressing negative impacts on workers' rights and working conditions.

Although the Declaration is not legally binding, it possesses substantial moral and political authority, having emerged from a consensus fostered by the International Labour Organization's tripartite structure.

As a matter of fact, it represents the only instrument of the International Labour Organization (ILO) that offers direct guidance to both multinational and national enterprises regarding social policy as well as inclusive, responsible, and sustainable workplace practices. It stands as the only global instrument within this domain, having been developed and adopted through the collaborative efforts of governments, employers, and workers from around the world. .

The Multinational Enterprises Declaration covers more ground than just fundamental rights at work—including the freedom of association, collective bargaining, the abolition of forced and child labour, and the principle of non-discrimination—including additional areas such employment promotion, vocational training, remuneration, occupational safety and health, and social security. Moreover, it underlines the need of social communication, openness, and the creation of grievance systems as essential elements of ethical corporate behaviour. Supported by a committed follow-up system, the ILO provides technical assistance, capacity-building projects, and interpretative guidance to its members in order to help with practical implementation.

By means of the MNE Declaration, the ILO not only emphasises the need of matching corporate practices with international labour standards but also restates its main objective of advancing decent work, inclusive growth, and fair globalisation in an ever dynamic global economy.

²⁴⁰ International Labour Organization. (2017). *Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy* (5th ed.). Geneva: International Labour Office. <https://www.ilo.org/publications/tripartite-declaration-principles-concerning-multinational-enterprises-and-3>

3.3.2 *Convergences and divergences among international instruments (UNGPs, OECD Guidelines, CSDDD)*

The European Union (EU), the United Nations (UN), and the International Labour Organisation (ILO) work together to advance due diligence, with a focus on protecting human rights, particularly in relation to labour rights, and encouraging ethical business practices. The United Nations Guiding Principles on Business and Human Rights are among the fundamental guidelines and standards for ethical business practices that the ILO, a specialised agency of the UN, offers. In parallel, the EU implements due diligence procedures through legislative and policy frameworks that regularly draw from and expand upon accepted international norms and guidelines.

The United Nations Guiding Principles on Business and Human Rights (UNGPs)²⁴¹, the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises²⁴², and the European Union's Corporate Sustainability Due Diligence Directive (CSDDD)²⁴³ constitute essential international frameworks designed to encourage corporate responsibility and sustainable business practices. While these instruments share several foundational principles, they also reveal distinct approaches and scopes of application, which reflect their institutional origins and regulatory intentions.

The convergence among these instruments is especially remarkable in their support of human rights due diligence as a basic component of ethical business behaviour. All three models highlight the responsibility businesses have to find, stop, minimise, and explain negative effects on human rights and the environment resulting from their activities and supplier chains. They also underline the need of stakeholder involvement, openness, and availability of remedies for impacted people and communities.

The United Nations (UN) and the International Labour Organisation (ILO) among other international organisations set fundamental standards that guide these instruments.

²⁴¹ United Nations Human Rights Office (OHCHR) (2011). *Guiding principles on business and human rights: Implementing the United Nations "Protect, Respect and Remedy" framework*. United Nations. Available at https://www.ohchr.org/documents/publications/guidingprinciplesbusinesshr_en.pdf

²⁴² Organisation for Economic Co-operation and Development (OECD) (2022). *OECD Guidelines for multinational enterprises*. OECD Publishing. Available at <https://mneguidelines.oecd.org/mneguidelines/>

²⁴³ Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence and amending Directive (EU) 2019/1937 and Regulation (EU) 2023/2859

Particularly by means of its core conventions addressing issues including forced labour, child labour, non-discrimination, and freedom of association, the ILO plays a central role in formulating labor-related standards encompassed within these frameworks. Approved by the UN Human Rights Council in 2011, the UNGPs mostly rely on ILO conventions and other international human rights instruments to define the business accountability to respect human rights. Though they come from an economic body, the OECD Guidelines clearly include ILO criteria in their chapters on labour and industrial relations. By including ILO and UN values into a legally enforceable framework, the European Union builds on these worldwide roots with programs like the CSDDD. The CSDDD requires covered businesses to engage due diligence compliant with internationally accepted human rights and labour standards, including those expressed by the ILO and the UN. This emphasises a clear vertical link whereby soft law instruments created by international organisations are translated into regional hard law, so improving enforceability and coherence among countries.

On the legal nature and enforceability of these instruments, though, there are notable differences. Based on voluntary implementation and peer review systems, the non-binding soft law instruments known as UNGPs and OECD Guidelines—best shown by the National Contact Points (NCPs) under the OECD framework—rely on. On the other hand, the CSDDD represents a major change towards a more coercive regulatory model by establishing binding obligations for some EU-based companies as well as non-EU companies running inside the EU market. Furthermore absent in the other two frameworks is the possibility of civil liability introduced by the CSDDD.

Furthermore, whereas the OECD Guidelines include economic, environmental, and labour standards and the UNGPs adopt a more general, globally applicable human rights perspective, the CSDDD focusses only on particular due diligence responsibilities defined inside the EU legislative framework. This difference affects the extent of responsibilities assigned as well as the enforcement systems accessible.

In simple terms, these tools differ greatly in terms of legal status, specificity, and the means of implementation and responsibility even if their normative expectations about corporate behaviour match each other. With the Corporate Sustainability Due Diligence Directive (CSDDD), among other examples of the growing inclination towards binding legal instruments, global governance is undergoing more general change. With each institution filling complementary roles in the development, standardising, and execution of due diligence frameworks across worldwide supply chains, this trend emphasises a

growing institutional interconnection among the International Labour Organisation (ILO), the United Nations (UN), and the European Union (EU).

3.3.3 *The normative and political role of the EU in relation to international bodies*

The European Union is progressively defining its identity and influence within the international landscape. The process of European integration, particularly in the realm of foreign affairs, remains a complex undertaking, as evidenced by numerous crises that have exposed a lack of unity and coherence among Member States. These discrepancies reflect the plurality of national interests and varying approaches to global challenges.²⁴⁴ Nevertheless, beyond this empirical fragmentation exists a more profound theoretical challenge: how to conceptualize the European Union's distinctive role in international relations. The predominant characterization of the EU as a "normative power" presents a promising, albeit still underdeveloped, framework. According to Ian Manners, the concept of normative power underscores the EU's capacity to shape perceptions of what is deemed "normal" in global politics through ideational influence rather than through material force. Manners proposes a five-point framework that focuses on the ideational foundations of EU actions, adherence to universal principles, methods based on dialogue and persuasion, the long-term socialization of partners, and outcomes that are ethically reflective²⁴⁵.

From this point of view, the EU's external activities—especially in light of major global events including the fall of communism in 1989, the terrorist attacks of September 11, 2001, and the financial crisis of 2008—should be assessed not only in line with its strategic reactions but also in respect of its normative goals. As Manners emphasises, these events marked significant changes in world order that drove the EU to express value-oriented policies inside international institutions. Thus, in the field of global governance, more exact and politically neutral analytical models that sufficiently handle the normative aspirations and practical constraints of the EU are desperately needed.

The literature is much divided on the impact of the European Union (EU) inside the global

²⁴⁴ Skolimowska A. (2015). *The European Union as a 'Normative Power' in International Relations. Theoretical and Empirical Challenges*. Yearbook of Polish European Studies, Vol. 18/2015. https://journalse.com/pliki/pw/18-2015_skolimowska.pdf

²⁴⁵ Manners, I. (2009). *The concept of normative power in world politics* (DIIS Brief). Danish Institute for International Studies. <https://www.diis.dk/en/research/the-concept-of-normative-power-in-world-politics>

governance structure and its interaction with international organisations. On one hand, some academics argue that the EU's influence in modern international organisations is still underused, mostly because of problems in internal policy-making, the diversity among member states, and resource shortages. On the other hand, another viewpoint holds that the EU mostly influences external parties in both official and informal institutions by means of its commitment to multilateralism, great economic power, and regulatory capacity, so reflecting its own influence.

States have progressively given rights and competencies to international organisations in a changing global scene, so empowering them to handle transboundary issues and enable the distribution of world public goods. As such, international organisations have become major players in global governance and frequently have a great degree of power over their member states. International organisations have to act with some degree of autonomy from their member states and be able to bind these states to particular lines of action if they are to assert this authority.

Since its establishment, the European Union (EU) has emerged as one of the most authoritative entities in the arena of global politics²⁴⁶. In theory, this considerable authority grants the EU a degree of autonomy in its interactions with member states, enabling it to establish and sustain relations with external parties, including international organizations and transnational non-state actors. Given its substantial organizational independence and a strong commitment to multilateralism, it is not surprising that the EU seeks to shape international outcomes and engage with other global entities. In fact, bolstered by its market power, the cumulative influence of its member states, and rigorous regulatory frameworks, the EU currently wields significant global influence. This influence may be further solidified through proactive engagement with other international organizations, thereby formalizing and extending its unilateral power across additional jurisdictions.

Anu Bradford describes the unique capacity of the European Union (EU) to influence the world through its regulatory supremacy rather than through conventional geopolitical or military means in "The Brussels Effect: How the European Union Rules the World." She presents the "Brussels Effect," a phenomenon whereby multinational firms voluntarily abide by EU regulations in order to maintain unhindered access to the EU's vast and

²⁴⁶ Alexandros Tokhi (2022) International organizations, European Union access, and authority, *Journal of European Integration*, 44:5, 617-634, DOI:10.1080/07036337.2022.2064854

lucrative market, leading to their adoption as global norms²⁴⁷.

According to Bradford, the EU is able to act as a "regulatory superpower" as a result of this phenomenon, setting strict guidelines in crucial areas like consumer safety, environmental protection, data privacy, and competition law. These guidelines are then adopted by businesses and even countries outside of Europe. For instance, the General Data Protection Regulation (GDPR) has significantly shaped global data privacy protocols, prompting corporations like Facebook and Microsoft to align their practices with EU regulations. Multinational corporations have also been compelled to adapt their products and operational procedures in response to the EU's strict environmental and consumer product regulations, which include mandatory adoption of USB-C chargers and emission standards.

The Brussels Effect serves to illustrate how the EU's internal regulatory frameworks can have profound external ramifications, thereby influencing global norms through market mechanisms rather than through coercive diplomatic strategies. Bradford's analysis challenges the prevailing notion of the EU as a diminishing global power, instead framing it as a pivotal actor within the international regulatory sphere. Her scholarship underscores the strategic significance of regulatory authority in an era increasingly characterized by rule-making and standardization, particularly as other global powers, such as the United States, pursue divergent regulatory trajectories.

3.4 Case Studies: Corporate Practices and Labour Rights Due Diligence

3.4.1 *Nestlé: supply chain management and responses to human rights violations*

Historically, the coffee and cocoa industries have been identified as high-risk industries for violations of environmental and human rights. This is mostly because they depend on complex and ambiguous supply chains that often come from places with low levels of governance, poverty, and regulatory oversight. Problems like child labour, forced labour, deforestation, and inadequate pay are particularly dangerous for these industries. Therefore, they are clearly prioritized under the European Union's Corporate Sustainability Due Diligence Directive (CSDDD), which requires companies to evaluate, reduce, and address risks throughout their global operations and supply chains.

²⁴⁷ Bradford, Anu. 2020. *The Brussels Effect: How the European Union Rules the World*. Oxford: Oxford University Press.

In this regulatory framework, Nestlé—one of the biggest purchasers and processors of cocoa and coffee globally—has emerged as a key player in the ongoing discussion regarding corporate responsibility. The practices of the company's supply chain, past issues, and recent promises offer an example to analyze the difficulties and chances of applying due diligence requirements in industries with high risks. Nestlé's involvement with the CSDDD, together with its wider human rights strategy, illustrates the growing expectations placed on multinational companies to address their upstream effects and the challenges of applying ethical standards effectively in real-world situations.

Nestlé began in 1866 with the founding of the Anglo-Swiss Condensed Milk Company in Switzerland. In 1867, Henri Nestlé, a pharmacist originally from Germany, developed an infant formula to combat the high death rates among babies who were unable to be breastfed. His recipe, known as "farine lactée" (milk flour), included a mixture of cow's milk, wheat flour, and sugar. In 1905, the company combined with Anglo-Swiss to create the Nestlé Group.

By 1905, Nestlé had expanded significantly, breaking into foreign markets and establishing over 20 factories. The business thrived during World War I and became a leading worldwide dairy brand. Later, in the early 1900s, it entered the chocolate business and acquired Peter-Cailler-Kohler, Switzerland's biggest chocolate producer. Nestlé's first significant step to diversify outside of the food and beverage sector was its 1974 investment in the cosmetics company L'Oréal.

Nestlé acquired the Italian pasta and sauce manufacturer Buitoni-Perugina in 1988, along with Rowntree Mackintosh, which produced KitKat, After Eight, and Smarties. Nestlé launched the Cocoa and Nescafé Plans in 2010 to improve coffee and cocoa supply chains and support farming communities. Additionally, it was the first food company to work with the Fair Labour Association to address the issue of child labour in the production of cocoa.

The company's commitment to sustainability includes projects such as the Nespresso "From Bean to Cup" initiative, started in 2011, which provided millions of servings of rice to those in need, thus supporting social welfare.

In particular, Nestlé employs 277,000 individuals globally and has a total equity amounting to €38,998 million, considering these data, the company is subject to the Corporate Sustainability Due Diligence (CSDDD) and the Omnibus Package.

However, during the years it has been criticized on different issues like food safety, but the most important case is the one related to child labor exploitation in West Africa.

The accusations started with a 2012 report from the Fair Labour Association (FLA), which looked into Nestlé's supply chain and found many serious violations of the company's code.

The problem of child labor in the cocoa industry is deeply rooted in the system. A study conducted in 2020, which was ordered by the U. S. According to a report from the Department of Labor and carried out by the University of Chicago, about 1.56 million children were involved in cocoa production in Côte d'Ivoire and Ghana in the 2018–2019 growing season, with 1.48 million participating in dangerous activities²⁴⁸.

The low earnings of cocoa farmers and the increasing demand for chocolate are key factors influencing these labor practices. Numerous small producers turn to child labor to cut expenses, and they also use farming methods that harm the environment. These factors not only reinforce poverty but also inflict lasting physical and mental damage on children²⁴⁹.

Regarding labour practices in its supply chains, Nestlé S. A. has been under constant fire. The company's alleged indirect involvement in child labour and human trafficking in the West African cocoa industry is one of the most serious charges.

Worries increased after a 2012 report by the Fair Labor Association (FLA), which revealed major breaches of Nestlé's code of conduct by its cocoa suppliers²⁵⁰. In 2015, the organization International Rights Advocates, located in Washington, D. C. , initiated a class-action lawsuit in the United States representing eight plaintiffs from Mali. These people stated that they were taken as children to work in harsh situations on cocoa farms in Côte d'Ivoire, which are reportedly connected to large corporations such as Nestlé, Mars, and Hershey.

In 2020, the Supreme Court addressed a case related to the Alien Tort Statute (ATS), in which the plaintiffs contended that firms such as Nestlé “ought to have been aware” of the existence of child labor within their supply chains. In a ruling made in 2021, the Court determined that the claims did not satisfy the criteria for extraterritorial application according to the standards established in “Kiobel v. Royal Dutch Petroleum Company”.

²⁴⁸ IRAdvocates. (n.d.). “Doe v. Nestlé and Cargill”. International Rights Advocates. <https://www.internationalrightsadvocates.org/cases/doevsnestlecargill>

²⁴⁹ GreenMe. (2021, February 12). “L'industria del cacao dipende dal lavoro minorile e qualcuno sta tentando di rompere lo status quo”. <https://www.greenme.it/lifestyle/costume-e-societa/causa-sfruttamento-minorile-cacao/>

²⁵⁰ Repubblica. (2015, September 30). “Nestlé accusata di sfruttamento di lavoro minorile”. https://www.repubblica.it/economia/finanza/2015/09/30/news/nestle_accusata_di_sfruttamento_di_lavoro_minorile-123992868/

In particular, most concluded that the claims made by the plaintiffs did not have a strong enough link to the United States.

According to Justice Thomas, who authored the majority ruling, Nestlé's business decisions were influenced by American culture. Responsibility could not be established by the main office alone. Nonetheless, the plaintiffs were given the opportunity to amend their complaint, and a number of justices demonstrated a willingness to take corporate responsibility under international law into consideration. Nestlé has addressed public concerns by initiating several programs, such as the Nestlé Cocoa Plan (TNCP), which focuses on encouraging sustainable agriculture and eliminating child labor. The organization has also adjusted its practices to match the UN Guiding Principles on Business and Human Rights, emphasizing the enhancement of labor rights and community development in the areas where it operates²⁵¹.

Notwithstanding these endeavors, critics contend that advancements have been gradual. For example, the Harkin–Engel Protocol, which was signed by Nestlé and other leading cocoa companies in 2001, initially pledged to eradicate child labor by 2005. The deadline was not achieved, and the goal was subsequently revised to a 70% reduction by 2025—an aim that still feels far off.

Without regulatory enforcement, certain institutions have acted on their own initiative. For instance, Triodos Bank deemed Nestlé ineligible for ethical investment because of claimed human rights violations. At the same time, entities such as IRAdvocates are actively seeking legal avenues to urge companies to meet their responsibilities regarding human rights.

In response to increased public and legal scrutiny, Nestlé has pledged to address human rights issues, especially child labour, throughout its global operations. The organisation claims to have put in place a number of internal procedures to monitor and address labour violations and to strongly oppose child exploitation in all of its manifestations.

The Child Labour Monitoring and Remediation System (CLMRS), which is primarily used in the cocoa industry, is a crucial component of its approach. This system makes it possible to identify instances of child labour and offers tailored interventions to help the affected children. By the end of 2015, 40 cocoa cooperatives—or roughly half of Nestlé's cocoa supply network—were part of the program. Additionally, it had involved over

²⁵¹ Nestlé. (n.d.). “Lavoro minorile”. <https://www.nestle.it/valore-condiviso/diritti-umani/lavoro-minorile>

44,000 farmers and more than 120,000 members of the community²⁵².

In line with its larger objectives, Nestlé specified multiple targets: training 60,000 farmers, renovating or building 60 schools, and ensuring that 80% of cocoa cooperatives participate in corrective systems by 2015, aiming for complete coverage by 2016. By the year 2018, the company intended to finish evaluating the risks of child labor in 12 categories of commodities that are considered high risk and to implement responsible sourcing strategies.

In addition to these specific actions for different sectors, Nestlé has established a Human Rights Due Diligence Program that aligns with the UN Guiding Principles on Business and Human Rights. Created in partnership with the Danish Institute for Human Rights, this program aids in conducting thorough risk assessments and reduction strategies throughout its value chains²⁵³. The organization recognizes 11 key human rights matters—such as forced labor, access to clean water and sanitation, digital privacy, and child labor—as essential areas requiring continuous action.

Moreover, Nestlé has emerged as one of the initial multinational companies to adopt the UN Reporting Framework on Business and Human Rights, thus improving transparency regarding its performance in human rights matters. Nestlé also supports international initiatives like the International Labour Organization's Child Labour Platform, which aims to promote collaboration among various industries.

Nestlé's position on human rights extends beyond upholding voluntary standards and overseeing internal regulations. The business has consistently positioned itself as a proponent of mandatory regulations that promote transparency, critical analysis, and responsibility in global value chains. In particular, Nestlé has firmly supported the Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CSDDD), two significant EU initiatives. By requiring companies to identify, stop, lessen, and disclose adverse effects on the environment and human rights, these regulatory tools aim to increase corporate responsibility.

Nestlé views these guidelines not solely as regulatory challenges, but as chances to establish fair competition, enhance trust among stakeholders, and promote lasting strength within the private sector. As stated by the company, obligatory due diligence requirements can assist in establishing responsible business practices, ensuring that

²⁵² Nestlé. (n.d.). “Lavoro minorile”. <https://www.nestle.it/valore-condiviso/diritti-umani/lavoro-minorile>

²⁵³ Nestlé. (n.d.-b). “Diritti umani”. <https://www.nestle.it/valore-condiviso/diritti-umani>

sustainability is integrated not just into strategic commitments but also into standards that are legally enforceable²⁵⁴. Nestlé's support for these frameworks indicates a significant change among major companies—from depending on self-regulation to acknowledging that enforceable laws are necessary to achieve systemic transformation and address accountability issues, especially in intricate supply chains such as agriculture, fishing, and raw material extraction.

Nestlé has cautioned, nevertheless, about recent political attempts to postpone or lessen the effects of these rules. When the European Commission unveiled the "Omnibus" package in early 2025 as a proposal to streamline and potentially reduce the regulatory framework, Nestlé and other multinational corporations urged lawmakers to uphold the goals and integrity of the original directives. The group warned that shifting regulations could undermine investor confidence and the moral commitments that many businesses have already started to make, highlighting the importance of legal stability and certainty. Nestlé formally asked lawmakers to provide prompt, clear legal guidance while maintaining the regulatory goals following the European Commission's attempts to modify and delay these directives. Nestlé emphasised that weakening these frameworks would jeopardise business stability and investments, as well as impede advancements in environmental and human rights protections, in a joint letter with other multinational corporations²⁵⁵.

In the future, Nestlé's strong support for the Corporate Sustainability Due Diligence Directive (CSDDD) shows that it is not only committed to complying with new regulations but also recognises its responsibility to prevent the recurrence of labour violations that have had a major negative impact on communities that are already at risk. Nestlé will show leadership in transforming high-risk supply chains by implementing the directive's recommendations into its operations through enhanced monitoring systems, stakeholder engagement, and transparent reporting. Strong due diligence procedures offer the company a chance to restore trust, demonstrate accountability, and support a new business model where respect for human rights is not only an objective but a basic component of international corporate conduct as consumer demands increasingly call for

²⁵⁴ ESG Today. (2024, March 15). "Nestlé, Unilever, Mars warn against revisiting EU sustainability reporting and due diligence laws". <https://www.esgtoday.com/nestle-unilever-mars-warn-against-revisiting-eu-sustainability-reporting-and-due-diligence-laws/>

²⁵⁵ Real Economy Progress. (2024, April 3). Nestlé urges lawmakers to provide clarity quickly on EU sustainability directives. <https://real-economy-progress.com/business-responds-to-eu-omnibus-nestle-urges-lawmakers-to-provide-clarity-quickly/>

products that are socially and ethically responsible.

The European Parliament and the Council have been asked to review these recommendations, and the Commission is urging that crucial elements—particularly the extended reporting deadlines—be approved as soon as possible. The final compromise document, which was produced following extensive trilogue discussions, presents a more targeted and realistic approach to sustainability regulation. The CSDDD's scope has been restricted to only include large corporations and high-risk industries, which has significantly reduced the overall number of affected businesses. Strict liability has given way to responsibilities that are more concerned with processes than outcomes, simplifying the legal jargon. Implementation schedules have been extended, and specific guidelines are being developed to facilitate compliance across industries. This reform marks a shift in the EU's approach to legislation from a rigid, standardised model to a more adaptable, goal-oriented framework. It aims to assist sustainability goals while enabling companies to play a significant role in the competitive and environmentally friendly growth of the EU.

3.4.2 Inditex: compliance strategies and union partnerships

The fast fashion industry is one of the most harmful to the environment, responsible for about 10% of worldwide carbon emissions. Fast fashion products are marked by poor-quality production and constantly changing consumer preferences. These items are made to become outdated quickly, frequently regarded as disposable, and ultimately thrown away in landfill sites. This model has serious effects on the environment, such as higher carbon emissions, large water use, and considerable textile waste—elements that lead to environmental harm, natural disasters, and negative health effects on the public.

The issue of working conditions in the supply chain is one of the major ethical concerns surrounding fast fashion. Large fashion companies frequently employ manufacturers in developing nations to lower production costs and expedite production. These regions usually have lax labour laws and insufficient enforcement mechanisms, which enable companies to pay their workers low wages and set unrealistic production targets. In these circumstances, working conditions frequently veer towards exploitation and, in some cases, involve the use of child labour.

Inditex (Industria de Diseño Textil S. A.) is a Spanish multinational corporation that possesses various well-known fashion brands, such as Zara, Pull&Bear, Massimo Dutti, Bershka, Stradivarius, Oysho, and Zara Home. It was formally founded in 1985 by

Amancio Ortega and Rosalía Mera. Ortega, who started his career in the textile sector in 1963 as a clothing producer for a shirt manufacturing firm, established the first Zara store in La Coruña in 1975. This represented a significant change from manufacturing to retail, establishing the groundwork for a groundbreaking business model in the fashion sector. From the beginning, Zara focused on providing a large selection of affordable apparel, placing importance on quick production and current fashion trends instead of durable clothing. The company's initial venture into international markets took place in 1988 with the establishment of a store in Porto, Portugal, followed by openings in important fashion centers like New York and Paris. In 1991, Ortega established Pull&Bear, a brand dedicated to casual clothing for men. This initiated a wider strategy for brand growth that included the acquisition or establishment of Massimo Dutti, Bershka, Stradivarius, among others, allowing Inditex to serve various consumer groups effectively.

After the devastating factory collapse in Savar, Bangladesh, in 2013, Inditex, along with 37 other international clothing companies, signed the Accord on Fire and Building Safety in Bangladesh. This action marked an important move toward enhancing factory conditions in the area.

In 2017, a court in Brussels ruled that Zara Home had committed plagiarism, which was the first time a fast-fashion company was convicted of violating intellectual property rights. In spite of these legal obstacles, the company maintained its path of growth.

It is important to highlight that more than 60% of the overall profits came from European markets and that Forbes identified Inditex as the 763rd best employer in the world and the 258th best employer for women in the retail sector.²⁵⁶

As of the end of the 2023 fiscal year, Inditex had 161,281 employees working in 57 markets, which included 174 different nationalities²⁵⁷. Furthermore, in 2024, the group achieved approximately 38.6 billion euros in revenue²⁵⁸. This level of operation puts Inditex within the reach of important regulatory guidelines, such as the Corporate Sustainability Due Diligence Directive (CSDDD) and the EU Omnibus Package. These frameworks seek to improve corporate responsibility and openness regarding environmental and human rights activities.

Inditex has effectively established itself as a top international fashion retailer by providing a varied collection of brands, attractive pricing, and inventory strategies that respond to

²⁵⁶ <https://wunderlabel.com/lab/fashion-company-histories/inditex/>

²⁵⁷ Inditex annual report 2023 https://static.inditex.com/annual_report_2023/en/Social.pdf

²⁵⁸ <https://www.statista.com/statistics/268817/sales-of-the-inditex-group-worldwide/>

current trends. In light of increasing environmental concerns, the company has made significant investments in sustainability efforts and public relations programs that demonstrate a commitment to more responsible practices²⁵⁹.

However, Inditex has faced several allegations concerning violations of human rights in its global supply chain. For instance, the Worker Rights Consortium (WRC) has identified links between Inditex and two significant Chinese producers of yarn and textiles: Huaifu Fashion Co. Ltd. and Luthai Textile Company, Limited, both are linked to the employment of forced labor involving Uyghur individuals²⁶⁰.

The company's association with this matter received increased attention after the release of a report by the Australian Strategic Policy Institute (ASPI) in 2020. This report listed Inditex as one of 82 international brands that might be profiting from forced labor in China's Xinjiang area²⁶¹.

The Chinese government has been oppressing Uyghur Muslims and other ethnic groups in an effort to integrate them. This is evident in the broader context of the Uyghur crisis. Through programs like "Industrial Xinjiang Aid," a significant number of people have been detained in government-run "re-education" facilities since 2017 before being transferred to factories. By offering financial incentives to companies that use transferred Uyghur labour, these programs, which are portrayed as attempts to combat poverty, actually promote forced labour.

Uyghur workers experience monitoring, intimidation, and limitations on their freedom to move, situations that correspond with the International Labour Organization's description of forced labor. The complicated and unclear nature of these labor transfer systems makes it challenging for companies to confirm the ethical soundness of their supply chains. Furthermore, global auditing firms have pulled out from Xinjiang, stating that they cannot perform reliable, independent assessments because of government interference.

Although Inditex still tries to emphasise its sustainability achievements, the tenacity of these assertions draws attention to the gap between the company's stated social responsibility and its actual behaviour.

²⁵⁹ <https://sc.upt.ro/attachments/article/543/05.%20Camelia-Viviana%20Vi%C8%99an%20-%20Ethical%20Aspects%20Concerning%20Inditex%E2%80%99s%20Business%20Practices.pdf>

²⁶⁰ <https://www.workersrights.org/post/wrc-issue-brief-inditex-linked-to-companies-implicit-in-uyghur-forced-labor/>

²⁶¹ Yerramilli de Rege, M. (2022, January 10). *Zara and the Uyghur crisis: Is there forced labour in Inditex's supply chains?* Institute on Globalization and the Human Condition, McMaster University. <https://globalization.mcmaster.ca/news/zara-and-the-uyghur-crisis>

In response to concerns about ties to the Xinjiang Uyghur Autonomous Region (XUAR), Inditex conducted internal investigations to confirm that it had no direct or indirect business ties to factories in the region. Furthermore, they actively collaborate with outside parties, such as non-governmental organizations and global labor groups, to maintain transparency and integrity in the supply chain²⁶².

Along with the claims regarding the forced labor of Uyghurs in China, Inditex has faced criticism for its ongoing business activities in Myanmar after the military takeover in February 2021. Although the company has achieved financial success and has publicly pledged to sustainability, it has encountered increasing criticism regarding labor rights violations within its international supply chain. The Business and Human Rights Resource Centre (BHRRC) reports that more than 400 instances of labor and human rights violations have been documented at clothing factories in Myanmar since the coup. Some of these factories have been recognized as suppliers to Inditex.

In response to growing demands from civil society groups and labor unions, especially due to a campaign led by IndustriALL Global Union, Inditex declared in 2024 its plan to gradually stop sourcing from Myanmar. Nevertheless, numerous observers consider this reaction inadequate due to the magnitude and seriousness of the violations. Natalie Swan, the Head of Labour Rights at BHRRC, expressed her concerns regarding the fashion industry's overall lack of action: “The majority of fashion brands sourcing from factories in the country persistently demonstrate a troubling neglect in safeguarding the rights of the workers who produce their clothing”. They must take much stronger actions to ensure that the clothing they sell worldwide is not produced through exploitation.

Swan further highlighted the importance of a careful withdrawal from the country, saying: “Given the present situation, where increased attention to human rights cannot be ensured, companies must carry out a thoughtful exit from the country”. Brands and investors who disregard this approach—while still taking advantage of low production costs in Myanmar—endanger themselves by profiting in a setting created by a government recognized for its severe human rights abuses and oppression.

These changes highlight the ongoing ethical issues encountered by fast fashion companies like Inditex. As regulations become stricter and consumers become more informed, the company should go beyond merely appearing compliant and show a real dedication to

²⁶² Inditex. (2020, October). Written evidence submitted by Inditex (FL0018). UK Parliament. <https://www.inditex.com/en/how-we-do-business/right-to-wear/partnerships>

human rights across all its supply chain activities²⁶³.

In addition to allegations of forced labor in its Asian supply chains, Inditex has faced criticism for its procurement of cotton from large-scale farms in Brazil, where significant environmental and human rights abuses have been reported²⁶⁴. A 2023 report by the environmental group Earthsight reveals that cotton used in Inditex clothing may originate from Brazilian farms in the Cerrado region involved in illegal deforestation, land grabs, corruption, and violent displacement of local communities. The Cerrado, the world's largest savanna and a biodiversity hotspot, has suffered extensive environmental damage, with over half its native vegetation cleared—mostly for industrial agriculture. In 2022 alone, deforestation in the area surged by 43%, much of it illegal. Although cotton has traditionally received little attention in environmental debates, it has become a key crop in Brazilian agribusiness. Earthsight found that roughly 800,000 tonnes of Brazilian cotton were funneled through Asian manufacturers and used in garments for global retailers like Inditex.

These results suggest a more serious structural problem with global fashion supply chains, where environmental harm and violations of human rights are often used as a means of subsidising the production of cheap raw materials. Inditex's involvement in such activities underscores the ongoing disparity between corporate rhetoric and actual conditions, even in the face of public claims of sustainability. Along with concerns about environmental damage and forced labour, Inditex has also been under fire for the core components of its fast fashion business model.

The company's financial achievements have occurred alongside increasing examination of its social and environmental effects. Critics have repeatedly charged Inditex with taking advantage of low-paid workers in factories throughout Asia, where most of its clothing is made. Additionally, there is growing public demand for the company to provide more clarity regarding its supply chain practices. This includes revealing information about its production levels and how it manages unsold inventory, which is

²⁶³ Business and Human Rights Resource Centre. (2023). *Myanmar: Garment workers face over 400 cases of labour & human rights abuse since military takeover, latest tracking update reveals*. <https://www.business-humanrights.org/en/latest-news/myanmar-garment-workers-face-over-400-cases-of-labour-human-rights-abuse-since-military-takeover-latest-tracking-update-reveals/>

²⁶⁴ Earthsight. (2023, March 16). *Zara, H&M's cotton traced to illegal deforestation, human rights abuses in Brazil's Cerrado: New investigation*. Green Queen. <https://www.greenqueen.com.hk/zara-hm-illegal-deforestation-human-rights-violations-cotton-brazil/>

closely associated with worries about excessive production and textile waste²⁶⁵.

In reply, Inditex has aimed to enhance its public reputation and meet changing consumer demands by implementing various sustainability efforts. One example of this effort is its partnership with *Cáritas Española* and its social business, *Moda Re-*, a non-profit cooperative that oversees the entire process of second-hand clothing²⁶⁶. This process includes collecting, reusing, recycling, donating, and reselling items. It is important to highlight that *Moda Re-* has a significant focus on social integration, providing job opportunities for individuals who are experiencing social exclusion. In 2023, the organization gathered almost 43,000 tons of discarded clothing from 90 cities in Spain, establishing itself as a leader in the reuse and redistribution of textiles throughout the country.

Although these initiatives are praiseworthy, some analysts have raised concerns about the reasons driving Inditex's recent efforts in sustainability. The timing aligns with a change in the regulations in Europe, especially regarding the EU's upcoming *Ecodesign for Sustainable Products Regulation (ESPR)*²⁶⁷. This law, which was tentatively approved in December 2023, establishes compulsory eco-design standards and clearly forbids the destruction of unsold textile products. It also requires that producers take responsibility for the disposal of textile waste, making it a legal obligation for brands. These regulatory demands may have hastened Inditex's investments in facilities for reuse and recycling.

However, there are ethical and environmental issues associated with the growing reliance on second-hand markets. In wealthier countries, the amount of discarded clothing is often too large for local resale markets to handle.

Consequently, excess clothing (especially items of inferior quality) is sent to low-income nations, where it can negatively impact local textile markets and lead to environmental harm if it remains unsold and is discarded carelessly.

Sustainability initiatives like Inditex's collaborations with *Cáritas* and *Moda Re-* are commendable, but they don't adequately address the more fundamental issues with fast

²⁶⁵ Green Queen. (2023, December 14). *Zara and H&M's cotton traced to illegal deforestation, human rights abuses in Brazil's Cerrado: New investigation*. <https://www.greenqueen.com.hk/zara-hm-illegal-deforestation-human-rights-violations-cotton-brazil/>

²⁶⁶ *Cáritas Española*. (2023). *Moda Re- social impact and sustainability report*. Retrieved from <https://www.caritas.es>

²⁶⁷ European Commission. (2023). *Proposal for a regulation on ecodesign for sustainable products (ESPR)*. https://environment.ec.europa.eu/publications/proposal-ecodesign-sustainable-products-regulation_en

fashion, like overproduction, legal compliance, and the international transfer of waste. Achieving true sustainability will require more substantial adjustments to production methods, consumption trends, and corporate responsibility. To combat modern slavery and labour violations throughout its global supply chain, Inditex has put in place a thorough plan based on international norms such as the Modern Slavery Acts of the UK and Australia. The company adheres to strict internal guidelines and moral standards, including a Code of Conduct that forbids forced labour in line with ILO Convention 29. In 2019, Inditex conducted over 12,000 inspections to ensure standards were being followed. These inspections included social audits aimed at identifying and preventing exploitation, supplier evaluations, and traceability checks²⁶⁸.

Inditex additionally introduced its "Workers at the Centre" initiative (2019–2022), focusing on significant risk factors such as safeguarding migrant labor, promoting women's empowerment, ensuring social protection, and sourcing raw materials ethically²⁶⁹. These efforts are supported by partnerships with respected organizations including the International Labour Organization (ILO), Better Cotton Initiative (BCI), and the Ethical Trading Initiative.

Regulators and investors are increasingly demanding greater transparency from Inditex, as emerging regulations require companies to assess and disclose their social and environmental impacts. At the same time, fashion retailers are under growing pressure to eliminate forced labor from their supply chains and ensure fair wages for garment workers.²⁷⁰

As the European Union gets ready to implement the Corporate Sustainability Due Diligence Directive (CSDDD), there is increasing pressure on large fashion companies like Inditex to be more transparent and accountable for their social and environmental impacts.

The rule, which is expected to go into effect this year, will formally require big businesses to identify, stop, and lessen adverse impacts on the environment and human rights across their whole value chain. Serious repercussions could result from noncompliance, including fines equal to 5% of a business's worldwide sales. For Inditex, the directive

²⁶⁸ Inditex Group. (2020). *Modern Slavery, Human Trafficking and Transparency in Supply Chain Statement FY2019*. <https://www.inditex.com/en/how-we-do-business/right-to-wear>

²⁶⁹ Inditex. (2022). *Human Rights 2022 Report*. <https://www.inditex.com/itxcomweb/api/media/18b89707-9a7e-48c2-9bbd-0270ebe21728/Human-Rights-2022.pdf?t=1680171448041>

²⁷⁰ <https://www.edie.net/fashion-giant-inditex-pressed-for-better-supplier-transparency/>

represents a challenge as well as a chance to take action. Inditex is one of the few major retailers that does not disclose this level of information, despite rivals like H&M, Adidas, and Nike offering comprehensive lists of suppliers along with information about factory names and locations. The company currently keeps specific factory-level data private and only discloses the number of suppliers it works with in 12 major sourcing countries.

This absence of openness has drawn attention from regulators and investors alike. Dutch asset manager MN Services N.V., a stakeholder in Inditex, announced that it has consistently requested the company to disclose its supplier lists. MN highlighted that despite Inditex asserting it possesses this information, the company has, until now, refused to release it to the public. This hesitation may lead the company to conflict with the upcoming due diligence standards outlined in the CSDDD.

In order to comply with the directive, Inditex will likely need to improve its supply chain oversight, which includes disclosing supplier information, ensuring fair compensation for garment workers, and verifying the lack of forced labour practices. In an industry that is gradually moving towards moral and open practices, breaking this could cost the business money and damage its reputation.

As sustainability regulations become more stringent, Inditex will need to adapt its business practices to meet changing standards. In addition to actual legal requirements, there will be significant financial and reputational repercussions for complete transparency and ethical sourcing.

3.4.3 Lessons learned: effectiveness, limitations, and replicability of the examined models

The Corporate Sustainability Due Diligence Directive (CSDDD) marks a significant advancement in integrating environmental and human rights duties into the fundamental framework of corporate governance in the European Union. By requiring businesses to recognize, prevent, and tackle negative effects within their worldwide value chains, the directive aims to advance beyond optional corporate social responsibility and create enforceable standards for ethical business practices. Nonetheless, the directive's goal of bringing change faces considerable practical, legal, and structural obstacles that could weaken its effectiveness if they are not properly addressed.

Marco Fasciglione confirmed this in his article for SIDIBlog, affirming that “despite its ambitious intentions, the proposed directive reveals several shortcomings in terms of effectiveness, particularly with regard to enforcement mechanisms and the protection of

victims along global value chains.”²⁷¹

Significantly, the appendix to the directive contains mentions of various International Labour Organization (ILO) conventions, going beyond just the fundamental labor standards. This reference may create new opportunities for directly implementing international labor standards throughout global supply chains, even in situations where these conventions have not been officially accepted at the national level or acknowledged by courts as legal standards. Nonetheless, this method brings about legal uncertainty. It is unclear to what extent following these guidelines would shield businesses from legal liability, even though the annex is intended to help them fulfil their due diligence obligations. Businesses and their executives may be subject to a form of strict or objective liability as a result of this uncertainty, making it challenging to discern between legal accountability and regulatory compliance.

In fact, Maria Giovannone (2024) stated that: “the annex contains a list of principles and rights enshrined in specific international acts that should guide the performance of due diligence. The exempting significance of compliance with the duty of due diligence would then become ambiguous with the consequence of determining a possible objectification of civil liability on the part of entities and directors.”²⁷²

To gain a clearer understanding of the practical effects of the directive, the situations of Nestlé and Inditex provide important examples of how significant multinational companies are adjusting (or finding it challenging to adjust) to improved due diligence standards such as the CSDDD.

One rather good example of active participation is Nestlé. Through better monitoring systems, more openness, and addressing past labour violations—especially in high-risk agricultural supply chains—the company has included CSDD standards into its whole CSR strategy. Its emphasis on interacting with stakeholders and following international human rights norms demonstrates how a global business may make strategic use of due diligence rather than only for regulatory compliance. Still, Nestlé's situation also

²⁷¹ Fasciglione M. (2022, 26 maggio). *Luci ed ombre della proposta di direttiva europea sull'obbligo di due diligence d'impresa in materia di diritti umani e ambiente*. SIDIBlog. <https://www.sidiblog.org/2022/05/26/luci-ed-ombre-della-proposta-di-direttiva-europea-sullobligo-di-due-diligence-dimpresa-in-materia-di-diritti-umani-e-ambiente/>

²⁷² Giovannone M. (2024). *The European directive on corporate sustainability due diligence: the potential for social dialogue, workers' information and participation rights*. Italian Labour Law e-Journal. Issue 1, Vol. 17. <https://doi.org/10.6092/issn.1561-8048/19692>

emphasises continuing challenges: Particularly those involving small farmers and subcontractors, complex and opaque supply chains remain difficult to monitor; hence, enforcing standards usually depends on constant attention, independent reviews, and trustworthy complaint procedures.

Inditex, on the other hand, shows a more split and doubtful road. Working in the fast fashion sector—an area that inevitably runs counter to sustainability goals—Inditex has been repeatedly accused of using forced labour, damaging the environment, and keeping unsustainable manufacturing methods. The company has started a number of projects, including "Workers at the Centre" and alliances with NGOs to improve supply chain management, but these initiatives have not totally removed complaints. Investing in circular practices and second-hand clothes shows a good progress; yet, these projects do not completely address the main issue. The current company model keeps under threat labour conditions and environmental standards since it depends on quick turnover and cost cutting. Further erasing public confidence are slow responses to accusations—especially regarding the Xinjiang region—and a lack of clear information in the supply chain.

These two case studies highlight a main conflict in the CSDDD: the difficulty in balancing major environmental projects with accepted corporate policies and market needs. Based on Nestlé's experience, focused strategies—especially in sectors that consume a lot of raw materials—can produce useable models depending on openness, stakeholder involvement, and global standard compliance. Inditex's situation, however, emphasises the need of more major structural changes in naturally unsustainable sectors. In this framework, compliance initiatives could have to be combined with developments in lifecycle management—such as digital product passports and circular economy strategies—to reach the complete transformation the directive aims at. Both organizations exemplify a wider concern: the fear of monetary penalties and harm to reputation may encourage superficial changes or deceptive practices instead of genuine improvement. As consumer demands shift towards sustainability and ethical behavior, companies need to go beyond just marketing strategies and integrate accountability and transparency into their everyday business practices.

Additionally, the directive's reach beyond national boundaries raises concerns regarding its legitimacy and the principle of sovereignty, as it extends EU regulatory authority beyond its own territory. As Wettstein (2022) suggests, the goal of promoting human rights worldwide needs to be carefully weighed against the dangers of excessive

regulation, neocolonial tendencies, and the possible stifling of local involvement in crafting sustainable development strategies²⁷³.

Although the Corporate Sustainability Due Diligence Directive (CSDDD) does not directly control small and medium-sized businesses (SMEs), their expected indirect impacts are nonetheless expected. Small and medium-sized businesses who provide goods and services to bigger companies impacted by the directive could have to satisfy rigorous due diligence standards stated in their contracts. This causes major operational challenges especially since many small and medium-sized businesses lack the institutional resources, technical knowledge, or legal understanding required to comply successfully. According to a 2024 Reuters article, industry groups have voiced concerns about the complex nature of compliance responsibilities combined with insufficient support systems unfairly affecting smaller supply chain participants.²⁷⁴

Given that SMEs account for more than 99% of all companies in the European Union, their indirect involvement is crucial for the CSDDD to be effectively executed. Still, without tailored help or temporary fixes, the regulatory system might cause structural problems that might force smaller businesses out of the market or discourage their whole engagement in sustainable practices completely. This raises more general questions about the equity and inclusion of the approach applied in the directive.

A slow or customised compliance path could be helpful to increase involvement and provide equal opportunities for small and medium-sized businesses. This will help smaller businesses to respect their limited capacity and yet match with sustainability goals.

Furthermore, the natural difficulty of predicting and managing future hazards—particularly in uncertain or high-risk areas—highlights the need of a flexible, forward-looking, all-encompassing due diligence system. This approach should be supported by continuous participation of stakeholders and reinforced by easily understandable guidelines and institutional help tailored to fit the particular circumstances of small and medium-sized businesses.

²⁷³ Wettstein, F. (2022). Corporate responsibility in global supply chains: The limits of extraterritorial regulation. *Journal of Business Ethics*, 180(3), 715–732. <https://doi.org/10.1007/s10551-021-04892-w>

²⁷⁴ Reuters. (2024, July 11). *ESG Watch: New European human rights rules leave companies with 'big gap to close'*. Reuters. <https://www.reuters.com/sustainability/society-equity/esg-watch-new-european-human-rights-rules-leave-companies-with-big-gap-close-2024-07-11/>

The requirement of businesses to conduct thorough and proactive assessments of possible human rights and environmental hazards adds still another major obstacle to the effective implementation of the CSDDD. Although this active approach shows the preventive attitude of due diligence, the reality that many negative consequences connected to corporate activities are difficult to forecast complicates it. Some damages are difficult to identify during the decision-making process since they may only show up after long times or develop indirectly through complex cause-and-effect relationships. As noted by Bonfanti (2025), the timing and location of these risks present a significant obstacle to creating effective risk management plans²⁷⁵. Businesses may find it difficult to put in place preventive measures when the possible effects are unclear or depend on changing socio-economic situations. Moreover, strict compliance frameworks may not fully reflect the changing and complex characteristics of specific human rights violations, including systemic discrimination or environmental harm. This uncertainty highlights the importance of the directive to permit flexibility and provide guidance tailored to specific sectors, while also ensuring investment in strong risk assessment methods and practices for engaging stakeholders²⁷⁶.

Regardless its difficulties, the Corporate Sustainability Due Diligence Directive (CSDDD) is a big step in the direction of ethical business practices and global corporate responsibility. Aligning sustainability objectives with the intricacies of global supply chains, trade, and income disparity will be essential to its success. Fair and efficient execution will be made possible by continuing to maintain collaboration between governments, corporations, and civil society as well as by providing useful support resources, particularly for smaller enterprises. Strong, open, and accountable global value chains can only be achieved with this inclusive and well-rounded strategy. According to the objectives of the Corporate Sustainability Due Diligence Directive (CSDDD), new questions concerning the directive's efficacy and consistency have been brought up by recent legislative changes. The European Commission's Omnibus simplification package, designed to simplify rules regarding corporate accountability, has faced criticism for

²⁷⁵ Bonfanti, A. (2025). Corporate due diligence and human rights: Between soft law and legal obligations in the EU. *European Journal of Business Law*, 42(1), 58–77.

²⁷⁶ De Schutter, O. (2022). Towards a mandatory EU due diligence legislation: Shortcomings and prospects. European Parliament Policy Department for External Relations. [https://www.europarl.europa.eu/RegData/etudes/STUD/2022/653646/EXPO_STU\(2022\)653646_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2022/653646/EXPO_STU(2022)653646_EN.pdf)

possibly weakening key aspects of the CSDDD²⁷⁷. Experts, including the Fair Wear Foundation, have expressed serious concerns regarding the recent modifications to the Corporate Sustainability Due Diligence Directive (CSDDD). Rather than enhancing corporate responsibility, the proposed changes may jeopardise the directive's primary goal. The directive's exclusive focus on direct, or tier-one, suppliers is one of the primary problems. This change may reduce the effectiveness of due diligence by omitting the wider value chain, which is frequently the site of environmental and human rights violations. It also loads more administrative work on companies without guaranteeing improved environmental or employee safety.

Those businesses who have already made investments in improved supply chain openness and ethical sourcing policies may suffer from the limited scope. Focusing just on direct suppliers helps to reduce fair competition and may discourage companies from supporting more general environmental initiatives. This change could reduce the incentive for businesses to identify and manage hazards later in the supply chain, so weakening the preventive framework fundamental to international human rights due diligence requirements.

The suggested framework's responsive quality raises still another problem. Companies would just have to act once reliable information about potential hazards becomes available. This approach goes against the internationally accepted framework of risk-based, preventive measures, delays important actions, increases the possibilities of danger. This reactive approach is especially troubling in industries like apparel where major violations usually occur outside of tier-one suppliers.

Furthermore, the developments seem to revive the troublesome habit of depending on contractual guarantees. Although the CSDDD's first goal was to prevent businesses from passing on their due diligence obligations to less strong partners, the revised form might let for this very practice. Encouragement of companies to obtain guarantees from their suppliers could result in a shift of responsibility without enough support, so burdening those with less resources of excessive compliance requirements. This runs against accepted norms of fair agreements and shared responsibility.

Critics argue that rather than reducing bureaucratic complexity, the recommended simplifications could aggravate it. The deviations from basic due diligence standards—

²⁷⁷ Fair Wear Foundation. (n.d.). Fair Wear's response to the European Commission's Omnibus package. <https://www.fairwear.org/stories/fair-wears-response-to-the-european-commissions-omnibus-package/>

risk management, stakeholder involvement, openness—may eventually compromise the credibility and practical usefulness of the directive. Furthermore, the directive still has structural flaws including the lack of a well defined list of protected human rights and labour standards. This uncertainty might lead to different interpretations and uneven application among EU Members States.

Since the CSDDD is an EU directive rather than a rule, it allows countries a great deal of latitude in how they implement it, which may result in different compliance strategies and legal variations. Expanding due diligence criteria to include global value chains makes things more difficult because non-EU nations' disparate legal systems, governance structures, and resource availability make it difficult to implement fair and effective controls. In essence, even if the CSDDD is a valuable legal tool that can propel corporate change, its efficacy will mostly depend on the way its guidelines are followed, implemented, and supported.

Despite the limitations and critical issues of the Corporate Sustainability Due Diligence Directive, it is important to underline the importance of this framework as it “pursues the ambitious objective of providing an answer to these problems by ‘strengthening’ labour rights – and above all the right to decent work – well ‘beyond’ the European legal space, up to involving transnational value chains located in third countries”.²⁷⁸

The case studies of Nestlé and Inditex show the possible advantages as well as the difficulties of applying due diligence in practical contexts. They contend that following the law is insufficient since real progress calls for a more significant change in business priorities towards long-term commitment to environmental sustainability and human rights. Should this change fail, the directive runs the risk of becoming merely another regulatory requirement rather than a catalyst for actual, systemic change.

²⁷⁸ Bonfanti A., Fasciglione M. (2023). *La futura direttiva europea sulla corporate sustainability due diligence: un'introduzione*. Il Mulino – Rivisteweb. doi: 10.12829/109411. Diritti umani e diritto internazionale (ISSN 1971-7105) Fascicolo 3, settembre-dicembre 2023

Conclusion

The Corporate Sustainability Due Diligence Directive (CSDDD) marks a significant development in the European Union's continuous endeavor to establish sustainable corporate governance and international responsibility. It develops from many years of progress in voluntary corporate social responsibility to a mandatory legal system that requires companies to take into account human rights, working conditions, and environmental effects across their worldwide supply chains. The CSDDD had a clear and significant objective at first: it was to ensure that businesses operating in or connected to the EU internal market could no more overlook the consequences of their corporate operations, particularly in sectors and areas vulnerable to exploitation.

Three interrelated aspects of the directive's complexity have been examined in this thesis: its historical and legal foundation, the design of its enforcement mechanisms, and its implications for labour rights, particularly in light of the most recent modifications brought about by the 2025 Omnibus Package. Combining these elements reveals the political agreements that have shaped the directive's current state in addition to the regulations' objectives. The CSDDD's original idea was rather amazing in scope and thoroughness. It set standards for businesses to acknowledge, stop, lessen, and handle environmental damage and human rights violations all through their supplier chains. These criteria went beyond previous EU rules mostly depending on reporting and voluntary efforts by supporting for the first time legal responsibility and oversight by regulatory authorities. This directive aimed to drastically transform the character of corporate governance so that the quest of profit would coincide with the welfare of the earth and people.

Nonetheless, the ultimate result of the legislation, particularly following the modifications made by the Omnibus Package, mirrors a more tempered representation of this vision. The spectrum of the directive was significantly limited in response to industry pressure and concerns about competitiveness. Only large corporations, marked by high employee counts and income, are now obliged to take on the primary responsibility. Moreover, the directive's procedural framework was improved by substituting assessments every five years for the initially recommended annual due diligence inspections and by limiting corporate responsibility mostly to Tier 1 suppliers.

Most importantly, one of the most important accountability tools in the directive—the EU-wide civil liability system—was eliminated and national legal systems of Member

States were given responsibility for enforcement. This compromises the clarity and dependability of rights protection for victims as well as increases legal inconsistency all around the Union. While national authorities are responsible for ensuring access to justice, their capacity to apply these clauses and will to do so vary greatly depending on the area.

From all the people engaged, these changes have provoked notable reactions. Generally speaking, businesses have welcomed the changes since they see them as a reasonable adaptation meant to reduce regulatory demands and avoid pointless legal conflicts. Particularly in regard to complex worldwide supply networks, the revised guideline offers multinational corporations better legal clarity and operational flexibility. Emphasising adherence to processes, mandating that businesses show they have implemented appropriate actions, fits with risk management techniques already included into many corporate governance systems.

On the other hand, trade unions, civil society groups, and environmental organisations have denounced the changes as a significant compromise of the EU's commitment to human rights and sustainability. Labour advocates argue that the directive may ignore the abuses it aims to address—many of which take place in the informal or less obvious levels of global production systems—by excluding smaller businesses and lowering the due diligence standards. These problems are exacerbated by the absence of a consistent liability system and the exclusion of civil society players from having legal rights during the execution of policies. Critics worry that businesses may decide to apply only surface-level compliance policies rather than making actual structural changes in absence of strong control.

Notwithstanding these objections, the directive has symbolic and pragmatic importance. It creates a legal obligation for businesses to take social and environmental consequences of their operations under consideration, particularly in cases when those operations damage natural ecosystems or at-risk workers. This marks a change from answering questions of corporate responsibility to aggressively seeking due diligence, including sustainability elements into the strategic decision-making processes of the biggest and most important businesses functioning inside the EU.

Especially important are the implications for workers' rights. In its revised form, the CSDDD creates a legal obligation for companies to assess and control risks related to child labour, forced labour, hazardous working conditions, and wage exploitation. It encourages transparency by requiring companies to publicly disclose their approaches of

analysing labour practices and the actions taken to lower labor-related problems. Furthermore, it encourages a more broad culture of involving stakeholders, which means businesses must interact with labour unions, non-governmental organisations, and affected localities. This could inspire a new type of social dialogue whereby labour rights are included not as little ethical concerns but rather as main elements of corporate strategy.

However the success of this approach depends on elements outside of just legal documentation. It calls for strong national government execution, real corporate dedication, and continuous support from civil society. The shift away from emphasising results to allowing more procedural flexibility raises the issue that due diligence might become a formality—appearing compliant on the surface but lacking real substance. Law enforcement authorities should be given the power to closely monitor business operations in order to avoid this; all those engaged should remain vigilant in requesting responsibility from both companies and regulatory authorities.

Unions and NGOs see the lowering of enforcement policies—more especially, the elimination of the 5% turnover penalty and the exclusion of informal workers—as a retreat from justice. The European Trade Union Confederation claims that the current form of the directive might create a false sense of progress while neglecting to give the most at-risk workers worldwide meaningful protection.

Moreover, the elimination of necessary climate transition planning—also eliminated in the Omnibus reforms—weakens the EU's ability to match corporate actions with its more general environmental and social objectives as stated in the EU Climate Law and the European Green Deal.

The CSDDD continues to be a significant turning point in the global movement for corporate responsibility in spite of these shortcomings. It creates an institutional and legal foundation for incorporating sustainability into business. The regulation could act as a model for other domains, fostering progress towards a worldwide norm of required due diligence. A number of crucial requirements must be met in order to fully realise this potential:

- **Strengthening National Enforcement:** Member States must ensure that their national legal systems provide victims with distinct avenues for obtaining justice and that authorities are able to efficiently monitor corporate compliance in the absence of EU-wide civil liability.

- **Guaranteeing Inclusive Stakeholder Participation:** trade unions, civil society groups, and impacted communities should be significantly engaged in the due diligence procedure. Their involvement is crucial for recognizing risks, developing prevention plans, and maintaining accountability.
- **Closing the Tier Gap:** Future updates to the directive should focus on expanding the monitoring requirements beyond Tier 1 suppliers. This could be accomplished through industry-specific guidelines, collaboration amongst various stakeholders, and encouraging voluntary participation with suppliers further down the tier chain.
- **Developing Support for Small and Medium-Sized Businesses:** Although not specifically targeted by the directive, small and medium-sized enterprises play a crucial role in global supply chains. By developing voluntary guidelines, providing financial support, and establishing industry codes of conduct, small and medium-sized businesses (SMEs) can meet the directive's goals without being overburdened.
- **Reintroducing Climate Accountability:** in order to comply with the EU's sustainability objectives, the practice of climate-related due diligence—particularly the creation and disclosure of climate transition plans—ought to be incorporated again in future updates or related legislation.

In conclusion, the revised Corporate Sustainability Due Diligence Directive marks an important turning point in the EU's regulatory system. It fosters the notion that economic activity shouldn't jeopardise basic human rights or environmental health. However, how it is viewed, implemented, and changed over time will determine its success. Creating a legal minimum serves as a basis for more inclusive, comprehensive, and enforceable systems.

The decisions taken by legislators, companies, and community organisations going forward will determine how much this foundation promotes real change or just serves to preserve the illusion of responsibility. Therefore, the goal is not only to respect or criticise the present direction but also actively participate in guiding its future towards a more fair and sustainable worldwide economy.

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