



Brussels, 22 November 2022  
(OR. en)

14791/22

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**Interinstitutional File:  
2022/0051(COD)**

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**LIMITE**

**DRS 61  
SUSTDEV 197  
CODEC 1747  
COMPET 902**

**NOTE**

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From: General Secretariat of the Council  
To: Permanent Representatives Committee

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No. Cion doc.: 6533/22

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Subject: Preparation of the Council (Competitiveness (Internal Market, Industry, Research and Space) on 1-2 December 2022  
Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937  
- General Approach

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**I. INTRODUCTION**

1. On 23 February 2022, the Commission submitted to the European Parliament and to the Council a proposal for a Directive on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937<sup>1</sup>.
2. The proposed Directive, based on Article 50 and Article 114 of the TFEU, lays down rules on obligations for companies regarding actual and potential human rights adverse impacts and environmental adverse impacts, with respect to their own operations, the operations of their subsidiaries, and the value chain operations carried out by entities with whom the company has an established business relationship. It also lays down rules on liability for violations of these obligations.

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<sup>1</sup> 6533/22 + ADD 1

3. The proposed Directive aims to set out a horizontal framework to foster the contribution of businesses operating in the single market towards the achievement of the Union's transition to a climate-neutral and green economy in line with the European Green Deal and the UN Sustainable Development Goals.
4. The European Parliament's Committee on Legal Affairs (JURI) appointed Ms Lara WOLTERS (S&D, NL) as rapporteur on the proposal, with eight committees being asked for an opinion, namely the Committee on Development (DEVE), the Committee on the Internal Market and Consumer Protection (IMCO), the Committee on Industry, Research and Energy (ITRE), the Committee on Foreign Affairs (AFET), the Committee on the Environment, Public Health and Food Safety (ENVI), the Committee on Economic and Monetary Affairs (ECON), the Committee on International Trade (INTA), and the Committee on Employment and Social Affairs (EMPL), the latter five being associated committees. The JURI Committee is expected to vote on its amendments to the Commission proposal and adopt the mandate for negotiations at the end of March 2023, with the negotiating mandate expected to be voted at plenary in May 2023.
5. The opinion of the European Economic and Social Committee was adopted on 14 July 2022<sup>2</sup>.

## II. WORK WITHIN THE COUNCIL

6. The Council at its meeting of 24 February 2022, heard a presentation from the Commission on the content and aim of the proposed Directive.
7. On 24 October 2022, the Environment Council, following the request of the BE delegation, supported by the ES delegation, was informed about the work and progress made concerning the proposed Directive.

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<sup>2</sup> 11489/22.

8. The Company Law Working Party started examining the proposal under the French Presidency in March 2022. Work has continued during the Czech Presidency with the first compromise text being presented on 5-6 September 2022. Since that date, the Working Party has intensively examined the various updates of the compromise text as the Presidency has amended provisions of the Commission's proposal to address delegations' comments and suggestions.
9. The Permanent Representatives Committee provided guidance for further work on 26 October 2022. Building on the positions expressed by delegations, the Presidency put forward further compromise texts which were discussed at four subsequent Company Law Working Party meetings.
10. The Presidency presented a revised compromise text to the Permanent Representatives Committee meeting on 18 November 2022 in order to enable reaching a General Approach on the proposal. The meeting however confirmed that while delegations can agree on most of the proposal, their views still differ on a small number of issues.
11. Based on the views expressed at the Permanent Representatives Committee meeting, the Presidency puts forward a new compromise text as set out in the Annex to this note. The Presidency is of the view that a final compromise can be reached if some flexibility can be shown by all parties concerned. A general scrutiny reservation by all delegations has been entered on the new Presidency text. Changes compared to the last text discussed at COREPER level<sup>3</sup> are indicated in **bold underlined** for additions and ~~strikethrough~~ for deletions.

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<sup>3</sup> 14441/22.

### III. NEW ELEMENTS OF THE COMPROMISE

#### A. Definitions – value chain (Article 3(g))

12. At the Permanent Representatives Committee's meeting of 18 November 2022, the Presidency put forward a compromise to try to bridge the gap between those delegations who preferred to change the concept of value chain to supply chain by opting for the so-called 'value chain minus' or 'supply chain plus' concept. The proposed definition however proved insufficient as a compromise and diverging views of Member States persisted. The Presidency has worked further to put forward a compromise on this key issue of the proposal. The definition of the value chain has therefore been amended as follows:

- The term of 'value chain' has been replaced by a neutral term of 'chain of activities' in order to reflect divergent views of Member States on this issue and not to create confusion with already existing definitions since the content of the term has been modified.
- As regards the content of the 'chain of activities', the Presidency proposed to move more towards the supply chain concept by leaving out the phase of the use of the company's products or provision of services entirely. In order to enhance legal clarity, a list of the activities of the business partners that are covered was included in the proposed definition of 'chain of activities'. As these activities were already mentioned in recital 18, the Presidency moved them to the operative part of the text. Furthermore, the exemption for products being subject to export control should be amended to be consistent with the new definition and to cover the distribution, transport, storage and disposal of the product.
- The financial sector was kept in the scope of the proposed Directive taking into account its specificities within the due diligence framework (i.e. a lack of upstream activities and biggest leverage in the downstream activities) and the specific definition of chain of activities of regulated financial undertakings.

13. The Presidency believes that the above-mentioned elements strike a good balance between the differing views on concepts of 'value' and 'supply' chain as it could be confusing to use a well-known term but define it with different content.

**B. Civil liability (Article 22)**

14. Some Member States expressed concerns at the 18 November 2022 Permanent Representatives Committee meeting regarding the still perceived lack of clarity of this provision.

15. The Presidency has therefore further clarified the conditions under which a company can be held liable in the first paragraph of this Article. There are four conditions that have to be met in order for a company to be held liable – a damage caused to a natural or legal person, a breach of the duty, the causal link between the damage and the breach of the duty and a fault (intention or negligence).

16. Firstly, the Presidency clarified the breach of the duty – the abused or violated right, prohibition or obligation that is listed in Annex I, which results in the adverse impact that should have been addressed by the company in accordance with Article 7 or 8, should be aimed to protect the natural or legal person to which the damage is caused. This change clarifies that the company should not be held liable for a derivative (indirectly caused) damage.

17. Secondly, the Presidency proposes to clarify the damage caused to the natural or legal person. The damage should be understood as a damage caused to the natural or legal person's legal interests protected under national law. The aim of such addition is to stress that the proposed wording of Article 22 does not collide with the existing national law and does not oblige Member States to broaden the concept of damage already existing in their general tort law. The Presidency provided examples of possible legal interests protected under national law in recital 56 already in the 6<sup>th</sup> Presidency compromise text.

### **C. Combating climate change (Article 15)**

18. Following the call of some delegations during the last discussion of the proposal at the Permanent Representatives Committee meeting, a reference to the soon to be adopted Corporate Sustainability Reporting Directive (CSRD) was introduced in this Article. The newly added reference merely points the companies to related provisions of the CSRD to enhance legal clarity.

### **D. Annex I, Part II:**

19. In order to address the concerns expressed by some delegations at the 18 November 2022 Permanent Representatives Committee meeting and to achieve an overall balance of the compromise text, the Presidency has introduced a limited number of additional specific obligations and prohibitions under international environmental instruments, the violation of which results in an adverse environmental impact. This means that specific references to some obligations and prohibitions included in the World Heritage Convention, Ramsar Convention, MARPOL 73/78 and UNCLOS were added. In combination with the exclusion and limitation of some activities of business partners of the company, the Presidency believes that the proposed additions ensure a balanced compromise that does not increase the burden of companies.

### **E. Legal-linguistic revisions:**

20. Moreover, some legal-linguistic changes have been made to the compromise text that do not change the text substantively.

## **IV. CONCLUSION**

21. In view of the above, the Permanent Representatives Committee is invited to examine the new elements of the compromise and endorse the overall compromise package presented by the Presidency as set out in the Annex to this note with a view to reaching a General Approach at the Council meeting (Competitiveness) on 1 December 2022.

2022/0051 (COD)

Proposal for a

**DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL**  
**on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937<sup>4</sup>**

(Text with EEA relevance)

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 50(1) and (2), point (g), and Article 114 thereof,

Having regard to the proposal from the European Commission,

After transmission of the draft legislative act to the national parliaments,

Having regard to the opinion of the European Economic and Social Committee<sup>5</sup>,

Acting in accordance with the ordinary legislative procedure,

Whereas:

- (1) The Union is founded on the respect for human dignity, freedom, democracy, equality, the rule of law and respect for human rights as enshrined in the EU Charter of Fundamental Rights. Those core values that have inspired the Union's own creation, as well as the universality and indivisibility of human rights, and respect for the principles of the United Nations Charter and international law, should guide the Union's action on the international scene. Such action includes fostering the sustainable economic, social and environmental development of developing countries.

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<sup>4</sup> **General scrutiny reservation: all delegations.**

<sup>5</sup> OJ C , , p. .

- (2) A high level of protection and improvement of the quality of the environment and promoting European core values are among the priorities of the Union, as set out in the Commission’s Communication on A European Green Deal<sup>6</sup>. These objectives require the involvement not only of the public authorities but also of private actors, in particular companies.
- (3) In its Communication on a Strong Social Europe for Just Transition<sup>7</sup>, the Commission committed to upgrading Europe’s social market economy to achieve a just transition to sustainability. This Directive will also contribute to the European Pillar of Social Rights, which promotes rights ensuring fair working conditions. It forms part of the EU policies and strategies relating to the promotion of decent work worldwide, including in global value chains, as referred to in the Commission Communication on decent work worldwide<sup>8</sup>.
- (4) The behaviour of companies across all sectors of the economy is key to success in the Union’s sustainability objectives as Union companies, especially large ones, rely on global value chains. It is also in the interest of companies to protect human rights and the environment, in particular given the rising concern of consumers and investors regarding these topics. Several initiatives fostering enterprises which support value-oriented transformation already exist on Union<sup>9</sup>, as well as national<sup>10</sup> level.

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<sup>6</sup> Communication from the Commission to the European Parliament the European Council, the Council, the European Economic and Social Committee and the Committee of the Region “The European Green Deal” (COM/2019/640 final).

<sup>7</sup> Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions – A Strong Social Europe for Just Transitions (COM/2020/14 final).

<sup>8</sup> Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee on decent work worldwide for a global just transition and a sustainable recovery, COM(2022) 66 final.

<sup>9</sup> ‘Enterprise Models and the EU agenda’, *CEPS Policy Insights*, No PI2021-02/ January 2021.

<sup>10</sup> E.g. <https://www.economie.gouv.fr/entreprises/societe-mission>

- (5) Existing international standards on responsible business conduct specify that companies should protect human rights and set out how they should address the protection of the environment across their operations and value chains. The United Nations Guiding Principles on Business and Human Rights<sup>11</sup> recognise the responsibility of companies to exercise human rights due diligence by identifying, preventing and mitigating the adverse impacts of their operations on human rights and by accounting for how they address those impacts. Those Guiding Principles state that businesses should avoid infringing human rights and should address adverse human rights impacts that they have caused, contributed to or are linked with in their own operations, subsidiaries and through their direct and indirect business relationships.
- (6) The concept of human rights due diligence was specified and further developed in the OECD Guidelines for Multinational Enterprises<sup>12</sup> which extended the application of due diligence to environmental and governance topics. The OECD Guidance on Responsible Business Conduct and sectoral guidance<sup>13</sup> are internationally recognised frameworks setting out practical due diligence steps to help companies identify, prevent, mitigate and account for how they address actual and potential impacts in their operations, ~~value~~ **supply** chains and other business relationships. The concept of due diligence is also embedded in the recommendations of the International Labour Organisation (ILO) Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy.<sup>14</sup>

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<sup>11</sup> United Nations’ “Guiding Principles on Business and Human Rights: Implementing the United Nations ‘Protect, Respect and Remedy’ Framework”, 2011, available at [https://www.ohchr.org/documents/publications/guidingprinciplesbusinesshr\\_en.pdf](https://www.ohchr.org/documents/publications/guidingprinciplesbusinesshr_en.pdf).

<sup>12</sup> OECD Guidelines for Multinational Enterprises, 2011 updated edition, available at <http://mneguidelines.oecd.org/guidelines/>.

<sup>13</sup> OECD Guidance on Responsible Business Conduct, 2018, and sector-specific guidance, available at <https://www.oecd.org/investment/due-diligence-guidance-for-responsible-business-conduct.htm>.

<sup>14</sup> The International Labour Organisation’s “Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy, Fifth Edition, 2017, available at: [https://www.ilo.org/empent/Publications/WCMS\\_094386/lang--en/index.htm](https://www.ilo.org/empent/Publications/WCMS_094386/lang--en/index.htm).

- (7) The United Nations' Sustainable Development Goals<sup>15</sup>, adopted by all United Nations Member States in 2015, include the objectives to promote sustained, inclusive and sustainable economic growth. The Union has set itself the objective to deliver on the UN Sustainable Development Goals. The private sector contributes to those aims.
- (8) International agreements under the United Nations Framework Convention on Climate Change, to which the Union and the Member States are parties, such as the Paris Agreement **under the United Nations Framework Convention on Climate Change adopted on 12 December 2015 (the 'Paris Agreement')**<sup>16</sup> and the recent Glasgow Climate Pact<sup>17</sup>, set out precise avenues to address climate change and keep global warming within 1.5 °C degrees. Besides specific actions being expected from all signatory Parties, the role of the private sector, in particular its investment strategies, is considered central to achieve these objectives.

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<sup>15</sup> [https://www.un.org/ga/search/view\\_doc.asp?symbol=A/RES/70/1&Lang=E](https://www.un.org/ga/search/view_doc.asp?symbol=A/RES/70/1&Lang=E).

<sup>16</sup> OJ L 282, 19.10.2016, p. 4.  
[https://unfccc.int/files/essential\\_background/convention/application/pdf/english\\_paris\\_agreement.pdf](https://unfccc.int/files/essential_background/convention/application/pdf/english_paris_agreement.pdf)

<sup>17</sup> Glasgow Climate Pact, adopted on 13 November 2021 at COP26 in Glasgow,  
[https://unfccc.int/sites/default/files/resource/cma2021\\_L16\\_adv.pdf](https://unfccc.int/sites/default/files/resource/cma2021_L16_adv.pdf).  
[https://unfccc.int/sites/default/files/resource/cma2021\\_L16\\_adv.pdf](https://unfccc.int/sites/default/files/resource/cma2021_L16_adv.pdf).

- (9) In Regulation (EU) 2021/1119 of the European Parliament and of the Council<sup>18</sup>, the Union also legally committed to becoming climate-neutral by 2050 and to reducing emissions by at least 55% by 2030. Both these commitments require changing the way in which companies produce and procure. The Commission’s 2030 Climate Target Plan<sup>19</sup> models various degrees of emission reductions required from different economic sectors, though all need to see considerable reductions under all scenarios for the Union to meet its climate objectives. The Plan also underlines that “changes in corporate governance rules and practices, including on sustainable finance, will make company owners and managers prioritise sustainability objectives in their actions and strategies.” The 2019 Communication on the European Green Deal<sup>20</sup> sets out that all Union actions and policies should pull together to help the Union achieve a successful and just transition towards a sustainable future. It also sets out that sustainability should be further embedded into the corporate governance framework.
- (10) According to the Commission Communication on forging a climate-resilient Europe<sup>21</sup> presenting the Union Strategy on Adaptation to climate change, new investment and policy decisions should be climate-informed and future-proof, including for larger businesses managing value chains. This Directive should be consistent with that Strategy. Similarly, there should be consistency with the Commission Directive [...] amending Directive 2013/36/EU as regards supervisory powers, sanctions, third-country branches, and environmental, social and governance risks (Capital Requirements Directive)<sup>22</sup>, which sets out clear requirements for banks’ governance rules including knowledge about environmental, social and governance risks at board of directors level.

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<sup>18</sup> 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’) (OJ L 243, 9.7.2021, p. 1).

<sup>19</sup> SWD/2020/176 final.

<sup>20</sup> COM/2019/640 final.

<sup>21</sup> Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on Forging a climate-resilient Europe – the new EU Strategy on Adaptation to Climate Change (COM/2021/82 final), available at <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM:2021:82:FIN>.

<sup>22</sup> OJ C [...], [...], p. [...].

- (11) The Action Plan on a Circular Economy<sup>23</sup>, the Biodiversity strategy<sup>24</sup>, the Farm to Fork strategy<sup>25</sup> and the Chemicals strategy<sup>26</sup> and Updating the 2020 New Industrial Strategy: Building a stronger Single Market for Europe’s recovery<sup>27</sup>, Industry 5.0<sup>28</sup> and the European Pillar of Social Rights Action Plan<sup>29</sup> and the 2021 Trade Policy Review<sup>30</sup> list an initiative on sustainable corporate governance among their elements.
- (12) This Directive is in coherence with the EU Action Plan on Human Rights and Democracy 2020-2024<sup>31</sup>. This Action Plan defines as a priority to strengthen the Union’s engagement to actively promote the global implementation of the United Nations Guiding Principles on Business and Human Rights and other relevant international guidelines such as the OECD Guidelines for Multinational Enterprises, including by advancing relevant due diligence standards.

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<sup>23</sup> Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on A new Circular Economy Action Plan For a cleaner and more competitive Europe (COM/2020/98 final).

<sup>24</sup> Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on the EU Biodiversity Strategy for 2030 Bringing nature back into our lives (COM/2020/380 final).

<sup>25</sup> Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on A Farm to Fork Strategy for a fair, healthy and environmentally-friendly food system (COM/2020/381 final).

<sup>26</sup> Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on the Chemicals Strategy for Sustainability Towards a Toxic-Free Environment (COM/2020/667 final).

<sup>27</sup> Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on [Updating the 2020 New Industrial Strategy: Building a stronger Single Market for Europe’s recovery \(COM/2021/350 final\)](#).

<sup>28</sup> Industry 5.0; [https://ec.europa.eu/info/research-and-innovation/research-area/industrial-research-and-innovation/industry-50\\_en](https://ec.europa.eu/info/research-and-innovation/research-area/industrial-research-and-innovation/industry-50_en)

<sup>29</sup> <https://op.europa.eu/webpub/empl/european-pillar-of-social-rights/en/>

<sup>30</sup> Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, Trade Policy Review – An Open, Sustainable and Assertive Trade Policy (COM/2021/66/final).

<sup>31</sup> Joint Communication to the European Parliament and the Council on the EU Action Plan on Human Rights and Democracy 2020-2024 (JOIN/2020/5 final).

- (13) The European Parliament, in its resolution of 10 March 2021 calls upon the Commission to propose Union rules for a comprehensive corporate due diligence obligation<sup>32</sup>. The Council Conclusions on Human Rights and Decent Work in Global Supply Chains of 1 December 2020<sup>33</sup> called upon the Commission to table a proposal for a Union legal framework on sustainable corporate governance, including cross-sector corporate due diligence obligations along global supply chains. The European Parliament also calls for clarifying directors' duties in its own initiative report adopted on 2 December 2020 on sustainable corporate governance. In their Joint Declaration on EU Legislative Priorities for 2022<sup>34</sup>, the European Parliament, the Council of the European Union and the Commission have committed, to deliver on an economy that works for people, and to improve the regulatory framework on sustainable corporate governance.
- (14) This Directive aims to ensure that companies active in the internal market contribute to sustainable development and the sustainability transition of economies and societies through the identification, prevention and mitigation, bringing to an end and minimisation of potential or actual adverse human rights and environmental impacts connected with companies' own operations, **operations of their** subsidiaries and **value their business partners in the companies'** chains **of activities**. This Directive is without prejudice to the responsibility of Member States to respect and protect human rights and the environment under international law.

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<sup>32</sup> European Parliament resolution of 10 March 2021 with recommendations to the Commission on corporate due diligence and corporate accountability (2020/2129(INL)), P9\_TA(2021)0073, available at [https://oeil.secure.europarl.europa.eu/oeil/popups/ficheprocedure.do?lang=en&reference=2020/2129\(INL\)](https://oeil.secure.europarl.europa.eu/oeil/popups/ficheprocedure.do?lang=en&reference=2020/2129(INL)).

<sup>33</sup> Council Conclusions on Human Rights and Decent Work in Global Supply Chains, 1 December 2020 (13512/20).

<sup>34</sup> Joint declaration of the European Parliament, the Council of the European Union and the European Commission on EU Legislative Priorities for 2022, available at [https://ec.europa.eu/info/sites/default/files/joint\\_declaration\\_2022.pdf](https://ec.europa.eu/info/sites/default/files/joint_declaration_2022.pdf).

- (14a) This Directive is without prejudice to obligations in the areas of human rights, protection of the environment and climate change under other Union legislative acts. If the provisions of this Directive conflict with a provision of another Union legislative act pursuing the same objectives and providing for more extensive or more specific obligations, the provisions of the other Union legislative act should prevail to the extent of the conflict and should apply to those specific obligations. Examples of these obligations in Union legislative acts include obligations in the Regulation (EU) 2017/821 of the European Parliament and of the Council (Conflict Minerals Regulation)<sup>35</sup>, [the proposal for a Batteries Regulation<sup>36</sup>] or [the proposal for a Regulation on deforestation-free supply chains<sup>37</sup>].
- (14b) In order to accommodate for the specificities of pension and social security schemes in different Member States, Member States should decide whether to apply this Directive to their pension institutions operating social security systems under applicable Union law.

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<sup>35</sup> 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 (OJ L 130, 19.5.2017, p. 1).

<sup>36</sup> Proposal for a Regulation of the European Parliament and of the Council concerning batteries and waste batteries, repealing Directive 2006/66/EC and amending Regulation (EU) No 2019/1020 (COM/2020/798 final).

<sup>37</sup> Proposal for a Regulation of the European Parliament and of the Council on the making available on the Union market as well as export from the Union of certain commodities and products associated with deforestation and forest degradation and repealing Regulation (EU) No 995/2010 (COM(2021) 706 final).

- (15) Companies should take appropriate steps to set up and carry out due diligence measures, with respect to their own operations, their subsidiaries, as well as their direct and indirect business partners throughout their ~~value~~ chains **of activities** in accordance with the provisions of this Directive. This Directive should not require companies to guarantee, in all circumstances, that adverse impacts will never occur or that they will be stopped. For example, with respect to business partners where the adverse impact results from State intervention, the company might not be in a position to arrive at such results. Therefore, the main obligations in this Directive should be ‘obligations of means’. The company should take the appropriate measures which can reasonably be expected to result in prevention or minimisation of the adverse impact under the circumstances of the specific case. Account should be taken of the specificities of the company’s business operations and its ~~value~~ chain **of activities**, sector or geographical area in which its business partners operate, the company’s power to influence its direct and indirect business partners, and whether the company could increase its power of influence.
- (16) The due diligence process set out in this Directive should cover the six steps defined by the OECD Due Diligence Guidance for Responsible Business Conduct, which include due diligence measures for companies to identify and address adverse human rights and environmental impacts. This encompasses the following steps: (1) integrating due diligence into policies and management systems, (2) identifying and assessing adverse human rights and environmental impacts, (3) preventing, ceasing or minimising actual and potential adverse human rights, and environmental impacts, (4) assessing the effectiveness of measures, (5) communicating, (6) providing remediation.

(16a) In order to make due diligence more effective and reduce the burden on companies, they should be entitled to share resources and information within their respective groups of companies and with other legal entities, in compliance with existing national and Union law. In addition, the parent company falling under the scope of this Directive should be allowed to fulfil some of the due diligence obligations also on behalf of its subsidiaries that are falling under the scope of this Directive. Since the parent company would be fulfilling these due diligence obligations on behalf of subsidiaries, the subsidiaries should only be required to fulfil the obligations that need to be performed at subsidiary level due to their nature. The possibility to fulfil the obligations at a group level should be limited to parent companies and subsidiaries both falling under the scope of this Directive. This limitation is necessary for the purposes of administrative enforcement where, apart from the obligations staying with the subsidiaries, the parent company should be responsible for fulfilling the due diligence obligations. The supervisory authority of the parent company should be competent to monitor and assess the fulfilment of due diligence obligations of the whole group, apart from the obligations staying with the subsidiaries where the competent supervisory authority should be the one of the relevant subsidiary. If the subsidiary does not fall under the scope of this Directive, the parent company cannot fulfil due diligence on behalf of the subsidiary since the subsidiary is not obliged to carry out due diligence. In that case, the parent company should cover operations of the subsidiary as part of its own due diligence obligations. If the subsidiaries fall under the scope of this Directive, but the parent company does not, they still should be allowed to share resources and information within the group of companies. Nevertheless, the subsidiaries would be responsible for fulfilling due diligence obligations under this Directive.

- (16b) The fulfilment of due diligence obligations at a group level should be without prejudice to the civil liability of subsidiaries in respect to victims to whom the damage is caused. If the conditions for civil liability are met, the subsidiary might be held liable for damage occurred, irrespective of whether the due diligence obligations were carried out by the subsidiary or by the parent company on behalf of the subsidiary.
- (16c) In line with existing Union law, when sharing information to comply with the obligations resulting from this Directive, companies or legal entities should not be required to disclose to its business partner information that is deemed to be a trade secret as defined in the Directive 2016/943/EU of the European Parliament and of the Council<sup>38</sup>.
- (17) Adverse human rights and environmental impacts might occur in companies' own operations, operations of their subsidiaries, and their business partners in their ~~value~~ chains **of activities**, in particular at the level of raw material sourcing, manufacturing, or at the level of product or waste disposal. In order for the due diligence to have a meaningful impact, it should cover human rights and environmental adverse impacts generated throughout majority of the life cycle of production and use and disposal of product or provision of services, at the level of companies' own operations, operations of their subsidiaries and their business partners in their ~~value~~ chains **of activities**.

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<sup>38</sup> Directive (EU) 2016/943 of the European Parliament and of the Council of 8 June 2016 on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure (OJ L 157, 15.6.2016, p. 1).

(18) The value chain **of activities** should cover activities related to the production **and supply** of goods or provision of services by a company, which should encompass activities of direct and indirect business partners that design, extract, manufacture, transport, store and supply raw material, products, parts of products, or provide services to the company that are necessary to carry out the company's activities. Also, ~~the value chain should cover activities of direct business partners that use or receive products, parts of products or services from the company in accordance with the intended and reasonably foreseeable use of the product.~~ Finally, the value chain **of activities** should cover activities of direct and indirect business partners **that distribute, transport, store and dispose** ~~up to the end of life of the product,~~ including inter alia the dismantling of the product, its recycling, composting or landfilling, where ~~the business partners carry out the~~**those** activities are carried out for the company or on behalf of the company. ~~The limitation of activities of business partners related to the use and disposal of the product is aimed to ensure that the company can have a sufficient leverage or can increase it to address the potential and actual adverse impacts. The intended use of the product should be understood as either the use for which a product is intended in accordance with the information provided by the company, subsidiary or business partner placing it on the market, or the ordinary use as determined by the design and construction of the product. The reasonably foreseeable use of the product should mean a possible use of the product that could result from lawful and readily predictable human behaviour. The use and disposal of the product by consumers and the provision of services to consumers should be excluded in order to ensure the feasibility of due diligence obligations. Also, the value chain of activities should not encompass the use~~ **distribution, transport, storage and disposal** of a product that is subject to export control of a Member State, meaning either the export control under the Regulation (EU) 2021/821 of the European Parliament and of the Council ~~setting~~<sup>39</sup> or the export control of weapons, munition or war material under national export controls, after the export of the product is authorised.

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<sup>39</sup> Regulation (EU) 2021/821 of the European Parliament and of the Council of 20 May 2021 setting up a Union regime for the control of exports, brokering, technical assistance, transit and transfer of dual-use items (OJ L 206, 11.6.2021, p. 1).

(19) For regulated financial undertakings, the definition of the term ‘~~value~~ chain **of activities**’ and the due diligence requirements relating to the financial services they provide should be adapted to cater for their specificities with a view to capture activities that allocate capital and provide insurance coverage to the real economy. Therefore, it is appropriate not to include in the definition of the term ‘~~value~~ chain **of activities**’ financial services other than those services that directly result in an allocation of capital or in the coverage of risk through insurance or reinsurance. As regards regulated financial undertakings providing financial services, ‘~~value~~ chain **of activities**’ with respect to the provision of such services should be limited to the activities of the counterparts receiving such services, and their subsidiaries benefiting from the service whose activities are linked to the service in question. The activities of the business partners in the ~~value~~ chains **of activities** of those counterparts should not be covered. Counterparts that are households or natural persons not acting in a professional or business capacity, as well as small and medium sized enterprises, should not be considered to be part of the ~~value~~ chain **of activities** of the financial undertaking.

(20) [...]

(21) Under this Directive, companies established in the Union with more than 500 employees on average and a net worldwide turnover exceeding EUR 150 million in the last financial year for which annual financial statements have been or should have been adopted should be required to comply with due diligence, provided that they fulfil those criteria for two consecutive financial years. As regards companies which do not fulfil those criteria, but which had more than 250 employees on average and more than EUR 40 million net worldwide turnover in the financial year preceding the last financial year and which operate in one or more high-impact sectors, provided that they fulfil those criteria for two consecutive financial years, due diligence should apply 3 years after the end of the transposition period of this Directive, in order to provide for a longer adaptation period. In order to ensure a proportionate burden, companies operating in such high-impact sectors should be required to comply with more targeted due diligence. Temporary agency workers, including those posted under Article 1(3), point (c), of Directive 96/71/EC of the European Parliament and of the Council<sup>40</sup>, as amended by Directive 2018/957/EU of the European Parliament and of the Council<sup>41</sup>, should be included in the calculation of the number of employees in the user company. Posted workers under Article 1(3), points (a) and (b), of Directive 96/71/EC, as amended by Directive 2018/957/EU, should only be included in the calculation of the number of employees of the sending company. Seasonal workers should be included in the calculation of the number of employees proportionally to the number of months that they are employed for.

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<sup>40</sup> 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 (OJ L 18, 21.1.1997, p. 1).

<sup>41</sup> Directive (EU) 2018/957 of the European Parliament and of the Council of 28 June 2018 amending Directive 96/71/EC concerning the posting of workers in the framework of the provision of services (OJ L 173, 9.7.2018, p. 16).

(22) In order to reflect the priority areas of international action aimed at tackling human rights and environmental issues, the selection of high-impact sectors for the purposes of this Directive should be based on existing sectoral OECD due diligence guidance. The following sectors should be regarded as high-impact for the purposes of this Directive: the manufacture of textiles, leather and related products (including footwear), and the wholesale trade of textiles, clothing and footwear; agriculture, forestry, fisheries (including aquaculture), the manufacture of food products and beverages, and the wholesale trade of agricultural raw materials, live animals, wood, food, and beverages; the extraction of mineral resources regardless of where they are extracted from (including crude petroleum, natural gas, coal, lignite, metals and metal ores, as well as all other, non-metallic minerals and quarry products), the manufacture of basic metal products, other non-metallic mineral products and fabricated metal products (except machinery and equipment), and the wholesale trade of mineral resources, basic and intermediate mineral products (including metals and metal ores, construction materials, fuels, chemicals and other intermediate products). These sectors should be understood as covering the related sectors of economic activities associated with the applicable statistical classification of economic activities established by Regulation (EC) No 1893/2006 of the European Parliament and the Council<sup>42</sup>. As regards the financial sector, due to its specificities, in particular as regards the value chain **of activities** and the services offered, even if it is covered by sector-specific OECD guidance, it should not form part of the high-impact sectors covered by this Directive. At the same time, in this sector, the broader coverage of actual and potential adverse impacts should be ensured by also including very large companies in the scope that are regulated financial undertakings, even if they do not have a legal form with limited liability.

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<sup>42</sup> Regulation (EC) No 1893/2006 of the European Parliament and of the Council of 20 December 2006 establishing the statistical classification of economic activities NACE Revision 2 and amending Council Regulation (EEC) No 3037/90 as well as certain EC Regulations on specific statistical domains, OJ L 393, 30.12.2006, p. 1).

- (23) In order to achieve fully the objectives of this Directive addressing human rights and adverse environmental impacts with respect to companies' operations, **operations of their subsidiaries and their business partners in companies'** ~~value~~ **chains of operations**, third-country companies with significant operations in the EU should also be covered. More specifically, the Directive should apply to third-country companies which generated a net turnover of at least EUR 150 million in the Union in the financial year preceding the last financial year, or a net turnover of more than EUR 40 million but less than EUR 150 million generated in the Union in the financial year preceding the last financial year, provided that at least EUR 20 million was generated in one or more of the high-impact sectors. The companies need to fulfil those criteria for two consecutive financial years.
- (24) For defining the scope of application in relation to third-country companies, the described turnover criterion should be chosen as it creates a territorial connection between the third-country companies and the Union territory. Turnover is a proxy for the effects that the activities of those companies could have on the internal market. In accordance with international law, such effects justify the application of Union law to third-country companies. To ensure identification of the relevant turnover of companies concerned, the methods for calculating net turnover for third-country companies as laid down in Directive (EU) 2013/34 of the European Parliament and of the Council<sup>43</sup> should be used. To ensure effective enforcement of this Directive, an employee threshold should, in turn, not be applied to determine which third-country companies fall under this Directive, as the notion of "employees" retained for the purposes of this Directive is based on Union law and could not be easily transposed outside of the Union. In the absence of a clear and consistent methodology, including in accounting frameworks, to determine the employees of third-country companies, such employee threshold would therefore create legal uncertainty and would be difficult to apply for supervisory authorities.

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<sup>43</sup> 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 (OJ L 182, 29.6.2013, p. 19).

The definition of turnover should be based on Directive 2013/34/EU which has already established the methods for calculating net turnover for non-Union companies, as turnover and revenue definitions are similar in international accounting frameworks too. With a view to ensuring that the supervisory authority knows which third country companies generate the required turnover in the Union to fall under the scope of this Directive, this Directive should require that the third-country company's authorised representative or the company itself informs a supervisory authority in the Member State where the third country company's authorised representative is domiciled or established and, where it is different, a supervisory authority in the Member State in which the company generated most of its net turnover in the Union in the financial year preceding the last financial year that the company is a company falling under the scope of this Directive. If necessary for determination in which Member State the third-country company generated most of its net turnover in the Union, the Member State can request the Commission to inform the Member State about the net turnover of the third-country company generated in the Union. The Commission should set up a system to ensure such an exchange of information.

(25) In order to achieve a meaningful contribution to the sustainability transition, due diligence under this Directive should be carried out with respect to adverse human rights impacts on persons resulting from the abuse of one of the rights as enshrined in the international instruments listed in the Annex I, Part I Section 1 to this Directive. In order to ensure a comprehensive coverage of human rights, an abuse of a human right not specifically listed in Annex I, Part I Section 1 which can be abused by a company, its subsidiary or business partner and which directly impairs a legal interest protected in the human rights instruments listed in Annex I, Part I Section 2 should also form part of the adverse human rights impacts covered by this Directive, provided that the company concerned could have reasonably identified such human right abuse in its own operations, the operations of its subsidiary and the operations of its business partners, taking into account all relevant circumstances of the specific case, such as the nature and extent of the company's business operations and its ~~business chain~~ **of activities**, economic sector and geographical and operational context. Due diligence should further encompass adverse environmental impacts resulting from the violation of one of the prohibitions and obligations listed in the Annex I, Part II to this Directive.

- (26) When assessing the adverse human rights impacts, companies have guidance at their disposal that illustrates how their activities may impact human rights and which corporate behaviour is prohibited in accordance with internationally recognised human rights. Such guidance is included for instance in the United Nations Guiding Principles Reporting Framework<sup>44</sup>, the United Nations Guiding Principles Interpretative Guide<sup>45</sup> or Human Rights Translated 2.0: A Business Reference Guide<sup>46</sup>.
- (26a) In order to conduct meaningful human rights and environmental due diligence, companies should consult with stakeholders throughout the process of carrying out the due diligence actions. Stakeholders of the company should encompass the company's employees, employees of the company's subsidiaries, trade unions and workers' representatives, consumers and other individuals, groups, communities or entities whose rights or interests are or could be affected by the products, services and operations of the company, its subsidiaries or business partners. The possibly affected individuals could mean, for example, human rights and environmental defenders as understood under the United Nations Declaration on Human Rights Defenders. The possibly affected groups or communities could mean, for example, indigenous peoples as protected under the United Nations Declaration on the Rights of Indigenous Peoples. The possibly affected entities could mean, for example, civil society organisations, national human rights institutions or environmental institutions.

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<sup>44</sup> [https://www.ungpreporting.org/wp-content/uploads/UNGPREportingFramework\\_withguidance2017.pdf](https://www.ungpreporting.org/wp-content/uploads/UNGPREportingFramework_withguidance2017.pdf)

<sup>45</sup> <https://www.ohchr.org/Documents/Issues/Business/RtRInterpretativeGuide.pdf>

<sup>46</sup> [https://www.ohchr.org/sites/default/files/Documents/Publications/HRT\\_2\\_0\\_EN.pdf](https://www.ohchr.org/sites/default/files/Documents/Publications/HRT_2_0_EN.pdf)

(27) In order to conduct appropriate human rights and environmental due diligence with respect to their operations, **operations of** their subsidiaries, and **operations of** their **business partners in companies'** value chains **of activities**, companies covered by this Directive should integrate due diligence into company's policies and risk management systems, identify, prevent and mitigate as well as bring to an end and minimise the extent of potential and actual adverse human rights and environmental impacts, establish and maintain a complaints procedure, monitor the effectiveness of the taken measures in accordance with the requirements that are set up in this Directive and communicate publicly on their due diligence. In order to ensure clarity for companies, in particular the steps of preventing and mitigating potential adverse impacts and of bringing to an end, or when this is not possible, minimising actual adverse impacts, should be clearly distinguished in this Directive.

(28) In order to ensure that due diligence forms part of companies' policies and risk management systems, and in line with the relevant international framework, companies should integrate due diligence into their policies and risk management systems, and have in place a due diligence policy. The due diligence policy should contain a description of the company's approach, including in the long term, to due diligence, a code of conduct describing the rules and principles to be followed by the company's employees and subsidiaries, and, where relevant, the company's direct or indirect business partners, and a description of the processes put in place to implement due diligence, including the measures taken to verify compliance with the code of conduct and to extend its application to business partners. The code of conduct should apply in all relevant corporate functions and operations, including procurement and purchasing decisions. Companies should also update their due diligence policy without undue delay after a significant change occurs, but at least every 24 months. A significant change should be understood as such a change to the *status quo* of the company's own operations, the operations of its subsidiaries or business partners, the legal or business environment or any other substantial shift from the situation of the company that the company could be reasonably expected to react to it and update the policy. Examples of a significant change could be the cases when the company operates in a new economic sector or geographical area, starts producing new products or changes the way of producing the existing products using technology with potentially higher adverse impacts, or changes its corporate structure via restructuring or mergers or acquisitions. Incorporating due diligence into risk management systems should be understood in line with the relevant international framework to ensure that the due diligence obligations are put in place and being overseen. In order to fulfil this obligation, companies should be allowed to internally organise according to their needs, for example by using existing management systems, setting up a risk management system of the company or creating a human rights and environment officer.

(29) To comply with due diligence obligations, companies need to take appropriate measures with respect to identification, prevention and bringing to an end adverse impacts. An ‘appropriate measure’ should mean a measure that is capable of achieving the objectives of due diligence, commensurate with the degree of severity and the likelihood of the adverse impact, and reasonably available to the company, taking into account the circumstances of the specific case, including the nature and extent of the company’s business operations and characteristics of the economic sector and of the specific business ~~relationship~~ **partner**. If necessary information cannot be obtained due to factual or legal obstacles, for instance because a business partner refuses to provide information and there are no legal grounds to enforce this, such circumstances cannot be held against the company.

(30) Under the due diligence obligations set out by this Directive, a company should identify actual or potential adverse human rights and environmental impacts. In order to allow for a comprehensive identification of adverse impacts, such identification should be based on quantitative and qualitative information. For instance, as regards adverse environmental impacts, the company should obtain information about baseline conditions at higher risk sites or facilities in ~~its value~~ chains **of activities**. When identifying adverse impacts, the company should be able to first map all areas of their operations, the operations of their subsidiaries and, where related to their ~~value~~ chains **of activities**, their business partners, and based on the results, carry out an in-depth assessment focusing on the areas where the adverse impacts are most likely to be present or most significant. When identifying the adverse impacts, the company should take into account possible risk factors, such as whether the subsidiary or the business partner is a company that has infringed the national provisions adopted pursuant to this Directive. The company can obtain the necessary information from decisions of the supervisory authorities containing penalties that should be published by supervisory authorities as well as by the European Network of Supervisory Authorities so that one single source of information is available to companies. Identification of adverse impacts should include assessing the human rights, and environmental context in a dynamic way and in regular intervals: without undue delay after a significant change occurs, but at least every 24 months, throughout the life of an activity or relationship. A significant change should be understood as such a change to the *status quo* of the company's own operations, operations of its subsidiaries or business partners, the legal or business environment or any other substantial shift from the situation of the company, including learning about the adverse impact from publicly available information or through consultation with the stakeholders, that the company could be reasonably expected to react to it and identify the adverse impacts, possibly prioritise them and prevent or mitigate them or bring them to an end or minimise their extent. Examples of a significant change could be the cases when the company operates in a new economic sector or geographical area, starts producing new products or changes the way of producing the existing products using technology with potentially higher adverse impact, or changes its corporate structure via restructuring or mergers or acquisitions. Regulated financial undertakings providing financial services should identify the adverse impacts only at the inception of the service and they should not be required to assess the adverse impacts in a dynamic way or at regular intervals. When identifying adverse impacts, companies should also identify and assess the impact of a business partner's business model and strategies, including trading, procurement and pricing practices.

- (31) In order to avoid undue burden on the smaller companies operating in high-impact sectors which are covered by this Directive, those companies should only be obliged to identify those actual or potential adverse impacts that are relevant to the respective sector.
- (32) Where the company cannot prevent, mitigate, bring to an end or minimise all the identified actual and potential adverse impacts at the same time to the full extent, it should prioritise them based on the severity and likelihood of the adverse impact. In line with the relevant international framework, the severity of an adverse impact should be assessed based on its gravity (scale of the adverse impact), the number of persons or the extent of the environment affected (scope of the adverse impact), and difficulty to restore the situation prevailing prior to the impact (irremediable character of the adverse impact). On the other hand, actual or potential influence of the company on its business partners, the level of involvement of the company in the adverse impact, the proximity to the subsidiary or the business partner, or its potential liability are not relevant factors in the prioritisation of adverse impacts. As a result of the prioritisation, after addressing the most significant adverse impacts in reasonable time, the company should be obliged to address less significant adverse impacts. When assessing reasonable time, due account should be taken of the circumstances of the specific case, including the company's resources and the economic sector in which the company operates, the severity of the prioritised adverse impact that the company addresses in a given time, and the scale of the prioritised adverse impact at one point in time.

(33) Under the due diligence obligations set out by this Directive, if a company identifies potential adverse human rights or environmental impacts, it should take appropriate measures to prevent or adequately mitigate them. To provide companies with legal clarity and certainty, this Directive should set out all the actions companies should be expected to take for prevention and mitigation of potential adverse impacts, where relevant depending on the circumstances. When assessing the appropriate measures to prevent or adequately mitigate adverse impacts, due account shall be taken of the so-called ‘level of involvement of the company in an adverse impact’ in line with the international frameworks and the company’s ability to influence the business partner causing the adverse impact. Companies should be obliged to prevent or mitigate the adverse impacts that they cause by themselves (so called ‘causing’ the adverse impact as referred to in the international framework) or jointly with their subsidiaries or business partners (so called ‘contributing’ to the adverse impact as referred to in the international framework). Jointly causing the adverse impact is not limited to equal implication of the company and its subsidiary or business partner in the adverse impact, but should cover all cases of the company’s acts or omissions causing the adverse impact in combination with the acts or omissions of subsidiaries or business partners. When companies are not causing the adverse impacts occurring in their ~~value~~ chain **of activities** themselves or jointly with other legal entities, but the adverse impact is caused by their business partner in the companies’ ~~value~~ chains **of activities** (so called ‘being directly linked to’ the adverse impact as referred to in the international framework), they should be obliged to use their influence to prevent or mitigate the adverse impact caused by their business partners or to increase their influence to do so. Using only the notion of ‘causing’ the adverse impact instead of the aforementioned terms used in the international frameworks avoids confusion with existing legal terms in national legal systems while covering the same causal relations as described in these frameworks. In this context, in line with the international frameworks, the company’s influence on a business partner should include on the one hand its ability to persuade the business partner to prevent adverse impacts (for example through market power, pre-qualification requirements or linking business incentives to human rights and environmental performance) and, on the other hand, the degree of influence or leverage that the company could reasonably exercise, for example through cooperation with the business partner in question or engagement with another company which is the direct business partner of the business partner associated with the adverse impact.

- (34) So as to comply with the prevention and mitigation obligation under this Directive, companies should be required to take all the following actions, where relevant depending on the circumstances. Where necessary due to the complexity of prevention measures, companies should develop and implement a prevention action plan. Companies should seek to obtain contractual assurances from a direct business partner that it will ensure compliance with the code of conduct or the prevention action plan, including by seeking corresponding contractual assurances from its partners to the extent that their activities are part of the companies' **value chain of activities**. The contractual assurances should be accompanied by appropriate measures to verify compliance. However, the company should only be obliged to seek the contractual assurances, as obtaining them may depend on the circumstances. To ensure comprehensive prevention of potential adverse impacts, companies should also make financial or non-financial investments which aim to prevent adverse impacts, and collaborate with other companies. Companies should also provide targeted and proportionate support for an SME which is an business partner of the company, where the viability of the SME could be jeopardised, such as financing, for example, through direct financing, low-interest loans, guarantees of continued sourcing, and assistance in securing financing, to help implement the code of conduct or prevention action plan, or technical guidance such as in the form of training, management systems upgrading. Jeopardising the viability of an SME should be interpreted as possibly causing a bankruptcy of the SME or putting the SME in a situation where bankruptcy is imminent. Financial undertakings should not be required to provide targeted and proportionate support for an SME as their **value chain of activities** does not cover SMEs.
- (35) In order to reflect the full range of options for the company in cases where potential impacts could not be addressed by the described prevention or minimisation measures, this Directive should also refer to the possibility for the company to seek to conclude a contract with the indirect business partner, with a view to achieving compliance with the company's code of conduct or a prevention action plan, and conduct appropriate measures to verify compliance of the indirect business partner with the contract.

- (35a) It is possible that prevention of adverse impacts requires collaboration with another company, for example, at the level of indirect business partner with a company, which has a direct contractual relationship with the indirect business partner in question. In some instances, a collaboration with other entities could be the only realistic way of preventing adverse impacts caused even by direct business partners if the influence of the company is not sufficient. The company should collaborate with the entity which can most effectively prevent or mitigate adverse impacts solely or in jointly with the company, or other legal entities, while respecting applicable law, in particular competition law.
- (36) In order to ensure that prevention and mitigation of potential adverse impacts is effective, companies should prioritize engagement with business partners in the ~~value~~ **value chain of activities**, instead of terminating the business relationship, as a last resort action after attempting to prevent and mitigate potential adverse impacts without success. Termination of the business relationship as a last resort action should mean that no less drastic possibilities are available and there appears to be little prospect to increase the influence of the company on business partners causing the adverse impact. However, the Directive should also, for cases where potential adverse impacts could not be addressed by the described prevention or mitigation measures, refer to the obligation for companies to refrain from entering into new or extending existing relations with the business partner in question and, where the law governing their relations so entitles them to, to either temporarily suspend business relationships with respect to the activities concerned, while pursuing prevention or mitigation efforts, if there is reasonable expectation that these efforts are to succeed in the short-term; or to terminate the business relationship with respect to the activities concerned. In order to allow companies to fulfil that obligation, Member States should provide for the availability of an option to temporarily suspend and terminate the business relationship in contracts governed by their laws, except for cases where the parties are obliged by law to enter into them, such as is the case of mandatory insurance. The mere fact that a third country has not ratified or implemented in its national law one of the instruments listed in the Annex I to this Directive, does not entail any obligation to temporarily suspend or terminate the business relationship.

(36a) In some cases companies should not be obliged to terminate the business relationship.

Companies should not be required to terminate the business relationship if there is a reasonable expectation that the termination could result in a more severe adverse impact. This is in line with the international framework, the interests of those adversely impacted should be taken into account. For example, terminating a business relationship in which potential adverse impact due to child labour was found could expose the child to even more severe adverse human rights impacts. Similarly, a more severe adverse impact could occur if workers are deprived of living wage by the termination of the business relationship with their employer in order to bring to an end a potential adverse impact consisting of breaching the right to collective bargaining. Lastly, the company should not be required to terminate the business relationship with its crucial business partner that provides raw material, product or service essential to the company's business, if the termination would cause substantial prejudice to the company. Substantial prejudice should be interpreted as a negative and significant effect on the company's legal, financial or economic situation or its production capacity, including in the long-term perspective, such as an effect giving rise to the likelihood of insolvency. In order not to undermine the aims of this Directive, the decision not to terminate the business relationship should be subject to subsequent conditions. The company should be required to report itself to the supervisory authority and duly justify the reasons for not terminating the business relationship and keep monitoring the potential adverse impact with potential actions to be taken to prevent or mitigate the adverse impact, periodically reassess the decision not to terminate the business relationship and seek alternative business relationships. To enhance legal certainty, the provisions of this Directive on terminating the business relationship should apply only to commercial agreements concluded by the company after the expiry of the transposition period for implementing this Directive.

- (36b) As it is highlighted also in the OECD Guidelines for Multinational Enterprises, the specificities of financial services need to be acknowledged. Regulated financial undertakings are expected to consider adverse impacts throughout their financing and insurance process and to use their so-called ‘leverage’ to influence companies they provide financing or insurance to, to prevent or mitigate the companies’ potential adverse impacts. In some circumstances immediate termination or suspension of financial services might be difficult or even impossible (for instance mandatory insurance). In other cases, where a regulated financial undertaking exerts leverage, it may be inappropriate to suspend or terminate the financial services as voting and engagement, in particular collective engagement with investors or creditors, may have better chances of preventing or mitigating the adverse impact. For these reasons, the Directive does not require regulated financial undertakings to temporarily suspend or terminate the business relationship. In those cases, the regulated financial undertakings should be required to continue monitoring the adverse impact and continue with the efforts to prevent or mitigate the adverse impact.
- (37) As regards direct and indirect business partners, industry cooperation, industry schemes and multi-stakeholder initiatives can help create additional leverage to identify, mitigate, and prevent adverse impacts. Therefore it should be possible for companies to rely on such initiatives to support the implementation of their due diligence obligations laid down in this Directive to the extent that such schemes and initiatives are appropriate to support the fulfilment of those obligations. Companies could assess, at their own initiative, the alignment of these schemes and initiatives with the obligations under this Directive. In order to ensure full information on such initiatives, the Directive should also refer to the possibility for the Commission and the Member States to facilitate the dissemination of information on such schemes or initiatives and their outcomes. The Commission, in collaboration with Member States, should issue guidance for assessing the fitness of industry schemes and multi-stakeholder initiatives.

(38) Under the due diligence obligations set out by this Directive, if a company identifies actual human rights or environmental adverse impacts, it should take appropriate measures to bring those to an end. It can be expected that a company is able to bring to an end actual adverse impacts in its own operations and those of its subsidiaries. However, it should be clarified that, as regards business partners, where adverse impacts cannot be brought to an end, companies should minimise the extent of such impacts. Minimisation of the extent of adverse impacts should require an outcome that is the closest possible to bringing the adverse impact to an end. To provide companies with legal clarity and certainty, this Directive should define which actions companies should be required to take for bringing actual human rights and environmental adverse impacts to an end and minimisation of their extent, where relevant depending on the circumstances. When assessing the appropriate measures to bring to an end or minimise the extent of the adverse impacts, due account shall be taken of the so-called ‘level of involvement of the company in an adverse impact’ in line with the international frameworks and the company’s ability to influence the business partner causing the adverse impact. Companies should be obliged to bring to an end or minimise the extent of the adverse impacts that they cause by themselves (so called ‘causing’ the adverse impact as referred to in the international framework) or jointly with their subsidiaries or business partners (so called ‘contributing’ to the adverse impact as referred to in the international framework). Jointly causing the adverse impact is not limited to equal implication of the company and its subsidiary or business partner in the adverse impact, but should cover all cases of the company’s acts or omissions causing the adverse impact in combination with the acts or omissions of subsidiaries or business partners. When companies are not causing the adverse impacts occurring in their ~~value~~ chain **of activities** themselves or jointly with other legal entities, but the adverse impact is caused by their business partner in the companies’ ~~value~~ chains **of activities** (so called ‘being directly linked to’ the adverse impact as referred to in the international framework), they should be obliged to use their influence to bring to an end or minimise the extent of the adverse impact caused by their business partners or to increase their influence to do so. Using only the notion of ‘causing’ the adverse impact instead of the aforementioned terms used in the international frameworks avoids confusion with existing legal terms in national legal systems while covering the same causal relations as described in these frameworks.

In this context, in line with the international frameworks, the company's influence on a business partner should include, on the one hand its ability to persuade the business partner to prevent adverse impacts (for example through market power, pre-qualification requirements or linking business incentives to human rights and environmental performance) and, on the other hand, the degree of influence or leverage that the company could reasonably exercise, for example through cooperation with the business partner in question or engagement with another company which is the direct business partner of the business partner associated with the adverse impact.

(39) So as to comply with the obligation of bringing to an end and minimising the extent of actual adverse impacts under this Directive, companies should be required to take all the following actions, where relevant depending on the circumstances. They should neutralise the adverse impact or minimise its extent, with an action proportionate to the significance and scope of the adverse impact and to the company's involvement in the adverse impact. Where necessary due to the fact that the adverse impact cannot be immediately brought to an end, companies should develop and implement a corrective action plan with reasonable and clearly defined timelines for action and qualitative and quantitative indicators for measuring improvement. Companies should also seek to obtain contractual assurances from a direct business partner that they will ensure compliance with the company's code of conduct and, as necessary, a prevention action plan, including by seeking corresponding contractual assurances from its partners, to the extent that their activities are part of the company's ~~value~~ chain **of activities**. The contractual assurances should be accompanied by the appropriate measures to verify compliance. However, the company should only be obliged to seek the contractual assurances, as obtaining them may depend on the circumstances. Companies should also make financial or non-financial investments aiming at ceasing or minimising the extent of the adverse impact, provide targeted and proportionate support for SMEs which are business partners of the company, where the viability of the SME could be jeopardised, and collaborate with other entities, including, where relevant, to increase the company's ability to bring the adverse impact to an end. Jeopardising the viability of an SME should be interpreted as possibly causing a bankruptcy of the SME or putting the SME in a situation where bankruptcy is imminent. Financial undertakings should not be required to provide targeted and proportionate support for an SME as their ~~value~~ chain **of activities** does not cover SMEs. Finally, companies should provide remediation to the affected persons and communities that should consist of financial or non-financial compensation that should be proportionate to the significance (scale of the adverse impact, the gravity) and scope (number of persons or the extent of the environment affected) of the adverse impact and the company's involvement in the adverse impact. The financial or non-financial compensation might consist of restitution of the affected person or persons to the situation in which they would have been if the actual adverse impact had not occurred.

- (40) In order to reflect the full range of options for the company in cases where actual impacts could not be addressed by the described measures, this Directive should also refer to the possibility for the company to seek to conclude a contract with the indirect business partner, with a view to achieving compliance with the company's code of conduct or a corrective action plan, and conduct appropriate measures to verify compliance of the indirect business partner with the contract.
- (41) In order to ensure that bringing actual adverse impacts to an end or minimising them is effective, companies should prioritize engagement with business partners in the value chain of activities, instead of terminating the business relationship, as a last resort action after attempting to bring actual adverse impacts to an end or minimise them without success. Termination of the business relationship as a last resort action should mean that no less drastic possibilities are available and there appears to be little prospect to increase the influence of the company on business partners causing the adverse impact. However, this Directive should also, for cases where actual adverse impacts could not be brought to an end or the extent adequately minimised by the described measures, refer to the obligation for companies to refrain from entering into new or extending existing relations with the business partner in question and, where the law governing their relations so entitles them to, to either temporarily suspend business relationships with respect to the activities concerned, while pursuing efforts to bring to an end or minimise the extent of the adverse impact, if there is reasonable expectation that these efforts are to succeed in the short-term, or terminate the business relationship with respect to the activities concerned. In order to allow companies to fulfil that obligation, Member States should provide for the availability of an option to temporarily suspend and terminate the business relationship in contracts governed by their laws, except for cases where the parties are obliged by law to enter into them, such as is the case of mandatory insurance. The mere fact that a third country has not ratified or implemented in its national law one of the instruments listed in the Annex I to this Directive, does not entail any obligation to temporarily suspend or terminate the business relationship.

(41a) In some cases companies should not be obliged to terminate the business relationship.

Companies should not be required to terminate the business relationship if there is a reasonable expectation that the termination could result in a more severe adverse impact. This is in line with the international framework, the interests of those adversely impacted should be taken into account. For example, terminating a business relationship in which child labour was found could expose the child to even more severe adverse human rights impacts. Similarly, a more severe adverse impact could occur if workers are deprived of living wage by the termination of the business relationship with their employer in order to bring to an end an adverse impact consisting of breaching the right to collective bargaining. Lastly, the company should not be required to terminate the business relationship with its crucial business partner that provides raw material, product or service essential to the company's business, if the termination would cause substantial prejudice to the company. Substantial prejudice should be interpreted as a negative and significant effect on the company's legal, financial or economic situation or its production capacity, including in the long-term perspective, such as an effect giving rise to the likelihood of insolvency. In order not to undermine the aims of this Directive, the decision not to terminate the business relationship, should be subject to subsequent conditions. The company should be required to report itself to the supervisory authority and duly justify the reasons for not terminating the business relationship and keep monitoring the actual adverse impact with potential actions to be taken to bring to an end or minimise the extent of the adverse impact, periodically reassess the decision not to terminate the business relationship and seek alternative business relationships. To enhance legal certainty, the provisions of this Directive on terminating the business relationship, should apply only to commercial agreements concluded by the company after the expiry of the transposition period for implementing this Directive.

(41b) As it is highlighted also in the OECD Guidelines for Multinational Enterprises, the specificities of financial services need to be acknowledged. Regulated financial undertakings are expected to consider adverse impacts throughout their financing and insurance process and to use their so-called ‘leverage’ to influence companies they provide financing or insurance to, to bring to an end or minimise the extent of the companies’ adverse impacts. In some circumstances immediate termination or suspension of financial services might be difficult or even impossible (e. g. mandatory insurance). In other cases, where a regulated financial undertaking exerts leverage, it may be inappropriate to suspend or terminate the financial services as voting and engagement, in particular collective engagement with investors or creditors, may have better chances of bringing to an end or minimising the extent of the adverse impact. For these reasons, the Directive does not require regulated financial undertakings to temporarily suspend or terminate the business relationship. In those cases, the regulated financial undertakings should be required to continue monitoring the adverse impact and continue with the efforts to bring to an end and minimise the extent of the adverse impact.

(42) Companies should provide the possibility for persons and organisations to submit complaints directly to them in case of legitimate concerns regarding actual or potential human rights and environmental adverse impacts. In order to reduce the burden on companies, they should be able to participate in a collaborative complaints procedure, such as those established jointly by companies (for example, by a group of companies), through industry associations or multi-stakeholders' initiatives, instead of setting up the complaints procedure on their own. Organisations who could submit such complaints should include trade unions and other workers' representatives representing individuals working in the value chain **of activities** concerned and civil society organisations active in the areas related to the adverse impact concerned where they have knowledge about a potential or actual adverse impact. Companies should establish a fair, accessible and transparent procedure for dealing with those complaints and inform workers, trade unions and other workers' representatives, where relevant, about such procedures. The term 'fair, accessible and transparent' should be understood in line with principle 31 of the United Nations Guiding Principles on Business and Human Rights requiring procedures to be legitimate, accessible, predictable, equitable, transparent, rights-compatible and a source of continuous learning. The procedure should ensure the confidentiality of the identity of the complainant, and the necessary measures to prevent any form of retaliation from the company and its subsidiaries. Retaliation should be understood as any direct or indirect act or omission which is prompted by the submission of a complaint and which causes or may cause unjustified detriment to the complainant. Recourse to the complaints and remediation mechanism should not prevent the complainant from having recourse to judicial remedies or submitting substantiated concerns to supervisory authorities. In accordance with international standards, complainants should be entitled to request from the company appropriate follow-up on the complaint and to meet with the company's representatives at an appropriate level to discuss potential or actual severe adverse impacts that are the subject matter of the complaint. This access should not lead to unreasonable solicitations of companies.

(42a) Due to a broader list of persons or organisations entitled to submit a complaint and a broader scope of subject-matters of complaints, the complaints procedure is legally understood as a separate mechanism to the internal reporting procedure set up by companies in accordance with the Directive (EU) 2019/1937 of the European Parliament and of the Council<sup>47</sup>. If the breach of Union or national law included in the material scope of that Directive can be considered as an adverse impact and the reporting person is a company's employee that is directly affected by the adverse impact, then the person could use both procedures – complaints mechanism in accordance with this Directive or an internal reporting procedure set out in accordance with that Directive. Nevertheless, if one of the conditions above is not met, then the person could proceed only via one of the procedures.

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<sup>47</sup> Directive (EU) 2019/1937 of the European Parliament and of the Council of 23 October 2019 on the protection of persons who report breaches of Union law (*OJ L 305, 26.11.2019, p. 17*).

(43) Companies should monitor the implementation and effectiveness of their due diligence measures, with due consideration of relevant information from stakeholders. They should carry out periodic assessments of their own operations, those of their subsidiaries and, where related to the value chains **of activities** of the company, those of their business partners, to monitor the effectiveness of the identification, prevention, mitigation, bringing to an end and minimisation of the extent of human rights and environmental adverse impacts. Such assessments should verify that adverse impacts are properly identified, due diligence measures are implemented and adverse impacts have actually been prevented or brought to an end. In order to ensure that such assessments are up to date, they should be carried out without undue delay after a significant change occurs, but at least every 24 months and be revised in-between if there are reasonable grounds to believe that significant new risks of adverse impact could have arisen. A significant change should be understood as such a change to the *status quo* of the company's own operations, operations of its subsidiaries or business partners, the legal or business environment or any other substantial shift from the situation of the company, including learning about the adverse impact from publicly available information or through consultation with the stakeholders, that the company could be reasonably expected to react to it and assess. Examples of a significant change could be the cases when the company operates in a new economic sector or geographical area, starts producing new products or changes the way of producing the existing products using technology with potentially higher adverse impact, or changes its corporate structure via restructuring or mergers or acquisitions. Financial undertakings should carry out periodic assessment only of their own operations and those of their subsidiaries. As regards business partners (counterparties) of financial undertakings, they should carry out periodic assessments only to monitor the effectiveness of measures taken to prevent or mitigate the potential adverse impact or bring to an end or minimise the extent of the actual adverse impact that was identified before providing the financial service to the business partner in question. No further assessments should be required from financial undertakings as regards their business partners throughout the existence of the relationship with the business partner.

(44) Like in the existing international standards set by the United Nations Guiding Principles on Business and Human Rights and the OECD framework, it forms part of the due diligence requirement to communicate externally relevant information on due diligence policies, processes and activities conducted to identify and address actual or potential adverse impacts, including the findings and outcomes of those activities. The Directive 2013/34/EU sets out relevant reporting obligations as regards corporate sustainability for the companies covered by this Directive. In order to avoid duplicating reporting obligations, this Directive should therefore not introduce any new reporting obligations in addition to those under Directive 2013/34/EU for the companies covered by that Directive as well as the reporting standards that should be developed under it. As regards companies that are within the scope of this Directive, but do not fall under Directive 2013/34/EU, in order to comply with their obligation of communicating as part of the due diligence under this Directive, they should publish on their website an annual statement on the financial year in a language customary in the sphere of international business.

- (45) In order to facilitate companies' compliance with their due diligence requirements through their value chain **of activities** and limiting shifting compliance burden on SME business partners, the Commission should provide guidance on model contractual clauses, after having consulted with Member States and relevant stakeholders.
- (46) In order to provide support and practical tools to companies or to Member State authorities on how companies should fulfil their due diligence obligations, the Commission, using relevant international guidelines and standards as a reference, and in consultation with Member States and stakeholders, the European Union Agency for Fundamental Rights, the European Environment Agency, and where appropriate with international bodies having expertise in due diligence, should issue guidelines, including for specific sectors or specific adverse impacts or the interplay of this Directive and other Union legislative acts pursuing the same objectives and providing for more extensive or more specific obligations.
- (47) Although SMEs are not included in the scope of this Directive, they could be impacted by its provisions as contractors or subcontractors (direct or indirect business partners) to the companies which are in the scope. The aim is nevertheless to mitigate financial or administrative burden on SMEs, many of which are already struggling in the context of the global economic and sanitary crisis. In order to support SMEs, Member States should set up and operate, either individually or jointly, dedicated websites, portals or platforms, to provide information and support to companies, and Member States could also financially support SMEs and help them build capacity. Companies whose business partner is an SME are also encouraged to support them to comply with due diligence measures, in case such requirements would jeopardise the viability of the SME and use fair, reasonable, non-discriminatory and proportionate requirements vis-a-vis the SMEs.

- (48) In order to complement Member State support to SMEs, the Commission may build on existing Union tools, projects and other actions helping with the due diligence implementation in the Union and in third countries. It may set up new support measures that provide help to companies, including SMEs on due diligence requirements, including an observatory for ~~value~~ chain **of activities** transparency and the facilitation of joint stakeholder initiatives.
- (49) The Commission could complement Member States' support measures building on existing Union action to support upstream economic operators build the capacity to effectively prevent and mitigate adverse human rights and environmental impacts of their operations and business relationships, paying specific attention to the challenges faced by smallholders. The Union and Member States within their respective competences are encouraged to use their neighbourhood, development and international cooperation instruments to support third country governments and upstream economic operators in third countries addressing adverse human rights and environmental impacts of their operations and upstream business relationships. This could include working with partner country governments, the local private sector and stakeholders on addressing the root causes of adverse human rights and environmental impacts.
- (50) In order to ensure that this Directive effectively contributes to combating climate change, companies should adopt a plan to ensure that the business model and strategy of the company are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5 °C in line with the Paris Agreement. In case climate is or should have been identified as a principal risk for or a principal impact of the company's operations, the company should include greenhouse gas emissions reduction objectives in its plan.
- (51) [...]

- (52) In order to allow for the effective oversight of and, where necessary, enforcement of this Directive in relation to third-country companies, those companies should designate a sufficiently mandated authorised representative in the Union and provide information relating to their authorised representatives. It should be possible for the authorised representative to also function as a point of contact, provided the relevant requirements of this Directive are complied with. If the third-country company does not designate the authorised representative, all Member States in which the company operates should be competent to enforce the fulfilment of this obligation, especially to designate a legal or natural person in one of the Member States where it operates, in accordance with the enforcement framework set in national law. The Member States initiating such an enforcement should inform supervisory authorities of other Member States through the European Network of Supervisory Authorities so that other Member States do not enforce them.
- (53) In order to ensure the monitoring of the correct implementation of companies' due diligence obligations and ensure the proper enforcement of this Directive, Member States should designate one or more national supervisory authorities. These supervisory authorities should be of a public nature, independent from the companies falling within the scope of this Directive or other market interests, and free of conflicts of interest. In accordance with national law, Member States should ensure appropriate financing of the competent authority. They should be entitled to carry out investigations, on their own initiative or based on substantiated concerns raised under this Directive. Where competent authorities under sectoral legislation exist, Member States could identify those as responsible for the application of this Directive in their areas of competence. They could designate authorities for the supervision of regulated financial undertaking also as supervisory authorities for the purposes of this Directive.

(54) In order to ensure effective enforcement of national measures implementing this Directive, Member States should provide for dissuasive, proportionate and effective penalties for infringements of those measures. In order for such penalties regime to be effective, penalties to be imposed by the national supervisory authorities should include pecuniary penalties. Member States should ensure that the pecuniary penalty is commensurate to the company's worldwide net turnover when being imposed. However, this should not oblige the Member States to base the pecuniary penalty solely on the net turnover of the company in every case. Member States should have flexibility to base the penalty also on other criteria, such as the economic situation of the company. The Member States should decide in accordance with the national law, whether the penalties should be imposed directly by supervisory authorities, in collaboration with other authorities or by application to the competent judicial authorities. In order to ensure public oversight of the application of the rules set out in this Directive, the decisions of the supervisory authorities containing penalties imposed on companies due to failure to comply with the provisions of national law implementing this Directive should be published, sent to the European Network of Supervisory Authorities and remain publicly available for at least 3 years. The published decision should not contain any personal data in accordance with the Regulation (EU) 2016/679 of the European Parliament and of the Council<sup>48</sup>. The publication of the company's name is allowed even if it contains a name of a natural person.

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<sup>48</sup> Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation) (OJ L 119, 4.5.2016, p. 1).

- (55) In order to ensure consistent application and enforcement of national provisions adopted pursuant to this Directive, national supervisory authorities should cooperate and coordinate their action. For that purpose a European Network of Supervisory Authorities should be set up by the Commission and the supervisory authorities should assist each other in performing their tasks and provide mutual assistance.
- (56) In order to ensure effective compensation of victims of adverse impacts, Member States should be required to lay down rules governing the civil liability of companies for damage caused to a natural or legal person, under the condition that the company intentionally or negligently failed to prevent and mitigate potential adverse impacts or to bring actual impacts to an end and minimise their extent and as a result of such a failure a damage was caused to the **natural or legal** person. Damage caused to a person's **protected legal interests** should be understood in line with the national law ~~as a damage caused to person's protected legal interests~~, for example death, physical or psychological injury, deprivation of personal liberty, loss of human dignity, or damage to a person's property. The condition that the damage has to be caused to a person as a result of the company's failure to comply with the obligation to address the adverse impact, **when the right, prohibition or obligation listed in Annex I, the abuse or violation of which is resulting in the adverse impact that should have been addressed, is aimed to protect the natural or legal person to which the damage is caused,** should ~~also encompass~~ **be understood as** that a derivative damage (caused indirectly to other persons who are not the victims of adverse impacts **and who are not protected by the rights, prohibitions or obligations listed in Annex I**) is not covered. For example, if an employee of a company suffered damage due to the company's violation of safety standards in the workplace, the ~~tenant~~ **landlord** of such an employee should not be allowed to bring a claim against the company for an economic loss caused by the employee not being able to pay the rent. Causality is not regulated by this Directive, with the exception that the companies should not be held liable if the damage is caused only by the business partners in the companies' ~~value~~ chains **of activities** (so called 'being directly linked to'). The victims should have the right to full compensation for the damage occurred in accordance with national law and in line with such common principle. Deterrence through damages (i. e. punitive damages) or any other form of overcompensation should be prohibited.

- (57) A company should not be liable for the damage that would have occurred to the same extent even if the company had taken action in accordance with this Directive. Also, as the adverse impacts should be prioritised according to their severity and likelihood and addressed gradually, if it is not possible to address all identified adverse impacts at the same time to the full extent, a company should not be liable for any damage stemming from any less significant adverse impacts that were not yet addressed. The correctness of the company's prioritisation of adverse impacts should, however, be assessed when determining whether the conditions for company's liability were met as part of the assessment of whether the company breached its obligation to adequately address the identified adverse impacts.
- (58) The liability regime does not regulate who should prove that the company's action was reasonably adequate under the circumstances of the case, therefore this question is left to national law. Also, this Directive does not regulate who can bring a claim before national courts and under which conditions the civil proceeding can be initiated, therefore this question is left to national law. **For example, Member States can decide that it is only the victim who can bring the claim before national courts or that a civil society organisation, trade union or other legal entity can bring the claim on behalf of the victim.**

- (59) As regards civil liability rules, the civil liability of a company for damages arising due to its failure to carry out adequate due diligence should be without prejudice to civil liability of its subsidiaries or the respective civil liability of direct and indirect business partners in the ~~value~~ chain of activities. When the company caused the damage jointly with its subsidiary or business partner, it should be jointly and severally liable with this respective subsidiary or business partner. This is without prejudice to any national law on the conditions of joint and several liability and on rights of recourse for the full compensation paid by one jointly and severally liable party.
- (59a) The civil liability rules under this Directive should be without prejudice to Union or national rules on civil liability related to adverse human rights impacts or to adverse environmental impacts that provide for liability in situations not covered by or providing for stricter liability than this Directive. A stricter liability regime should also be understood as a national civil liability regime that does not provide for exemptions as provided by this Directive, such as the prioritisation of adverse impacts.
- (60) As regards civil liability arising from adverse environmental impacts, persons who suffer damage can claim compensation under this Directive even where they overlap with human rights claims.

- (61) In order to ensure that victims of human rights and environmental harms can bring an action for damages and claim compensation for damage caused when the company intentionally or negligently failed to comply with the due diligence obligations stemming from this Directive, this Directive should require Member States to ensure that the provisions of national law transposing the civil liability regime provided for in this Directive are of overriding mandatory application in cases where the law applicable to claims to that effect is not the law of a Member State, as could for instance be the case in accordance with international private law rules when the damage occurs in a third country. This means that the Member States, when transposing the civil liability regime provided for in this Directive and choosing the methods to achieve such result, can also take into account all related national rules including the requirements as regards which natural or legal person can bring the claim, the statute of limitations, objections and defences, and calculation of compensation, to the extent they are necessary to ensure the protection of victims and crucial for safeguarding the Member States' public interests, such as its political, social or economic organisation.
- (62) The civil liability regime under this Directive should be without prejudice to the Directive 2004/35/EC of the European Parliament and of the Council<sup>49</sup>. This Directive should not prevent Member States from imposing further, more stringent obligations on companies or from otherwise taking further measures having the same objectives as Directive 2004/35/EC.

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<sup>49</sup> Directive 2004/35/EC of the European Parliament and of the Council of 21 April 2004 on environmental liability with regard to the prevention and remedying of environmental damage (OJ L 143; 30.4.2004, p. 56).

- (63) This Directive is without prejudice to Directive 2014/24/EU of the European Parliament and of the Council<sup>50</sup>, Directive 2014/25/EU of the European Parliament and of the Council<sup>51</sup> and Directive 2014/23/EU of the European Parliament and of the Council<sup>52</sup>. In particular, pursuant to those Directives, contracting authorities and contracting entities may exclude or may be required by Member States to exclude from participation in a procurement procedure or in a concession award procedure, where applicable, any economic operator where they can demonstrate by any appropriate means a violation of applicable obligations in the fields of environmental, social and labour law, including those stemming from certain international agreements ratified by all Member States and listed in those Directives, or that the economic operator is guilty of grave professional misconduct, which renders its integrity questionable.
- (64) [...]
- (65) Persons who work for companies subject to due diligence obligations under this Directive or who are in contact with such companies in the context of their work-related activities can play a key role in exposing breaches of the rules of this Directive. They can thus contribute to preventing and deterring such breaches and strengthening the enforcement of this Directive. Directive (EU) 2019/1937 should therefore apply to the reporting of all breaches of this Directive and to the protection of persons reporting such breaches.

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<sup>50</sup> Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014 on public procurement and repealing Directive 2004/18/EC (OJ L 94, 28.3.2014, p. 65).

<sup>51</sup> Directive 2014/25/EU of the European Parliament and of the Council of 26 February 2014 on procurement by entities operating in the water, energy, transport and postal services sectors and repealing Directive 2004/17/EC (OJ L 94, 28.3.2014, p. 243).

<sup>52</sup> Directive 2014/23/EU of the European Parliament and of the Council of 26 February 2014 on the award of concession contracts (OJ L 94, 28.3.2014, p. 1).

- (66) In order to specify the information that companies not subject to reporting requirements under the provisions on corporate sustainability reporting under Directive 2013/34/EU should be communicating on the matters covered by this Directive, the power to adopt acts in accordance with Article 290 of the Treaty on the Functioning of the European Union should be delegated to the Commission in respect of determining additional rules concerning the content and criteria of such reporting, specifying information on the description of due diligence, potential and actual impacts and actions taken with respect to ~~on~~ those impacts. It is of particular importance that the Commission carry out appropriate consultations during its preparatory work, including at expert level, and that those consultations be conducted in accordance with the principles laid down in the Interinstitutional Agreement of 13 April 2016 on Better Law-Making<sup>53</sup>. In particular, to ensure equal participation in the preparation of delegated acts, the European Parliament and the Council receive all documents at the same time as Member States' experts, and their experts systematically have access to meetings of Commission expert groups dealing with the preparation of delegated acts.
- (67) This Directive should be applied in compliance with Union data protection law and the right to the protection of privacy and personal data as enshrined in Articles 7 and 8 of the Charter of Fundamental Rights of the European Union. Any processing of personal data under this Directive is to be undertaken in accordance with Regulation (EU) 2016/679, including the requirements of purpose limitation, data minimisation and storage limitation.
- (68) The European Data Protection Supervisor was consulted in accordance with Article 28(2) of Regulation (EU) 2018/1725 of the European Parliament and of the Council<sup>54</sup> and delivered an opinion on ... 2022.
- (69) [...]

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<sup>53</sup> OJ L 123, 12.5.2016, p. 1.

<sup>54</sup> Regulation (EU) 2018/1725 of the European Parliament and of the Council of 23 October 2018 on the protection of natural persons with regard to the processing of personal data by the Union institutions, bodies, offices and agencies and on the free movement of such data, and repealing Regulation (EC) No 45/2001 and Decision No 1247/2002/EC (OJ L 295, 21.11.2018, p. 39).

- (70) The Commission should assess and report whether new sectors should be added to the list of high-impact sectors covered by this Directive, in order to align it to guidance from the Organisation for Economic Cooperation and Development or in light of clear evidence on labour exploitation, human rights violations or newly emerging environmental threats, whether the list of relevant international conventions referred to in this Directive should be amended, in particular in the light of international developments, or whether the provisions on due diligence under this Directive should be extended to adverse climate impacts. The Commission should further assess whether the criteria and thresholds used for defining the scope of this Directive need to be revised, whether other legal persons should be covered or whether the definition of the ‘value chain of activities’, including the provision of investment by regulated financial undertakings, needs to be revised.
- (71) Since the objective of this Directive, namely better exploiting the potential of the single market to contribute to the transition to a sustainable economy and contributing to sustainable development through the prevention and mitigation of potential or actual human rights and environmental adverse impacts in companies’ value chains of activities, cannot be sufficiently achieved by the Member States acting individually or in an uncoordinated manner, but can rather, by reason of the scale and effects of the actions, be better achieved at Union level. In particular, addressed problems and their causes are of a transnational dimension, as many companies are operating Union wide or globally and value chains expand to other Member States and to third countries. Moreover, individual Member States’ measures risk being ineffective and lead to fragmentation of the internal market. Therefore, the Union may adopt measures, in accordance with the principle of subsidiarity as set out in Article 5 TEU. In accordance with the principle of proportionality, as set out in that Article, this Directive does not go beyond what is necessary in order to achieve that objective.

HAVE ADOPTED THIS DIRECTIVE:

*Article 1*

**Subject matter**

1. This Directive lays down rules on
  - (a) obligations for companies regarding actual and potential human rights adverse impacts and environmental adverse impacts, with respect to their own operations, the operations of their subsidiaries, and the ~~value chain~~ operations carried out by their business partners **in companies' chains of activities**;
  - (b) liability for violations of the obligations mentioned above; and
  - (c) obligation to adopt a plan to ensure compatibility of business model and strategy of the company with the transition to a sustainable economy and with the limiting of global warming to 1.5 °C.
2. This Directive shall not constitute grounds for reducing the level of protection of human rights or of protection of the environment or the protection of the climate provided for by the law of Member States at the time of the adoption of this Directive.
3. This Directive shall be without prejudice to obligations in the areas of human rights, protection of the environment and climate change under other Union legislative acts. If the provisions of this Directive conflict with a provision of another Union legislative act pursuing the same objectives and providing for more extensive or more specific obligations, the provisions of the other Union legislative act shall prevail to the extent of the conflict and shall apply to those specific obligations.

## *Article 2*

### **Scope**

1. This Directive shall apply to companies which are formed in accordance with the legislation of a Member State and which fulfil one of the following conditions:
  - (a) the company had more than 500 employees on average and had a net worldwide turnover of more than EUR 150 million in the last financial year for which annual financial statements have been or should have been adopted;
  - (b) the company did not reach the thresholds under point (a), but had more than 250 employees on average and had a net worldwide turnover of more than EUR 40 million in the last financial year for which annual financial statements have been or should have been adopted, provided that at least EUR 20 million was generated in one or more of the following sectors associated with the applicable statistical classification of economic activities established by Regulation (EC) No 1893/2006 and listed in Annex II:
    - (i) the manufacture of textiles, leather and related products (including footwear), and the wholesale trade of textiles, clothing and footwear;
    - (ii) agriculture, forestry, fisheries (including aquaculture), the manufacture of food products and beverages, and the wholesale trade of agricultural raw materials, live animals, wood, food, and beverages; or

(iii) the extraction of mineral resources regardless from where they are extracted (including crude petroleum, natural gas, coal, lignite, metals and metal ores, as well as all other, non-metallic minerals and quarry products), the manufacture of basic metal products, other non-metallic mineral products and fabricated metal products (except machinery and equipment), and the wholesale trade of mineral resources, basic and intermediate mineral products (including metals and metal ores, construction materials, fuels, chemicals and other intermediate products).

2. This Directive shall also apply to companies which are formed in accordance with the legislation of a third country, and fulfil one of the following conditions:
  - (a) generated a net turnover of more than EUR 150 million in the Union in the financial year preceding the last financial year; or
  - (b) generated a net turnover of more than EUR 40 million but not more than EUR 150 million in the Union in the financial year preceding the last financial year, provided that at least EUR 20 million was generated in one or more of the sectors listed in paragraph 1, point (b).
3. For the purposes of paragraph 1, the number of part-time employees shall be calculated on a full-time equivalent basis. Temporary agency workers shall be included in the calculation of the number of employees in the same way as if they were workers employed directly for the same period of time by the company.
- 3a. This Directive shall apply to a company if the company has met the conditions laid down in paragraph 1 or 2 during two consecutive financial years.

4. As regards the companies referred to in paragraph 1, the Member State competent to regulate matters covered in this Directive shall be the Member State in which the company has its registered office.
5. As regards the companies referred to in paragraph 2, the Member State competent to regulate matters covered in this Directive shall be the Member State in which the company has a branch. If the company does not have a branch in any Member State, or has branches located in different Member States, the Member State competent to regulate matters covered in this Directive shall be that in which the company generated most of its net turnover in the Union in the financial year preceding the last financial year.
6. Member States may decide to apply this Directive to pension institutions which are considered to be social security schemes under the Regulation (EC) No 883/2004 of the European Parliament and of the Council<sup>55</sup> and Regulation (EC) No 987/2009 of the European Parliament and of the Council<sup>56</sup>. If a Member State decides to apply this Directive to such pension institutions, those pension institutions shall be considered regulated financial undertakings within the meaning of Article 3, point (a)(iv).
7. This Directive shall not apply to financial products listed in points (b) and (f) of point (12) of Article 2 of Regulation (EU) 2019/2088 of the European Parliament and of the Council<sup>57</sup>.

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<sup>55</sup> Regulation (EC) No 883/2004 of the European Parliament and of the Council of 29 April 2004 on the coordination of social security systems (OJ L 166, 30.4.2004, p. 1).

<sup>56</sup> Regulation (EC) No 987/2009 of the European Parliament and of the Council of 16 September 2009 laying down the procedure for implementing Regulation (EC) No 883/2004 on the coordination of social security systems (OJ L 284, 30.10.2009, p. 1).

<sup>57</sup> Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability- related disclosures in the financial services sector (OJ L 317, 9.12.2019, p. 1).

### *Article 3*

#### **Definitions**

For the purpose of this Directive, the following definitions shall apply:

- (a) ‘company’ means any of the following:
  - (i) a legal person constituted as one of the legal forms listed in Annex I to Directive 2013/34/EU;
  - (ii) a legal person constituted in accordance with the law of a third country in a form comparable to those listed in Annex I of Directive 2013/34/EU;
  - (iii) a legal person constituted as one of the legal forms listed in Annex II to Directive 2013/34/EU or in accordance with the law of a third country in a form comparable to those listed in Annex II of that Directive, when such a legal person is composed entirely of undertakings organised in one of the legal forms falling within points (i) and (ii);

- (iv) a regulated financial undertaking, regardless of its legal form, which is:
- a credit institution as defined in Article 4(1), point (1), of Regulation (EU) No 575/2013 of the European Parliament and of the Council<sup>58</sup>; an investment firm as defined in Article 4(1), point (1), of Directive 2014/65/EU of the European Parliament and of the Council<sup>59</sup>;
  - an alternative investment fund manager (AIFM) as defined in Article 4(1), point (b), of Directive 2011/61/EU of the European Parliament and of the Council<sup>60</sup>, including a manager of Euveca under Regulation (EU) No 345/2013 of the European Parliament and of the Council<sup>61</sup>, a manager of EuSEF under Regulation (EU) No 346/2013 of the European Parliament and of the Council<sup>62</sup> and a manager of ELTIF under Regulation (EU) 2015/760 of the European Parliament and of the Council<sup>63</sup>;

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<sup>58</sup> Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p. 1).

<sup>59</sup> Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (OJ L 173, 12.6.2014, p. 349).

<sup>60</sup> Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010 (OJ L 174, 1.7.2011, p. 1).

<sup>61</sup> Regulation (EU) No 345/2013 of the European Parliament and of the Council of 17 April 2013 on European venture capital funds (OJ L 115, 25.4.2013, p. 1).

<sup>62</sup> Regulation (EU) No 346/2013 of the European Parliament and of the Council of 17 April 2013 on European social entrepreneurship funds (OJ L 115, 25.4.2013, p. 18).

<sup>63</sup> Regulation (EU) 2015/760 of the European Parliament and of the Council of 29 April 2015 on European long-term investment funds (OJ L 123, 19.5.2015, p. 98).

- an undertaking for collective investment in transferable securities (UCITS) management company as defined Article 2(1), point (b), of Directive 2009/65/EC of the European Parliament and of the Council<sup>64</sup>;
- an insurance undertaking as defined in Article 13, point (1), of Directive 2009/138/EC of the European Parliament and of the Council<sup>65</sup>;
- a reinsurance undertaking as defined in Article 13, point (4), of Directive 2009/138/EC;
- an institution for occupational retirement provision within the scope of Directive (EU) 2016/2341 of the European Parliament and of the Council<sup>66</sup> in accordance with Article 2 thereof, unless a Member State has chosen not to apply that Directive in whole or in parts to that institution in accordance with Article 5 of that Directive;

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<sup>64</sup> Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) (OJ L 302, 17.11.2009, p. 32).

<sup>65</sup> Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (OJ L 335, 17.12.2009, p. 1).

<sup>66</sup> Directive (EU) 2016/2341 of the European Parliament and of the Council of 14 December 2016 on the activities and supervision of institutions for occupational retirement provision (IORPs) (OJ L 354, 23.12.2016, p. 37).

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- a central counterparty as defined in Article 2, point (1), of Regulation (EU) No 648/2012 of the European Parliament and of the Council<sup>67</sup>;
- a central securities depository as defined in Article 2(1), point (1), of Regulation (EU) No 909/2014 of the European Parliament and of the Council<sup>68</sup>;
- an insurance or reinsurance special purpose vehicle authorised in accordance with Article 211 of Directive 2009/138/EC;
- ‘securitisation special purpose entity’ as defined in Article 2, point (2), of Regulation (EU) No 2017/2402 of the European Parliament and of the Council<sup>69</sup>;

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<sup>67</sup> Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (OJ L 201, 27.7.2012, p. 1).

<sup>68</sup> Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012 (OJ L 257, 28.8.2014, p. 1).

<sup>69</sup> Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) No 1060/2009 and (EU) No 648/2012 (OJ L 347, 28.12.2017, p. 35).

- an insurance holding company as defined in Article 212(1), point (f), of Directive 2009/138/EC or a mixed financial holding company as defined in Article 212(1), point (h), of Directive 2009/138/EC, which is part of an insurance group that is subject to supervision at the level of the group pursuant to Article 213 of that Directive and which is not exempted from group supervision pursuant to Article 214(2) of Directive 2009/138/EC;
- a payment institution as defined in point (d) of Article 1(1) of Directive (EU) 2015/2366 of the European Parliament and of the Council<sup>70</sup>;
- an electronic money institution as defined in point (1) of Article 2 of Directive 2009/110/EC of the European Parliament and of the Council<sup>71</sup>;
- a crowdfunding service provider as defined in point (e) Article 2(1) of Regulation (EU) 2020/1503 of the European Parliament and of the Council<sup>72</sup>;
- a crypto-asset service provider as defined in Article 3(1), point (8), of [the proposal for a Regulation of the European Parliament and of the Council on Markets in Crypto-assets, and amending Directive (EU) 2019/1937<sup>73</sup>] where performing one or more crypto-asset services as defined in Article 3(1), point (9), of [the proposal for a Regulation of the European Parliament and of the Council on Markets in Crypto-assets, and amending Directive (EU) 2019/1937];

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<sup>70</sup> Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC (OJ L 337, 23.12.2015, p. 35).

<sup>71</sup> Directive 2009/110/EC of the European Parliament and of the Council of 16 September 2009 on the taking up, pursuit and prudential supervision of the business of electronic money institutions amending Directives 2005/60/EC and 2006/48/EC and repealing Directive 2000/46/EC (OJ L 267, 10.10.2009, p. 7).

<sup>72</sup> Regulation (EU) 2020/1503 of the European Parliament and of the Council of 7 October 2020 on European crowdfunding service providers for business, and amending Regulation (EU) 2017/1129 and Directive (EU) 2019/1937 (OJ L 347, 20.10.2020, p. 1).

<sup>73</sup> COM/2020/593 final.

- (b) ‘adverse environmental impact’ means an impact on the environment resulting from violation of one of the prohibitions and obligations listed in the Annex I, Part II;
- (c) ‘adverse human rights impact’ means an impact on persons resulting from
- (i) an abuse of one of the human rights listed in the Annex I, Part I Section 1, as those human rights are enshrined in the international instruments listed in the Annex I, Part I Section 2;
  - (ii) an abuse of a human right not listed in the Annex I, Part I Section 1, but included in the human rights instruments listed in the Annex I, Part I Section 2, provided that:
    - the human right can be abused by a company or legal entity other than a Member State or a third country or their authorities;
    - the human right abuse directly impairs a legal interest protected in the human rights instruments listed in the Annex I, Part I Section 2; and
    - the company could have reasonably identified such human right abuse in its own operations, those of its subsidiaries or its business partners, taking into account the circumstances of the specific case, including the nature and extent of the company’s business operations and its ~~value~~ chain **of activities**, characteristics of the economic sector and geographical and operational context;

- (ca) ‘adverse impact’ means adverse environmental impact and adverse human rights impact;
- (d) ‘subsidiary’ means a legal person through which the activity of a ‘controlled undertaking’ as defined in Article 2(1), point (f), of Directive 2004/109/EC of the European Parliament and of the Council<sup>74</sup> is exercised;
- (e) ‘business partner’ means a legal entity
  - (i) with whom the company has a commercial agreement related to the operations, products or services of the company or to whom the company provides services pursuant to point (g) (‘direct business partner’), or
  - (ii) which is not a direct business partner but which performs business operations related to the operations, products or services of the company (‘indirect business partner’);
- (ea) ‘business relationship’ means a relationship of the company with its business partner;
- (f) [...]
- (g) ‘~~value~~ **chain of activities**’ means activities of a company’s business partners related to:
  - (i)** ~~the production~~ **and supply** of goods or the provision of services by a company, including the **design, extraction, manufacture, transport, storage and supply of raw materials, products or parts of the products and** development of the product or the service, ~~direct business partners related to the intended and reasonably foreseeable use and business partners related to~~

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<sup>74</sup> Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC (OJ L 390, 31.12.2004, p. 38).

**(ii)** the **distribution, transport, storage and** disposal of the product, **including the dismantling, recycling, composting or landfilling,** where the business partners carry out ~~the~~ **those** activities for the company or on behalf of the company, excluding the use and disposal of the product by ~~or provision of services to consumers.~~ The term ‘value chain’ shall not encompass the use of **and distribution, transport, storage and disposal of the** product being subject to the export control under the Regulation (EU) 2021/821 of the European Parliament and of the Council<sup>75</sup> or the export control relating to weapons, munition or war materials, after the export of the product is authorised.

As regards regulated financial undertakings within the meaning of point (a)(iv), the term ‘value chain **of activities**’ with respect to the services they provide shall only include the activities of:

- (i) legal entities receiving directly lending, provision of guarantees and commitments **from the regulated financial undertaking;**
- (ii) policy-holders and insured parties under insurance contracts **concluded with the regulated financial undertaking;**
- (iii) legal entities ceding risk under a reinsurance contract and institutions for occupational retirement provision to which coverage is provided under a reinsurance contract **concluded with the regulated financial undertaking;**
- (iv) subsidiaries of legal entities referred to in points (i) to (iii) benefiting from the service **referred to in points (i) to (iii),** whose activities are linked to the service in question.

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<sup>75</sup> ~~Regulation (EU) 2021/821 of the European Parliament and of the Council of 20 May 2021 setting up a Union regime for the control of exports, brokering, technical assistance, transit and transfer of dual-use items (OJ L 206, 11.6.2021, p. 1).~~

The value chain **of activities** of regulated financial undertakings within the meaning of point (a)(iv) providing such services does not cover SMEs, natural persons and households receiving the services;

- (h) ‘independent third-party verification’ means verification of the compliance by a company, or parts of its value chain **of activities**, with human rights and environmental requirements resulting from the provisions of this Directive by an expert which is independent from the company, free from any conflicts of interests, has experience and competence in environmental and human rights matters and is accountable for the quality and reliability of the verification;
- (i) ‘SME’ means a micro, small or a medium-sized undertaking, irrespective of its legal form, that is not part of a large group, as those terms are defined in Article 3(1), (2), (3) and (7) of Directive 2013/34/EU;

- (j) ‘industry initiative’ means a combination of voluntary ~~value chain~~ due diligence procedures **in the chains of activities**, tools and mechanisms, including independent third-party verifications, developed and overseen by governments, industry associations or groupings of interested organisations;
- (k) ‘authorised representative’ means a natural or legal person resident or established in the Union who has a mandate from a company within the meaning of point (a)(ii) to act on its behalf in relation to compliance with that company’s obligations pursuant to this Directive;
- (l) ‘severe adverse impact’ means an adverse impact that is especially significant by its nature, or affects a large number of persons or a large area of the environment, or where it is particularly difficult to restore the situation prevailing prior to the adverse impact;

- (m) ‘net turnover’ means:
- (i) the ‘net turnover’ as defined in Article 2, point (5), of Directive 2013/34/EU; or
  - (ii) where the company applies international accounting standards adopted on the basis of Regulation (EC) No 1606/2002 of the European Parliament and of the Council<sup>76</sup> or is a company within the meaning of point (a)(ii), the revenue as defined by or within the meaning of the financial reporting framework on the basis of which the financial statements of the company are prepared;
- (n) ‘stakeholders’ means the company’s employees, the employees of its subsidiaries, trade unions and workers’ representatives, consumers, and other individuals, groups, communities or entities whose rights or interests are or could be affected by the products, services and operations of that company, its subsidiaries and its business partners, including civil society organisations, national human rights and environmental institutions, and human rights and environmental defenders;
- (o) [...]
- (p) [...]
- (q) ‘appropriate measure’ means a measure that is capable of achieving the objectives of due diligence, commensurate with the degree of severity and the likelihood of the adverse impact, and reasonably available to the company, taking into account the circumstances of the specific case, including the nature and extent of the company’s business operations and characteristics of the economic sector and of the specific business ~~relationship~~ **partner**;

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<sup>76</sup> Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards (OJ L 243, 11.9.2002, p.1).

- (r) 'parent company' means a company which controls one or more subsidiaries within the meaning of point (d);
- (s) 'group of companies' means a parent company and all its subsidiaries;
- (t) 'remediation' means financial or non-financial compensation provided by the company to person or persons affected by the actual adverse impact, including restitution of the affected person or persons or environment to the situation they would be in, had the actual adverse impact not occurred, that shall be proportionate to the significance and scope of the adverse impact and the company's implication in the adverse impact.

## Article 4

### Due diligence

1. Member States shall ensure that companies conduct human rights and environmental due diligence as laid down in Articles 5 to 11 ('due diligence') by carrying out the following actions:
  - (a) integrating due diligence into their policies and risk management systems in accordance with Article 5;
  - (b) identifying actual or potential adverse impacts in accordance with Article 6;
  - (c) preventing and mitigating potential adverse impacts, and bringing actual adverse impacts to an end and minimising their extent in accordance with Articles 7 and 8;
  - (d) establishing and maintaining a complaints procedure in accordance with Article 9;
  - (e) monitoring the effectiveness of their due diligence policy and measures in accordance with Article 10;
  - (f) publicly communicating on due diligence in accordance with Article 11.
2. Member States shall ensure that, for the purposes of due diligence, companies are entitled to share resources and information within their respective groups of companies and with other legal entities.
3. Member States shall ensure that a company or other legal entity shall not be obliged to disclose to its business partner which is complying with the obligations resulting from this Directive, information that is deemed to be a trade secret as defined in Article 2(1) of Directive (EU) 2016/943 of the European Parliament and of the Council<sup>77</sup>.

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<sup>77</sup> Directive (EU) 2016/943 of the European Parliament and of the Council of 8 June 2016 on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure (OJ L 157, 15.6.2016, p. 1).

*Article 4a*

**Due diligence at a group level**

1. Member States shall ensure that parent companies falling under the scope of this Directive may fulfil the obligations set out in Articles 5 to 11 and Article 15 on behalf of companies which are their subsidiaries falling under the scope of this Directive. This is without prejudice to civil liability of subsidiaries in accordance with Article 22.
2. The fulfilment of due diligence obligations by a parent company in accordance with the ~~first~~ paragraph **1** is subject to all the following conditions:
  - (a) the subsidiary provides all the necessary information to and cooperates with its parent company to fulfil the obligations resulting from this Directive;
  - (b) the subsidiary must abide by its parent company's due diligence policy accordingly adapted to ensure that the obligations laid down in Article 5(1) are fulfilled with respect to the subsidiary;
  - (c) the subsidiary integrates due diligence into all its policies and risk management systems in accordance with Article 5;
  - (d) where relevant, the subsidiary seeks the contractual assurances in accordance with Articles 7(2), point (b), or 8(3), point (c);
  - (e) where relevant, the subsidiary seeks to conclude a contract with an indirect business partner in accordance with Articles 7(3) or 8(4);
  - (f) where relevant, the subsidiary temporarily suspends or terminates the business relationship in accordance with Articles 7(5) or 8(6).

## Article 5

### **Integrating due diligence into company's policies and risk management systems**

1. Member States shall ensure that companies integrate due diligence into all their policies and risk management systems and have in place a due diligence policy.
  - 1a. The due diligence policy shall contain all of the following:
    - (a) a description of the company's approach, including in the long term, to due diligence;
    - (b) a code of conduct describing rules and principles to be followed by the company's employees and subsidiaries, and the company's direct or indirect business partners, where relevant in accordance with Articles 7(2), point (b), 7(3), 8(3), point (c), or 8(4); **and**
    - (c) a description of the processes put in place to implement due diligence, including the measures taken to verify compliance with the code of conduct and to extend its application to business partners.
2. Member States shall ensure that the companies update their due diligence policy without undue delay after a significant change occurs, but at least every 24 months.
3. Member States shall ensure that companies referred to in Article 2(1) put in place and oversee the actions listed in Article 4(1).

## Article 6

### Identifying actual and potential adverse impacts

1. Member States shall ensure that companies take appropriate measures to identify actual and potential adverse impacts arising from their own operations or those of their subsidiaries and, where related to their value chains of activities, those of their business partners, in accordance with paragraphs 2, 3 and 4.
  - 1a. For the purpose of fulfilling the obligation in paragraph 1, companies may map all areas of their own operations, those of their subsidiaries and, where related to their ~~value chains~~ **of activities**, those of their business partners. Based on the results of that mapping, companies may carry out an in-depth assessment of the areas where adverse impacts were identified to be most likely to be present or most significant.
2. By way of derogation from paragraph 1, companies referred to in Article 2(1), point (b), and Article 2(2), point (b), shall only be required to identify actual and potential adverse impacts relevant to the respective sector mentioned in Article 2(1), point (b).

3. When regulated financial undertakings within the meaning of Article 3, point (a)(iv), provide the services referred to in Article 3, point (g), identification of actual and potential adverse impacts shall be carried out only before providing that service.
4. Member States shall ensure that, for the purposes of identifying the adverse impacts referred to in paragraph 1 based on, where appropriate, quantitative and qualitative information, companies are entitled to make use of appropriate resources, including independent reports and information gathered through the complaints procedure provided for in Article 9. Companies shall, where relevant, also carry out consultations with potentially affected groups including workers and other relevant stakeholders to gather information on actual or potential adverse impacts.

#### *Article 6a*

#### **Prioritisation of identified actual and potential adverse impacts**

1. Member States shall ensure that companies prioritise adverse impacts arising from their own operations, those of their subsidiaries or those of their business partners identified pursuant to Article 6 for fulfilling the obligations laid down in Articles 7 or 8, where it is not feasible to address all identified adverse impacts at the same time to the full extent.
2. The prioritisation of adverse impacts shall be based on severity and likelihood of the adverse impact. Severity of an adverse impact shall be assessed based on its gravity, the number of persons or the extent of the environment affected, and difficulty to restore the situation prevailing prior to the impact.

3. Once the most significant adverse impacts are addressed in accordance with Articles 7 or 8 in a reasonable time, the company shall address less significant adverse impacts.

### *Article 7*

#### **Preventing potential adverse impacts**

1. Member States shall ensure that companies take appropriate measures to prevent, or where prevention is not possible or not immediately possible, adequately mitigate potential adverse impacts that have been, or should have been, identified pursuant to Article 6 and, where necessary, prioritised pursuant to Article 6a, in accordance with paragraphs 2, 3, 4 and 5 of this Article.

To determine the appropriate measures referred to in the first subparagraph, due account shall be taken of:

- a) whether the potential adverse impact is caused only by the company, caused jointly by the company and its subsidiary or business partner, or whether it is caused only by the company's business partner in its ~~value chain~~ **of activities**;
  - b) whether the potential adverse impact occurred in the operations of the subsidiary, direct business partner or indirect business partner; and
  - c) the ability of the company to influence the business partner causing the potential adverse impact.
2. Companies shall be required to take the following actions, where relevant:
    - (a) where necessary due to the nature or complexity of the measures required for prevention, without undue delay develop and implement a prevention action plan, with reasonable and clearly defined timelines for action and qualitative and quantitative indicators for measuring improvement. The prevention action plan shall be developed in consultation with potentially affected stakeholders;

- (b) seek contractual assurances from a direct business partner that it will ensure compliance with the company's code of conduct and, as necessary, a prevention action plan, including by seeking corresponding contractual assurances from its partners, to the extent that their activities are part of the company's value chain of activities (contractual cascading). When such contractual assurances are obtained, paragraph 4 shall apply;
  - (c) make necessary financial or non-financial investments, such as into management or production processes and infrastructures;
  - (d) provide targeted and proportionate support for an SME which is a business partner of the company, where compliance with the code of conduct or the prevention action plan would jeopardise the viability of the SME. The targeted and proportionate support may take the form of financing, such as direct financing, low-interest loans, guarantees of continued sourcing, or assistance in securing financing, or guidance, such as training or upgrading management systems;
  - (e) in compliance with Union law, including competition law, collaborate with other entities, including, where relevant, to increase the company's ability to prevent or mitigate the adverse impact, in particular where no other action is suitable or effective.
3. As regards potential adverse impacts that could not be prevented or adequately mitigated by the measures actions listed in paragraph 2, the company may seek to conclude a contract with an indirect business partner, with a view to achieving compliance with the company's code of conduct or a prevention action plan. When such a contract is concluded, paragraph 4 shall apply.

4. The contractual assurances or the contract shall be accompanied by the appropriate measures to verify compliance. For the purposes of verifying compliance, the company may refer to suitable industry initiatives or independent third-party verification.

When contractual assurances are obtained from, or a contract is entered into, with an SME, the terms used shall be fair, reasonable and non-discriminatory. Where measures to verify compliance are carried out in relation to SMEs, the company shall bear the cost of the independent third-party verification.

5. As regards potential adverse impacts within the meaning of paragraph 1 that could not be prevented or adequately mitigated by the measures in paragraphs 2, 3 and 4, the company shall be required as a last resort to refrain from entering into new or extending existing relations with the business partner in connection with or in the value chain **of activities** of which the impact has arisen and shall, where the law governing their relations so entitles them to, take the following actions:

- (a) temporarily suspend the business relationship with respect to the activities concerned, while pursuing prevention or mitigation efforts, if there is reasonable expectation that these efforts will succeed in the short term. If there is no such reasonable expectation or the efforts did not succeed in the short term, the company shall terminate the business relationship;
- (b) terminate the business relationship with respect to the activities concerned if the potential adverse impact is severe.

Member States shall provide for the availability of an option to temporarily suspend and terminate the business relationship in contracts governed by their laws in accordance with the first subparagraph, except for contracts where the parties are obliged by law to enter into them.

6. By way of derogation from paragraph 5, when regulated financial undertakings within the meaning of Article 3, point (a)(iv), provide the services as referred to in Article 3, point (g), they shall not be required to temporarily suspend or terminate the business relationship.

Where the regulated financial undertaking within the meaning of Article 3, point (a)(iv), decides not to temporarily suspend or terminate the business relationship in accordance with the first subparagraph, it shall monitor the actual adverse impact while pursuing prevention or mitigation efforts.

7. By way of derogation from paragraph 5, the company shall not be required to terminate the business relationship in case where:

- (a) there is a reasonable expectation that the termination would result in an adverse impact that is more severe than the potential adverse impact that could not be prevented or adequately mitigated; or
- (b) no available alternative to that business relationship, that provides a raw material, product or service essential to the company's production of goods or provision of services, exists and the termination would cause substantial prejudice to the company.

Where the company decides not to terminate the business relationship in accordance with **the first** subparagraph, it shall report to the competent supervisory authority about the duly justified reasons of **this** **such** decision.

The company shall monitor the potential adverse impact, periodically reassess its decision not to terminate the business relationship and seek alternative business relationships.

8. The obligation to temporarily suspend or terminate the business relationship pursuant to paragraph 5 shall not apply to commercial agreements concluded by the company before the expiry of the transposition period in accordance with Article 30 of this Directive.

## Article 8

### Bringing actual adverse impacts to an end

1. Member States shall ensure that companies take appropriate measures to bring actual adverse impacts that have been, or should have been, identified pursuant to Article 6 and, where necessary, prioritised pursuant to Article 6a to an end, in accordance with paragraphs 2 to 6 of this Article.

To determine the appropriate measures referred to in the first subparagraph, due account shall be taken of:

- a) whether the actual adverse impact is caused only by the company, caused jointly by the company and its subsidiary or business partner, or whether it is caused only by the company's business partner in its ~~value chain~~ **of activities**;
  - b) whether the ~~potential~~ **actual** adverse impact occurred in the operations of the subsidiary, direct business partner or indirect business partner; and
  - c) the ability of the company to influence the business partner causing the actual adverse impact.
2. Where the adverse impact cannot be brought to an end, Member States shall ensure that companies minimise the extent of such an impact.
  3. Companies shall be required to take the following actions, where relevant:
    - (a) neutralise the adverse impact or minimise its extent. The action shall be proportionate to the significance and scope of the adverse impact and to the company's implication in the adverse impact;

- (b) where necessary due to the fact that the adverse impact cannot be immediately brought to an end, without undue delay develop and implement a corrective action plan with reasonable and clearly defined timelines for action and qualitative and quantitative indicators for measuring improvement. The corrective action plan shall be developed in consultation with stakeholders;
- (c) seek contractual assurances from a direct business partner that it will ensure compliance with the code of conduct and, as necessary, a corrective action plan, including by seeking corresponding contractual assurances from its partners, to the extent that they are part of the value chain **of activities** (contractual cascading). When such contractual assurances are obtained, paragraph 5 shall apply;
- (d) make necessary financial or non-financial investments, such as into management or production processes and infrastructures;
- (e) provide targeted and proportionate support for an SME which is a business partner of the company, where compliance with the code of conduct or the corrective action plan would jeopardise the viability of the SME. The targeted and proportionate support may take the form of financing, such as direct financing, low-interest loans, guarantees of continued sourcing, or assistance in securing financing, or guidance, such as training or upgrading management systems;
- (f) in compliance with Union law, including competition law, collaborate with other entities, including, where relevant, to increase the company's ability to bring the adverse impact to an end or minimise the extent of such impact, in particular where no other action is suitable or effective;
- (g) provide remediation to the affected persons and communities.

4. As regards actual adverse impacts that could not be brought to an end or adequately mitigated by the measures in paragraph 3, the company may seek to conclude a contract with an indirect business partner, with a view to achieving compliance with the company's code of conduct or a corrective action plan. When such a contract is concluded, paragraph 5 shall apply.

5. The contractual assurances or the contract shall be accompanied by the appropriate measures to verify compliance. For the purposes of verifying compliance, the company may refer to suitable industry initiatives or independent third-party verification.

When contractual assurances are obtained from, or a contract is entered into, with an SME, the terms used shall be fair, reasonable and non-discriminatory. Where measures to verify compliance are carried out in relation to SMEs, the company shall bear the cost of the independent third-party verification.

6. As regards actual adverse impacts within the meaning of paragraph 1 that could not be brought to an end or the extent of which could not be minimised by the measures provided for in paragraphs 3, 4 and 5, the company shall be required as a last resort to refrain from entering into new or extending existing relations with the business partner in connection with or in the value chain **of activities** of which the impact has arisen and shall, where the law governing their relations so entitles them to, take the following actions:

- (a) temporarily suspend the business relationship with respect to the activities concerned, while pursuing efforts to bring to an end or minimise the extent of the adverse impact, if there is reasonable expectation that these efforts will succeed in the short term. If there is no such reasonable expectation or the efforts did not succeed in the short term, the company shall terminate the business relationship;

- (b) terminate the business relationship with respect to the activities concerned, if the adverse impact is considered severe.

Member States shall provide for the availability of an option to temporarily suspend and terminate the business relationship in contracts governed by their laws in accordance with the first subparagraph, except for contracts where the parties are obliged by law to enter into them.

7. By way of derogation from paragraph 6, when regulated financial undertaking within the meaning of Article 3, point (a)(iv), provide the services as referred to in Article 3, point (g), they shall not be required to temporarily suspend or terminate the business relationship.

Where the regulated financial undertaking within the meaning of Article 3, point (a)(iv), decides not to temporarily suspend or terminate the business relationship in accordance with the first subparagraph, it shall monitor the actual adverse impact while pursuing efforts to bring to an end or minimise the extent of the adverse impact.

8. By way of derogation from paragraph 6, the company shall not be required to terminate the business relationship in case where:
- (a) there is a reasonable expectation that the termination would result in an adverse impact that is more severe than the actual adverse impact that could not be brought to an end or minimised; or
  - (b) no available alternative to that business relationship, that provides a raw material, product or service essential to the company's production of goods or provision of services, exists and the termination would cause substantial prejudice to the company.

Where the company decides not to terminate the business relationship in accordance with **the first** subparagraph~~4~~, it shall report to the competent supervisory authority about the duly justified reasons of ~~this~~ **such** decision.

The company shall monitor the actual adverse impact, periodically reassess its decision not to terminate the business relationship and seek alternative business relationships.

9. The obligation to temporarily suspend or terminate the business relationship pursuant to paragraph 6 shall not apply to commercial agreements concluded by the company before the expiry of the transposition period in accordance with Article 30 of this Directive.

#### *Article 9*

#### **Complaints procedure**

1. Member States shall ensure that companies provide the possibility for persons and organisations listed in paragraph 2 to submit complaints to them where they have legitimate concerns regarding actual or potential adverse impacts with respect to their own operations, the operations of their subsidiaries and **the operations of their business partners in the companies' value chains of activities**.
2. Member States shall ensure that the complaints may be submitted by:
  - (a) persons who are affected or have reasonable grounds to believe that they might be affected by an adverse impact~~;~~
  - (b) trade unions and other workers' representatives representing individuals working in the ~~value chain~~ **of activities** concerned~~;~~ **and**
  - (c) civil society organisations active in the areas related to the human rights or environmental adverse impact that is the subject matter of the complaint.

3. Member States shall ensure that ~~the~~ companies establish a fair, accessible, and transparent procedure for dealing with complaints referred to in paragraph 1, including a procedure when the company considers the complaint to be unfounded, and inform the relevant workers and trade unions of ~~these~~ **that** procedures. The procedure shall ensure the confidentiality of the identity of the person or organisation submitting the complaint, and the necessary measures to prevent any form of retaliation from the company and its subsidiaries.

Member States shall ensure that where the complaint is well-founded, the adverse impact that is the subject matter of the complaint is deemed to be identified within the meaning of Article 6 and the company shall take appropriate measures in accordance with Articles 7 and 8, including providing remediation where relevant.

4. Member States shall ensure that complainants are entitled:
- (a) to request appropriate follow-up on the complaint from the company with which they have filed a complaint pursuant to paragraph 1; and
  - (b) to meet with the company's representatives at an appropriate level to discuss potential or actual severe adverse impacts that are the subject matter of the complaint.
5. Member States shall ensure that companies are allowed to fulfill the obligations laid down in paragraphs 1 and 3, first subparagraph, by participation in collaborative complaints procedures, including those established jointly by companies, through industry associations or multi-stakeholders initiatives, provided that the collective procedures meet the requirements set out in this Article.

## Article 10

### Monitoring

1. Member States shall ensure that companies carry out periodic assessments of their own operations and measures, those of their subsidiaries and, where related to the ~~value~~ chains **of activities** of the company, those of their business partners, to monitor the effectiveness of the identification, prevention, mitigation, bringing to an end and minimisation of the extent of adverse impacts. Such assessments shall be based, where appropriate, on qualitative and quantitative indicators and be carried out without undue delay after a significant change occurs, but at least every 24 months and whenever there are reasonable grounds to believe that significant new risks of the occurrence of those adverse impacts may arise. The due diligence policy shall be updated in accordance with the outcome of those assessments and with due consideration of relevant information from stakeholders.
2. By way of derogation from paragraph 1, regulated financial undertakings within the meaning of Article 3, point (a)(iv), shall in respect to business partners, where related to their ~~value~~ chain **of activities**, carry out periodic assessments only to monitor the effectiveness of the prevention, mitigation, bringing to an end, and minimisation of the extent of adverse impacts identified in accordance with Article 6(3).

## Article 11

### Communicating

1. Member States shall ensure that companies that are not subject to reporting requirements under Articles 19a and 29a of Directive 2013/34/EU report on the matters covered by this Directive by publishing on their website an annual statement on the financial year in a language customary in the sphere of international business. The statement shall be published within a reasonable period of time which shall not exceed 12 months after the balance sheet date of the financial year for which the statement is drawn up.

Companies that are included in a consolidated management report and exempted from the obligations under Articles 19a or 29a of Directive 2013/34/EU in accordance with Articles 19a(7) and 29a(7) of that Directive 2013/34/EU shall be deemed to have fulfilled the obligation under this Article.

2. The Commission shall adopt delegated acts in accordance with Article 28 concerning the content and criteria for such reporting under paragraph 1, specifying information on the description of due diligence, potential and actual adverse impacts and actions taken with respect to ~~on~~ those impacts.

## *Article 12*

### **Model contractual clauses**

In order to provide support to companies to facilitate their compliance with Article 7(2), point (b), and Article 8(3), point (c), the Commission, in consultation with Member States and stakeholders, shall adopt guidance about voluntary model contractual clauses.

## *Article 13*

### **Guidelines**

In order to provide support to companies or to Member State authorities on how companies should fulfil their due diligence obligations, the Commission, in consultation with Member States and stakeholders, the European Union Agency for Fundamental Rights, the European Environment Agency, and where appropriate with international bodies having expertise in due diligence, shall issue guidelines, including for specific sectors or specific adverse impacts, no later than after two years from the entry into force of this Directive.

## Article 14

### Accompanying measures

1. Member States shall, in order to provide information and support to companies and the business partners in their ~~value~~ chains **of activities** in their efforts to fulfil the obligations resulting from this Directive, set up and operate individually or jointly dedicated websites, platforms or portals. Specific consideration shall be given, in that respect, to the SMEs that are present in the ~~value~~ chains **of activities** of companies.
2. Without prejudice to applicable State aid rules, Member States may financially support SMEs.
3. The Commission may complement Member States' support measures building on existing Union action to support due diligence in the Union and in third countries and may devise new measures, including facilitation of joint stakeholder initiatives to help companies fulfil their obligations.
4. Companies may rely on industry schemes and multi-stakeholder initiatives to support the implementation of their obligations referred to in Articles 5 to 11 ~~of this Directive~~ to the extent that such schemes and initiatives are appropriate to support the fulfilment of those obligations. The Commission and the Member States may facilitate the dissemination of information on such schemes or initiatives and their outcome. The Commission, in collaboration with Member States, shall issue guidance for assessing the fitness of industry schemes and multi-stakeholder initiatives.

## Article 15

### Combating climate change

1. Member States shall ensure that companies referred to in Article 2(1), point (a), and Article 2(2), point (a), shall adopt a plan, including implementing actions and related financial and investments plans, to ensure that the business model and strategy of the company are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5 °C in line with the Paris Agreement and the objective of achieving climate neutrality by 2050 as established in Regulation (EU) 2021/1119 (~~European Climate Law~~), and where relevant, the exposure of the undertaking to coal-, oil- and gas-related activities, **as referred to in Articles 19a(2), point (a)(iii), and 29a(2), point (a)(iii), of Directive 2013/34/EU**. This plan shall, in particular, identify, on the basis of information reasonably available to the company, the extent to which climate change is a risk for, or an impact of, the company's operations.
2. Member States shall ensure that, in case climate change is or should have been identified as a principal risk for, or a principal impact of, the company's operations, the company includes greenhouse gas emission reduction objectives in its plan.
- 3 [...]

## Article 16

### Authorised representative

1. Member States shall lay down rules to require that a company ~~referred to in~~ **within the meaning of** Article 2(2) operating in ~~the a~~ Member State designates a legal or natural person as its authorised representative, established or domiciled in one of the Member States where it operates. The designation shall be valid when confirmed as accepted by the authorised representative.

2. Member States shall lay down rules to require that the authorised representative or the company notifies the name, address, electronic mail address and telephone number of the authorised representative to a supervisory authority in the Member State where the authorised representative is domiciled or established. Member States shall lay down rules to require that the authorised representative provides, upon request, a copy of the designation in an official language of a Member State to any of the supervisory authorities.
3. Member States shall lay down rules to require that the authorised representative or the company informs a supervisory authority in the Member State where the authorised representative is domiciled or established and, where it is different, a supervisory authority in the Member State in which the company generated most of its net turnover in the Union in the financial year preceding the last financial year that the company is a company within the meaning of Article 2(2).
4. Member States shall lay down rules to require that each company empowers its authorised representative to receive communications from supervisory authorities on all matters necessary for compliance with and enforcement of national provisions transposing this Directive. Companies shall be required to provide their authorised representative with the necessary powers and resources to cooperate with supervisory authorities.
5. When the company referred to in **within the meaning of** Article 2(2) fails to comply with the obligations laid down in this Article, all Member States in which ~~the~~ **such** company operates should be competent to enforce the fulfilment of such obligations in accordance with the national law. The Member State intending to enforce the obligations laid down in this Article notifies the supervisory authorities through the European Network of Supervisory Authorities in accordance with Article 21 so that other Member States do not enforce them.

## Article 17

### Supervisory Authorities

1. Each Member State shall designate one or more supervisory authorities to supervise compliance with the obligations laid down in national provisions adopted pursuant to Articles 6 to 11 and Article 15 ('supervisory authority').
2. As regards the companies referred to in Article 2(1), the competent supervisory authority shall be that of the Member State in which ~~the~~ **such** company has its registered office.
3. As regards companies referred to in Article 2(2), the competent supervisory authority shall be that of the Member State in which **such** ~~the~~ company has a branch. If the company does not have a branch in any Member State, or has branches located in different Member States, the competent supervisory authority shall be the supervisory authority of the Member State in which the company generated most of its net turnover in the Union in the financial year preceding the last financial year before the date indicated in Article 30 or the date on which the company first fulfils the criteria laid down in Article 2(2), whichever comes last.

Companies referred to in Article 2(2) may, on the basis of a change in circumstances leading to it generating most of its turnover in the Union in a different Member State, make a duly reasoned request to change the supervisory authority that is competent to regulate matters covered in this Directive in respect of that company.

- 3a. Where the parent company fulfils the obligations resulting from this Directive on behalf of its subsidiaries in accordance with Article 4a, the competent supervisory authority for the parent company and its subsidiaries shall be that of the parent company pursuant to paragraphs 2 or 3, ~~first subparagraph~~.

When the supervisory authority under the first subparagraph identifies a failure of the subsidiary to comply with the obligations provided for in Article 4a(2), it shall notify the supervisory authority that would be competent in respect of that subsidiary in accordance with paragraphs 2 or 3, ~~first subparagraph~~, to carry out the powers in respect of that subsidiary in accordance with Articles 18 and 20.

4. Where a Member State designates more than one supervisory authority, it shall ensure that the respective competences of those authorities are clearly defined and that they cooperate closely and effectively with each other.
5. Member States may designate the authorities for the supervision of regulated financial undertakings also as supervisory authorities for the purposes of this Directive.

6. By the date indicated in Article 30(1), point (a), Member States shall inform the Commission of the names and contact details of the supervisory authorities designated pursuant to this Article, as well as of their respective competence where there are several designated supervisory authorities. They shall inform the Commission of any changes thereto.
7. The Commission shall make publicly available, including on its website, a list of the supervisory authorities. The Commission shall regularly update the list on the basis of the information received from the Member States.
8. Member States shall guarantee the independence of the supervisory authorities and shall ensure that they, and all persons working for or who have worked for them and auditors or experts acting on their behalf, exercise their powers impartially, transparently and with due respect for obligations of professional secrecy. In particular, Member States shall ensure that the authority is legally and functionally independent from the companies falling within the scope of this Directive or other market interests, that its staff and the persons responsible for its management are free of conflicts of interest, subject to confidentiality requirements, and that they refrain from any action incompatible with their duties.

### *Article 18*

#### **Powers of supervisory authorities**

1. Member States shall ensure that the supervisory authorities have adequate powers and resources to carry out the tasks assigned to them under this Directive, including the power to request information and carry out investigations related to compliance with the obligations set out in Articles 6 to 11 and Article 15. As regards Article 15, Member States shall only require supervisory authorities to supervise that companies have adopted the plan.

2. A supervisory authority may initiate an investigation on its own motion or as a result of substantiated concerns communicated to it pursuant to Article 19, where it considers that it has sufficient information indicating a possible breach by a company of the obligations provided for in the national provisions adopted pursuant to this Directive.
3. Inspections shall be conducted in compliance with the national law of the Member State in which the inspection is carried out and with prior warning to the company, except where prior notification hinders the effectiveness of the inspection. Where, as part of its investigation, a supervisory authority wishes to carry out an inspection on the territory of a Member State other than its own, it shall seek assistance from the supervisory authority in that Member State pursuant to Article 21(2).
4. If, as a result of the actions taken pursuant to paragraphs 1 and 2, a supervisory authority identifies a failure to comply with national provisions adopted pursuant to this Directive, it shall grant the company concerned an appropriate period of time to take remedial action, if such action is possible.

Taking remedial action does not preclude the imposition of penalties or the triggering of civil liability in case of damages, in accordance with Articles 20 and 22, respectively.

5. When carrying out their tasks, supervisory authorities shall have at least the following powers:
  - (a) to order:
    - (i) the cessation of infringements of the national provisions adopted pursuant to this Directive;
    - (ii) the abstention from any repetition of the relevant conduct; and
    - (iii) where appropriate, to provide remediation proportionate to the infringement and necessary to bring it to an end;

- (b) to impose penalties in accordance with Article 20; and
  - (c) to adopt interim measures in case of urgency due to risk of severe and irreparable harm.
6. Supervisory authorities shall exercise the powers referred to in this Article in accordance with the national law:
- (a) directly; ~~or;~~
  - (b) in cooperation with other authorities; ~~or~~
  - (c) by application to the competent judicial authorities.
7. Member States shall ensure that each natural or legal person has the right to an effective judicial remedy against a legally binding decision by a supervisory authority concerning them.

### *Article 19*

#### **Substantiated concerns**

1. Member States shall ensure that natural and legal persons are entitled to submit substantiated concerns to any supervisory authority when they have reasons to believe, on the basis of objective circumstances, that a company is failing to comply with the national provisions adopted pursuant to this Directive ('substantiated concerns').
2. Where the substantiated concern falls under the competence of another supervisory authority, the authority receiving the concern shall transmit it to that authority.
3. Member States shall ensure that supervisory authorities assess the substantiated concerns in an appropriate period of time and, where appropriate, exercise their powers as referred to in Article 18.

4. The supervisory authority shall, as soon as possible and in accordance with the relevant provisions of national law and in compliance with Union law, inform the person referred to in paragraph 1 of the result of the assessment of their substantiated concern and shall provide the reasoning for it.
5. Member States shall ensure that the persons submitting the substantiated concern according to this Article and having, in accordance with national law, a legitimate interest in the matter have access to a court or other independent and impartial public body competent to review the procedural and substantive legality of the decisions, acts or failure to act of the supervisory authority.

#### *Article 20*

#### **Penalties**

1. Member States shall lay down the rules on penalties, including pecuniary penalties, applicable to infringements of national provisions adopted pursuant to this Directive, and shall take all measures necessary to ensure that they are implemented. The penalties provided for shall be effective, proportionate and dissuasive.
2. In deciding whether to impose penalties and, if so, in determining their nature and appropriate level, due account shall be taken in particular of the company's efforts to comply with any remedial action required of them by a supervisory authority, any investments made and any targeted support provided pursuant to Articles 7 and 8, as well as collaboration with other entities to address adverse impacts in its ~~value~~ chain of activities, as the case may be.
3. When pecuniary penalties are imposed, they shall be commensurate with the company's worldwide net turnover.

4. Member States shall ensure that any decision of the supervisory authorities containing penalties related to the infringements of the national provisions adopted pursuant to this Directive is published, publicly available for at least 3 years and sent to the European Network of Supervisory Authorities. The published decision shall not contain any personal data within the meaning of Article 4(1) of Regulation (EU) 2016/679 of the European Parliament and of the Council.<sup>78</sup>

### *Article 21*

#### **European Network of Supervisory Authorities**

1. The Commission shall set up a European Network of Supervisory Authorities, composed of representatives of the supervisory authorities. The Network shall facilitate the cooperation of the supervisory authorities and the coordination and alignment of regulatory, investigative, sanctioning and supervisory practices of the supervisory authorities and, as appropriate, sharing of information among them.

The Commission may invite Union agencies with relevant expertise in the areas covered by this Directive to join the European Network of Supervisory Authorities.

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<sup>78</sup> ~~Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation) (OJ L 119, 4.5.2016, p. 1).~~

- 1a. The Commission shall set up a secured system of exchange of information regarding the net turnover generated in the Union by a company referred to in Article 2(2), that does not have a branch in any Member State or has branches located in different Member States. Member States shall regularly communicate information they have regarding the net turnover generated by those companies. The Commission shall analyse this information within a reasonable period of time and notify the Member State where the company generated most of its net turnover in the Union in the financial year preceding the last financial year, that the company is a company within the meaning of Article 2(2) and the supervisory authority of the Member State is competent in accordance with Article 17(3).
2. Supervisory authorities shall provide each other with relevant information and mutual assistance in carrying out their duties and shall put in place measures for effective cooperation with each other. Mutual assistance shall include collaboration with a view to the exercise of the powers referred to in Article 18, including in relation to inspections and information requests.
3. Supervisory authorities shall take all appropriate steps needed to reply to a request for assistance by another supervisory authority without undue delay and no later than 1 month after receiving the request. When it is necessary due to the circumstances of the case, the period may be extended by a maximum of two months based on a proper justification. Such steps may include, in particular, the transmission of relevant information on the conduct of an investigation.
4. Requests for assistance shall contain all the necessary information, including the purpose of and reasons for the request. Supervisory authorities shall only use the information received through a request for assistance for the purpose for which it was requested.

5. The requested supervisory authority shall inform the requesting supervisory authority of the results or, as the case may be, of the progress regarding the measures to be taken in order to respond to the request for assistance.
6. Supervisory authorities shall not charge each other fees for actions and measures taken pursuant to a request for assistance.

However, supervisory authorities may agree on rules to indemnify each other for specific expenditure arising from the provision of assistance in exceptional cases.

7. The supervisory authority that is competent pursuant to Article 17(3) shall inform the European Network of Supervisory Authorities of that fact and of any request to change the competent supervisory authority.
8. When doubts exist as to the attribution of competence, the information on which that attribution is based will be shared with the European Network of Supervisory Authorities, which may coordinate efforts to find a solution.

9. The European Network of Supervisory Authorities shall publish the decisions of the supervisory authorities containing penalties as referred to in Article 20(4).

*Article 22*

**Civil liability of companies and a right to full compensation**

1. Member States shall ensure that a company can be held liable for a damage caused to a natural or legal person, provided that:
- (a) the company intentionally or negligently failed to comply with the obligations laid down in Articles 7 and 8, **when the right, prohibition or obligation listed in Annex I is aimed to protect the natural or legal person;** and
  - (b) as a result of ~~such~~ a failure as referred to in point (a), a damage **to the natural or legal person's legal interest protected under national law** was caused ~~to the~~ ~~natural or legal person.~~

A company cannot be held liable if the damage was caused only by its business partners in its ~~value~~ chain **of activities**.

2. Where the company was held liable in accordance with paragraph 1, a natural or legal person shall have the right to full compensation for the damage occurred in accordance with national law. Full compensation under this Directive shall not lead to overcompensation, whether by means of punitive, multiple or other types of damages.

3. The civil liability of a company for damages arising under this provision shall be without prejudice to the civil liability of its subsidiaries or of any direct and indirect business partners in the ~~value~~ **company's chain of activities**.

When the damage was caused jointly by the company and its subsidiary, direct or indirect business partner, they shall be liable jointly and severally, without prejudice to the provisions of national law concerning the conditions of joint and several liability and the rights of recourse.

4. The civil liability rules under this Directive shall be without prejudice to Union or national rules on civil liability related to adverse human rights impacts or to adverse environmental impacts that provide for liability in situations not covered by or providing for stricter liability than this Directive.
5. Member States shall ensure that the provisions of national law transposing this Article are of overriding mandatory application in cases where the law applicable to claims to that effect is not the law of a Member State.

*Article 23*

**Reporting of breaches and protection of reporting persons**

Directive (EU) 2019/1937 shall apply to the reporting of all breaches of this Directive and the protection of persons reporting such breaches.

*Article 24*

[...]

*Article 25*

[...]

*Article 26*

[...]

*Article 27*

**Amendment to Directive (EU) ~~Nº~~ 2019/1937**

In Point E.2 of Part I of the Annex to Directive (EU) ~~Nº~~ 2019/1937, the following point is added:

(vi) {Directive ... of the European Parliament and of the Council of ... on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937 (OJ L ..., ...) <sup>\*,+</sup>.}

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**\* Directive ... of the European Parliament and of the Council of ... on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937 (OJ L ..., ...).**<sup>+</sup>

*Article 28*

**Exercise of the delegation**

1. The power to adopt delegated acts is conferred on the Commission subject to the conditions laid down in this Article.
2. The power to adopt delegated acts referred to in Article 11 shall be conferred on the Commission for an indeterminate period of time **from ... [date of entry into force of this Directive]**.
3. The delegation of power referred to in Article 11 may be revoked at any time by the European Parliament or by the Council. A decision to revoke shall put an end to the delegation of the power specified in that decision. It shall take effect the day following the publication of the decision in the *Official Journal of the European Union* or at a later date specified therein. It shall not affect the validity of any delegated acts already in force.
4. Before adopting a delegated act, the Commission shall consult experts designated by each Member State in accordance with the principles laid down in the Interinstitutional Agreement of 13 April 2016 on Better Law-Making.

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<sup>+</sup> OJ: Please insert in the text the number and the date of the Directive contained in document ... and insert the OJ reference of that Directive in the footnote.

5. As soon as it adopts a delegated act, the Commission shall notify it simultaneously to the European Parliament and to the Council.
6. A delegated act adopted pursuant to Article 11 shall enter into force only if no objection has been expressed either by the European Parliament or **by** the Council within a period of two months of notification of that act to the European Parliament and the Council or if, before the expiry of that period, the European Parliament and the Council have both informed the Commission that they will not object. That period shall be extended by two months at the initiative of the European Parliament or of the Council.

### *Article 29*

#### **Review**

No later than ... [~~OP please insert the date~~ = 7 years after the date of entry into force of this Directive], the Commission shall submit a report to the European Parliament and to the Council on the implementation of this Directive. The report shall evaluate the effectiveness of this Directive in reaching its objectives and assess the following issues:

- (a) whether the thresholds regarding the number of employees and net turnover laid down in Article 2(1) need to be revised;
- (b) whether the list of sectors in Article 2(1), point (b), needs to be changed, including in order to align it to guidance from the Organisation for Economic Co-operation and Development;
- (ba) whether the criterion of net turnover generated in the Union laid down in Article 2(2) and the threshold of the net turnover therein need to be revised;

- (bb) whether Article 2 needs to be revised so that the number of employees and net turnover of subsidiaries of the company is included in the calculation of the number of employees and net turnover of the company;
- (bc) whether Article 3, point (a) needs to be revised so that other legal persons constituted as different legal forms than those listed in Annex I of Directive 2013/34/EU or in a form comparable to those listed therein are covered;
- (c) whether the Annex I needs to be modified, including in light of international developments;
- (ca) whether the definition of ‘value chain of activities’ in Article 3, point (g), needs to be revised, including whether the provision of investment needs to be included; **and**
- (d) whether Articles 4 to 14 should be extended to adverse climate impacts or Article 15 needs to be revised.

### *Article 30*

### **Transposition**

1. Member States shall adopt and publish, by ... [~~OJ to insert:~~ *2 years from the entry into force of this Directive*] at the latest, regulations and administrative provisions necessary to comply with this Directive. They shall forthwith communicate to the Commission the text of those provisions.

They shall apply those provisions as follows:

- (a) from ... [~~OJ to insert~~: 3 years from the entry into force of this Directive] as regards companies which are formed in accordance with the legislation of the Member State and that had more than 1000 employees on average and generated a net worldwide turnover of more than EUR 300 million in the last financial year preceding ... [~~OJ to insert~~: 3 years from the entry into force of this Directive] for which annual financial statements have been or should have been adopted;
- (b) from ... [~~OJ to insert~~: 3 years from the entry into force of this Directive] as regards companies which are formed in accordance with the legislation of a third country and that generated a net turnover of more than EUR 300 million in the Union, in the financial year preceding the last financial year preceding ... [~~OJ to insert~~: 3 years from the entry into force of this Directive];
- (c) from... [~~OJ to insert~~: 4 years from the entry into force of this Directive] as regards companies referred to in Article 2(1), point (a), and Article 2(2), point (a);
- (d) from ... [~~OJ to insert~~: 5 years from the entry into force of this Directive] as regards companies referred to in Article 2(1), point (b), and Article 2(2), point (b).

When Member States adopt those provisions, they shall contain a reference to this Directive or be accompanied by such a reference on the occasion of their official publication. Member States shall determine how such reference is to be made.

2. Member States shall communicate to the Commission the text of the main provisions of national law which they adopt in the field covered by this Directive.

*Article 31*

**Entry into force**

This Directive shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

*Article 32*

**Addressees**

This Directive is addressed to the Member States.

Done at ~~Brussels~~ ...,

*For the European Parliament*  
*The President*

*For the Council*  
*The President*

**PART I**

1. **HUMAN RIGHTS AS REFERRED TO IN ARTICLE 3, POINT (C) OF ARTICLE 3**
1. [...]
2. The right to life, including private or public security guards protecting the company's resources, facilities or personnel causing death of a person due to a lack of instruction or control by the company, interpreted in line with Article 6(1) of the International Covenant on Civil and Political Rights;
3. The prohibition of torture, cruel, inhuman or degrading treatment, including private or public security guards protecting the company's resources, facilities or personnel subjecting a person to torture or cruel, inhuman or degrading treatment due to a lack of instruction or control by the company, interpreted in line with Article 7 of the International Covenant on Civil and Political Rights;
4. The right to liberty and security, interpreted in line with Article 9(1) of the International Covenant on Civil and Political Rights;
5. The prohibition of arbitrary or unlawful interference with a person's privacy, family, home or correspondence and unlawful attacks on their honour or reputation, interpreted in line with Article 17 of the International Covenant on Civil and Political Rights;
6. The prohibition of interference with the freedom of thought, conscience and religion, interpreted in line with Article 18 of the International Covenant on Civil and Political Rights;

7. The right to enjoy just and favourable conditions of work, including a fair wage and an adequate living wage, a decent living, safe and healthy working conditions and reasonable limitation of working hours, interpreted in line with Article 7 of the International Covenant on Economic, Social and Cultural Rights;
8. The prohibition to restrict workers' access to adequate housing, if the workforce is housed in accommodation provided by the company, and to restrict workers' access to adequate food, clothing, and water and sanitation in the workplace, interpreted in line with Article 11 of the International Covenant on Economic, Social and Cultural Rights;

9. [...]
10. The prohibition of the employment of a child under the age at which compulsory schooling is completed and, in any case, is not less than 15 years, except where the law of the place of employment so provides in accordance with Article 2(4) of the International Labour Organization Minimum Age Convention, 1973 (No. 138), interpreted in line with Articles 4 to 8 of the International Labour Organization Minimum Age Convention, 1973 (No. 138);
11. The prohibition of the worst forms of child labour (persons below the age of 18 years), interpreted in line with Article 3 of the International Labour Organization Worst Forms of Child Labour Convention, 1999 (No. 182). This includes:
- (a) ~~A~~all forms of slavery or practices similar to slavery, such as the sale and trafficking of children, debt bondage and serfdom, as well as forced or compulsory labour, including the forced or compulsory recruitment of children for use in armed conflicts;
  - (b) ~~T~~the use, procuring or offering of a child for prostitution, for the production of pornography or for pornographic performances;
  - (c) ~~T~~the use, procuring or offering of a child for illicit activities, in particular for the production or trafficking of drugs; **and**
  - (d) ~~W~~work which, by its nature or the circumstances in which it is carried out, is likely to harm the health, safety or morals of children;

12. The prohibition of forced or compulsory labour, which means all work or service that is exacted from any person under the menace of any penalty and for which the said person has not offered himself or herself voluntarily, interpreted in line with Article 2(1) of the International Labour Organization Forced Labour Convention, 1930 (No. 29). Forced or compulsory labour shall not mean any work or services that comply with Article 2(2) of International Labour Organization Forced Labour Convention, 1930 (No. 29) or with Article 8(3)(b) and (c) of the International Covenant on Civil and Political Rights;
13. The prohibition of all forms of slavery and slave-trade, including practices akin to slavery, serfdom or other forms of domination or oppression in the workplace, such as extreme economic or sexual exploitation and humiliation, or human trafficking, interpreted in line with Article 8 of the International Covenant on Civil and Political Rights;
14. [...]

15. The right to freedom of association, assembly, the rights to organise and collective bargaining, interpreted in line with Articles 21 and 22 of the International Covenant on Civil and Political Rights, Article 8 of the International Covenant on Economic, Social and Cultural Rights, the International Labour Organization Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87), and the International Labour Organization Right to Organise and Collective Bargaining Convention, 1949 (No. 98). This includes the following rights:
- (a) workers are free to form or join trade unions;
  - (b) the formation, joining and membership of a trade union must not be used as a reason for unjustified discrimination or retaliation;
  - (c) trade unions are free to operate in line with their constitutions and rules without interference from the authorities; **and**
  - (d) the right to strike and the right to collective bargaining;
16. The prohibition of unequal treatment in employment, unless this is justified by the requirements of the employment, interpreted in line with Articles 2 and 3 of the International Labour Organisation Equal Remuneration Convention, 1951 (No. 100), Articles 1 and 2 of the International Labour Organisation Discrimination (Employment and Occupation) Convention, 1958 (No. 111), and Article 7 of the International Covenant on Economic, Social and Cultural Rights. This includes, in particular:
- (a) the payment of unequal remuneration for work of equal value; **and**
  - (b) the discrimination on grounds of national extraction or social origin, race, colour, sex, religion, political opinion;

18. The prohibition of causing harmful soil change, water or air pollution, harmful emissions or excessive water consumption or other impact on natural resources, such as deforestation, that:

(a) substantially impairs the natural bases for the preservation and production of food;

(b) denies a person access to safe and clean drinking water;

(c) makes it difficult for a person to access sanitary facilities or destroys them;

(d) harms the health of a person,

interpreted in line with Article 6(1) of the International Covenant on Civil and Political Rights and Articles 11 and 12 of the International Covenant on Economic, Social and Cultural Rights;

19. The prohibition to unlawfully evict or take land, forests and waters when acquiring, developing or otherwise using land, forests and waters, including by deforestation, the use of which secures the livelihood of a person interpreted in line with Article 11 of the International Covenant on Economic, Social and Cultural Rights;

20. [...]

21. [...]

## 2. HUMAN RIGHTS AND FUNDAMENTAL FREEDOMS INSTRUMENTS

- The International Covenant on Civil and Political Rights;
- The International Covenant on Economic, Social and Cultural Rights;
- The International Labour Organization's core/fundamental conventions:
  - Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87);
  - Right to Organise and Collective Bargaining Convention, 1949 (No. 98);
  - Forced Labour Convention, 1930 (No. 29) and its 2014 Protocol;
  - Abolition of Forced Labour Convention, 1957 (No. 105);
  - Minimum Age Convention, 1973 (No. 138);
  - Worst Forms of Child Labour Convention, 1999 (No. 182);
  - Equal Remuneration Convention, 1951 (No. 100);
  - Discrimination (Employment and Occupation) Convention, 1958 (No. 111);

## PART II

### PROHIBITIONS AND OBLIGATIONS RELATED TO THE PROTECTION OF THE ENVIRONMENT AS REFERRED TO IN ARTICLE 3, POINT (B) ~~OF ARTICLE 3~~

1. The obligation to avoid or minimize adverse impacts on biological diversity, interpreted in line with Article 10(b) of the 1992 Convention on Biological Diversity and applicable law in the relevant jurisdiction, including the obligations of the Cartagena Protocol on the development, handling, transport, use, transfer and release of living modified organisms and of the Nagoya Protocol on Access to Genetic Resources and the Fair and Equitable Sharing of Benefits Arising from their Utilization to the Convention on Biological Diversity of 12 October 2014;
2. The prohibition to import, export, re-export or introduce from the sea any specimen included in the Appendices I to III of the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) of 3 March 1973 without a permit, interpreted in line with Articles III, IV and V of the Convention;
3. The prohibition of the manufacture, import and export of mercury-added products listed in Annex A Part I of the Minamata Convention on Mercury of 10 October 2013 (Minamata Convention), interpreted in line with Article 4(1) of the Convention;
4. The prohibition of the use of mercury or mercury compounds in the manufacturing processes listed in Annex B Part I of the Minamata Convention after the phase-out date specified in the Convention for the individual processes, interpreted in line with Article 5(2) of the Convention;

5. The prohibition of the unlawful treatment of mercury waste, interpreted in line with Article 11-(3) of the Minamata Convention and Article 13 of Regulation (EU) 2017/852 ~~on mercury~~ **of the European Parliament and of the Council**<sup>79</sup>;
6. The prohibition of the production and use of chemicals listed in Annex A of the Stockholm Convention of 22 May 2001 on Persistent Organic Pollutants (POPs Convention), interpreted in line with Article 3(1)(a), point (i) of the Convention and Regulation (EU) 2019/1021 ~~on persistent organic pollutants~~ **of the European Parliament and of the Council**<sup>80</sup>;
7. The prohibition of the unlawful handling, collection, storage and disposal of waste, interpreted in line with Article 6(1)(d), points (i) and (ii) of the POPs Convention and Article 7 of Regulation (EU) 2019/1021 ~~on persistent organic pollutants~~;
8. The prohibition of importing or exporting a chemical listed in Annex III of the Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade (UNEP/FAO) of 10 September 1998, interpreted in line with Articles 10(1), 11(1)(b) and 11(2) of the Convention and indication by the importing or exporting Party to the Convention in line with the Prior Informed Consent (PIC) Procedure;

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<sup>79</sup> Regulation (EU) 2017/852 of the European Parliament and of the Council of 17 May 2017 on mercury, and repealing Regulation (EC) No 1102/2008 (OJ L 137, 24.5.2017, p. 1).

<sup>80</sup> Regulation (EU) 2019/1021 of the European Parliament and of the Council of 20 June 2019 on persistent organic pollutants (OJ L 169, 25.6.2019, p. 45).

9. The prohibition of the unlawful import and export of controlled substances in Annexes A, B, C and E of the Montreal Protocol on substances that deplete the Ozone Layer to the Vienna Convention for the protection of the Ozone Layer, interpreted in line with Article 4B of the Montreal Protocol and licensing provisions under applicable law in relevant jurisdiction;
10. The prohibition of exports of hazardous or other waste, interpreted in line with Article 1(1) and (2) of the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal of 22 March 1989 (Basel Convention) and Regulation (EC) No 1013/2006 ~~on shipments of waste~~ **of the European Parliament and of the Council**<sup>81</sup>;
- (a) to a party to the Convention that has prohibited the import of such hazardous and other wastes, interpreted in line with Article 4(1)(b) of the Basel Convention;
  - (b) to a state of import that does not consent in writing to the specific import, in the case where that state of import has not prohibited the import of such hazardous wastes, interpreted in line with Article 4(1)(c) of the Basel Convention;
  - (c) to a non-party to the Basel Convention, interpreted in line with Article 4(5) of the Basel Convention;

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<sup>81</sup> Regulation (EC) No 1013/2006 of the European Parliament and of the Council of 14 June 2006 on shipments of waste (OJ L 190, 12.7.2006, p. 1).

- (d) to a state of import if such hazardous wastes or other wastes are not managed in an environmentally sound manner in that state or elsewhere, interpreted in line with Article 4(8) the first sentence of the Basel Convention;
11. The prohibition of the export of hazardous wastes from countries listed in Annex VII to the Basel Convention to countries not listed in Annex VII for operations listed in Annex IV to the Basel Convention, interpreted in line with Article 4A of the Basel Convention and Article 34 and 36 of Regulation (EC) No 1013/2006;
12. The prohibition of the import of hazardous wastes and other wastes from a non-party that has not ratified to the Basel Convention, interpreted in line with Article 4(5) of the Basel Convention;-
- 13. The obligation to avoid or minimise adverse impacts on the properties delineated as natural heritage as defined in Article 2 of the Convention Concerning the Protection of the World Cultural and Natural Heritage of 16 November 1972 (the World Heritage Convention), interpreted in line with Article 5(d) of the World Heritage Convention and applicable law in the relevant jurisdiction;**
- 14. The obligation to avoid or minimise adverse impacts on wetlands as defined in Article 1 of the Convention on Wetlands of International Importance especially as Waterfowl Habitat of 2 February 1971 (Ramsar Convention), interpreted in line with Article 4(1) of the Ramsar Convention and applicable law in the relevant jurisdiction;**

**15. The obligation to prevent the pollution from ships, interpreted in line with the International Convention for the Prevention of Pollution from Ships of 2 November 1973, as amended by the Protocol of 1978 (MARPOL 73/78). This includes:**

**(a) the prohibition to discharge into the sea:**

**(i) oil or oily mixtures as defined in Regulation 1 of Annex I of MARPOL 73/78, interpreted in line with Regulations 9 to 11 of Annex I of MARPOL 73/78;**

**(ii) noxious liquid substances as defined in Regulation 1(6) of Annex II of MARPOL 73/78, interpreted in line with Regulations 5 and 6 of Annex II of MARPOL 73/78; and**

**(iii) sewage as defined in Regulation 1(3) of Annex IV of MARPOL 73/78, interpreted in line with Regulations 8 and 9 of Annex IV of MARPOL 73/78;**

**(b) the prohibition of unlawful pollution by harmful substances carried by sea in packaged form as defined in Regulation 1 of Annex III of MARPOL 73/78, interpreted in line with Regulations 1 to 7 of Annex III of MARPOL 73/78; and**

**(c) the prohibition of unlawful pollution by garbage from ships as defined in Regulation 1 of Annex V of MARPOL 73/78, interpreted in line with Regulations 3 to 6 of Annex V of MARPOL 73/78;**

**16. The prohibition of unlawful pollution of the marine environment by dumping as defined in Article 1(1) of the United Nations Convention on the Law of the Sea of 10 December 1982 (UNCLOS), interpreted in line with Article 210 of UNCLOS and applicable law in the relevant jurisdiction.**

LIST OF STATISTICAL CLASSIFICATION OF ECONOMIC ACTIVITIES DEFINED IN  
ANNEX IV OF TO REGULATION (EC) No 1893/2006 REFERRED TO IN ARTICLE  
2(1), POINT (b) OF ARTICLE 2(1)

Article	Sector	Corresponding NACE code <sup>82</sup>
2(1)(b), point (i)	Manufacture of textiles, leather and related products (including footwear)	Section C, Division 13-15
2(1)(b), point (i)	Wholesale trade of textiles, clothing and footwear	Section G, Division 46, Group 46.4, Class 46.41-46.42
2(1)(b), point (ii)	Agriculture, forestry, fisheries (including aquaculture)	Section A
2(1)(b), point (ii)	Manufacture of food products and beverages	Section C, Division 10-11

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<sup>82</sup> ~~Regulation 1893/2006 of the European Parliament and of the Council of 20 December 2006 establishing the statistical classification of economic activities NACE Revision 2 and amending Council Regulation (EEC) No 3037/90 as well as certain EC Regulations on specific statistical domains.~~

2(1)(b), point (ii)	Wholesale trade of agricultural raw materials, live animals, wood, food and beverages	Section G, Division 46, Group 46.1, Class 46.11-46.13 and 46.16-46.17
		Section G, Division 46, Group 46.2
		Section G, Division 46, Group 46.3
2(1)(b), point (iii)	The extraction of mineral resources regardless from where they are extracted (including crude petroleum, natural gas, coal, lignite, metals and metal ores, as well as all other, non- metallic minerals and quarry products)	Section B
2(1)(b), point (iii)	The manufacture of basic metal products, other non-metallic mineral products and fabricated metal products (except machinery and equipment)	Section C, Division 23-25
2(1)(b), point (iii)	The wholesale trade of mineral resources, basic and intermediate mineral products (including metals and metal ores, construction materials, fuels, chemicals and other intermediate products)	Section G, Division 46, Group 46.7, Class 46.71-73 and 46.75-76