

## European Union Backs New Supply Chain Human Rights Law



The European Council approved a new directive that creates legal liability for companies as it relates to supply chain environmental and human rights violations.

The European Council just approved the [Corporate Sustainability Due Diligence Directive](#) (CSDDD), which creates legal liability for companies relating to environmental and human rights violations within their supply chains. The CSDDD (or, “European Supply Chain Act”) origin’s date back to early-2022, when the [European Commission](#) adopted a proposal for a directive on corporate sustainability due diligence.

“The aim of this directive is to foster sustainable and responsible corporate behavior and to anchor human rights and environmental considerations in companies’ operations and corporate governance,” the EC said at the time. “The new rules will ensure that businesses address adverse impacts of their actions, including in their value chains inside and outside Europe.”

### Phased in Over Five Years

At a meeting in March, 65% of EU state ambassadors decided to back the new law, according to [Deutsche Welle \(DW\)](#). As written, the CSDDD focuses on protecting human rights in supply chains and holding large companies accountable if they profit from child or forced labor outside the EU.

The law will apply to companies with over 1,000 employees and annual revenues of over €450 million in annual revenues. According to [Reuters](#), the European Commission originally sought to target companies with more than 500 employees and annual revenues of €150 million with the CSDDD directive.

“[The law] will come into effect gradually over a five-year period,” DW reports, “starting with companies with over 5,000 employees and annual revenues of €1.5 billion.”

### What is the European Supply Chain Act?

The CSDDD establishes a corporate due diligence standard on sustainability issues for businesses operating in the EU. In this case, sustainability most directly applies to environmental concerns, climate change and human rights, Jon McGowan writes in [“After Delays, EU Approves Corporate Sustainability Due Diligence Law.”](#)

The new due diligence requirements apply not only to the direct actions of the company, but also to their subsidiaries and supply chain. Both EU-based and non-EU companies that conduct a set level of business in the EU could become liable for the actions of their suppliers, McGowan explains.

The CSDDD will be phased in over a period of time:

- Companies with 5,000 employees and €1,500 million turnover will be impacted in three years.
- Companies with 3,000 employees and €900 million turnover will be impacted in four years.
- Companies with 1,000 employees and €450 million turnover will be impacted in five years.

### **What Happens Next?**

Companies will have to prepare plans setting out how they will transition to a low-carbon economy, *Reuters* says, including deadlines for meeting targets, with key actions and investments needed to reach them. Penalties for not complying with the rules may include fines of up to 5% of net worldwide revenues.

The CSDDD will now go to the European Parliament for passage and enactment. “Approval within the European Parliament must go through the legal affairs committee, commonly referred to as JURI,” McGowan says. “It is expected to pass.”