

## EU's Corporate Sustainability Directive risks to miss out on impact the planet needs

**The European Commission opened a feedback period on its Corporate Sustainability Due Diligence Directive (CSDDD) proposal. The Economy for the Common Good (ECG) recommends a new paradigm based on a balance of rights and obligations for global players. The EU should consider the Common Good Matrix in the context of the adoption of the CSDDD.**

**Hamburg, 23 May 2022 - ECG welcomes the legislative proposal but recognizes space for significant improvement if the directive is to achieve the real impact that the people and the planet need. ECG has joined civil society organisations in the publication of statements and recommendations to strengthen this corporate sustainability legislation, culminating in a position paper during the feedback period that ended on May 23.**

In the position paper, it is clearly explained why EU decision-makers should consider the Common Good Matrix in the context of the adoption of the CSDDD. The Commission proposal is a good basis, but must be improved by the Parliament and Member States to really make a significant contribution to better sustainability due diligence:

1. Sustainability due diligence should cover the **whole value chain**, in a risk-based and proportionate manner.
2. Sustainability due diligence should cover **all human rights and environmental impacts** as provided for in the international agreements to which the directive proposal refers.
3. Sustainability due diligence should be extended to **all companies** which fall under the obligation of financial reporting.
4. Sustainability due diligence should **consider the perspective of those affected** based on their affectedness and meaningful consultation of stakeholders in all phases of due diligence processes.
5. The **burden of proof must be on the company** to demonstrate whether it acted reasonably or not.
6. Corporate boards should be clearly required to **integrate sustainability risks and impacts into the corporate strategy**, while compensation for board members should be linked to the company's sustainability performance.

### **Recommendations on the Corporate Sustainability Due Diligence Directive**

#### **1. Positive initiative**

Free trade and free flow of investment and capital were assumed to solve all sorts of problems. This approach led to a highly asymmetric regulatory landscape on what was supposed to be a "level playing field." A new paradigm based on a balance of rights and obligations for global players is needed.

## **2. A holistic and consistent approach towards CSRD, CSDDD and SFDR**

There are two guidelines on "corporate sustainability": reporting (CSRD) and due diligence (CSDDD). The Sustainable Finance Disclosure Regulation (SFDR) constitute a third set of criteria. It would make more sense to develop a set of sustainability standards relevant to all three areas: a) reporting requirements, b) due diligence requirements and c) financial market requirements, valuations and ratings.

## **3. Issues criticized by civil society organisations**

Many civil society organisations (CSOs) commented on the proposed CSDDD directive after it was published. The most important points of criticism and suggestions for improvement, which ECG fully supports, were:

- Restricting due diligence to "established business relationships".
- Limit obligations to selected human rights and environmental impacts.
- Scope restricted to large, limited liability companies with more than 500 employees and to those with more than 250 employees from selected risk sectors.
- Limited stakeholder consultation in due diligence.
- Vague obligations of the company's directors regarding sustainability due diligence.
- Limited provisions on civil liability and access to justice.

Other two original questions raised by ECG are:

- Why not strengthen global governance and establish a World Court of Human Rights?
- Why not insist on responsible purchasing practices from all market participants?

## **4. The bigger picture: What is the purpose of companies?**

Democratic core values should form the basis for a company's strategy, business development, controlling and reporting. Board members should be liable for ensuring that these values are not violated, and financial market actors should assess how a loan, equity transaction, or other form of financing affects this "ethical baseline" of a company.

### **Link to additional information for the press / websites**

Complete position paper: <https://www.ecogood.org/wp-content/uploads/2022/05/Position-paper-on-the-CSDDD.pdf>

Original publication in the European Commission website: [https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12548-Sustainable-corporate-governance/F3263328\\_en](https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12548-Sustainable-corporate-governance/F3263328_en)

## **About the Economy for the Common Good**

The Economy for the Common Good advocates a more ethical economic model, in which the wellbeing of people and the environment become the ultimate goal of business. The worldwide movement exists since 2010 and is based on the ideas of the Austrian publisher Christian Felber. Currently the movement consists of over 11,000 supporters, more than 4,000 activists in more than 160 local chapters and 31 associations. Over 500 businesses and organisations have completed the Common Good Balance Sheet. Worldwide nearly 60 municipalities and 200 universities are actively involved in spreading the idea of the Economy for the Common Good. On 29 Sep. 2018 the International Federation was founded and consists of 10 national associations. (05/2019)

Further Information: [www.ecogood.org/en](http://www.ecogood.org/en)

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