

THE WAVE FORWARD



# The European Union's Corporate Sustainability Due Diligence Directive

EVERYTHING YOU NEED TO KNOW



THE EUROPEAN COMMISSION PROPOSED AN EU LEGAL FRAMEWORK FOR SUSTAINABLE CORPORATE GOVERNANCE, WHICH INCLUDES CROSS-SECTOR CORPORATE DUE DILIGENCE ALONG GLOBAL VALUE CHAINS ON DECEMBER 3, 2020, AND A LEGISLATIVE ON CORPORATE SUSTAINABILITY DUE DILIGENCE (CSDD) IN MARCH 2021.

THE LEGAL FRAMEWORK IS KNOWN AS THE “DRAFT DIRECTIVE ON CORPORATE DUE DILIGENCE AND CORPORATE ACCOUNTABILITY” AND IS BASED ON THE EU PRINCIPLES IN WHICH SUSTAINABILITY IS INGRAINED, AND COMPANIES DEMONSTRATE A COMMITMENT TO UPHOLDING HUMAN RIGHTS AND MINIMISING THEIR IMPACT ON THE ENVIRONMENT (BIODIVERSITY LOSS AND POLLUTION).

THE DIRECTIVE NOT ONLY PROTECTS THE 27 EU MEMBER STATES, BUT ALSO AIMS TO IMPROVE THE EU'S SUPERVISION OF CORPORATIONS CONCERNING THE EFFECTS OF THEIR OPERATIONS ON THE GLOBAL ENVIRONMENT AND POPULATION. THE PROPOSED DIRECTIVE REQUIRES COMPANIES TO:

- DETERMINE THE NEGATIVE IMPACTS ON HUMAN RIGHTS, THE ENVIRONMENT, AND GOOD GOVERNANCE THAT MAY RESULT FROM THEIR OWN ACTIVITIES AS WELL AS THOSE OF THEIR VALUE CHAINS AND CORPORATE RELATIONSHIPS
- DETECT, PREVENT, MITIGATE, TAKE RESPONSIBILITY FOR, AND REMEDIATE THE AFOREMENTIONED IMPACTS
- TAKE APPROPRIATE AND REASONABLE MEASURES AND MAKE ALL EFFORTS TO PREVENT THEIR VALUE CHAINS FROM NEGATIVELY IMPACTING HUMAN RIGHTS, THE ENVIRONMENT, AND GOOD GOVERNANCE

- PROACTIVELY ADDRESS NEGATIVE IMPACTS
- IMPLEMENT A DUE DILIGENCE STRATEGY AND A RISK ANALYSIS
- REVIEW THE RISK ASSESSMENT AND ENSURE THAT THE DUE DILIGENCE STRATEGY IS STILL EFFECTIVE AT LEAST ONCE A YEAR
- PROVIDE A REMEDIATION PROCESS OR GRIEVANCE PROCEDURE FOR POTENTIAL AND EXISTING VIOLATIONS OF HUMAN RIGHTS, THE ENVIRONMENT, AND GOOD GOVERNANCE

## WHO DOES THE LAW APPLY TO?

THE DIRECTIVE APPLIES TO:

- **EU LIMITED LIABILITY COMPANIES (SUBSTANTIAL ECONOMIC POWER AND SIZE) WITH 500+ EMPLOYEES AND A NET TURNOVER OF EUR 150 MILLION+**
- **OTHER LIMITED LIABILITY COMPANIES (IN HIGH-IMPACT INDUSTRIES) WITH 250+ EMPLOYEES AND EUR 40 MILLION IN NET TURNOVER**
- **ANY LARGE, SMALL, OR MID-SIZED BUSINESS THAT SUPPLIES GOODS AND SERVICES ON THE INTERNAL MARKET, AND IS GOVERNED BY EU LAWS OR LAWS OF THIRD COUNTRIES**
- **NON-EU COMPANIES THAT OPERATE IN THE EU AND HAVE A NET TURNOVER OF EUR 40 MILLION+ OR EUR 150 MILLION+**

ADMINISTRATIVE AUTHORITIES, SELECTED BY THE MEMBER STATES, MAY ISSUE PENALTIES AND SANCTIONS TO COMPANIES THAT FAIL TO COMPLY WITH THE DIRECTIVE. COMPANIES MAY BE LIABLE TO PAY A PENALTY OF UP TO 10% OF THEIR GLOBAL REVENUE. IN ADDITION, A CIVIL LIABILITY SCHEME WILL BE DEVELOPED TO ALLOW VICTIMS TO SUE BUSINESSES FOR DAMAGES THAT COULD HAVE BEEN AVERTED BY USING PROPER DUE DILIGENCE MEASURES.



THE UN GUIDING PRINCIPLES ON BUSINESS AND HUMAN RIGHTS (UNGPR) HAVE ESTABLISHED A SET OF RULES FOR THE GLOBAL ECONOMY THAT ARE MORE CONSIDERATE OF HUMAN RIGHTS.

MANY COUNTRIES HAVE ALREADY CREATED AND IMPLEMENTED DUE DILIGENCE LAWS AT THE NATIONAL LEVEL, WHILE THE EU CONTINUES TO DEVELOP PROPOSALS FOR PAN-EUROPEAN LEGISLATION. HOWEVER, THERE ARE CONSIDERABLE DIFFERENCES BETWEEN PARTICULAR NATION-STATES IN TERMS OF THE PACE OF IMPLEMENTATION OF THE LAW AND ITS PROPOSAL. FOR EXAMPLE, WHILE PORTUGAL IS LACKING A COMPREHENSIVE IMPLEMENTATION STRATEGY, THE NETHERLANDS AND FRANCE HAVE ALREADY ENACTED EQUIVALENT LEGISLATION.

## HOW PREWAVE CAN HELP YOU PREPARE

- TO DETERMINE THE POTENTIALLY NEGATIVE IMPACT OF YOUR BUSINESS ACTIVITIES ON HUMAN RIGHTS AND THE ENVIRONMENT, AND TO ENSURE GOOD GOVERNANCE IN YOUR SUPPLY CHAIN, PREWAVE MAPS OUT AND MONITORS ALL YOUR SUPPLIERS, INCLUDING TIER-N.
- MONITOR YOUR SUPPLIERS TO DETERMINE WHETHER THEY POSE A RISK TO HUMAN RIGHTS, THE ENVIRONMENT, AS WELL AS OVER 100 OTHER RISK CATEGORIES.
- DETECT VIOLATIONS ACROSS YOUR ENTIRE SUPPLY CHAIN IN REAL-TIME, AND SCREEN YOUR SUPPLIERS' INCIDENT HISTORY FOR A 360° RISK VIEW, GIVING YOU THE ABILITY TO PREDICT POTENTIAL RISKS EVEN MONTHS IN ADVANCE.
- DISCOVER WHICH SUPPLIERS POSE A CRITICAL RISK AND CONCENTRATE YOUR PREVENTATIVE MEASURES AROUND THE MOST CRITICAL SUPPLIERS WITH THE PREWAVE FUNNEL APPROACH.
- GAIN REAL-TIME INSIGHTS INTO YOUR SUPPLY CHAIN RISK AND ACCESS STANDARDISED REPORTING ON YOUR DUE DILIGENCE, AS WELL AS THE DEVELOPMENT OF SUPPLY CHAIN RISKS OVER TIME.

