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The CSDDD Political Agreement: A BSR Perspective



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BSR welcomes the provisional political agreement reached among EU policy makers on the Corporate Sustainability Due Diligence Directive (CS3D) and we look forward to helping companies implement CS3D in practice. CS3D promises to be a vital contribution for bridging human rights and environmental siloes within business, and driving better outcomes for people and the planet in line with global standards and leading business practice.

We understand that the text that has been agreed to between the EU Commission, Parliament and Council is substantially aligned with the global sustainability due diligence standards set out by the UN Guiding Principles on Business and Human Rights (UNGPs) and the OECD Guidelines for Multinational Enterprises.

While further implementation guidance will be needed, areas of alignment with these standards include the expectation that companies adopt a risk-based approach to identifying and acting on human rights and environmental impacts, centering criteria for prioritizing action on severity of harm and likelihood of harm occurring.

CS3D recognizes different ways in which businesses may be involved with adverse impacts on people and the environment and differentiates what an appropriate response is, including in relation to providing or enabling remedy. It considers how a company's own activities, including a company's purchasing practices, can heighten or reduce upstream risks, rather than simply assuming business relationships are the problem.

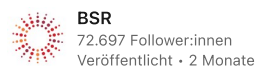
CS3D also requires companies to publish their Climate Transition Plan (CTP) to ensure their business model and strategy are aligned with the Paris agreement.

While alignment of certain aspects of the law may appear less robust—such as the definition of stakeholders, emphasis on contractual leverage, and description of complaints procedures—these still can and should be interpreted in practice in ways that reflect global standards. For instance, the UNGPs provide guidance on who should be considered an affected stakeholder, how to build and use leverage to complement contractual leverage, and how to ensure complaints procedures are effective.

The concerning gap in CS3D is its scope. Downstream due diligence is covered in a limited way, and financial institutions are not obliged to conduct due diligence on the human rights and environmental impacts they are involved with through their clients or investee companies. BSR's human rights work with financial services companies and downstream human rights due diligence experience prove that it is both possible and extremely important for companies in all industries to conduct due diligence across the entire value chain. We hope that over time, the scope will be expanded to more fully align with international standards and the EU's Corporate Sustainability Reporting Directive (CSRD).

As the field of sustainable business enters a new era where voluntary actions become mandatory, it is essential that the spirit of the law, and the international standards that underpin it, is upheld as well as its letter, and that compliance supports ambitious human rights action and sustainability goals.

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The new CSDDD (CS3D) political agreement promises to be a vital contribution for bridging human rights and environmental siloes within business, and driving better outcomes for people and the planet in line with global standards and leading business practice.

BSR breaks down key developments within the CS3D agreement, and where further guidance will be needed.

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