

CECIMO'S PERSPECTIVE ON THE CORPORATE SUSTAINABILITY DUE DILIGENCE (CSDD) DIRECTIVE

Following the European Commission's proposal for a Corporate Sustainability Due Diligence (CSDD) Directive presented in late February 2022, we acknowledge the giant step in establishing an EU-wide harmonised framework across companies to foster sustainability and anchor human rights. The proposed Directive provides mandatory guidelines to address adverse human rights (forced labour) and environmental impacts, bringing transparency and a level playing field.

Companies will have to bear the operating costs for the due diligence procedures and the transition costs imposed by governments to identify, prevent or mitigate, terminate, and account for adverse human rights and environmental impacts. In the same vein, companies that fail to conduct effective due diligence or to implement preventative measures will address both administrative penalties and civil liability.

Many companies are already upholding their respective responsibilities to improve their supply chain. Therefore, we believe that the policy framework should shift from the punitive nature of the provisions to a more solution-oriented one, recognising that companies can be catalysts for the positive sustainability transition.

CECIMO acknowledges the intention to relieve SMEs from the proposed obligations, but we see different issues with the current proposal:

- ▶ SMEs might be indirectly affected and burdened
- ▶ European companies can control their entire value chains, including "indirect" third-party suppliers, which might weaken companies' ability to remain competitive worldwide.
- ▶ Leaving discretion on implementation to Member States could lead to fragmentation of the Single Market and result in a less harmonised policy framework.

Finally, the director's duty of care relies on wrong premises and risk leading to unnecessary and adverse interference with national company law systems, breaching the principle of subsidiarity.

Recommendations for co-legislators

- ▶ Clarify the complex definitions of "high impact sectors" such as 'established business relationships' and 'value chain.'
- ▶ Adopt a risk-based approach (based on salient risks) to address internal market fragmentation by fully aligning with international standards such as the UN Guiding Principles on Business and Human Rights (UNGP)¹ and Organisation for Economic Co-operation and Development (OECD)² that are in practice today and have proven effective.

- ▶ De-couple the due diligence duty from liability: the division of role responsibilities between the States to protect human rights and companies to respect human rights must be dominant in any legislative initiative.
- ▶ Ensure a level playing field. Conditions for third-country companies need to be akin to conditions met by EU companies to avoid the divergence of due diligence requirements and enforcements rules.
- ▶ Develop sector-specific guidelines for SMEs to support operators in the implementation of this regulation (through international standards).
- ▶ Ensure legal certainty is proportionate as SMEs can be impacted the hardest by far-reaching and bureaucratic due diligence requirements.

CECIMO looks forward to cooperating with the European Parliament and the Council of the European Union on the next steps to adopt the Directive.

¹ See, https://www.ohchr.org/sites/default/files/documents/publications/guidingprinciplesbusinessshr_en.pdf.

² See, <https://www.oecd.org/daf/inv/mne/48004323.pdf> and <http://mneguidelines.oecd.org/OECD-Due-Diligence-Guidance-for-Responsible-Business-Conduct.pdf>

CECIMO is the European Association of the Machine Tool Industries and related Manufacturing Technologies. We bring together **15** national associations of machine tool builders, which represent approximately **1500** industrial enterprises in Europe (EU + UK+ EFTA + Turkey), over **80%** of which are SMEs. CECIMO covers **98%** of the total machine tool production in Europe and about **1/3** worldwide. It accounts for approximately **150,000** employees and a turnover of around **22.6 billion** euros in 2021. More than **three quarters** of CECIMO production is shipped abroad, whereas **half** of it is exported outside Europe.

Contact

✉ Vincenzo BELLETTI, Director of EU Public Affairs, vincenzo.belletti@cecimo.eu

✉ Olha HUNCHAK, Policy and Project Officer, olha.hunchak@cecimo.eu