Due diligence: MEPs adopt rules for firms on human rights and environment
Press Releases
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- Applies to EU and non-EU companies and parent companies with turnover of more than 450 million euro
- Firms to create transition plan that complies with Paris Agreement
- Companies will be liable for damages and can be fined for non-compliance

New rules will require companies to prevent child labour in their chain of activities@AungMyo / Adobe Stock

On Wednesday, Parliament gave a final green light to new rules obliging firms to mitigate their negative impact on human rights and the environment.

The European Parliament approved with 374 votes against 235 and 19 abstentions the new "due diligence" directive, agreed on with the Council, requiring firms and their upstream and downstream partners, including supply, production and distribution to prevent, end or mitigate their adverse impact on human rights and the environment. Such impact will include slavery, child labour, labour exploitation, biodiversity loss, pollution or destruction of natural heritage.

Risk-based approach and transition plan

The rules will apply to EU companies and parent companies with over 1000 employees and a worldwide turnover higher than 450 million euro. It will also apply to companies with franchising or licensing agreements in the EU ensuring a common corporate identity with worldwide turnover higher than 80 million euro if at least 22.5 million euro was generated by royalties. Non-EU companies, parent companies and companies with franchising or licensing agreements in the EU reaching the same turnover thresholds in the EU will also be covered. These firms will have to integrate due diligence into their policies, make related investments, seek contractual assurances from their partners, improve their business plan or provide support to small and medium-sized business partners to ensure they comply with new obligations. Companies will also have to adopt a transition plan to make their business model compatible with the Paris Agreement global warming limit of 1.5°C.

Fines and compensation of victims

Member states will be required to provide companies with detailed online information on their due diligence obligations via practical portals containing the Commission's guidance. They will also create or designate a supervisory authority to investigate and impose penalties on non-complying firms. These will include "naming and shaming" and fines of up to 5% of companies' net worldwide turnover. The Commission will establish the European Network of Supervisory Authorities to support cooperation and enable exchange of best practices. Companies will be liable for damages caused by breaching their due diligence obligations and will have to fully compensate their victims.

Quote

Following the plenary vote, lead MEP Lara Wolters (S&D, NL) said: "Today's vote is a milestone for responsible business conduct and a considerable step towards ending the exploitation of people and the planet by cowboy companies. This law is a hard-fought compromise and the result of many years of tough negotiations. I am proud of what we have achieved with our progressive allies. In Parliament's next mandate, we will fight not only for its swift implementation, but also for making Europe's economy even more sustainable."

Next steps

The directive now also needs to be formally endorsed by the Council, signed and published in the EU Official Journal. It will enter into force twenty days later. Member states will have two years to transpose the new rules into their national laws.

The new rules (except for the communication obligations) will apply gradually to EU companies (and non-EU companies reaching the same turnover thresholds in the EU):

- From 2027 to companies with over 5000 employees and worldwide turnover higher than 1500 million euro;
- From 2028 to firms with over 3000 employees and a 900 million euro worldwide turnover;
- From 2029 to all the remaining companies within the scope of the directive (including those over 1000 employees and worldwide turnover higher than 450 million euro).

Background

Parliament has consistently called for more corporate accountability and mandatory due diligence legislation. The Commission proposal introduced on 23 February 2022 complements other existing and upcoming legislative acts, such as the deforestation regulation, conflict minerals regulation and regulation prohibiting products made with forced labour.

By adopting this legislation, Parliament is responding to citizens' expectations concerning sustainable consumption as expressed in proposal 5(13), strengthening the ethical dimension of trade as expressed in proposals 19(2) and 19(3) and the sustainable growth model as expressed in proposal 11(1) and 11(8) of the conclusions of the Conference on the Future of Europe.

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