



Expected economic effects of the Corporate Sustainability Due Diligence Directive (CSDDD)

Key Points

- The EU CSDDD is a ‘win-win’ legislation for Europe and the Global South. It is expected to have a considerably positive economic welfare effect on the Global South and positive net effects on the European economy. In addition, it tends to strengthen the position of workers not only in the Global South but also in the European Union.
- International trade, foreign direct investment, financial investment, and economic upgrading do not necessarily lead to social upgrading. On the contrary, often significant negative external effects are caused by these economic activities.
- Measures such as the EU CSDDD represent a necessary step towards substantially reducing human rights violations that are often common practice in the Global South.
- The EU CSDDD will contribute to increased compliance with human rights standards. Additionally, correcting market failures, in particular external effects, will have a substantial positive impact on economic well-being in the Global South.
- European companies are expected to benefit from “forward-looking” specialisation patterns based on compliance with human rights standards.
- The EU CSDDD is an essential step towards a human rights based international economic order and strengthens the European Union as a progressive international leader.

Background

The EU Corporate Sustainability Due Diligence Directive (CSDDD) establishes a corporate due diligence duty that requires companies to identify, end, prevent, mitigate and account for negative human rights and environmental impacts in their own operations as well as those of their subsidiaries, and in their value chains. The Directive provides for public law enforcement as well as private enforcement. Large companies in the EU and from third countries will fall under the scope of the Directive. As of October 2023, trilogue negotiations between Commission, Council and the European Parliament are still ongoing. Once the final Directive will have been passed, EU-Member States will be required to transpose it into national law.

Liberal markets do not automatically lead to improved working and living conditions, nor the protection of human rights. Against the backdrop of continued human rights violations in the context of international economic relations and traditionally weak trade unions in many parts of the Global South, proposals have been made to implement and enforce such rules at the international level. Avoiding dumping and unfair competition has been another reason for suggesting international social and environmental standards in the form of social clauses in trade agreements.

Private labels and voluntary codes of conduct fall short in providing an effective answer to the problem. Among the reasons for this are problems of collective action, lack of information and the pressure of competition. Binding social clauses such as the EU CSDDD, rather than voluntary codes, are an effective instrument to address the issue. Such clauses, like universal collective bargaining on the national level, create ‘inclusive’ effects for the more vulnerable and less well-organised workers.

The period of increasing and liberal globalisation has come to an end. An indiscriminate approach to corporate

strategies and investment flows is in part being replaced by more specific strategies. In order to avoid one-sided interest-oriented policies and protectionist tendencies a human rights-based approach to international economic policy such as the EU CSDDD is a suitable foundation.

Main findings

Lack of compliance with human rights

Liberal markets are not automatically associated with improved working and living conditions in the Global South. On the contrary, because of competition and the lack of effective regulations, systematic human rights abuses take place in the context of business activities. The lack of compliance with human rights is a widespread problem. Labour rights are still not respected in a large number of countries. In a global perspective, attempts to focus on voluntary measures have turned out to be insufficient. Disrespect to human and labour rights has been on the rise (see figure 1).

Voluntary measures fall short in effectively providing results. Strict regulations and specific effective governance processes are essential for avoiding human rights violations and for inclusive social development. Ideally, these problems are addressed at the international level in the form of binding social clauses. However, in the absence of binding international rules, the EU CSDDD is an important start for effectively promoting human rights globally.

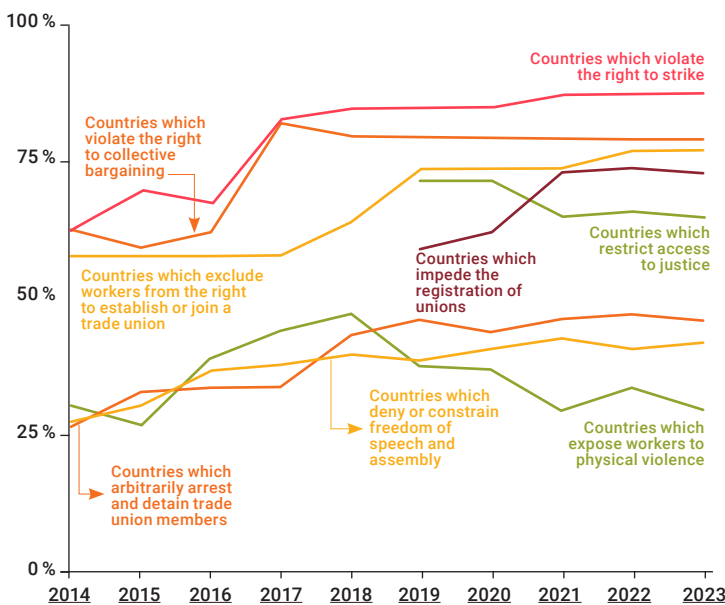


Figure 1: Violations of workers' rights

Source: ITUC GLOBAL RIGHTS INDEX, p 12 . <https://files.mutualcdn.com/ituc/files/ITUC-Global-Rights-Index-2023.pdf>

Creating a level playing field

Although a significant share of European companies has been compliant with human rights standards already, most companies have not explicitly considered compliance with these standards. The EU CSDDD will require large European companies and companies from third countries that export to the European single market to be compliant. In so doing, a level playing field will be created. In by far the most cases this will cause companies to comply with the standards and continue with their business while simultaneously avoiding human rights abuses. However, in some cases companies will adapt their supply chains and in single cases they may decide to shut down certain businesses. These companies will be replaced by more efficient competitors. This, however, is a normal process and an indicator that markets work effectively. In so doing, the legislation is expected to reach the goal effectively.

Regarding the concerns raised by some companies and lobbying institutions, like the withdrawal of companies from countries of the Global South, it has been shown that these are minor issues which must be analysed in a broad context. It is not adequate to focus exclusively on costs or on potential negative effects. The potential positive economic effects as well as dynamic developments must also be considered. Therefore, a balanced approach analysing potential positive and negative effects in a short-term and long-term perspective has been chosen.

Integrating human rights and economic issues

In a standard neoclassical economic perspective, the violation of human rights and the negative impacts related must be conceptualised by considering external effects. Enforcing compliance with human rights is essential to reducing negative externalities and other market failures and increases economic welfare. Hence, an integrative analysis of the expected economic effects of the EU CSDDD must, firstly, include consideration of the positive direct effects, and hence, focus on economic net effects, not only on costs. Secondly, indirect effects which contribute to reducing market failures such as negative externalities due to human rights violations must be included in the analysis. Therefore, to assess the overall costs and benefits, all direct and indirect costs and benefits must be considered when evaluating the economic welfare effects of the EU CSDDD. Thirdly, a comparative static analysis of the direct economic effects falls short in grasping the overall expected long-term economic impacts of the EU CSDD regulation. Based on the insights from a global value chain perspective and the power resources approach, in a dynamic perspective, the effects on power relations between different stakeholders and the resulting consequences for governance structures at different scales must be considered. Such an approach

allows for assessment of the medium and long-term economic effects.

General economic impact

Non-compliance with human rights standards has substantial negative external effects, mainly in the Global South. Although it cannot be assured that single European companies will not withdraw from certain economic activities, this is expected to be a small marginal phenomenon and other companies are expected to step in within a dynamic market environment. Furthermore, it can be considered to be economically beneficial if economic activities and practices associated with human rights violations are ended. If social costs due to negative externalities exceed social benefits, then removing these externalities is overall economically beneficial. Furthermore, the feared costs of complying with human rights standards tend to be overstated. Labour costs in the Global South are often a minimal share of total costs in the value chain. Compliance costs may add to these costs, but this cannot be expected to significantly alter the value chain in most cases. Moreover, a substantial share of exports from the Global South is based on natural resources which cannot easily be substituted. Therefore, compliance, not withdrawal, is to be expected. Hence, in general, the EU CSDDD will certainly contribute to increased compliance with human rights standards. Consequently, reduced negative externalities and corrected market failures are expected to significantly increase overall economic well-being. The expected economic effects are, therefore, highly positive for the Global South, where market failures in terms of violating human rights tend to be a substantial problem. In addition, measures to force compliance with human rights standards strengthen the position of workers and their associations. This gives them more leverage in pushing for new/changed political structures and for enforcing compliance. Because of these processes and further transmission mechanisms and spill-over effects, changes in the economic governance and positive long-term effects and increasing economic welfare, particularly in the Global South, are expected to result from the CSDDD.

Effects on global competition

In the area of trade with final consumption within the EU no significant effects are expected as direct costs represent less than 0.1% in terms of ad valorem tariff. More significant effects might be expected for re-exported goods and for goods and services provided by European companies to third countries. However, this is relevant only for a very small market segment. Small potential negative effects for single companies that up to now have relied on systematic human rights violations ('black sheep') must be weighed against positive

long-term effects and dynamic impacts, in terms of a forward-looking specialisation, for the large majority of companies in Europe. Although difficult to estimate, the effects of progressive forward-looking specialisation patterns not based on the abuse of human rights are expected to have a positive net effect on European companies' competitiveness in the medium-term and long-term. In addition, it can be expected that, as in the case of the EU General Data Protection Regulation (GDPR), other countries and regions will adopt similar measures (as China already has done as a response to the GDPR) in the medium and long-term. Hence, in this dynamic perspective, likely changes in global economic governance structures will eventually negate the - at most very minor- initial impacts on global competition.

Effects on the European economy

The effects on Europe's economy are likely to be negligible. The European CSDDD will certainly not contribute to a deindustrialisation in Europe. On the contrary, companies producing in peripheral countries of the EU, usually with low-productivity/labour-intensive industries, may even benefit significantly from the EU CSDDD because the regulation reduces "unfair" competition from third countries based on the violation of human rights. The EU CSDDD also in this regard contributes to a level playing field. As production within Europe is highly integrated via value chains between EU countries, the EU CSDDD does not just strengthen workers in the European periphery indirectly, but also in the core countries of the EU. In general, in terms of any significant statistical measurements, companies are unlikely to leave the single market. Although there might be single cases, it is also possible that the EU CSDDD provides a specific attractiveness for single companies for which their reputations and the proof of compliance with human rights represent an important asset and additional reason for moving into Europe.

Effects on European workers

European workers may benefit similarly to companies. In addition, some minimal direct positive employment effects to safeguard compliance can be expected. In a dynamic perspective, workers will benefit from forward-looking economic strategies and from better monitored value chains directly because of the specialisation patterns no longer based on human rights violations and due to the reduction of risk. Indirectly, workers in Europe are expected to profit by the reduction of negative externalities (e.g. by reducing environmental harm) globally due to enforced compliance. In addition, the EU CSDDD changes the power relations between different stakeholders, empowering workers not just in the Global South, but also in Europe. This provides the

basis for further deepening global labour solidarity and the implementation of similar and more far-reaching social and environmental standards in other countries on the bilateral level, e.g., in trade agreements, and at the multilateral/international level.

Conclusion: a 'win-win' legislation

The EU CSDDD is expected to have overall positive economic effects and increase economic well-being. However, the direct immediate effects on the economy will be rather small. Therefore, no substantial impact on the structure of the European economy is to be expected. There might be single cases of companies that shut down or relocate economic activities, but these negative effects are expected to be offset by the generally positive effects of the strengthening of forward-looking strategies incentivised by the EU CSDDD. While it is difficult to measure the direct net effects on employment, in terms of protection against dumping based on the violation of human rights in third countries, lower income countries within the EU with respective specialisation and employment patterns are expected to benefit more in relative terms. In general, European companies, workers and consumers are also expected to benefit economically from the EU CSDD regulation. Dynamic and indirect effects on power relations and governance structures are expected to be highly beneficial and contribute to global worker solidarity. Hence, the EU CSDDD is not only an important step towards effectively reducing human rights violations in global value chains.

The stricter the regulations and the fewer the loopholes that are left open, the more effective the EU CSDDD will be, not just in terms of protecting human rights, but also in economic terms. This is particularly important, not just for workers in the Global South, but also for workers in Europe. An effective EU CSDDD is expected to have a significant net direct positive economic impact and economic welfare is expected to increase. Moreover, in a dynamic perspective it can be expected that the EU CSDDD will have positive effects on the regulatory dynamics of other countries or regional blocs and will possibly affect the regulatory dynamics to further protect human rights at the international level.

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The Austrian Federal Chamber of Labour is by law representing the interests of about 3.8 million employees and consumers in Austria. The Austrian Federal Chamber of Labour is registered at the EU Transparency Register under the number 23869471911-54.

Demands

- All companies - not just very large ones - must be required to exercise due diligence. The financial sector should also be included in the CSDDD.
- The due diligence obligation should cover the company's own operations, subsidiaries and the entire value chain.
- Trade unions, employee representatives and other stakeholders must be bindingly included in the due diligence process of companies.
- Victims of human rights abuses and environmental damage by corporations need rights such as fair rules on the burden of proof and statutes of limitations so that they have a chance in court.
- Companies must also be required to exercise due diligence regarding climate protection.
- Social audits and similar audits of companies have proven ineffective. Strict binding rules are therefore needed for auditors and certifiers.
- It is crucial that an effective CSDDD without loopholes and including the financial sector is implemented to ensure that positive economic effects occur.

Literature

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