



## Recommendations to make the EU Corporate Sustainability Due Diligence Directive work for smallholders and communities in global value chains

The Commission's proposed EU Corporate Sustainability Due Diligence Directive (EU CSDDD) is a pivotal step towards raising the bar for stronger corporate accountability on human rights and the environment and setting a level playing field for companies. However, there are opportunities for improvements to meet the intended objectives of the directive. In particular, following up on our joint paper on [“Legislating for impact: Three Recommendations to Make Human Rights and Environmental Due Diligence Work for Smallholders”](#), we believe more can be done as part of the CSDDD and through accompanying measures to secure the rights of smallholders and communities in global value chains and support them to respond to increased requirements from their buyers, stemming from compliance with the EU CSDDD. At its core, due diligence should be a rightsholder-centric process that is based on cooperation and partnerships between actors in global value chains.

Smallholders are some of the most marginalized actors in global value chains, while producing a third of the world's food supply and representing an overwhelming share of producers in some sectors defined as “high impact” in the proposed directive. While smallholders and forest communities can be active drivers of sustainable development, including climate change mitigation, the conditions for them to do so and produce their goods in a sustainable way are often lacking – as they need to generate sufficient income from their operations to be able to meet the needs of their farm and their household. This increases the likelihood that smallholders take decisions that undermine themselves in the long run, by degrading productive assets – e.g. mining their soil – to increase incomes in the short run. They are also unlikely to be able to secure decent working conditions for their workers – including paying them a living wage – and to cover the needs of their household, as well as the costs of producing sustainably. While the proposed directive recognises in Recital 49 the need to pay specific attention to the challenges faced by smallholders in third countries, the core provisions of the CSDDD must ensure that companies implement policies and practices which can contribute to an income for smallholders and forest communities in global value chains.

We believe that key cross-cutting elements of the CSDDD must be improved, as laid out in the [civil society statement on the proposed EU corporate sustainability due diligence directive](#), to ensure the due diligence obligation is aligned with existing due diligence standards – such as the [UN Guiding Principles on Business and Human Rights](#) (UNGPs) and the [OECD Guidelines for Multinational Enterprises](#) (OECD Guidelines) – and effectively drives transformation on the ground.

In addition to these recommendations, we call upon the European Parliament and the Council to consider the following recommendations, which have the potential to significantly contribute to improving the conditions of smallholders and communities in global value chains.

## **1. Including living income in the material scope of the directive – Annex Part I A**

We welcome that the proposed CSDDD explicitly includes living wage and a decent standard of living as a human right in Part I A of the Annex, and call upon the European Parliament and the Council to maintain these provisions. It is however regrettable that the proposal does not include any reference that would make companies responsible for using their leverage to contribute to a living income in value chains. Whereas living wage refers to wage earners, a living income for smallholders is understood as the income they derive from their production, which needs to meet the needs of their household as well as their farm needs, including those of their dependents (e.g., living wages for workers). It is a key human right and a precondition for the realisation of sustainable farming practices. Both living wage and living income are crucial to address poverty as a root cause of adverse human rights and environmental impacts.

Therefore, a specific provision on living income must be included in Part I A of the Annex, in reference to the right to an adequate standard of living – in accordance with Article 11 of the [International Covenant on Economic, Social and Cultural Rights](#) (ICESCR) and Article 25 of the [Universal Declaration of Human Rights](#).

## **2. Addressing unsustainable purchasing practices and business models as part of the due diligence process – Articles 5 to 10**

To ensure that the costs of investing in sustainability are proportionally shared along the value chain, and farmers have the means to produce sustainably, companies need to assess and address the adverse human rights and environmental impacts of their purchasing and pricing practices, and business models, as part of their due diligence obligation. In today's supply chains, asymmetric power relationships entail unsustainable purchasing practices, such as late payment for products, unilateral contract changes, and prices below the cost of production. To move towards a partnership approach, companies should develop mutual buyer-supplier codes of conduct and contractual clauses that include both buyer and supplier responsibilities, and reflect the principle of collaboration and shared responsibility in the process of due diligence.

While it is clearly laid out in the recitals that companies should “*identify and assess the impact of a business relationship's business model and strategies, including trading, procurement and pricing practices*” (Recital 30), such a crucial element should be included in the core obligations of the directive – throughout the due diligence process laid out in Articles 5 to 10.

## **3. Including meaningful stakeholder engagement at each stage of the due diligence process – Articles 4 and 6 to 8**

In the proposed directive, engagement with affected stakeholders is limited to consultations *where relevant*, when companies develop preventive and corrective action plans as part of the prevention of potential adverse impacts. The EU CSDDD should recognise *meaningful* engagement as a key element of *each step* of the due diligence process.

Meaningful engagement – which is a concept developed in the [OECD Due diligence guidance for responsible business conduct](#) – goes beyond mere consultation. Its objective is for companies to understand and identify effective ways to respond to affected stakeholders' needs and concerns. It should be undertaken by companies at all stages of the due diligence process – not only when companies

deem it “relevant”. Therefore, provisions on meaningful engagement should be included in Article 4, which lays out the due diligence obligation, and in Articles 6, 7 and 8, which detail the stages of the due diligence process and related obligations.

Furthermore, in line with the UNGPs and OECD Guidelines, companies should pay particular attention to groups, which are likely to be the most vulnerable to adverse impacts – such as smallholders, farm workers, indigenous peoples and local communities. Stakeholder engagement should be gender-responsive and look at specific impacts on women and girls across sectors and within each stakeholder group.

#### **4. Ensuring responsible disengagement as a last resort – Articles 7 and 8**

The conditions for smallholders and forest communities to produce their goods in a sustainable way are often lacking – which can discourage risk-averse downstream companies from forming or maintaining lasting business relationships with them. Leveraging the CSDDD to disincentivize harmful disengagement and encourage long term investments to support suppliers, would therefore greatly benefit smallholders and forest communities.

While Recital 32 clearly mentions that the Directive “*should ensure that disengagement is a last-resort action*” to “*enable continuous engagement with the value chain business partner instead of termination of business relations (disengagement) and possibly exacerbating adverse impacts*”, this key element, which is in line with the OECD Guidelines, is not reflected in the core obligations of the proposed directive – in particular in Articles 7.5 and 8.6. It should be made clear in Articles 7.5 and 8.6 that disengagement from suppliers should be used as a last resort measure, only where mitigation is not possible, unacceptable or attempts of mitigation have failed. In the context of smallholder agriculture, many salient issues are systemic - these issues can only be addressed through a step-by-step process, and ceased over time. This should not be an excuse for terminating business relationships.

Articles 7.5 and 8.6 should also stipulate that companies must assess the impacts of a decision to disengage, in line with the OECD Guidelines, and engage with stakeholders that could be negatively impacted. When disengagement cannot be avoided, companies must address the adverse impacts related to the decision to disengage and pursue remediation of past adverse impacts where appropriate. Finally, reporting obligations (Article 11) should include an obligation for companies to disclose:

- the number of instances where they have decided to disengage
- the reason for disengaging, the location of the concerned suppliers (without disclosing their identity, except where the company deems it acceptable to do so in accordance with applicable laws)
- whether adverse impacts of the decision to disengage have been addressed, remediation of past adverse impacts has been pursued, and whether meaningful stakeholder engagement has been undertaken accordingly.