

How the Omnibus package prevents the Corporate Sustainability Due Diligence Directive from supporting global supply chain resilience



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Introduction

By mandating companies to conduct risk-based human rights and environmental due diligence (HREDD), the EU Corporate Sustainability Due Diligence Directive (CSDDD) enhances supply chain resilience and boosts EU competitiveness. It promotes better risk management practices and ensures a level playing field for sustainable business practice. The initial impact assessment on the CSDDD also recognised that integrating sustainability aspects into corporate decisions was directly correlated with operational cost reductions,

resilience, more innovation, better access to capital, and better financial performance of businesses.¹

As many companies have publicly stated², long-term European competitiveness and supply chain resilience can only be achieved if all supply chain actors, including those beyond Tier 1, are included in companies' HREDD processes. Specifically, smallholders are crucial actors in global supply chains, both as economic actors and rights-holders. There are approximately 600 million smallholder farmers worldwide, in addition to small-scale miners, small scale fishers and other small producers.³ Smallholders produce 46% of the world's food on just one-third of the world's agricultural land.⁴ The European Union is a major market for smallholder-produced goods, such as cocoa, coffee and cotton.

As recognised in recitals 47 and 72 of the CSDDD, smallholders, however, face systemic challenges, including limited market access, inadequate financial resources, and insufficient infrastructure. To overcome these challenges, they may adopt unsustainable agricultural practices, e.g. that lead to deforestation, and struggle even more to generate sufficient income to be able to meet the needs of their household. If companies in scope fail to support smallholders, it can lead to supply chain disruptions, exacerbate farmers' and their households' poverty and further contribute to environmental degradation. On the other hand, by actively supporting smallholders through technical and financial assistance and fair purchasing practices, companies benefit from sustainably produced ingredients that meet consumers' and investors' expectations. This support also strengthens supplier resilience to external risks and ultimately enhances companies' competitiveness.

While we support the Commission's efforts to streamline regulations, we are concerned about the specific changes in the Omnibus proposal that risk undermining the core principles of responsible business conduct, particularly the protection and inclusion of smallholder farmers in global supply chains. Therefore, the co-legislators should preserve the core elements of the CSDDD that enable supply chain resilience as follows:

- 1. Ensure that the CSDDD is aligned with international standards, i.e. the OECD Guidelines and the UN Guiding Principles on Business and Human Rights. To this end, maintain a risk-based approach, in which companies examine the most pertinent aspects throughout all tiers of their supply chains proactively. This will ensure that time and money are invested where they matter. Doing so ensures burden- and cost-sharing and is essential to ensure that those**

¹ European Commission (2022), [Commission Staff Working Document Impact Assessment Report Accompanying The Document Proposal For A Directive Of The European Parliament And Of The Council On Corporate Sustainability Due Diligence And Amending Directive \(Eu\) 2019/1937](#)

² Initiative for Sustainable and Responsible Business Conduct (2025), [Broad support for the CSDDD](#)

³ Fair Trade Advocacy Office (2025), [The cost of exclusion: How leaving smallholder farmers behind could disrupt global and EU markets](#)

⁴ Zero Carbon Analytics (2023), [Smallholder farmers, agricultural sustainability and global food security](#)

shouldering the costs of due diligence receive support in this from companies in scope.

2. Ensure companies engage in responsible disengagement if they decide to terminate contracts with smallholders.
3. When companies in scope conduct risk mappings in their supply chains, ensure that they request information from suppliers that is proportionate to the prevalence and type of risks anticipated, and that the data requests are targeted and collaborative.
4. Incentivise stakeholder engagement at relevant stages of the supply chain and the due diligence process, supported by NGOs.
5. Ensure a harmonised civil liability regime.

Limitation, as a general rule, to direct business partners - Article 4(4)

Article 4(4) of the Omnibus proposal limits due diligence obligations to direct business partners (tier 1), requiring in-depth assessments only for them - unless companies (in scope) have plausible information that suggests an adverse impact at the level of an indirect business partner.

Why this may harm smallholders:

1. *Increased burden both for buying companies and smallholders without commensurate impact:*

The approach introduced in the Omnibus proposal is inspired by the German Supply Chain Law (LkSG), which has led to increased burden with sometimes limited impacts in supply chains, as the following shows: The German BAFA has noted that not systematically examining risks with Tier 2 or 3 suppliers raises costs for companies in the long term: *“In short, companies that consider the risks in the extended supply chain from the very beginning will not have to bear the high costs of ad hoc risk analyses or modify their preventative measures as a result.”*⁵

For smallholders specifically, a 2024 study⁶ found that *“due to its limitations, the LkSG may not lead to remarkable improvements for smallholder cocoa farmers and their families in the*

⁵ Federal Office for Economic Affairs and Export Control (2025), [Risk analysis](#)

⁶ Kraft et al. (2024), [Assessing the German Act on Corporate Due Diligence Obligations in Supply Chains: a perspective from the smallholder cocoa farmer](#), Sec. Sustainable Supply Chain Management

short and mid-term." Therefore, it is to be expected that the proposed changes to the CSDDD would have the same lack of effect on smallholders.

The agreed text of the CSDDD is based on a risk-based approach, which is more suitable and flexible as it allows companies to focus on the areas where most risks have manifested. It is aligned with the UN Guiding Principles on Business and Human Rights (Principle 17), the OECD guidelines and the OECD RBC due diligence standards. Deviating from this approach would create discrepancies with existing best practices that leading companies already follow.

If companies fail to identify and assess risks at the production and manufacturing levels, they cannot meaningfully engage, collaborate and support the suppliers who need it most. That is why a comprehensive risk identification process, which covers the whole supply chain, is important. Upholding a UNGP and OECD-aligned risk identification process is a must: it will benefit all supply chain actors and lead to more sustainable and resilient supply chains.

Shifting away from a risk-based due diligence approach would not only increase adverse human rights impacts for those people who farm and manufacture our products in third countries, but also worsen the climate crisis and biodiversity loss. Moreover, it would create severe supply chain management challenges and expose companies to reputational risks.

2. Increased costs linked to reactive risk management

Only requiring in-depth assessments beyond direct suppliers once "plausible information" has emerged runs counter to the ambition to prevent risks before they materialise. In order to reduce costs in the long term, it is essential that the CSDDD promotes prevention and preemption of risks and that it supports companies to create reliable systems to identify risks in advance. There is a risk that companies may actively avoid channels through which they receive such plausible information, and this may, for instance, reduce willingness to become a member of multi-stakeholder initiatives in order to avoid responsibility. The current text of the CSDDD mandates proactive risk management, which reduces costs for companies and their suppliers in the long term. This should be maintained.

Moreover, the reactive model could result in significant remediation costs, fines, and potential court cases for companies—costs that could have been avoided with more proactive engagement. Instead of an ad-hoc reactive approach, a proactive, risk-based approach would better support smallholders and small producers, ensuring that they receive the necessary support to address risks early on, rather than being overwhelmed by requests after an issue has already occurred.

3. *Increased costs linked to reliance on contractual cascading*

Smallholders and supply chain actors need support to implement due diligence. A CLAC-ITC report found that a cooperative of 200 farmers faces initial costs of about US\$20,000 to set up a due diligence management system, with recurring annual costs.⁷ Without buyer support, these costs could push smallholders into unsustainable practices and out of EU supply chains. Therefore, the CSDDD's current provisions focus on cost-sharing and direct support, including financing, loans, and continued sourcing guarantees, extending to Tier 2 and 3 suppliers and smallholders.

Limiting regular Human Rights and Environmental Due Diligence (HREDD) to direct suppliers, as suggested in the Omnibus proposal, increases reliance on “contractual cascading”, where companies pass due diligence requirements down to their suppliers. This risk has been explicitly recognised in the staff working document⁸ on the Omnibus proposal. This method is problematic as it imposes high costs on suppliers without shared responsibility or support. Traditional contracts often penalise suppliers but do not offer collaboration or cost-sharing.⁹ The CSDDD (Recital 66) prohibits shifting obligations downstream.

Article 4(3) of the proposal mandates this article to maximum harmonisation, preventing member states from introducing clauses that require companies to conduct risk-based due diligence in their entire value chain. This sets the CSDDD at odds with and at a lower threshold than UN Business and Human Rights Guiding Principles (Principle 17), which currently serves as the recognised benchmark. Further, it would not allow member states to add additional protections to the article in order to mitigate the adverse impact of contractual cascading.

Weakening of provisions on disengagement - Article 4(5) and (6)

The Commission proposes to remove the obligation for responsible termination of a business relationship as a last resort.

Why this may harm smallholders:

Smallholders are oftentimes considered high-risk suppliers by companies in scope, and therefore over-exposed to cut-and-run. If the CSDDD does not require disengagement to be responsible and used as a last resort, companies may cut ties/terminate their business relationships prematurely, threatening smallholders' livelihoods and market access. This disproportionately affects women and youth.

Without adequate support, smallholders may not have other options than implementing practices that affect human rights and their environment, despite their commitment to

⁷ International Trade Centre (2024), [Designing and Implementing Accompanying Measures - to make mandatory Human Rights and Environmental Due Diligence work for all](#)

⁸ European Commission (2025), [Staff working Document {COM\(2025\) 80} - {COM\(2025\) 81}](#)

⁹ Responsible Contracting Project (n.d.) [Core RCP Principles](#).

sustainability. For more than 50% of cocoa and tea farmers in World Bank datasets, household income would need to double in order for them to earn a living income.¹⁰ Without strong protections - disengagement as a last resort and meaningful engagement with rightsholders - that regulates disengagement, smallholders will be exposed to further risks as the buyers could end business relationships without supporting their partners in addressing risks. The current CSDDD mandates buyers to support their business partners in addressing risks, instead of disengaging as a short-sighted approach to keep away from risks. Removing the obligation laid out in Articles 10 and 11 to disengage responsibly as a last resort, and only referring to suspension, would further exacerbate risks of cut-and-run and further subject already vulnerable smallholders to the whims of buying companies. This is especially the case because “suspension” has not been defined, and could therefore amount to a *de facto* termination.

Further, this article is coupled with the proposal in Article 4(7) to remove the obligation for stakeholder consultation during disengagement. This would make it impossible for smallholders to have mechanisms to voice their concerns about the adverse consequences of termination or even suspension of contracts with their buyers.

The proposal seeks to subject all of Articles 10 and 11 to maximum harmonisation. Member states would therefore not be allowed to transpose this Article into their domestic law in a way that addresses this issue.

Limitation of stakeholder engagement - Article 4(2) and (7)

Article 4(2) of the Omnibus proposal significantly restricts the definition of ‘stakeholder’, in particular by specifying that their ‘rights or interests are or could be directly affected by the products, services and operations of the company, its subsidiaries and its business partners and the legitimate representatives of those individuals or communities’. This change excludes NGOs from the ‘stakeholder’ definition and hence fails to recognise their important role in the due diligence process. Article 4(7) of the Omnibus proposal additionally restricts the stages of due diligence for which stakeholder engagement is required. It would no longer be required in the case of suspension of business relationships and when developing indicators for monitoring.

Why this may harm smallholders:

Smallholders do not currently have the capacity to engage proactively with companies on the risks they may face. For example, an FTAO report¹¹ highlights that smallholders do not generally know who their buyers are, so they do not have a way to raise concerns about potential or actual risks directly to them. This disproportionately affects women and youth,

¹⁰ Wageningen University (2019), [A living income for smallholder commodity farmers and protected forests and biodiversity: how can the private and public sectors contribute?](#)

¹¹ Fair Trade Advocacy Office (2024), [Meaningful stakeholder engagement with smallholder farmers in due diligence processes of companies.](#)

who are the first to be exposed to risks yet are widely excluded from engagement. Therefore, smallholders rely on NGOs and buyers' engagement with them in order to participate in due diligence processes.

Under the Omnibus proposal, companies would only be required to engage with smallholders if they have "plausible information" that adverse impacts have arisen or may arise. This creates a situation in which costs increase for all parties as risks must first materialise and cause damage before they can be addressed.

Companies often rely on NGOs to enhance the effectiveness and efficiency of their due diligence processes, for instance, by consolidating information and facilitating engagement with key local stakeholders. NGOs play a key part in amplifying the voices of stakeholders that may be impacted by companies' value chains and operation. Their local expertise and credibility are essential in fostering meaningful, context-sensitive due diligence, and should be fully leveraged to ensure that human rights and environmental risks are addressed in a comprehensive and inclusive manner.

Weakening of civil liability - Article 4(12)

Article 4(12) of the Omnibus proposal removes the EU-wide liability regime, and in view of the different rules and traditions that exist at a national level when it comes to allowing representative action, proposes to delete the specific requirement set out in the CSDDD in this regard.

Why this may harm smallholders:

Removing the EU-wide liability regime does not reduce companies' burden, as they are still liable for their implementation of the CSDDD. On the contrary, companies and victims would need to navigate a fragmented landscape of 27 different legal systems.

For example, if smallholders' rights were violated due to a failure of a company in scope to conduct due diligence, the process towards seeking compensation and remedy would be even more complicated. Specifically, they would need to 1) Identify the right member state where to launch the procedure, navigating different national legal systems with varying rules; 2) Identify whether this member state allows for representative action by an NGO or not, and otherwise file a case on their own behalf. For vulnerable stakeholders, this can be an insurmountable challenge that would hamper access to justice. The original civil liability mechanism should remain intact, ensuring a level playing field and legal clarity.

Requesting only VSME data from suppliers - Article 4(4)

Article 4(4)(d) proposes that during their general mapping, companies shall not seek information from their direct business partners with fewer than 500 employees that

exceeds the information specified in the VSME standard (voluntary reporting standard for SMEs), unless “additional information is necessary” after a company has learnt about a potential risk and that information “cannot reasonably be obtained by any other means”.

Why this may harm smallholders:

Smallholders are rarely direct business partners of in-scope companies. The VSME standard primarily focuses on gathering information that is limited to the company's own operations, not its suppliers.

When combined with the proposed in-depth assessment phase limited to Tier-1, the use of VSME could result in in-scope companies' and their smaller direct suppliers focusing primarily on collecting information and data only, e.g. about their own employees' wage levels and gender equality, and not identifying risks in the entire supply chain. As a result, many risks and their root causes - such as lack of living income, child labour and work-related health risks - which are common at smallholder farms, may go unnoticed and remain unaddressed.

Smallholders would also receive information and data requests in the in-depth assessment phase when the plausible information clause is fulfilled. This places considerable pressure on them in terms of both human and financial resources. As many of these farmers operate small-scale businesses, they often lack the resources or infrastructure to respond effectively to such requests.

Additionally, because the in-depth assessment phase beyond Tier-1 only takes place when the plausible information clause is triggered, there is potential for ad-hoc requests to emerge in a reactive way—particularly if a human rights violation or environmental issue is reported in the media. In such cases, the company may be pressured by competent authorities to provide a detailed HREDD explanation within a tight time frame, and this can lead to last-minute requests to smallholders for additional information. This reactive approach could undermine the preventive focus that the CSDDD aims for, leading to more burden on smallholders.

Co-legislators should ensure that the amount of information requested from suppliers is proportionate to the prevalence of risks and that the data requests are targeted and collaborative. This would address issues faced with the implementation of the German supply chain law, where companies have sent all their suppliers identical supplier surveys, a problem that would still emerge with the Commission's proposal.

Signatories:

1. African Law Foundation (AFRILAW)
2. Aquaculture Stewardship Council
3. BENKADI COOP-CA
4. Better Cotton
5. CARE International
6. CIDSE
7. Collectif Ethique sur l'étiquette
8. Commerce Equitable France
9. DKA Austria
10. Earthworm Foundation
11. ECONGOOD
12. Environmental Justice Foundation (EJF)
13. European Environmental Bureau (EEB)
14. Fair Trade Advocacy Office
15. Fairfood
16. Fairtrade International
17. Fashion Revolution
18. Fédération Artisans du Monde
19. Fondation Partage Luxembourg
20. Global Organic Textile Standard
21. IDEF
22. IDH
23. INADES Formation
24. INKOTA-netzwerk
25. International Cocoa Initiative
26. International Dalit Solidarity Network
27. ISEAL
28. Mighty Earth
29. Organic Cotton Accelerator
30. Oxfam
31. Plateforme Ivoirienne pour le cacao durable
32. Rainforest Alliance
33. RISOME
34. Solidaridad
35. Sustainable Fibre Alliance
36. TrustAfrica
37. VOICE Network
38. World Fair Trade Organization Europe asbl
39. World Fair Trade Organization Latin America
40. World Fair Trade Organization Peru
41. WWF EU

