## Economists' Statement – 19 May 2025

# BEYOND SHORT-TERM PROFITS: Why the EU must defend the Corporate Sustainability Due Diligence Directive and the Green Deal

The EU Corporate Sustainability Due Diligence Directive (CSDDD) is a crucial and effective step towards an economy that respects human rights, the environment and the climate, and that frames business activities in a way that is compatible within planetary boundaries. Both in Europe and the Global South, positive economic effects are expected alongside the enforcement of human rights and environmental standards.[1] In turbulent times, the CSDDD also creates an incentive for the European economy to pursue forward-looking specialization, where profits are no longer made at the expense of human rights and the environment.

**As economists, we therefore decisively advocate for a swift and ambitious implementation of the CSDDD and oppose the Omnibus I package proposal of the EU Commission, which would significantly limit the effectiveness of the directive.**

A civil liability regime across the EU for damages caused by companies, and revenue-linked fines are indispensable to steer economic activities towards sustainable paths and ensure the right of affected parties to compensation. Due diligence obligations must not be limited to direct suppliers, where the risks are generally lowest. The CSDDD also introduced an obligation for companies to put into effect climate transition plans: an imperative given the urgency of the climate crisis. Any backtracking on these points would represent a blow to future-proof and resilient value chains.

The Commission presents the Omnibus I package as part of a so-called "simplification revolution" within the framework of the *New European Competitiveness Deal*, which would rely "on trust in companies". The Commission claims to base its initiative, among other things, on a report of Mario Draghi commissioned by Ursula von der Leyen.[2] However, the main report does not even mention the CSDDD, while the annexed in-depth analysis only states in one single sentence, that "the EU's sustainability reporting and due diligence framework is a major source of regulatory burden", without providing any empirical evidence.[3]
As economists, we disagree with a concept of competition that accepts the externalization of social and environmental costs at the expense of nature, the climate, workers and other affected

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[1] Jäger, J., Durán, G., Schmidt, L. (2023): Expected economic effects of the EU Corporate Sustainability Due Diligence Directive (CSDDD). AK Wien, 2023. DOI:10.13140/RG.2.2.18216.34560

[2] COM(2025) 81 final, Explanatory Memorandum, p. 2: https://finance.ec.europa.eu/document/download/161070f0-aca7-4b44-b20a-52bd879575bc_en?filename=proposal-directive-amending-accounting-audit-csrd-csddd-directives_en.pdf.

[3] Mario Draghi: The future of European competitiveness. Part A: A competitiveness strategy for Europe, September 2024, and: Mario Draghi: The future of European competitiveness. Part B. In depth-analysis and recommendations, September 2024, p. 318.

parties along global supply chains. Economically, legally, and ethically, it is not acceptable for the general public and future generations to bear the ecological and social costs of irresponsible corporate practices. Already, the costs of environmental destruction and the climate crisis are enormous. The longer we allow this destruction to continue, the more we harm ourselves and the European economy.

We also strongly disagree with the hypothesis that the CSDDD and other sustainability rules within the framework of the *European Green Deal* hinder the competitiveness of the European economy. The growth dip and the decline of the European economy in global competition are due to other structural and political factors:

- The energy price crisis following the Russian attack on Ukraine and the loss of Russian energy imports;
- The crisis of the export-oriented economic model due to a global decline in demand and geopolitical conflicts including drastically increasing US tariffs;
- The decline in domestic demand in Europe due to low-wage policies and the redistribution of welfare gains from bottom to top;
- Decades of investment backlog in public infrastructure and public services due to restrictive fiscal policies;
- Inadequate industrial policies in key and future areas such as renewable energy and electromobility;
- The shortage of skilled workers due to underfunding of education and training and overly restrictive immigration policies.

Unnecessary bureaucracy certainly is not desirable if it causes costs, slows down processes, hampers investments and does not have positive effects. However, as a study by the German Institute for Economic Research (DIW) shows, a major problem may also be the underfunding of public administrations, which extremely delays the processing of applications and approval procedures.[4] Moreover, we call for a clear distinction between unnecessary bureaucracy on the one hand and necessary public regulations on the other, which are required to ensure product quality, occupational safety, health, and to protect consumer, labor and human rights as well as the environment and the climate.

Public regulations and their enforcement are generally associated with costs. However, these must be weighed against the benefits. The implementation costs of the CSDDD are very moderate. A study by the London School of Economics (LSE) commissioned by the EU Commission estimates the implementation costs of human rights and environmental due diligence obligations for large companies at an average of 0.009 percent of their revenues.[5]

The argument that the CSDDD would impose excessive burdens on companies is fundamentally flawed. Indeed, it overlooks the fact that companies can access the necessary data without incurring significant additional costs. The data are often already publicly available, also thanks to

[4] Alexander S. Kritikos, Sara Amoroso and Benedikt Herrmann: Verwaltungsqualität entscheidet mehr als Regulierungsdichte über Wachstumspotenziale von Unternehmen, DIW Wochenbericht 42/2023.

[5] European Commission (2020): Study on due diligence requirements through the supply chain. Final Report. Brussel 2020.

existing EU reporting frameworks.[6] Furthermore, empirical evidence clearly demonstrates that limiting the scope to direct business partners (Tier 1) and excluding other partners— as proposed by the Commission— would severely undermine the effectiveness of the CSDDD. Finally, the legal risks under the CSDDD are clearly defined. Under the EU directive, companies would only be held civilly liable if firstly they would breach the well-defined due diligence and, secondly, this breach would cause damage.

In addition, independent studies indicate that many companies support supply chain laws while corporate lobbying associations often oppose them: In Germany, for instance, only seven per cent of companies reject mandatory due diligence, as a 2024 study by the *Handelsblatt Research Institute* commissioned by *Creditreform* based on a representative survey of 2,000 decision-makers in German companies revealed.[7] 81 per cent of respondents stated that they already comply with or partially comply with the due diligence obligations. A third of respondents also see business opportunities in this, such as an increase in corporate reputation, higher quality of components for manufacturing, and improved resilience in the supply chain. Many companies of all sizes and industries have also explicitly endorsed the CSDDD in recent months and opposed any opening or postponement.[8]

Sustainability regulations are starting to have an impact, as evidenced in an independent study published by the EU Platform for Sustainable Finance.[9] Compromising sustainability reporting regulation at this time would highly destabilize the legal framework and create uncertainty for investors and most likely halt progress achieved until now. It also risks undermining key initiatives like the *Clean Industrial Deal*.[10] Indeed, private investors are essential in closing the huge investment gap of over 750 bn highlighted in the Draghi Report. Without parameters that can guide their investment decisions towards sustainable economic activities, a dangerous level of incoherence and unclarity could arise.

For these reasons, we call on:

- **The Commission, the EU Council, and the members of the European Parliament** to ensure a timely and ambitious implementation of the CSDDD and other regulations of the *European Green Deal*. The social and ecological transformation of the economy has become more necessary than ever in times of crisis, conflict and the rise of extreme rightwing parties.
- **Policymakers** to demonstrate their commitment to human rights and sustainability, reaffirm the EU's leadership in these areas, and ensure that the European economy is positioned to thrive in a future defined by sustainability and resilience.



[6] FICSC-EUCSDDD. Data. https://www.fh-vie.ac.at/en/pages/research/research-projects/ficsc-eucsddd.

[7] Sabine Haupt und Frank Christian May: Sorgfaltspflichten in der Lieferkette. Wo steht die deutsche Wirtschaft? Handelsblatts Research Institute und Verband der Vereine der Creditreform e.V. 2024.

[8] https://www.we-support-the-csddd.eu/.

[9] EU Platform on Sustainable Finance: A Compendium of Market Practices. How the EU's Taxonomy and sustainable finance framework are helping financial and non-financial actors transition to net zero, January 2024.

[10] https://www.unpri.org/download?ac=22691.