Sustainable Economies Due diLigence: good EXamples and the role of social dialogue

Project nr. 101126464

SUMMARY OF THE FIRST EUROPEAN EVENT

11 June 2024
13.30 -18.00
Hoffmanns Höfe
Heinrich Hoffmann Straße 3
60528 Frankfurt am Main

On 11 June 2024, the first European event took place in Frankfurt as part of the SEDLEX project. The event was organised by the project partner in Germany, innova eG, and hosted by a local social cooperative venue, Hoffmanns Höfe. The hybrid event involved approximately 10 people, including invited guests and speakers from DG Grow, Euro Coop, and IG Metall. All co-partner organisations – DIESIS Network (Belgium), KU Leuven (Belgium), and innova eG (Germany) – were represented. The event was chaired by Melinda Kelemen (Project Manager, DIESIS Network).

Although the number of participants was not high – organising guest speakers and participants proved to be difficult due to the particular topic and other organisational issues – the attendees had a stimulating and fruitful discussion on the topic. First, **Mr. Gianluca Pastorelli** (Executive President, DIESIS) welcomed the participants and opened the event. Mr. Pastorelli briefly spoke about the idea behind the SEDLEX project and why it is important to explore large enterprises in the social economy. Social economy companies are often seen as aiming to fix the damage done by large mainstream companies. But social economy offers much more than that, not only by showing how they manage large enterprises based on value-driven business models but also by serving as good examples of using social dialogue in due diligence processes. That is one of the topics that the SEDLEX project delves deeply into.

Ms. Pastorelli then gave the floor to **Ms. Melinda Kelemen** and **Ms. Laurène Thil** (Researcher, KU Leuven / HIVA) who gave a short update on the project mentioning that the project activities, including the research activities were going as planned in the first 9 months. The conceptual introduction and templates are already available and delivered as formal outputs to the European Commission. The country experts also started to work on their respective country reports and case studies. The country reports likely will be available by the end of the year. The result including the case studies will be summarized in a final comparative report by the end of August 2025.

The next speaker was Mr. **Michael Ristaniemi** (Legal and Policy officer, DG Grow) who updated the participants on the most recent developments with regards to the initiative of the European Commission on Corporate sustainability due diligence directive (CS3D) and the planned timeline of its adoption and implementation. He recalled that the aim of the directive is that large companies in the scope will be required to identify and, where necessary, prevent, end or mitigate adverse impacts of their activities on human rights and on the environment. According to plans, by 2027 a number of support measures, including guidelines and a helpdesk will be available for the companies in scope.

Todor Ivanov (Euro Coop) in his presentation pointed out some practical issues that large consumer cooperatives (and mainstraim companies) might face when it comes to the CS3D and reporting. Mr. Ivanov also covered the Finnish S-Group's approach to sustainability and due diligence, emphasizing their commitment to international human rights in alignment with UN guidelines. Mr. Ivanov's key points included:

1. **Due diligence process**: S-Group's systematic approach includes assessing impacts, identifying risks, preventing and mitigating adverse effects, and ensuring active communication.
2. **Tools and strategies**: They use contractual clauses, practical tools, codes of conduct, risk assessment tools, auditing, training, and capacity building to address human rights risks.
3. **Challenges and collaboration**: The presentation highlights the challenges of funding, expert capacity, and the necessity of business-to-business and multistakeholder cooperation to achieve real impacts.
4. **Future challenges**: It addresses future challenges like ensuring transparency, harmonizing data from complex supply chains, and the role of industry initiatives.
5. **Financial services perspective**: The European Association of Cooperative Banks (EACB) discusses the impact of CS3D requirements on EU banks, noting the difficulty in defining value chains and assessing direct upstream chains while maintaining compliance with existing regulations.

The presentation concluded with a call for cooperation among businesses to achieve sustainable, long-lasting impacts.

As a short intervention, **Michael Erhardt** (IG Metall) and **Hans-Gerd Nottenbohm** (innova eG) explained the German trade unions' (DGB) joint approach to the CS3D and on implementing the European law in Germany:

1. The DGB demands for Germany a comprehensive adoption of the requirements of the CSRD, particularly regarding the consideration of employee representatives as a target group for reporting, as well as employee rights and employment and working conditions as relevant topics for sustainability reporting. With regard to the options offered to member states by the CSRD, the possibility of omitting reporting to protect "confidential information" should be reconsidered.
2. The position of the DGB also includes amendments to the Supply Chain Due Diligence Act (hereinafter LkSG). It is important to note that the CSRD does not contain any corresponding statements on the replacement of reporting obligations. The possibility of replacing the reporting obligation under the LkSG with the CSRD, as provided for in

the German draft bill on the implementation, should be elaborated in a more differentiated manner to prevent strategies that weaken reporting on human rights-related aspects.

3. The DGB and its member unions also critically point out that the thresholds for determining company size classes were drastically raised during the implementation of the amended EU Accounting Directive. As a result, the number of companies that have to report in accordance with the CSRD has decreased significantly.

This intervention was followed by a discussion between Michael Erhardt, IG Metall, and Manola Cavallini, CGIL, about the role of trade unions in the sectors involved in the project, especially in the banking sector.

In the second (final) session the presentations focused on the target countries. **Laurène Thil** (researcher, KU Leuven) provided a comprehensive overview of France's corporate sustainability regulatory frameworks and social dialogue structures. Key points included:

1. Corporate sustainability regulatory frameworks:
   - Loi PACTE (2019): Requires large companies to integrate social and environmental issues into their strategies.
   - Grenelle II Act (2010): Mandates comprehensive reporting on environmental impacts, social policies, and governance for firms with over 500 employees.
   - Corporate Duty of Vigilance Law (2017): Requires large companies to establish vigilance plans to prevent human rights violations and environmental damage.
   - EU Non-Financial Reporting Directive (NFRD): Mandates disclosure of non-financial information related to various aspects of corporate performance.
2. Social dialogue framework:
   - Structured to promote negotiation, consultation, and information exchange at company, sectoral, and national levels.
   - Key institutions include works councils, trade unions, and employer associations.
   - The "French paradox" refers to strong institutional frameworks coexisting with frequent and intense labour conflicts.
3. Social economy regulatory frameworks:
   - ESS Law (2014): Defines the social and solidarity economy, emphasizing democratic governance and reinvestment of profits.
   - Benefits of joining the social economy include access to specific funding and tax reductions for investors.
4. Key figures and case studies:
   - The social and solidarity economy (SSE) represents a significant portion of employment in various sectors, including social action, sport and leisure, arts and entertainment, financial and insurance activities, and education.

The presentation underscored France's robust legal framework supporting corporate sustainability and the social economy, highlighting both achievements and ongoing challenges in these areas.

The presentation by **Samuel Barco Serrano** (senior expert, DIESIS Network) covered the Spanish background on sustainability and social economy. It began with an introduction to the Spanish regulatory framework, highlighting the draft Sustainability Information Bill from May 2024, which transposes the Corporate Sustainability Reporting Directive (CSRD) of January 2023. Additionally, it will reference Law 11/2018 on non-financial information and diversity, and the outdated 2014-2020 Strategy on Corporate Social Responsibility (CSR), with a new strategy in preparation.

The presentation discussed the Spanish social dialogue, emphasizing its high collective bargaining coverage of over 83% and the structure of negotiations at national, industry, and company levels. It will note the decentralization in regions like Galicia and the Basque Country, and the role of elected works councils in workplace representation. Next, the focus shifted to the Spanish social economy, which includes 43,233 social economy organizations providing almost 2,185,000 direct and indirect jobs, contributing around 10% of GDP. It highlighted the high survival rate of social economy organizations, which is 49.45% after five years compared to 36% for all companies, and their strong advocacy presence. The presentation then detailed specific sectors, such as agriculture, banks, and retail, and provide case studies of prominent social economy companies in Spain. These include Eroski, the 7th largest retail chain and the leading social economy company by employment and turnover; COVAP, the 11th largest cooperative in Spain by turnover; and Cajamar, the largest social economy business group by turnover, ahead of Mondragon.

Finally, the presentation highlighted the partnerships and collaborations within the social economy sector in Spain, emphasizing their contributions to sustainability and social responsibility.

The meeting continued with a presentation by **Pina Sodano** (external expert, Italy). Ms. Sodano in her presentation highlighted the directive's requirements, including the scope, due diligence, timeline, sector considerations, and enforcement. The presentation delved into Italy's national context, covering EU directives and national legislation influencing corporate sustainability, such as the Non-Financial Reporting Directive (NFRD), Corporate Sustainability Reporting Directive (CSRD), and the National Energy and Climate Plan (NECP). It also addressed the role of corporate governance codes, financial market regulations, and voluntary standards in promoting sustainability. Further, the presentation explored the importance of social dialogue in shaping policies, with examples from the DEFEN-CE project and the Health and Safety Protocol. It emphasized the role of social economy organizations and cooperatives in advancing sustainability and social dialogue. Case studies from various sectors, including financial (BCC), consumer (Coop Alleanza 3.0), and agriculture (Covalpa and Fileni), illustrated the practical application of these principles. The presentation concluded with a discussion on pension funds in the social economy, showcasing their role in promoting worker welfare and aligning with sector values.

The presentation by **Ignace Pollet** (senior researcher, KULeuven-HIVA) covered several key aspects of Human Rights and Environmental Due Diligence (HREDD) in the Netherlands. Since

2013, the Netherlands has promoted sectoral Responsible Business Conduct (RBC) Covenants across 13 sectors, including metal processing, stone cutting, gold, food, clothing, banks, insurance, pension funds, floriculture, and renewable energy. These covenants, co-signed by employers' organizations, unions, relevant ministries, CSOs, and some large companies, aim to encourage companies to conduct RBC risk analysis and mitigate damage from their activities. Maybe as a result of the voluntary nature of these covenants, only 1,6% of the in-scope companies joined by 2020, prompting a policy shift towards binding legislation. One key legislative proposal is the Responsible and Sustainable International Business Conduct Act, introduced in 2021 and amended in 2022. This act, projected for implementation in July 2024 unless superseded by similar EU legislation, mandates that large companies (with over 250 employees or more than €40 million net turnover) take preventive and mitigating measures against human rights violations in their supply chains. However, the current Dutch government has put this proposal on hold. Other legal measures include the Child Labour Due Diligence Act, approved in May 2023, which requires companies to ensure their goods and services are not produced using child labor. This act will eventually be integrated into the RBC Act. Additionally, the Netherlands aligns with several EU regulations, such as the Corporate Sustainability Reporting Directive and the deforestation due diligence regulation.

The presentation also delved into the structure of social dialogue in the Netherlands, which operates at national, sectoral, and company levels. Despite challenges like individualization and globalization, collective agreements and work councils play crucial roles. The concept of the social economy, though not widely known, includes around 6,000 social enterprises and 9,300 cooperatives, employing 3-4% of Dutch workers, particularly in sectors like agriculture, insurance, banking, wholesale/retail, and energy. Finally, the presentation showcased case studies of Dutch cooperatives such as Rabobank, known for its corporate social responsibility initiatives, and AB Midden-Nederland, which provides staffing solutions for farmers. Other potential case studies from the wholesale/retail sector will be identified, such as ODIN, Superunie, and Plus-Coop.

The final presentation was given by **Hans-Gerd Nottenbohm** (senior expert, innova eG) about the context in Germany. The German Supply Chain Due Diligence Act initially came into force in 2023 for companies with at least 3,000 employees. From 2024, it will apply to companies with at least 1,000 employees in Germany. The law strengthens human rights and environmental protection in global supply chains. It obliges companies in Germany to respect human rights by implementing defined due diligence obligations. These obligations apply to their own business operations, to the actions of a contractual partner, and to the actions of other (indirect) suppliers. This means that companies' responsibility no longer ends at their own factory gates but extends along the entire supply chain. On March 22, 2024, the Federal Ministry of Justice published a draft bill on the implementation of the EU Corporate Sustainability Reporting Directive (CSRD). The draft bill provides for a 1:1 implementation of the European requirements for sustainability reporting.

Concerning corporate sustainability reporting and implementing the new European directive, codetermination in the supervisory board is the most important issue. Work councils are also already involved in the German Supply Chain Due Diligence Act. From January 1, 2023, the

Economic Committee in enterprises has a new right in Section 106 (3) No. 5 b BetrVG. According to Section 106 (3) BetrVG, economic matters relating to sustainability include:

- The investment program
- Manufacturing and working methods (e.g., CO2 reduction, circular economy)
- Issues of operational environmental protection (No. 5a)
- Issues of corporate due diligence in supply chains in accordance with the Supply Chain Due Diligence Act (No. 5b) (e.g., procedures for the assessment of indirect suppliers)
- Rationalization projects
- Changes to the company's purpose or organization

With 23.4 million members and more than 900,000 employees, the 7,000 cooperatives in the cooperative sector have an important role in the economy of Germany. In Germany, cooperative groups are a typical organizational form, and with their size, they are very much affected by the Corporate Sustainability Reporting Directive. Mr. Nottenbohm also introduced possible case studies such as:

- “Dortmunder Volksbank” has around 1,200 employees working in the bank, and the cooperative has around 200,000 members. The total assets are 10.181 billion EUR.
- REWE Group employs 384,000 people and has a turnover of 84.8 billion EUR. It is formed legally as a cooperative, “Rewe-Zentralfinanz eG,” and a shareholding company, “Rewe-Zentral-Aktiengesellschaft.”
- DMK Deutsches Milchkontor GmbH (DMK) is one of Germany's largest dairy companies. It was formed by the merger of the two cooperatively organised North German companies Humana Milchunion and Nordmilch, which were already Germany's largest milk processors. DMK Group is legally a company by limited guarantee (GmbH) and has 6,637 employees and a turnover of 5.47 billion EUR.

The presentations were followed by intensive discussion among the participants, mainly on the challenges of implementing the requirements throughout the value chain.

In the closing session of the event, **Mr. Gianluca Pastorelli** and **Ms. Melinda Kelemen** reminded the audience about the next steps in the project and thanked all participants for their active participation in the event.

(All the presentations are available on the project website: https://www.diesis.coop/sedlex/)

30.07.2024