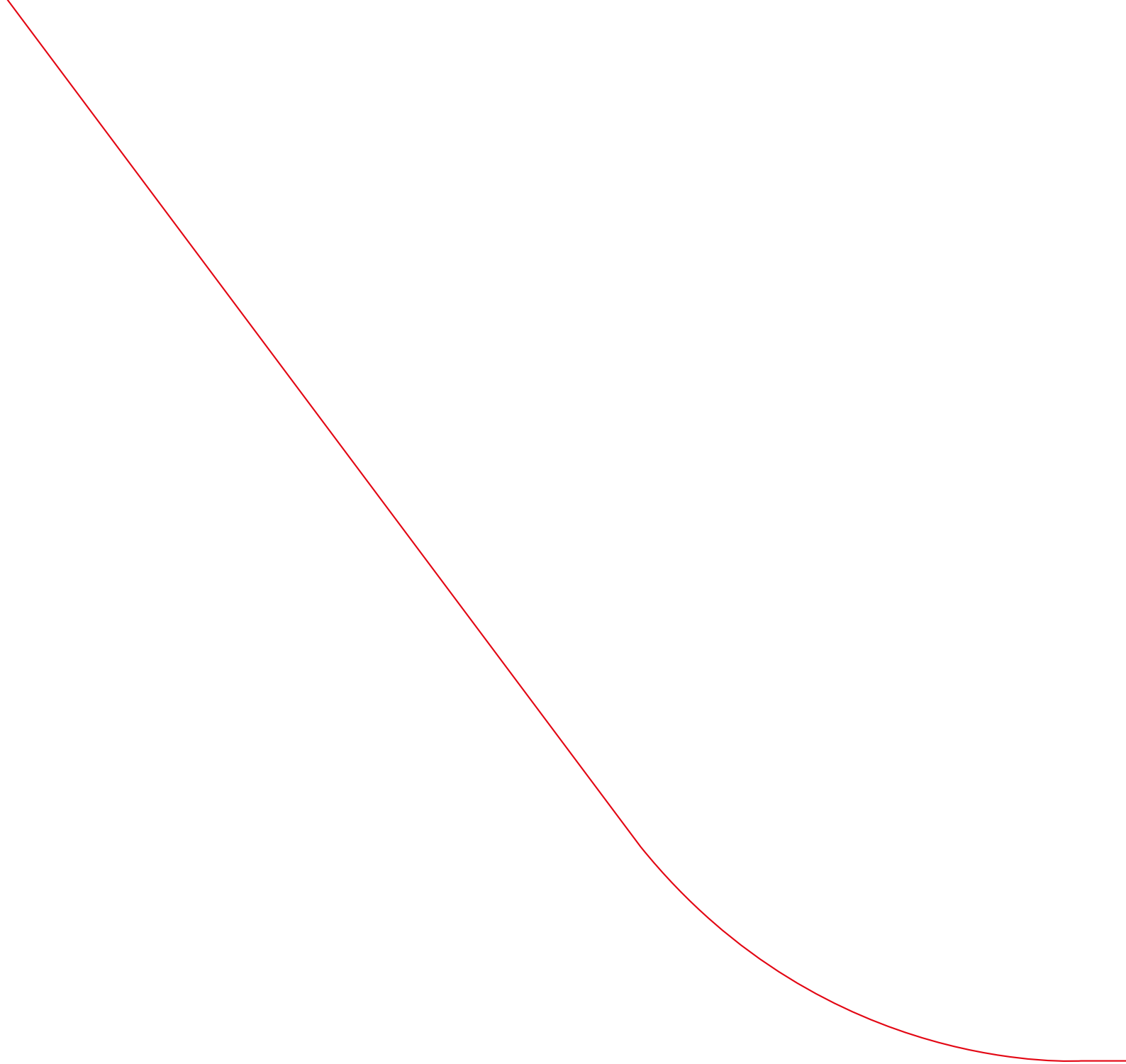




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ECONOMIC EFFECTS OF THE EU CSDDD CONSIDERING THE OMNIBUS PROCESS





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ABSTRACT

This updated study on the economic impact of the EU Corporate Sustainability Due Diligence Directive (EU CSDDD) assesses the expected implications of the Omnibus process, including the positions of the Commission, the Council and the draft report by MEP Warborn. On the theoretical level, perspectives from neoclassical economics are combined with the value chain approach, and with the power resources perspective. Empirically, this study provides a brief overview of economic development, international trade, and human rights with a focus on the Global South. Based on a deductive methodology, comparative-static and dynamic analyses are combined to estimate the likely impacts of the EU CSDDD. Thereby, the study focuses on the effects on the Global South, the effects on global competition and the EU, and the effects on workers in Europe. The conclusion drawn is that the EU CSDDD is expected to have a considerably positive economic welfare effect on the Global South and positive net effects on the European economy. In addition, the directive tends to strengthen the position of workers not only in the Global South but also in the European Union (EU). Weakening the CSDDD as proposed by the European Commission within the context of the Omnibus process, including substantially reducing the number of companies subject to the legislation, is expected to reduce the positive effects of the EU CSDDD significantly. Moreover, the current Omnibus proposals by the Commission and the Council and those made in the Draft Report of the Committee on Legal Affairs of the European Parliament (“Warborn report”) limit due diligence obligations largely to tier 1 suppliers and substantially weaken the provisions on civil liability. These proposals are expected to drastically reduce the effectiveness of the CSDDD. It is crucial that an effective CSDDD remains in place to ensure that potential positive economic effects occur. It is concluded that the current version of the CSDDD should be left unchanged.

PREFACE

The EU Corporate Sustainability Due Diligence Directive (EU CSDDD) is still highly contested. The directive entered into force on 25 July 2024, yet the so-called Omnibus process could change its contents and, therefore, its potential impact significantly. In this study we build on our previous study on the economic impact of the CSDDD (Jäger et al. 2023) and we add an assessment of the potential economic impact of the Omnibus process including the Council's proposal and the Draft Report by MEP Jörgen Warborn. The official reason for the Omnibus process is explicitly to strengthen competitiveness by reducing costs of bureaucracy. However, concerns about the effectiveness and potential negative impact of the Omnibus proposal have already been raised in an Open Letter, dated 19 May 2025, by more than 90 economists from several European countries (see: <https://www.business-humanrights.org/en/latest-news/eu-90-economists-call-for-eu-to-defend-csddd-and-green-deal/>). In this updated study, we assess whether and to what extent the supposed reduction in compliance costs resulting from the Omnibus process can really strengthen European companies and the European economy. In addition, we assess how the effectiveness of the CSDDD will be affected in terms of reaching the goal of reducing human rights violations in the supply chains of large companies. Looking not only at (potentially lower) costs but also at the (potentially weaker) effects of the proposals we provide an integrative analysis of the implications as a sound basis for decision makers. The 2023 study was published by the Arbeiterkammer, Wien (Vienna Chamber of Labour), Fundación Sol, FIAN Austria and the University of Applied Sciences BFI Vienna. This updated study, is published by Arbeiterkammer Wien, CIDSE, the European Trade Union Confederation (ETUC), FIAN Austria, Fundación Sol, Misereor, the University of Applied Sciences BFI Vienna, and VER.DI and builds on the study from 2023. With this study we shed light on the expected economic consequences of the Omnibus proposal. We analyse the effects of the proposals made by the Commission, the Council and the draft Warborn Report. In so doing we seek to provide a balanced detailed analysis of the potential economic effects of changing the CSDDD in the ways indicated in these proposals. Our analysis goes beyond narrow approaches that limit the focus on costs and potential negative effects. In this study, we adopt an integrative perspective considering the potential positive effects of the current CSDDD compared to the proposals that have emerged in the context of the Omnibus process. Thereby we adopt an integrative theoretical perspective combining insights from neoclassical economics, global value chain research, and the power resources approach. Such an integrative approach provides a balanced analysis. Hence, it includes a systematic analysis of the positive effects of the EU CSDDD and the alternative proposals, not just in terms of effectively contributing to the enforcement of human rights, but also regarding its expected significant positive effects on economic welfare.

The awareness of the problems of Eurocentric approaches and the need to avoid biased perspectives that may implicitly favour stakeholders in the Global North is also reflected in the diverse institutional background of the authors of this study.

We wish to thank Sarah Bruckner and Valentin Wedl from the Arbeiterkammer Wien for their inspiring comments mainly in regard to the original study of 2023. We would like to express our gratitude to Armin Paasch from Misereor for taking the initiative to update this study, as well as for his invaluable suggestions and comments. We would also like to thank Stefan Clauwaert from ETUC, Susana Hernández from CIDSE, Jenny Jungehülsing from VER.DI, and Virginie Rouas from the European Coalition for Corporate Justice for their helpful comments on the updated study. The usual caveat applies. We are responsible for all remaining errors.

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1. INTRODUCTION

In 2022, the European Commission proposed the Corporate Sustainability Due Diligence Directive (CSDDD) (European Commission 2022) that entered into force on 25 July 2024 (Directive (EU) 2024/1760) after more than two years of intense negotiations at the EU and national levels. The EU CSDDD aims to address the shortcomings of relying on voluntary standards in international business activities. It has been widely accepted that voluntary measures are insufficient in ensuring compliance with human rights standards and environmental standards (OECD 2023, United Nations 2011). There is a consensus that more effective, binding legal measures are necessary to achieve human rights and environmental goals. Thus, the new rules have been welcomed as a step towards a more just form of global economy. At the same time, they have also been criticised as a watered-down compromise (European Coalition for Corporate Justice 2024a, Kaufmann 2024).

Against the background of the currently rapidly changing international economic environment, the EU CSDDD can play a strategic role in avoiding negative impacts on human rights, especially in settings where workers are vulnerable to these developments. One dimension of this current economic turmoil is the ongoing reconfiguration of the economic and political relations among the world's largest economies. The United States has opted to raise tariffs in order to protect domestic corporate profits - and, by extension, local employment. This move increases pressure on the cost structures of global value chains and could potentially lead to a deterioration of working conditions as a mechanism of adjustment. This could have a negative impact on global inequalities. This impact will occur particularly in gender relationships, since women are disproportionately affected by business activities compared to men (United Nations 2019).

Furthermore, the International Court of Justice (ICJ) recently issued an advisory opinion that clarifies that human rights obligations apply in the context of the climate crisis and that states must take these rights into full account (ICJ 2025). Against this background, legal instruments like the EU CSDDD should be equipped to effectively act against the climate crisis to protect human rights.

While it is commonly assumed that measures like the EU CSDDD are essential for societal progress, some authors have raised concerns regarding their economic implications of such directives. In the context of the aforementioned global dynamics and a weak economic outlook in the EU, these voices have recently gained momentum. The EU Commission's announcement of the "Omnibus I" package in February 2025, which officially aims to boost competitiveness and hence economic growth by postponing and simplifying legislation in the field of sustainability, ties in with these debates.

Recently, in the EU-USA agreement in which the EU has accepted unilateral tariffs of 15%, the CSDDD is explicitly mentioned under point 12: "The European Union commits to undertake efforts to ensure that the Corporate Sustainability Due Diligence Directive (CSDDD) and the Corporate Sustainability Reporting Directive (CSRD) do not pose undue restrictions on transatlantic trade. In the context of CSDDD, this includes undertaking efforts to reduce administrative burden on businesses, including small- and medium-sized enterprises, and to propose changes to the requirement for a harmonised civil liability regime for due diligence failures and to climate-transition-related obligations. The European Union commits to work to address US concerns regarding the imposition of CSDDD requirements on companies of non-EU countries with relevant high-quality regulations" (Directorate-General for Trade and Economic Security 2025).

Our previous study *Expected Economic Effects of the EU Corporate Sustainability Due Diligence Directive (CSDDD)* (Jäger et al. 2023) provided a framework for demonstrating how economic theory contributes to understanding the potential effects of the CSDDD. It included an analysis of market imperfections such as negative external effects caused by violating human rights. However, it also included a theoretical framework to allow for the understanding of dynamic aspects such as the power resources approach in the context of global value chains. Based on this theoretical framework, the study undertook a detailed analysis and drew conclusions on the potential economic effects of the CSDDD. Overall, positive effects on human rights and positive economic effects were expected to result from a strong and effective CSDDD. This updated study adds to the previous paper by analysing the potential impact of the changes proposed in the Omnibus process including the European Commission's proposal, the Council's position and the draft report of MEP Jörgen Warborn. This draft report was discussed in the meeting of the Committee on Legal Affairs (JURI) on 24 June 2025 and additional amendments were discussed in the JURI committee meeting on 15 July 2025. This updated study addresses the following research questions each of which explicitly adopts a comparative perspective:

1. What will be the economic impact of the current version of the CSDDD compared to the changes proposed in the Omnibus process? How will companies doing business in Europe be affected and how will they react? What will be the direct consequences?
2. How would the changes suggested in the Omnibus process affect human rights and economic welfare in the Global South compared to the expected effects of the current version of the CSDDD?
3. How would global competition potentially be affected by the current version of the CSDDD compared to the effects of the amendments suggested during the Omnibus process? How would changing the scope and the due diligence requirements along the value chains affect the competitiveness of European companies? Would the proposed changes to the CSDDD contribute to a level playing field or invite dumping strategies, thereby putting EU companies further under pressure? Would the proposed amendments by the Omnibus proposal improve the EU's competitiveness and economic performance compared to the current version of the CSDDD? How significant are the costs of due diligence processes, and what are the potential impacts and positive effects?
4. What are expected effects of the current version of the CSDDD, compared to the proposals suggested in the Omnibus process, on European companies, workers in Europe and the environment?

The methodology of this study is based on a deductive-comparative approach. Different relevant theoretical approaches are adapted and employed to estimate possible effects of the CSDDD. Based on a review of the relevant theoretical literature and the operationalised theoretical perspectives, empirical evidence is presented. This study not only estimates the qualitative effects but also assesses the possible magnitude of effects where feasible. Both, short- and long-term impacts of the CSDDD in terms of future institutional and legal developments are considered. Hence, in addition to comparative static analysis, dynamic analysis is applied. This study uses the directive that entered into force on 25 July 2024 as a baseline and contrasts it with the Omnibus proposal of the European Commission from 26 February 2025 including the position of the Council of the EU from 23 June 2025 as well as the draft report from 26 May 2025 of the Committee on Legal Affairs of the European Parliament (EP) proposed by its rapporteur MEP Jörgen Warborn. The latter report serves as

an important point of reference for the elaboration of the EP's position on the Omnibus I package.

The outline of the study is as follows: firstly, the authors contextualise the emergence of the current version of the CSDDD. They also analyse the key amendments suggested during the Omnibus process. In section 3 the relevant theoretical perspectives on international social and environmental standards are adapted and applied to deal with the research questions. Based on this, possible effects of the role of binding international standards can be deduced. This theoretical section is followed by a brief empirical overview of the effects of neo-liberal globalisation on human rights and social development. In addition, the recent experiences with the new due diligence regulations in Germany and France are analysed. Based on the theoretical and empirical analysis, section 5 assesses the expected economic effects of the CSDDD (and potential changes to the directive) on the Global South, on the EU and on global competition as well as the impact on climate warming. Finally, conclusions and policy implications are presented.

2. THE EU CSDDD AND THE 'OMNIBUS I' PROPOSAL

Providing an effective legal framework to prevent human rights abuses by third parties, including business enterprises, is key in ensuring that corporations respect human rights and in holding them accountable (United Nations 2011) if they fail to do so. In recent decades, voluntary standards have been the instrument of choice for most states. Existing international frameworks, such as the OECD Guidelines for Multinational Enterprises (OECD 2023) and the United Nations Guiding Principles on Business and Human Rights (United Nations 2011) are examples of such non-binding standards that provide recommendations to companies and guide them towards 'responsible' business conduct.

Business actors have increasingly participated in the process of defining, implementing, and enforcing rules for 'responsible' behaviour. A prominent example of these so-called multistakeholder initiatives (MSI) is the UN Global Compact (Rasche et al. 2010). There has been a critical debate about the legitimacy of business actors in this process and corporate social responsibility in general. A central argument is that there is a conflict of interest between profit maximisation strategies of business actors and sustainable behaviour (Banjeree 2008, Sandoval 2015). Human rights organisations further criticise the lack of accountability that comes with business self-regulation and call for binding standards (FIAN International 2022).

There is a broad consensus in the academic literature that voluntary schemes have largely proven ineffective (Deva 2023). While there has been an expansion of multi-stakeholder initiatives aimed at forcing transnational companies to pay greater attention to the respect of labour rights in their operations, the assessments of the effectiveness of corporate social responsibility schemes are grim (Locke 2013; Morris et al. 2021). Even when codes of conduct have been made mandatory for suppliers through contracts, their violations do not usually lead to any major consequence (Jones et al. 2007; Kuruvilla et al. 2020). Possibly because of the ineffectiveness of voluntary initiatives and reporting frameworks, national legislators have slowly but steadily begun to draft laws imposing more stringent requirements on corporations. The most ambitious regulatory effort is arguably the EU's CSDDD. At the same time, while the original proposal by the Commission was seen as an important first step, it

was also considered to be very narrow in scope with regard to the companies covered (ETUC 2022).

2.1 The EU CSDDD

In 2020, the European Commission published a study that showed that only 37.14% of business respondents across all branches of business voluntarily undertake due diligence processes that take into account human rights and environmental impacts. Amongst these, a minority of 16% cover their entire value chain (European Commission 2020a: 48). The majority of companies does not comply voluntarily. Clearly self-regulation is not an effective instrument for ensuring that businesses respect human rights or the environment.

Against this background, it is not surprising that debates about binding standards have gained importance in the political discourse. At the UN level, the process for the creation of a binding treaty on business and human rights is ongoing (OHCHR 2025) and at the national level, the French *Loi de Vigilance* and the German *Lieferkettensorgfaltspflichtengesetz* (German Supply Chain Act, *LkSG*) represent important precursors (although with important flaws, see section 4.2) for legal binding standards at the EU level.

When entering into force on 25 July 2024, the CSDDD (Directive (EU) 2024/1760) established 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, those of their subsidiaries, and their direct and indirect business relationships throughout their value chains ("chain of activities"). The CSDDD also provides for public law supervision and enforcement (including sanctions) by national authorities of EU Member States on the one hand, and private enforcement (civil liability for damages) on the other hand. Moreover, it obliges business enterprises to set up and implement climate transition plans. Large companies in the EU and from third countries will fall under the scope of the directive. EU Member States are currently required to transpose the CSDDD into national law within two years (ETUC 2024a).

However, the scope of the Directive should be widened annually, affecting more companies in each new phase. Under the current version of the CSDDD the ultimate scope of the directive will have entered into force on 26 July 2029, by when all EU companies with more than 1000 employees and a turnover of more than 450 million Euro will be covered by the law. In addition, large companies that export to the EU and have a turnover of more than 450 million Euro in the EU will also be covered. Companies within the scope of the directive will be obliged to conduct human rights and environmental due diligence. This requires setting up a multi-stage process for risk analysis. The inclusion of civil liability in article 29 of the directive is one of the most important aspects for people affected by human rights violations, as it enables them to claim compensation from companies under the scope of the EU CSDDD where the damage was caused by a breach of due diligence obligations or where a breach contributed to the damage. The collective action clause is also crucial. Due to the opposition of some member states, the inclusion of the financial sector is up to the member states, which can choose to include it in their respective national laws (Bueno et al. 2024., Steinbrück/Traub 2024). Climate related issues are included in terms of reports and the setting up and implementation of climate transition plans in accordance with the Paris Agreement.

As the example of the financial sector shows, the drafting of the EU CSDDD was characterised by a contested political debate that also shaped the trilogue negotiations. In early June 2024 the negotiations were on the verge of breakdown. Several states tried to water down the trilogue compromise at a later stage of the negotiations against the

background of the lobbying of business actors. After the conclusion of the trilogue in December 2023, the German government withdrew its approval due to a veto of the liberal party FDP and massive pressure from German business associations (Paasch 2024). This kind of lobbying impacted the debate from the beginning and was opposed by an alliance of politicians, trade unions, NGOs and progressive corporations (Tansey 2021, Haar/Cann 2022, Keller 2024).

The areas of dispute included the scope of the directive, the access to justice for victims (including the liability of corporations, the reversal of the burden of proof and also compensation), the inclusion of the financial sector and the inclusion of climate-related due diligence. The final text, which was officially adopted on 13 June 2024, included a weakening of these aspects. Nevertheless, and against the background of the attempts to further water down the directive, the final directive was interpreted as a milestone for the protection of human rights and the environment (European Coalition for Corporate Justice 2024b, ETUC 2024b).

2.2 The EU's rediscovery of competitiveness

Competitiveness has long been a concern of European policymakers. In the late 1960s Servan-Schreiber (1969) warned about the inability of European companies to compete with American firms. In the 1980s, the debate around 'eurosclerosis' was framed by concern with Western Europe's failing competitiveness relative to the US and Japan. This concern with competitiveness was instrumental in relaunching the process of market integration, with the approval of the European Single Market and Monetary Union (van Apeldoorn, 2002; Erne et al. 2024). After the 2008 global financial crisis, which soon turned into Eurozone crisis, European leaders identified the failing competitiveness of member states – rather than neoliberalism – as the main culprit of the recession. Hence, they established new mechanisms of economic governance such as the European Semester, through which they recommended commodifying structural reforms on industrial relations and public services (Erne et al., 2024). The view of competitiveness reflected in the new economic governance prescriptions was a narrow one - based mainly on reduction of labour costs (Wigger 2019).

With the establishment of the EU's Green New Deal and of the post-pandemic Next Generation EU package, competitiveness no longer seemed to be the main concern driving European economic integration. It is in this context that the CSDDD was finally passed. However, the Russian invasion of Ukraine and heightened geopolitical tensions between the EU, China and the US (see section 3.1 below) have brought the issue of the EU's competitiveness (or lack thereof) once again onto the main stage. In 2023, the European Commission asked two former Italian prime ministers, Enrico Letta and Mario Draghi, to write two reports, one on the Single Market (tasked to Letta) and one on EU competitiveness more broadly (tasked to Draghi). Of the two, Draghi's report seems to have been the more influential. Published in September 2024 and entitled 'The future of European competitiveness' (Draghi 2024a), the report calls for a boost in EU-backed public and private investments to make up for the growing innovation gap with the US and China. As such, it has been positively received by economists such as Thomas Piketty (Gasseau and Maccarrone 2025). The issue, however, is that the report includes also a section on 'strengthening governance', which proposes among other things to simplify existing EU regulation that is seen as a burden to competitiveness. In particular, the EU's sustainability reporting and due diligence framework is labelled in the report as a 'major source of regulatory burden' without providing any empirical evidence and without any assessment of the likely effects of the directives (Draghi 2024b, p. 318).

Once again, the view that emerges of competitiveness here is a narrow one, based on lowering companies' labour and environmental sustainability costs rather than competing on quality and higher standards. In addition, the focus on competitiveness misses out other reasons for weak economic development in Europe. In the open letter signed by more than 90 European economists (Economist's Statement 2025) it was pointed out among other arguments that a mere focus on competitiveness falls short. In particular, in a global economic context that is characterised by trade conflicts, unilateral tariffs and secular stagnation of 'slowbalisation', export-oriented growth models come under severe pressure. Hence, moving towards models focusing on growing the size of the internal market are more promising and could contribute to deepening European integration (Della Posta 2023). Increased wages and greater public expenditures to guarantee sufficient internal demand are, therefore, necessary. Moreover, to strengthen European corporations a targeted industrial policy on future-oriented businesses is required. In addition, regulations cannot be seen just as an obstacle to economic growth but rather as a foundation for growth such as in the case of regulations fostering economic modernisation by demanding environmental standards (Raza et al. 2024).

Following the publication of the Draghi report, the European Commission introduced a Competitiveness Compact, which sets out a strategic framework for the Commission's current mandate. One of its first initiatives was the proposal of an Omnibus Directive (European Commission 2025), aimed at simplifying - effectively weakening - the obligations on corporate sustainability reporting and due diligence that the Commission had originally advanced during Ursula von der Leyen's first term as President.

2.3 The "Omnibus I" proposal and the Council's position

In February 2025, while some national states had already started working on transposing the directive into their respective national laws, the European Commission announced a plan to reform the EU CSDDD as part of the so-called "Omnibus I" package. "Omnibus I" is an attempt to "simplify" EU legislation, specifically in the field of sustainability. This attempt to reform a directive that is in the transposition period is an uncommon process in the EU's legislation process and can be understood only against the background of the discourse on competitiveness and changes in the political balance of power at EU level as well as in several national states.

A first step to halting the new requirements in the field of sustainability is the so-called "Stop the Clock" Directive (Directive (EU) 2025/794), which was published in the Official Journal of the European Union on 16 April 2025. This directive postpones the entry into application of the Corporate Sustainability Reporting Directive (CSRD) (Directive (EU) 2022/2464) by two years and the transposition deadline and the first phase of the application the EU CSDDD by one year. Furthermore, the European Commission is proposing amendments on the content of the EU CSDDD (European Commission 2025), which would have effects on key aspects of the directive. These include a change in the due diligence requirements, which would be narrowed down to the first-tier supplier. It also includes the suggestion to remove the EU-wide civil liability provision clause, the overriding mandatory provisions clause and the representative action clause – these changes would make it almost impossible for people affected by human rights violations to make compensation claims (Wörle 2025, Wörle/Brücker 2025).

On 23 June 2025 the Council of the European Union agreed on a position on this proposal (Council of the European Union 2025). The position of the Council includes further changes and specifications. The key change would happen in the scope of the EU CSDDD, which should be changed to apply to companies with more than 5000 employees and a net

turnover of more than 1.5 billion Euro according to the Council. Estimates suggest that this would leave only 997 companies affected by the directive, a reduction of 70% of the 3363 companies affected by the original text of the EU CSDDD (SOMO 2025). Other proposed changes by the EU Commission are widely supported by the Council of the EU (see table 1).

2.4 Draft Report by MEP Jörgen Warborn

While the position of the Council of the European Union has already been agreed upon, the next important step in the political process of the Omnibus proposal is the adoption of a position of the European parliament (EP), which is currently scheduled for 20 October 2025. Ahead of this plenary session, the Committee on Legal Affairs (JURI) of the EP is expected to vote on its position. MEP Jörgen Warborn, the chief rapporteur for the Omnibus simplification for sustainability reporting and due diligence in the JURI committee, published a draft report in May 2025 (Warborn 2025) which was discussed in the meeting of the EP's Committee on Legal Affairs (JURI) on 24 June 2025 and which provides an important basis for negotiations in the Committee. The proposed key amendments in the Warborn draft report affect the threshold of the scope, which would be raised from 1000 to 3000 employees thereby reducing the EU companies within scope to 1771 - a reduction of 47% (SOMO 2025).

Furthermore, the draft proposes the deletion of the requirement for transition plans for climate change mitigation. This would represent the most drastic change in this point in any of the current proposals.

In the following table¹ we summarise the key proposed changes in the different positions regarding the Omnibus I package compared to the EU CSDDD.

In summary, although the scope of the changes proposed in the Omnibus proposal and in the Warborn draft proposal differ, they would both lead to a substantial deviation from the current CSDDD. The major differences are the following: 1) the reduced scope in terms of the number of companies affected, 2) the limited focus on Tier 1 suppliers and the reduced scope of due diligence requirements, 3) the dilution, respectively the abandoning, of civil liability, 4) the abandoning of climate transition plans. Hence, the effects in terms of achieving human rights goals, environmental goals and economic change are expected to differ substantially between these proposals. Therefore, in Section 5 a detailed analysis of the expected effects of different proposals compared to the current CSDDD is provided.

Table 1. Summarised proposed changes to the CSDDD

Aspect	Current CSDDD	Omnibus I Commission proposal	Council Position	Warborn Draft Report
Scope of Application	<p>EU companies with > 1000 employees and net worldwide turnover > € 450 million</p> <p>Non-EU companies with net EU turnover > € 450 million</p>	<p>No changes specified</p>	<p>EU companies with >5000 employees and net worldwide turnover >€1.5 billion</p> <p>Non-EU companies with net EU turnover >€1.5 billion</p>	<p>EU companies with >3000 employees and net turnover of >450 million</p> <p>No changes specified for non-EU companies</p>
Due Diligence Requirements I	<p>Risk-based due diligence with respect to own operations, subsidiaries and business partners in the chains of activities.</p> <p>("chain of activities" means: entire upstream value chain; downstream value chain limited to distribution, transport and storage – i.e. financial services not included)</p> <p>Article 8 foresees two phases:</p> <p>1. mapping own operations as well as those of its subsidiaries and business partners to identify general areas where adverse impacts are most likely to occur and to be most severe.</p> <p>2. carrying out an in-depth assessment in own operations, and those of the subsidiaries and business partners in the areas where adverse impacts were identified to be most likely to occur and most severe (based on mapping)</p>	<p>1. No change to mapping phase</p> <p>2. In-depth assessment: Focus is narrowed to a company's own operations, and those of its subsidiaries and direct business partners (tier 1).</p> <p>Indirect business partners covered where a company has plausible information suggesting risk OR in case of voluntary circumvention.</p>	<p>1. Scoping exercise focuses on company's own operations + those of its subsidiaries and direct business partners (tier 1) – based on reasonably available information</p> <p>2. In-depth assessment based on the result of the scoping exercise</p> <p>For indirect business partners:</p> <ul style="list-style-type: none"> - Mapping based on reasonably available information - In-depth assessment only when objective and verifiable info suggests risk OR voluntary circumvention 	<p>Considerably reduced Risk-based focus in in depth assessment only on direct business partners. Further assessment for indirect business partners only where a company has plausible information that is objective, factual and verifiable and that suggests adverse impacts.</p>

Aspect	Current CSDDD	Omnibus I Commission proposal	Council Position	Warborn Draft Report
Due Diligence Requirements II	No “SMC shield” (SMC = small mid cap companies) Companies falling under the CSDDD are not limited in seeking information from business partners.	<p>“SMC shield”: Companies do not seek information from direct business partners with fewer than 500 employees exceeding the information in the Voluntary Sustainability Reporting Standard for Non-listed Micro, Small and Medium Enterprises (VSME) (= CSRD voluntary SME reporting standard).</p> <p>(Note: Regarding human rights, the VSME reporting standard is limited to child labour, forced labour, human trafficking, discrimination and accident prevention.)</p>	<p>“SMC shield”: During scoping phase, companies only request info from direct business partners where that info is necessary.</p> <p>In case of direct business partners with 1,000 employees, only when the info necessary and cannot reasonably be obtained by other means.</p>	<p>“SMC shield”: Companies falling under the CSDDD do not seek information from direct business partners with fewer than 3000 employees exceeding the information in the VSME (only applies to mapping phase).</p> <p>Derogation only where info is necessary or because VSME standard do not cover relevant impacts, and where the info cannot reasonably be obtained by other means.</p> <p>Scoping: no information requests to BPs - companies should rely solely on already reasonably available information;</p> <p>Further assessment: companies do not seek info from direct BPs with fewer than 3,000 employees exceeding VSME. Derogation only where info is necessary or because VSME standard do not cover relevant impacts, and where the info cannot reasonably be obtained by other means.</p>
Business Relationships	Companies are required to terminate the business relationship if the adverse impact cannot be prevented, mitigated, or brought to an end.	<p>Termination not required (suspension still required)</p> <p>No more stakeholder engagement</p>	<p>Termination not required (suspension still required)</p> <p>No more stakeholder engagement</p>	<p>Termination not required (suspension still required)</p> <p>Prior to suspend, a company must assess:</p>

ECONOMIC EFFECTS OF THE EU CSDDD CONSIDERING THE OMNIBUS PROCESS

Aspect	Current CSDDD	Omnibus I Commission proposal	Council Position	Warborn Draft Report
	Compulsory stakeholder engagement when companies decide to terminate or suspend a business relationship			- whether the suspension would cause substantial prejudice to the company, OR - whether the suspension could cause more severe adverse impacts. In such cases, the company is not required to suspend the business relationship. No more stakeholder engagement
Stakeholder Definition	Broad definition that includes stakeholders that are or could be affected by the company and its subsidiaries and business partners, including groupings, entities, trade unions, employee representatives, consumers, CSOs, NHRIs	Restricted definition: Only stakeholders that are or can be directly affected No more reference to groupings, entities, consumers, CSOs, and NHRIs (trade unions still stakeholders)	Same as Commission's proposal	Same as Commission's proposal
Civil Liability	Specific EU-wide civil liability regime: Companies can be held liable for damage that results from their intentional or negligent failure to comply with their due diligence obligations to prevent or cease adverse impacts. Overriding mandatory application: the civil liability regime of Member States takes precedence when foreign law would otherwise apply Access to justice: Member States must ensure access to justice through rules governing time limitations, legal costs,	Removes: - the EU-wide civil liability regime, - the overriding mandatory application of civil liability, - third-party representative action provision. Each matter is delegated to Member States	Same as Commission's Proposal	Same as Commission's Proposal

Aspect	Current CSDDD	Omnibus I Commission proposal	Council Position	Warborn Draft Report
	injunctive measures, third-party representation, and disclosure.			
Financial Sector	<p>Financial services and products provided to downstream business partners are excluded from the “chain of activities” (see chain of activity definition above), exempting financial undertakings from due diligence obligations for them</p> <p>Report on the need for due diligence rules tailored to financial sector after 2 years</p>	Report regarding financial sector requirement deleted	Same as Commission’s Proposal	Same as Commission’s Proposal
Intervals for Assessments	1 year	5 years	Same as Commission’s Proposal	Same as Commission’s Proposal
Fines	<p>Fines based on the company’s net worldwide turnover</p> <p>“Maximum Limit” of fines not less than 5 % of the net worldwide turnover of the company</p> <p>(note: “maximum limit” does neither mean minimum, nor maximum fine! It means that the maximum fine must be at least 5% of worldwide turnover)</p>	<p>Deletes the requirement to base fines on the company’s net worldwide turnover</p> <p>Prohibits Member States from setting a maximum fine limit</p>	Same as Commission’s Proposal	Same as Commission’s Proposal
Transition Plan for Climate Change Mitigation	<p>Companies must adopt and put into effect a transition plan for climate change mitigation (CTP)</p> <p>Best efforts are required from companies</p>	Adoption required but no obligation to put into effect CTPs (implementing actions should be included in CTPs)	<p>Adoption required, but no obligation to put into effect CTPs</p> <p>Only “reasonable efforts” required from companies</p>	Deletes all CTP-related provisions (Article 22 and enforcement-related obligations)

ECONOMIC EFFECTS OF THE EU CSDDD CONSIDERING THE OMNIBUS PROCESS

Aspect	Current CSDDD	Omnibus I Commission proposal	Council Position	Warborn Draft Report
	<p>Compatibility of company's business model and strategy with the 1.5°C Paris Agreement goal and climate neutrality objective</p> <p>CTPs must follow specific design requirements, including emission reduction targets</p> <p>Supervisory authorities must supervise both adoption and design of CTPs</p>		<p>Reference to 1.5°C goal removed</p> <p>CTPs design requirements made optional</p> <p>CTP adoption can be optional for first 2 years</p> <p>Supervisory authorities supervise only adoption of CTPs</p>	
Reporting Obligations	<p>Detailed sustainability reporting required.</p> <p>CSDDD says that companies falling both under the CSDDD and CSRD have to report according to CSRD (this will apply to most companies)</p> <p>Companies falling under the CSDDD, but not under the CSRD: Commission delegated act with criteria for reporting</p>	<p>No changes regarding reporting in the CSDDD, but the CSRD is also subject to Omnibus:</p> <p>CSRD Omnibus: Reporting limited to very large companies: Threshold increased to companies with > 1000 employees and turnover > € 50 million (1), and 1000 employees and turnover > € 450 million (2)</p> <p>(Note: CSDDD scope covers even larger companies. This means that most companies under the CSDDD will still report according to CSRD.)</p> <p>CSRD Omnibus: Value Chain Cap for smaller companies not covered by the CSRD. (Note: This means that the information which companies falling under the CSRD can request from companies in their value chains must</p>		<p>CSRD Omnibus: reporting limited to companies with 3000 employees AND turnover above 450 million</p> <p>CSRD Omnibus:</p> <p>Value Chain Cap: 3000 employees and a net turnover of EUR 450 million</p>

Aspect	Current CSDDD	Omnibus I Commission proposal	Council Position	Warborn Draft Report
		not exceed the information in the VSME standard, if the company in the value chain has fewer than 1000 employees) – 1&2		
Sector-Specific Standards	Plans for sector-specific reporting standards.	Cancellation of sector-specific reporting standards.		Similar
Transposition and application	<p>Transposition deadline: 26 July 2026</p> <p>Staggered application:</p> <ul style="list-style-type: none"> • 26 July 2027: EU companies with > 5,000 employees and a net worldwide turnover of more than EUR 1.5 billion AND non-EU companies with a net EU turnover of more than EUR 1.5 billion • 26 July 2028: EU companies with > 3,000 employees and a net worldwide turnover of more than EUR 900 million AND non-EU companies with a net EU turnover of more than EUR 900 million • 26 July 2029: all in-scope companies. 	<p>Transposition deadline: 26 July 2027</p> <p>Staggered application:</p> <ul style="list-style-type: none"> • 26 July 2028: EU companies with > 3.000 employees and a net worldwide turnover of more than EUR 900 million AND non-EU companies with a net EU turnover of more than 900 million. • 26 July 2029: all in-scope companies 	<p>Transposition deadline: 26 July 2028</p> <p>Application to all in-scope companies from 26 July 2029</p>	Same as Commission’s Proposal

Source: own compilation based on Council of the European Union (2025), Directive (EU) 2024/1760, European Commission (2024, 2025), Warborn (2025) Council (2025)

3 THEORETICAL PERSPECTIVES ON INTERNATIONAL STANDARDS

This section provides an overview of the relevant theoretical perspectives on the role of social and environmental standards such as the EU CSDDD in the international economy and analyses how such standards should be configured. Firstly, we provide an overview of the debates over social and environmental standards. Secondly, we show how the role of binding standards can be assessed within neoclassical economics, the dominant paradigm in the discipline. Thirdly, we analyse how alternative and more recent theoretical approaches in economics with a specific focus on the relation between the Global North and the Global South and on development, like the global value chain approach, can be employed to discuss the question of international standards. Furthermore, we present the power resources approach that is useful for assessing how the expected regulations affect the relative position of stakeholders, governance processes and governance structures.

3.1 Social and environmental standards in the international economy

The role of internationally binding social standards or so-called social clauses has been a topic of much debate. Some argue that liberalised markets lead to development. As Nobel laureate Milton Friedman (1970) stated in a well-known essay, the only social responsibility of companies is to maximise profit. However, others question this assumption about the benefits of liberalised markets and unregulated profit maximisation. According to this latter perspective, liberal markets do not automatically lead to improved working and living conditions, nor the protection of human rights for various reasons (see below). Therefore, the implementation of binding rules to enforce such a desired behaviour is considered essential.

Against the backdrop of traditionally weak trade unions in many parts of the Global South and consequently low standards and/or weak enforcement, proposals have been made to implement and enforce such rules at the international level. As shown in section 3.3, this can be considered to be a transfer of power from trade unions with strong power resources towards weaker ones. The rationale for such standards has been to protect workers in the Global South. Additionally, 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. Furthermore, international competition was expected to put downward pressure on national social standards, potentially having negative effects on workers globally (Scherrer 1998).

The discussion on the need for international standards evolved dynamically in the context of the establishing of the World Trade Organisation (WTO) which was intended to further liberalise trade at the international level. Against the background of a declining wage share in the global economy resulting from the liberalisation process, often referred to as globalisation, the need for international coordination and institutions regulating negative consequences of competition was prominently raised by Nobel laureate Joseph Stiglitz (2007) and others.

Besides social clauses as international standards, e.g. as part of international trade rules, private labels and voluntary codes of conduct have also traditionally been proposed to address the problem that international competition tends to undermine social standards. However, as Creven/Scherrer (2002) show, 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, rather than voluntary codes, are seen as 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. In order to expand the effects of such measures, these social clauses should ideally be established at the international level, e.g. at the WTO or UN levels. However, the discussion about the implementation of such regulation at the WTO is currently not on the agenda. As shown further below, the implementation of such standards by a large regional trading block, such as the EU is viable and is expected to have considerable positive effects.

The period of increasing and liberal globalisation has come to an end for a number of reasons. Problems of rising inequality and the interruption of supply chains during the Covid pandemic made the downsides of globalised production more visible. Supply chains are under scrutiny and more transparency is expected to reduce associated risks. Moreover, the global economy is currently characterised by the emergence of multi-polarity that accompanies the significant rise of geopolitical rivalries (Ryner/Cafruny 2016). Within this new context, instead of simply further liberalising international markets, more specific international trade and investment policy goals and strategies have emerged. An indiscriminate approach to corporate strategies and investment flows is in part being replaced by more specific strategies (Jäger/Springler 2019). These recent developments have led to a discussion about the adequate foundations for these strategies. In order to avoid one-sided interest-oriented policies and protectionist tendencies, according to Raza (2023) a human rights-based approach to international economic policy, ideally in the form of multilateral cooperative institutions, is a suitable foundation.

3.2 Neoclassical approaches

Simple neoclassical approaches and traditional trade theory are sceptical of introducing measures that potentially have negative effects on output and trade. Hence, compliance with human rights standards that potentially increases the costs of production is assumed to negatively affect the comparative advantage of the Global South, namely cheap labour (Scherrer 2017). In this perspective, based on neoclassical welfare economics, measures that increase costs because of so called bureaucratic demands or taxes have a negative effect on welfare, and hence, are not considered Pareto-optimal. Hence, in this simplistic perspective, increasing the burden for companies with additional regulations (e.g. the CSDDD or similar legislation) is considered negative (BMWK 2022). Felbermayr et al. (2021), in a study on due diligence, present an example for such an approach and its negative outcomes. Their study focuses solely on the costs rather than considering the benefits. It is not surprising that this study, financed by *Gesamtmittel e.V.*, the corporate association of Germany's metal industry, is very sceptical of a due diligence legislation and argues in favour of establishing a so-called 'negative list' of companies that should be excluded from economic activities with companies from the EU. This is expected to represent the least invasive and least cost-intensive alternative to a due diligence legislation.

However, the effectiveness of an approach based on negative lists must be questioned for four reasons:

- Firstly, instead of an ex-ante approach, this is an ex-post approach lacking regulation that imposes obligatory corporate responsibility on companies in the Global North.
- Secondly, it can easily be circumvented as companies on the negative list may simply continue to operate under a new name.
- Thirdly, such a negative list is potentially prone to political processes. Whether a company from a specific country is added to the list might be influenced by diplomatic or foreign policy considerations. Similarly, a negative list might be misused to achieve economic goals, e.g. by taking protectionist measures.
- Fourthly, despite strong lobbying by companies in Germany and France against a corporate due diligence legislation, these countries did not opt for negative lists but for a binding due diligence legislation (see below) (see Paasch 2021).

In a standard neoclassical approach, market imperfections are considered relevant and must be addressed as described in standard introductory textbooks to economics. Existing studies on potential economic impacts of due diligence regulation also point to the importance of market imperfections, mainly in the form of externalities (Kolev/Neligan 2021). Beyond external effects, other market imperfections such as market control, asymmetric information, and public goods can be considered. Addressing these market failures provides a strong rationale within neoclassical economics to address workers' and human rights (Scherrer 2017). Considering these issues is also crucial when evaluating the potential economic impact of the CSDDD.

There is strong empirical evidence (see section 4) that economic activities, in particular in the Global South which often have weaker legal frameworks or less effective legal enforcement processes, cause social or environmental harm by violating human rights. Economic activities of companies based in the Global North can have negative effects on the Global South. This can happen either through trade and financial relations or productive activities in countries of the Global South. This can also be referred to as destructive competition or 'race to the bottom'. An important reason why this destructive competition exists is that workers cannot easily exit the market when conditions worsen. Even more problematic is that, in the context of the agrarian transformation in the Global South, people engaged in subsistence production are often forced to move out of these traditional forms of production and search for employment in the labour market. This increases the supply of labour and puts downward pressure on wages. As workers often cannot exit the labour market and return to the subsistence sector, they may be forced to expand the labour supply in the context of decreasing wages and a lacking societal safety net. This puts a further downward pressure on wages and working conditions (Scherrer 2017).

In addition to these points, market malfunction in the context of development, i.e. violating human rights (and environmental rights), can be considered a market failure in a neoclassical perspective for four different reasons:

Firstly, it represents a negative externality. Negative externalities are negative effects on bystanders (not on contractual parties). These include, for example, the effects on the neighbourhood, the productive foundations of an indigenous group of people, pollution of water, etc. The violation of employees' human rights can also be considered as externalities. Exploitation of workers (e.g. unpaid overtime), workplace injuries, sickness, or death in the workplace may indirectly harm family members as well as other companies, as the value of human capital is lessened and, therefore, overall well-being is reduced. Moreover, very often the work contract can easily be terminated by the employer when a worker cannot continue to work because of a labour accident or a similar event. The worker suffers directly, and these costs are usually not covered by the employer. They are externalised on the worker or their family. Measures that make these negative external costs internal to the company, e.g. by (indirectly) forcing the company through due diligence regulation to consider these risks

and costs, serves as a market-correcting tool that increases market efficiency by internalising externalities. However, potentially positive external effects should also be considered when evaluating the impact of regulatory measures. In the case of fundamental human rights, the optimal solution is not a gradual one, but one that ensures that these rights are completely and quickly met. As Kolev/Neligan (2021: 21) hold, reducing negative externalities resulting from human rights violations should not be compared to costs or a potential decline of other positive externalities such as technology spillovers. The authors consider such a perspective to be cynical. Instead, they suggest adopting measures that lead to compliance with human rights standard under any circumstances.

Secondly, enforcing the compliance with human rights standards in terms of adequate governance structures can be considered a public good. Thereby solutions at the supranational level such as the EU are preferred over regulations at the national scale (Kolev/Neligan 2021). Given the weak institutions, or only a partial enforcement of human rights, in many countries (Acemoglu/Robinson 2012), addressing the issue contributes to overcoming a situation that can be considered a failure to deliver a public good. An instrument like the CSDDD is an effective strategy for dealing with this market failure and, in general, for increasing economic welfare in this neoclassical perspective by shaping governance institutions and by enforcing compliance with legal standards.

Thirdly, violations of human rights can be considered to be a result of asymmetric information and to lead to reduced welfare in a neoclassical perspective. Two cases can be distinguished:

- A first form of asymmetric information in this context is potentially a lack of knowledge of workers, whose rights might, therefore, easily be violated. By indirectly making workers more aware of their rights an effective due diligence regulation would make it more difficult for companies to violate these.
- A second asymmetric information problem is related to consumers' decisions. In the Global North a significant and increasing share of consumers cares about the social and environmental conditions under which products they consume are produced. This concern of consumers is mirrored in the fact that, according to opinion polls, a large majority of the population in the EU is in favour of due diligence legislation (Business & Human Rights Resource Centre 2023). Currently, consumers face a severe asymmetric information problem because they do not have reliable information. They are forced to trust, where these exist, private labels. The trustworthiness of these voluntary labels, certifications and controls via audits is doubted by many (e.g. Nygaard 2023 and ECCHR, Brot für die Welt and Misereor 2021). Without adequate knowledge consumers may purchase products they otherwise would not choose. By addressing this knowledge asymmetry an effective due diligence legislation would assure, or make it considerably more likely, that human rights and environmental standards are met.

Consequently, a due diligence legislation is expected to considerably reduce the asymmetric information problem and thereby increase welfare.

Fourthly, market control (and its abuse) can also be considered a relevant market failure within this context. In the context of market imperfection such as unemployment, underemployment and absent or weak social protection, which are all frequent empirical phenomena in countries of the Global South (OIT 2022), the bargaining position of workers vis-à-vis companies tends to be artificially weak. This may make the enforcement of human labour rights (such as the right to form unions) particularly difficult. A due diligence

legislation at the EU level will certainly help to address the negative consequences of this power asymmetry in support of workers and contribute to compliance with basic human rights standards.

In addition to these market failures, new institutionalist approaches in the broader neoclassical tradition (Acemoglu/Robinson 2012) provide a rationale for establishing measures that enforce compliance with labour standards such as those established in conventions in the framework of the International Labour Organisation (ILO) and human rights treaties such as the International Covenant on Economic, Social and Cultural Rights (ICESCR), as they are fundamental to 'good governance'. Inclusive institutions, that by definition aim for the respect of human rights, play a crucial role in fostering productivity and sustaining growth in contrast with extractive institutions (Acemoglu/Robinson 2012). Effectively guaranteeing the freedom of association, forbidding child labour etc. are considered institutions that potentially have positive effects on both the demand side and the supply side of markets as Scherrer (2017) summarises:

From a demand side perspective, compliance with labour rights such as the freedom of association is essential for less protected parts of the labour force and may contribute to decreasing inequality. This may have positive effects stimulating demand and potentially also reduces an excessive savings rate and capital flight.

On the supply side, standards that result in higher wages may help to increase human capital. The reason for this is that extremely low wages make it difficult or impossible for workers to invest sufficiently in health (resulting in malnutrition) or education for themselves and their children. This results in a loss of human capital and leads to lower productivity and output levels. Another reason why compliance with human rights is expected to increase productivity and, thereby, economic output is the effects of increasing wages and/or other costs associated with employing labour. When wages are very low, firms do not have a strong incentive to use labour efficiently. Effectively enforcing due diligence standards will make the introduction of more efficient technologies more likely. This has a positive effect on productivity and output.

This brief analysis based on a neoclassical approach has demonstrated that the argument that due diligence regulation will reduce welfare and is, therefore, considered not desirable relies on a very basic or simple neoclassical approach. A standard neoclassical view, however, highlights the market failures that result when human and environmental rights are violated. Within this neoclassical framework such market failures have a negative impact on welfare and, hence, should be corrected. As shown, it is not just problems of negative externalities, but also problems of public goods, asymmetric information and market power that must be addressed. In addition, based on a new institutionalist perspective, positive effects on economic output can be expected.

Hence, it is concluded that, based on neoclassical economics, the mainstream paradigm in economics, a due diligence legislation effectively addresses the problems of market failure and increases economic welfare. Such legislation can, therefore, be expected to have overall positive economic effects.

3.3 Global Value Chain Approach and Power Resources Approach

Besides these neoclassical approaches, alternative theoretical perspectives must be considered to adequately assess the potential economic effects of the EU CSDDD. These approaches include perspectives in the tradition of development economics such as the global value chain approach. Theoretical perspectives that deal with governance questions,

such as the power resources approach, must also be considered. These perspectives are crucial for a better understanding of the economic effects of international trade, international economic relations and power asymmetries, in particular regarding dynamic and long-term effects.

3.3.1 THE GLOBAL VALUE CHAIN APPROACH

Since the 1970s the global economy has been transformed to what can be called “hyper globalisation” (Subramanian/Kessler 2013). Based on free trade agreements, the liberalisation of the world economy paved the way for the creation of so-called global value chains (GVCs). The integration of the Global South into these GVCs was seen as a promise to overcome underdevelopment by attracting companies and investments from the Global North on the basis of a supposed comparative advantage in wage costs. As a result, production processes became more fragmented and transnational corporations (TNCs) steadily gained more influence and importance in organising global production.

In the 1990s, GVC analysis became a broad field of interdisciplinary research. Researchers became interested in the concrete structure of GVCs and highlighted the unequal power relations between the different parts of the GVCs. Typically, value is transferred from the beginning of the chain to the end, i.e. from the producers of the raw materials in the Global South to the TNCs' headquarters which are located mainly in the Global North. This happens because companies, in aiming to maximise profit, outsource (parts of) the upstream production to countries of the Global South.

GVC analysis differentiates several forms of governance in GVCs according to the degree of explicit coordination and power asymmetry (Gereffi et al. 2005, Lorenzen 2022). These forms of governance can range from integrated firms which include all production steps in the same company, to market relationships where there is no formal relationship between lead firms and suppliers. Along this spectrum, the GVC approach also describes modular, relational, and captive forms of governance, each of them having a different degree of coordination.

Typically, the GVC approach highlights the potential of upgrading within GVCs (Humphrey/Schmitz 2002). Since more value can be added closer to the end of the chain, suppliers in the Global South should aim for a better position in the production process. While this economic upgrading was seen as an appropriate way of fostering development, it was also highlighted that economic upgrading does not necessarily correspond with social upgrading and, thus, does not automatically improve the working conditions of the affected people (Marslev et al. 2022). Both forms of upgrading rely heavily on the power relations within GVCs. In some sectors (e.g. agriculture, textiles, electronics) competition among suppliers is very high, whereas only a few lead firms control the global market. This has often led to what is referred to as a ‘race to the bottom’, meaning that instead of social and economic upgrading, suppliers tried to compete by reducing costs, which often meant poor working standards for the employees in these companies. The focus on the power asymmetries between powerful lead firms and their suppliers in GVCs was expanded to a more nuanced notion of agency in GVCs in recent years. A series of studies in the field suggests that the improvement of the workers' position in GVCs is not solely dependent on an upgraded position of the supplier company in the GVC, but depends heavily on, for example, the bargaining and institutional power of these actors. Thus, political processes (based on the strengthening of human rights and legal frameworks) are crucial to social upgrading (Dallas et al. 2019).

In this regard, the role of the transnational regulation of labour is an important subject in the GVC approach. It is considered an institutional element that potentially affects the distribution of income along the value chain. In principle, strong and weak transnational forms of labour regulation are distinguished (Schüßler 2021). Strong forms of regulation are based on national or supranational governmental norms. The state and trade unions are the central agents of this form of regulation and laws, authority and sanction are central mechanisms. Weak forms of regulation are characterised by incentives, information, moral appeals and market mechanisms. The central agents are companies, NGOs and civil society. Schüßler (2021) argues that voluntary codes of conduct have not had any significant impact in improving labour standards in GVCs because problems of collective action cannot be addressed adequately, and workers are not included systematically. Hence, the GVC approach highlights the importance of the role of governments in implementing strong international regulations and standards to strengthen the position of workers (Lorenzen 2022).

3.3.2 THE POWER RESOURCES APPROACH

The Power Resources Approach (PRA) is invaluable for understanding how international trade affects workers' power. Walter Korpi (1978) first developed this approach to analyse the configuration of welfare states within capitalism. Korpi argues that the distribution of power resources between the contending classes, capitalists and workers, determines changes in the economic organisation of societies.

The Jena School has been one of the main contributors to this approach in industrial relations studies (Strategic Unionism, 2013). In the PRA and Jena School, the working class (and capitalists) have four power resources: organisational, structural, societal and institutional.

Organisational power refers to workers' ability to form working class organisations, such as unions, parties, etc. (Schmalz et al. 2018). Structural power refers to the workers' power arising from their strategic position within the economic system (e.g. in the value chain). Using this power, workers can disrupt or interrupt productive processes to achieve their goals. Typically, societal power refers to the ability of the working class to form alliances with other groups in order to achieve a common goal. Lastly, institutional power is defined as a secondary power resource that depends on the interactions of the other three powers. It represents institutional arrangements that are the result of past workers' struggles.

Using this approach, it is also possible to address GVCs and international trade. Many aspects of the internationalisation of economies affect workers' organisational power. First, international trade fosters specialisation in production. As a result, local workers are fragmented into several segments. GVC companies split units and delocalise some phases of production instead of taking over the entire process. Organisational and structural workers' power is negatively affected as a result. With international trade and complex GVCs, workers are no longer at the same workplace or even in the same country. Some structural power is also intercepted by companies moving some strategic choke points overseas. Specialisation also leads to dualisation in the Global South: a sector characterised by high labour intensity and low productivity (services) and another characterised by low capital intensity and high productivity (e.g. mining in the Andean countries). In some sectors, multinational companies use the legal vacuum in order to flexibly organise their work, which is different from what they used to do in their countries of origin. On-site outsourcing within core activities is an example of this. In Chile's mining sector, for example, 75% of core activities are outsourced (SERNAGEOMIN 2023). There is, of course, a difference in power resources between the contending parties behind these practices.

In the Global South, specialisation in the GVC intensifies natural resource exploitation. Multinational companies operate in poor local communities, posing the dilemma of for these communities of sacrificing the environment while obtaining employment and income. Multinational companies hire highly skilled workers from the large cities where universities are located because they cannot find them in rural communities. Communities have to deal with corporate interests, and with the need for income. It is difficult to develop workers' societal power resources in this context. Additionally, companies use corporate-driven NGOs to establish relationships with local communities as in the case of the mining company Anglo American (2023).

International standards aimed at regulating decent working conditions and/or establishing minimum employee rights can be viewed as institutional workers' power resources. A GVC encompasses several realities regarding the sources of workers' power, and international standards can be understood as a transfer of power from workers with more power to workers with less power. The process is similar to mandatory extensions in collective bargaining, but in this case, it is international. In this way, international standards can extend minimum protection and foster solidarity. As a result of the international standards, local power resources can be boosted or even activated. For example, workers' power resources can be boosted in a country of the Global South only because workers are convinced that international standards are effective.

4 EMPIRICAL EVIDENCE ON THE EFFECTS OF GLOBALISATION AND DUE DILIGENCE REGULATION

4.1 Empirical evidence on the effects of globalisation

There has been an intensive academic debate over whether the integration of the Global South into the global economy, often referred to as globalisation, has positive effects or not. Empirical research is required on whether or not a liberal organisation of the international economy automatically leads to improving social and environmental standards and human rights. The findings of such research could help assess how necessary the implementation of international regulations like the EU CSDDD is. Frequently, simple approaches in the tradition of neoclassical international economics emphasise the benefits of liberal international market integration. Analysis based on alternative and critical views tend to demonstrate the downsides (Stiglitz 2007). Authors in the tradition of the World Systems approach highlight the long-term persistence of asymmetries in the global division of labour and its impact (Wallerstein 2004). Possible negative effects on the economic development of the Global South of liberal trade are also argued against the background of new economic geography that highlights the importance of externalities in a neoclassical perspective (see Krugman 1998).

In a study of due diligence regulation, Felbermayr et al. (2021) claim that the integration of the Global South into global production networks is overall beneficial. The authors point to correlations between economic integration and economic growth and the Human Development Index (HDI) among others. However, the empirical evidence is not as favourable as presented. It depends on how success is defined, which data is analysed and how it is interpreted. A closer and broader look at data shows clearly that there is no automatism that links liberal external economic relations to better social and human rights

standards. On the contrary, the relationship is rather weak. Important differences between countries that have a similar trajectory and degree of openness are notable and, therefore, have to be addressed. For a more detailed assessment, it is important to distinguish between different forms of integration into the global economy:

Firstly, there are countries or regions that mainly export natural resources or commodities - these are often referred to as extractivist economies. In this case, an abundance of natural resources and their extraction and export to the Global North often has negative effects on the development of the exporting country, sometimes called the resource-curse (Fischer et al. 2016). This tends to be particularly problematic in case of mining, which is frequently associated with human rights abuses, substantial pollutive activities and negative impacts on third parties. Often the lack of legal enforcement together with strong lobbying activities by corporate-driven NGOs, bribery, social washing and greenwashing are strategies to hide the problematic impact of extractive activities of foreign companies (e.g. CIPER 2015, Interferencia 2023). In agricultural production, working conditions are also often poor and human rights abuses are frequent. The implications of pesticide use – products which are often exported from the Global North to the Global South – highlight the grievances in this sector. A study published in 2020 indicates that 385 million cases of acute pesticide poisoning occur every year in global agriculture, with approximately 11000 deaths (Boedeker et al. 2020). Paradigmatic examples for not just the absence of positive but the prevalence of negative impacts on development, human rights and the environment are the Democratic Republic of the Congo (Exenberger 2016) and bauxite-extracting Guinea (Knierzinger 2016). In middle income countries too, the liberal insertion into the global economy based on extractivism may be associated with significant inequalities, weak social development, human rights violations and high environmental costs (Ghiotto/Lattera 2020).

A second form of integration of the Global South into the global economy is by participation in GVCs through the manufacturing sector. In this case, as Fischer et al. (2021) argue, the potential for economic development is higher but it depends on whether suppliers in the Global South can acquire more competences and capabilities and that linkages to local firms are created. However, as the authors hold, these processes do not happen automatically. Important reasons for this are externalities and power relations. Therefore, an adequate economic policy is needed to foster economic and social development.

A study by the International Monetary Fund (Raei et al. 2019) reveals that trade related to manufacturing rather than conventional trade (often based on extractivism), tends to have a positive impact on income per capita and productivity. However, the authors point to the substantial differences between different countries and hold that the gains tend to be concentrated mainly in the upper-middle and high-income countries. Moving up in the hierarchies of global supply chains, according to Raei et al (2019), takes place but is not universal. Institutional factors, and therefore economic governance structure seem to play a crucial role.

In a similar vein, Selwyn/Leyden (2022) criticise the World Development Report (World Bank 2019) which portrays the data in a way to suggest that liberal governance of GVCs is beneficial. The authors hold that the empirical evidence suggests otherwise. By using the data and referring to the case studies mentioned in the report, they clearly demonstrate the biased perspective. They show that the World Development Report ignores evidence that opposes its success narrative and misconstrues case studies to better support the claims. Evidence that workers in the Global South do not benefit is ignored and the importance of worker's collective agencies and of institutions for improving the working conditions and wages is not mentioned.

In addition, based on detailed case studies in Cambodia and China, Selwyn (2019) challenges the prevailing assumption that workers' low wages in the Global South are an effect of their employment in low productivity sectors. On the contrary, the author shows that many companies in the Global South are often as or even more productive than their counterparts in the Global North. Often female workers are paid below subsistence requirements, and the lead-firm's value capturing strategies have negative effects on workers in terms of wages and working conditions. Hence, liberal integration into global value chains does not necessarily benefit workers.

Moreover, the problem in the Global South is not only wages but poor working conditions and the lack of social welfare such as poor healthcare. These factors are important. HDI, besides GDP, considers only life expectancy and education as social indicators (UNDP 2023). Thus, focusing only on HDI falls short in addressing the specific working and living conditions of people. Changes in living conditions do not arise because of automatic wage rises due to market processes. In the context of often high structural unemployment in the Global South the effective guaranteeing of collective rights such as collective bargaining are essential preconditions for these changes. Low and often declining wage shares in GDP (Alcaro Tosoni 2017, Stockhammer 2017) are an expression of the weak bargaining power of workers in the context of economically open economies in the Global South.

A report of the International Labour Organisation (ILO) illustrates these findings with a study on the clothing industry, explicitly highlighting that the reasons for the bad working conditions are due to dynamics in global supply chains. It indicates that working conditions in the sector are still insecure and precarious. This affects mainly women (ILO 2022: 41). Additionally, women reported cases of gender-based violence and harassment in the context of pressure from male supervisors and managers who push them to meet production targets set by fashion brands (Bhattacharjee/Khambay 2022).

Weakly regulated economic relations between the Global North and the Global South do not just entail human rights violations and have detrimental effects on the environment, but also tend to benefit the Global North over the Global South. Due to monopolistic structures and ownership structures, a systematic transfer of wealth from the South to the North occurs (Smith 2016). In terms of natural resource extraction and unequal pollution patterns this has been called unequal ecological exchange. Empirical estimates show that these transfers are substantial (Dorninger et al. 2021).

Besides the problems of extractivist strategies and a usually subordinated position in GVCs, the insertion into the globally asymmetrically structured financial system also has a significantly financial negative net effect on the Global South. According to UNCTAD (2019), the net transfer of financial resources from the Global South to the Global North amounts to an average of 440bn USD annually. Financial activities and financial sector investment in the Global South are often connected to human rights violations. Thus, the financial sector faces direct human rights risks (UNEPFI 2014). An example is institutional investors such as pension funds. These funds regularly invest in extractive activities with problematic social and environmental consequence as the Chilean experience shows (Gálvez et al. 2020). Another example can be found in the Cambodian microfinance sector, which has been built with the assistance of development partners from the Global North (Green et al. 2023: 9). Microfinance is an important tool in the strategies for development partnerships in most countries of the Global North although research has already indicated the downsides of the approach for years (e.g. Karim 2011). In Cambodia, questionable financial practices by local micro financial institutions frequently lead to over-indebtedness of households. The consequences are that often people lose their land and, hence, their means of economic subsistence (Bliss 2022, CATU/CENTRAL/LICADHO 2020). In addition to this, the dynamic development of financial investment under the banner of 'green finance' in many cases has

a negative impact on the local population in the Global South (Jäger/Schmidt 2020). Frequently, e.g. for the purpose of carbon offsetting practices, people in the Global South are expelled from their collectively used land, a severe violation of human rights (Lyons/Westoby 2014).

Scherrer (2017) points to their positive impact of international labour standards. In general, higher standards are associated with higher economic performance in the Global South. An exception is countries in Southeast Asia where this correlation tends to be weak (ITUC 2020). The high economic growth in this region has been achieved through a form of dumping - by not complying with international standards, gains in market shares and relative economic success are achieved at the expense of others. This can be seen as a result of harmful competition that results from lacking binding international standards and, therefore, underlines their importance.

Goliathwatch (2022), in a detailed case study on coffee growing in Uganda, demonstrates how human rights violations have occurred under the current liberal international economic trade regime. As the report holds, these human rights violations could have been prevented if a strong due diligence regulation had existed. Moreover, against the background of multiple crises, worker's rights have substantially suffered recently in many countries (ITUC 2022). Hence, the EU CSDDD is essential for preventing human rights violations and the related negative economic effects.

In summary, empirical evidence shows clearly that international trade, foreign direct investment, financial investment and economic upgrading do not necessarily lead to social upgrading. On the contrary, significant negative external effects are often caused by these economic activities. Furthermore, higher wages do not automatically lead to better working conditions. Unregulated international trade is not necessarily beneficial to workers in the Global South but often leads to human rights violations, and a positive social impact is not guaranteed. As it is often difficult to implement effective governance structures at the national level in the Global South, and voluntary measures have turned out to be inadequate, internationally binding rules with a sufficiently broad scope are the preferred option. Measures such as the EU CSDDD represent a necessary step towards substantially reducing the number and extent of human rights violations that are often common practice in the Global South.

3.1 Experiences with existing due diligence regulations

Prior to the adoption of the CSDDD, different forms of due diligence regulation addressing certain aspects already existed (Grabosch, 2019), and two EU member States had already implemented two comprehensive national HRDD laws: France and Germany.

The 2017 French Law on the Duty of Vigilance (articles L. 225-102-4 and 225-102-5 of the French Commercial Code) obliges large companies operating in France (with at least 5000 employees, 10000 if headquartered outside France) to adopt a vigilance plan designed to prevent human rights abuses and environmental damage arising from their activities and throughout their value chains. Companies must identify, assess, and mitigate risks related to human rights, both in their own operations and in those of their suppliers.

The German Act on Corporate Due Diligence Obligations in Supply Chains (*Lieferkettensorgfaltspflichtengesetz, LkSG*), in force since January 2023, imposes similar requirements on large companies based in or operating in Germany, initially those with more than 3000 employees and, from 2024, those with more than 1000. These companies are required to prevent and address adverse impacts on workers, communities, and the

environment connected to their own activities as well as to those of their suppliers. The law covers direct suppliers (tier 1) comprehensively, and indirect suppliers (tier 2 and beyond) where companies have substantiated knowledge of human rights violations.

The two laws rely on two different enforcement mechanisms. The French law foresees civil liability for the company not respecting its due diligence duty, whereas the German law relies on administrative sanctions (up to 2% of the average annual turnover). Notably, in the CSDDD these approaches to enforcement have been combined, which could potentially lead to a higher degree of implementation by companies. However, as we discussed in section 2, the Omnibus procedure may seriously dilute the civil liability provision in the CSDDD.

Albeit slowly, due to some limitations that we will discuss, people have started to make use of national HRDD laws to address systematic human rights violations, often with the support of trade unions and NGOs. In France, a number of lawsuits have been brought under due diligence legislation (see <https://vigilance-plan.org/court-cases-under-the-duty-of-vigilance-law/>), ranging from issues such as climate change (e.g. the two cases brought against the oil company Total), the right to water (e.g. the case brought against the multinational Suez concerning its operations in Chile) as well as workers' rights (such as the case brought against the cosmetic company Yves Rocher concerning its operations in Turkey). Yet, it was only in December 2023 that the French law saw its first ruling on the substance of a case. The lawsuit, originally filed in 2020 by the trade union Sud against the state-owned postal operator La Poste, centred on the company's use of subcontracting. In its decision, the Court partially agreed with the union, finding that La Poste should update its vigilance plan. However, the judgment stopped short of imposing any penalties or setting a deadline for the company to make the required changes.

In Germany, the number of complaints to BAFA, the competent authority responsible for ensuring that companies comply with all due diligence obligations under the LkSG, is growing, signalling an increase in the take-up of the law by affected persons. Whereas in 2023 BAFA received 30 complaints naming 40 companies, in the first quarter of 2024 the number of complaints received was already 75 (Hansohm, 2024). Compared to the French law, the threshold for submitting a complaint appears lower than that required to initiate a civil liability action. Although BAFA does not disclose which companies are the subject of complaints, many cases enter the public domain because the actors filing them - such as NGOs and trade unions - choose to make them public. These include complaints regarding violations of workers' rights in global value chains, e.g. the complaint brought against the supermarket chains Rewe and Edeka by the Ecuadorian trade union of agricultural workers and farmers in the banana sector, ASTAC and Oxfam, supported by the NGOs Misereor and ECCHR (ECCHR, 2023b). Even the United Auto Workers - one of the more powerful trade unions in the US - lodged a complaint under the LkSG against Mercedes Benz, arguing that anti-union practices at the company's Alabama facility contravened its due diligence duties (UAW, 2024).

As in the French case, most of cases are still ongoing. Thus far, BAFA seems to have pursued a lenient approach, with no fines being administered (ECCHR et al., 2025). A stricter position appears to have been taken only in a prominent case, the 2023 Gräfenhausen wildcat strike. This strike involved dozens of truck drivers, mostly from Uzbekistan and Georgia, who had not been paid for months by their Polish employer. BAFA's intervention in the case, through investigation of the companies involved, seems to have contributed to the reaching of an agreement and the payment of outstanding wages (Buckel et al, 2023). Even in the cases still ongoing, interviews conducted by one of the authors of this report with Global South trade unionists who decided to bring a complaint under the LkSG highlighted how the law is seen as a helpful tool, especially in countries with weak labour rights protection (interview with trade unionist of ASTAC, Ecuador; interview with a trade unionist of the National Trade Union

Federation, Pakistan). In the case of a complaint brought against the retailers Edeka and Rewe, for instance, complainants reported the increase of wages at one of the suppliers of Rewe (interview with trade unionist of ASTAC; ECCHR et al, 2025, p. 21).

At the same time, empirical research has highlighted how existing due diligence legislation does not seem to have negative effects on companies' profitability. Analysing the impact of the French 'Loi de Vigilance' on the performance of 11504 French firms, Reinsberg and Steinert (2025) did not find evidence that the law significantly affected the profit of regulated firms, nor their profit drivers.

Granted, both laws have limitations. In both cases, there is not a public list of companies that are officially covered by the law, which makes it harder to target non-compliant companies. As highlighted by the fact that most cases brought under either the French or German law are still ongoing, implementation of the law is also proceeding slowly, and it would arguably be beneficial to allocate sufficient resources to the authorities responsible for enforcement and to increase the political will to sanction companies (Misereor 2025). Moreover, the fact that neither law foresees a reversal of the burden of the proof imposes a great effort on those who intend to bring a civil lawsuit (under the French law) or a complaint (under the German law) against a company, with a burdensome process of collection of evidence that often requires different organisations to join forces in order to construct a case. Whereas the CSDDD also suffers from these limitations, these could be addressed at both the European and national level in order to make due diligence legislation more effective and meaningful to address systematic violations of human rights. Instead, as highlighted in sections 2.3 and 2.4., the Omnibus procedure risks going in the opposite direction, potentially leading to a weakening of already existing national legislation, and to the adoption of toothless new laws in the transposition process.

5 EXPECTED ECONOMIC EFFECTS OF THE CURRENT CSDDD COMPARED TO THE PROPOSALS MADE IN THE OMNIBUS PROCESS

Given the significant differences between the CSDDD in its current version, and the amendments suggested by the European Commission in the Omnibus proposal and in a similar way by the Council's position and the European Parliament's draft Warborn Report (although with some important differences, see chapter 2), a significant shift in terms of economic effects compared to the original CSDDD is expected.

This study does not consider original proposals demanding a relatively stronger and more far-reaching normative structure as reflected by the European Parliament's original position and demanded by worker's associations or human rights organisations like Amnesty International (2023) or the European Coalition for Corporate Justice (ECCJ). The reason for this is that in the current political process such far-reaching proposals seem currently out of scope. However, it should be noted that these proposals were made in earlier stages of the political process.

The focus in this updated study is on the comparison between the potential economic impact of the current CSDDD compared to those that might occur if changes suggested by the Omnibus proposal and the Council's position as well as the draft Warborn report are adopted. The major differences with regard to economic implications between the original CSDDD and the three different proposals made during the Omnibus proposal by different institutions were already discussed in section 2. Firstly, in the Commission's proposal there is no change in scope of the application of the directive compared to the current version. This is different in the position of the Council and the draft Warborn Report, where much higher size thresholds for companies to be subject to the CSDDD are suggested. Secondly, the focus on Tier 1 by the European Commission's proposal with a slight amendment of the draft Warborn report can be expected to substantially reduce the reach and thereby the effectiveness of the directive. Thirdly, the dilution of civil liability is also expected to reduce the effectiveness of the directive considerably. Fourthly, obligations requiring transition plans for climate change mitigations are considerably weakened or completely abandoned so that expected positive effects are likely to vanish.

As Scheper (2017) warns, the effectiveness of a due diligence approach to human rights depends very much on the specific policy arrangements. If the policies are adequately designed, they may make a significant contribution. Weak regulations tend to increase the legitimacy of corporations and their interpretations of human rights rather than to strengthen the role of workers, civil society and the environment. The stricter the rules, the broader the scope and the narrower the loopholes, the more effective in terms of human rights and the more positive the economic welfare effects will be. In addition, against the background of the power resources approach, a strong EU CSDDD is an important step toward facilitating the construction of international labour solidarity and corresponding international governance structures. Hence, a strong EU CSDDD has the capacity to strengthen the power resources of workers and trade unions in the Global South and, indirectly, also of workers and trade unions in the EU. The current CSDDD lays the foundations for a substantial transfer of power resources to workers, trade unions and civil society in the Global South and the EU. It would represent an important step forward in terms of improving human rights conditions (Durán et al. 2024).

In the following, we provide a detailed analysis of the likely effects of the current CSDDD compared to the amendments suggested during the Omnibus process by the European Commission, the European Council and the draft Warborn report of the JURI Committee of the European Parliament. We firstly assess how companies are directly and immediately affected. We analyse which reactions can be expected and what economic implications can be foreseen. Secondly, we assess the indirect and dynamic effects of the CSDDD on power relations and likely changes in economic governance structures at different scales and the expected economic effects. Based on the integrative analysis of direct short-term and dynamic long-term processes, we analyse the economic effects on the Global South, on global competitiveness and the European economy and workers in Europe and on environmental issues.

5.1 Direct effects on companies and their behaviour

As **the current CSDDD** sets standards for companies that are based in or active within the EU it is essential to understand how these companies, and those companies that are indirectly affected, perceive the regulation and how they will change their behaviour. Subsequently, it is analysed how this affects the behaviour of others via market and non-market mechanisms according to the linkages and mechanisms outlined above in section 3.

To assess the perception of companies and their reactions to a due diligence legislation, findings from surveys can be used. Examples of such surveys are a survey by the European Commission (2020: 44), based on 334 respondents from the business sector, and a survey by the German Economic Institute (Kolev/Neligan 2022) on German companies and their perceptions regarding the German due diligence regulation (German Supply Chain Act). The latter survey includes responses from 1085 companies of different size, mainly in the manufacturing sector.

A significant share of companies in the EU has already adopted procedures of due diligence that are expected to meet, or even surpass, (a stronger version of) the EU CSDDD. The survey of the European Commissions (2020a: 403, Tab. 8.25) shows that a third of the companies already carry out human rights due diligence. According to the German data, 16% of companies expect no need for implementing any changes in their corporate behaviour as they already meet the criteria demanded by the German *Lieferkettensorgfaltspflichtengesetz* (Kolev/Neligan 2022). More recently, many companies in Germany have demonstrated that they are already well prepared (Creditreform, 2024). Moreover, the CSDDD also finds broad support by companies with a strong focus on protection against unfair competition from companies that violate human rights. (IDVO 2025).

As highlighted in section 4.2., the two largest EU states, Germany and France, already had human rights due diligence legislation in place. Companies that don't comply with human rights standards in France have already been taken to court and, in Germany, complaints have been filed to the responsible authority BAFA (see Duty of Vigilance Radar 2023; ECCHR, Brot für die Welt/ Misereor 2025, see section 4.2). The economic effects of the EU CSDDD will be relatively minor for companies that are active in those countries or otherwise fall under existing national legislations.

Companies that already conduct some sort of due diligence practices in human rights and environmental rights may benefit directly from the proposed regulations. These companies, according to a survey of the European Commission (2020), represent more than one third of the companies in the EU, with around half of them covering the whole value chain. This indicates the viability of due diligence processes at the company level in practice. While the additional costs of compulsory measures will not be significant, these companies will benefit from a level playing field that will be created. The competitive advantage from companies not voluntarily complying with human rights standards will be eliminated. This will facilitate economic activities of hitherto compliant companies. Although in favour of simplification, a recent joint investor statement by the Institutional Investors Group on Climate Change shows broad support for the CSDDD and underlines the viability of due diligence processes, the principles of which should be preserved (IIGCC, 2025).

Companies that have not yet voluntarily adhered to human rights standards are faced with three options when due diligence legislation is enforced. Firstly, they can change their practices to comply with the standards and continue their business. Secondly, they can cut their ties with potentially problematic companies in the value chain and replace these companies by others (depending on the specific due diligence requirements established). This might either be undertaken by reducing the number of suppliers as Felbermayr et al. (2021) claim, or by avoiding non-compliant economic partners. Thirdly, they can shut down the respective business activities. These potential reactions are analysed in detail in the following:

In the first of the above cases, companies start complying with obligatory due diligence standards and continue with their business. This means that they will face costs of screening

their activities for human rights violations and for setting up standards to avoid these violations. Two scenarios are possible:

Under the first scenario, the company determines that it had already been compliant and there were no human rights violations in their value chain. In this case the business process continues unchanged. The downside for the company is higher costs for monitoring compliance with standards. On the upside, a better understanding of the value chain may help to reduce risk and contribute to resilience by improving corporate governance, improved operational knowledge, strengthened stakeholder relationships, improved transparency and better internal rules. This is expected to eventually reduce labour costs, increase operational efficiency, reduce risks and adverse events, decrease capital costs and increase growth opportunities (European Commission 2020: 453).

Under the second scenario, companies identify human rights violations occurring in their value chain. Such a company might compel its partners in the value chain to comply with the legally required standards. This will not only lead to the positive effects of increased compliance with human rights standards, but it will also increase economic welfare. This intended outcome of the EU CSDDD will be achieved, because of the reduction in market failures such as negative externalities.

In the second case, companies start to comply by avoiding business relations with problematic companies in the value chain. Instead, they switch to compliant suppliers. The result will be that economic activities of non-compliant companies supplying goods and services to the EU will reduce and those of compliant suppliers will increase. As non-compliance with human rights standards has negative welfare effects, these negative effects decrease and economic activities with compliant behaviour increase, which has an overall positive welfare effect. If some companies in the value chain might be replaced by others, this could cause a reduction of employment in the companies that are not compliant with human rights standards. However, the CSDDD as well as the UNGP have a “stay and behave” approach inducing companies to adapt and not to “cut and run”. The CSDDD has concrete provisions that oblige corporations to enter into fair contracts with business partners, and support them. Moreover, covered companies must make a due diligence assessment before cutting business relationships. In as such, workers and human rights are strengthened. Where business relations are suspended, the production is shifted to companies that comply with human rights standards. It is in these companies, where new employment compliant with standards, and hence, better working conditions, are expected to be created. While the net employment effect, *ceteris paribus*, would be zero, overall economic welfare would increase because of the correction of market failures and the reduction of negative externalities.

It is argued by some, that economic activities that cause human rights violations might be shifted from the formal sector to the informal sector, which is often characterised by even worse labour conditions and more human rights violations (see Felbermayr 2021). Indeed, this could be the case in the context of a weakened EU CSDDD in which European companies would not have the obligation to focus on compliance with human rights in the whole value chain but only on their direct partners in the value chain. To avoid this, it is important that avoiding compliance with human rights standards is impossible or at least very difficult (Brot für die Welt / Forum Fairer Handel / Fair Trade Deutschland 2020). Therefore, a strong regulatory framework at the EU level is required.

The question of potential reshoring has been raised within this context. Transferring activities from one country to another is possible, mainly in the secondary sector. The problem is less severe in the primary sector, as these activities are closely connected to non-substitutable natural conditions such as the existence of natural resources or agricultural production

conditions (see European Commission 2020: 440). However, even for manufacturing, reshoring to Europe is highly unlikely given the huge differences in wages and production costs. These differences are not expected to completely disappear if operations in the Global South start complying with human rights standards. Hence, as indicated above (section 3), not North-South but South-South competition matters most according to Scherrer (2017: 11ff), and it is, therefore, the latter that potentially can be affected.

This impact on South-South competition and the threat of transferring parts of the value chain to regions or countries that comply more easily with the standards may have important positive effects in terms of solving collective action problems existing hitherto. The implementation of binding international standards such as the EU CSDDD tends to create a level playing field and strengthens those players in the Global South, e.g. trade unions that are particularly interested in human rights standards to be met (see detail in section 5.2)

Thirdly, the case that single companies exit the market and/or shut down business is expected to affect only a small subset of companies. These are the least efficient marginal firms that would no longer be competitive if they are required to comply with human rights standards. According to the European Commission (2020: 439) it is not possible to make any precise projections about the number of companies that will withdraw from certain countries or industries. In competitive markets, companies entering and leaving these markets is part of the process of adapting to market demand and changing price levels. Hence, for competitive markets, companies ceasing operations or moving elsewhere is an indicator that the markets work.

The costs of compliance with human rights standards are expected to be minimal, given that wages in the Global South usually represent an insignificant share of the final market price of products. Wages in the garment industry, an important export from the Global South to the Global North, are very low. For example, the wages for the production of t-shirts represent only 0.6% of total costs (Clean Clothes Campaign 2023). Thus, costs related to complying with the EU CSDDD are not expected to have a significant impact on market prices and, therefore, on market demand. Overall, the demand for products originating from the Global South should, therefore, remain largely unchanged. As negative externalities in form of human rights violations are expected to be drastically reduced, overall economic welfare is expected to significantly increase.

If the legislation adopts **the Omnibus proposal**, then we can expect significantly different effects. Due to the higher size thresholds for companies to be subject to the EU CSDDD, significantly fewer companies will be affected directly. If due diligence is restricted to tier 1 suppliers as stated in the proposal of the European Council and in a more nuanced way in the draft Warborn report, the direct effects of the CSDDD can be expected to be very weak or even insignificant. As literature and data on supply chains shows, it is common to have several intermediaries. In addition, as the supply chains and lists of suppliers for large companies are already documented in databases (see Baines et al. 2025) companies themselves are likely to have knowledge about their supply chains. As intermediaries are often simply traders where the risk of human rights violations tends to be lower, a due diligence regulation focusing only on tier 1 would in many cases have no effect in terms of addressing human rights violations (see also the experiences with the German *Lieferkettensorgfaltspflichtengesetz* chap. 4.2). In addition, if companies have a direct supplier where human rights violations occur, it is possible that they will employ intermediaries to artificially create distance from the violator. Hence the human rights situation is not expected to improve, and the reduction of negative externalities does not take place. Such a version of the CSDDD would mainly incur costs, but the benefits would be much lower than those expected under the current CSDDD. One way of addressing human rights violations beyond the tier 1 suppliers is that companies are informed by external

parties (civil society institutions, the media, etc.) about violations and hence, address these problems as pointed out in the draft Warborn report. However, this means that a due diligence approach is largely abandoned, and in practice it becomes the responsibility of civil society to actively address and communicate the problems to companies on a case-by-case basis. Moving away from a risk-based approach towards the tier-1 limitation as proposed by the Omnibus process will not necessarily reduce costs for companies but is likely to have the opposite effect. Anecdotal evidence from Germany shows that companies already force their direct suppliers to fill in detailed and standardised questionnaires, thereby creating bureaucracy with almost no contribution to mitigating human rights risks.

In summary, a significant share of European companies is already compliant with human rights standards. The current CSDDD is expected to require all very large European companies to do so. In by far the most cases this will cause companies to comply with the standards and continue with their business and simultaneously avoid human rights violations. However, in some cases companies will adapt their supply chains. This, however, is a normal process and an indicator that markets work effectively. Negative external effects will reduce and economic welfare will increase.

However, under the Omnibus process the effects are expected to be significantly weaker mainly due to the greatly reduced number of companies subject to the CSDDD. Under a CSDDD following the Council's position with a focus on tier 1 suppliers only and the proposed SMC shield with a focus on large companies in the supply chain, occasional but no substantial structural effects can be expected. Due to long supply chains, human rights violations will not be screened and addressed adequately. Hence, the original goal of the CSDDD, to introduce due diligence and to significantly reduce human rights violations will not be met adequately.

5.2 Indirect and dynamic effects on economic governance structures

Besides the direct effects on companies' behaviour, indirect and dynamic effects on the interaction between different stakeholders and the institutional and regulatory governance processes must be considered. If companies outside of Europe are forced to comply with human rights standards, this will affect the power structure of different stakeholders along the value chain, either indirectly and/or dynamically.

5.2.1 INDIRECT EFFECTS

Firstly, based on the insights from the GVC approach (section 3.3) it can be expected that under the current CSDDD the bargaining power of workers will increase. A new respect for their labour rights, as part of human rights, allows them to protect themselves more effectively in the workplace. The possibility of taking legal action in Europe against companies that violate human rights standards in the Global South is an important tool and power resource, as highlighted also by the experience with the French and German law in section 4.2. Additionally, the regulation is expected to facilitate the use of collective rights and unionisation, which further strengthens the collective bargaining power of workers. This should allow them to negotiate either higher direct benefits (wages, working conditions, etc.) or indirect benefits (social wage, social benefits, etc.). Potentially this could strengthen the workers' share of national income. This is crucial for workers in the Global South where their share in income is very low and has often fallen in the context of liberalising trade relations (Alarco Tosoni 2017 demonstrates this with Latin America as an example). Moreover, less well-organised workers in precarious employment conditions suffering from human rights violations are expected to benefit more from the EU CSDDD than workers that already

benefit from a more protected labour environment. This means that the inequality between different groups of workers in the Global South might decrease. Gender inequality could, in particular, be reduced, since many global value chains where human rights violations occur have a disproportionate share of female workforce (Barrientos et al. 2019). Moreover, the increase in bargaining power at the corporate level may further increase the workers' wages in the GVC, and hence, reduce global income inequalities. It must be noted that these are potentially self-reinforcing institutional processes that cannot be expected to be very significant initially but will increase dynamically over time.

Secondly, based on the power resources approach (see section 3.3) a power shift between different groups of stakeholders is likely to have an impact on governance processes and governance structures. Indirectly, the current CSDDD is expected to shape not only the power structures in individual workplaces, but also to improve the conditions for workers and other stakeholders in the Global South relative to corporate power at the national/regional level. It is expected that the effects of the CSDDD will facilitate collective bargaining processes and political processes to implement effective governance structures that promote and represent non-corporate interests. Hence, the threat that European companies might reduce economic interaction with a country that ignores human rights issues represents a structural power shift in favour of workers. The major reason for this is that these power shifts are expected to contribute to political compromises that seek to maintain and/or increase the competitiveness of the national economy by complying effectively with human rights standards. In so doing, this may indirectly contribute to not just improving working conditions but also structurally strengthening the political bargaining power of workers. In addition, this activates societal power resources of other stakeholders and is expected to foster dialogue and political organisation with important effects on power structures. Indirectly, these structures may also benefit political processes that lead to the expansion of welfare policies. These policies are in the core interest of workers and contribute to increasing well-being (better health, better education). This does not just contribute to human development and reducing inequality. It may also, as new growth theory (see Romer 1989) suggests, lead to positive effects that are important for raising the productive potential of the economy.

The amendments suggested in the Omnibus process as laid out above are expected to cause much fewer indirect effects. This is mainly because of the restriction to tier 1 suppliers and the smaller number of companies affected. Only if the original scope over the whole range of activity is maintained, can significant effects be expected, although to a much lesser degree because of the significantly smaller number of companies subject to the legislation, the weakened enforcement, the reduced participation of stakeholders and the missing consideration of environmental aspects.

5.2.2 DYNAMIC TRANSMISSION EFFECTS

The power resources approach (section 3.3) lays a foundation for understanding dynamic transmission mechanisms in the international political economy. The EU CSDDD, as an initiative of a macro-region in the Global North, could potentially prepare the field for further initiatives in other world regions. The EU CSDDD will increase the power resources for workers not only at the corporate and national levels. It is also likely to have spill-over effects on economic governance structures at the macro-regional level and in non-EU countries. At the national level, economic governance structures of countries that do not comply with human rights standards internally, and therefore, are not directly affected, may also react to the EU CSDDD regulation, or be indirectly forced to do so.

Six important transmission mechanisms can be distinguished and are expected to be effective under **the current version of the CSDDD**:

Firstly, non-compliant countries could simply continue with business-as-usual. This gives them the advantage that they can rely on imported goods and do business in other countries without taking human rights and the related costs into account. This would imply no change compared to the current situation. In economic terms, the negative externalities and other market failures would continue to exist. An economic policy strategy that continues to violate human rights, however, is associated with economic costs for the country itself. If companies from such countries do business with European companies, they are likely to be subject to more costly screening processes than companies from countries that ensure compliance with EU CSDDD standards. This, from the point of view of European companies, increases the cost of doing business. However, and this is likely to be economically more significant, continuing to be reliant as a country on economic policy strategies that ignore human rights violations, although promoting short-term gains, is risky. In the long-term, compliance with human rights standards is likely to continue as a secular trend. Continuing with an out-of-date specialisation pattern may be costly in economic terms. Countries, therefore, have an incentive to change this. However, if only EU countries based in the EU are enforced to apply due diligence measures, companies from other countries may, in a short-sighted strategy, gain a competitive advantage by continuing to violate human rights. Therefore, a binding international standard would be more effective and desirable.

Secondly, the EU could foster compliance with human rights standards by adding respective clauses to its bilateral and multilateral trade and investment agreements. Having adopted the EU CSDDD, EU institutions' incentives to export their own standards to non-EU institutions are stronger. However, even without doing that, the EU CSDDD should eventually have implications for global economic governance structures.

Thirdly, on the macro-regional level, existing institutional structures such as regional trading blocs in the Global South represent an important arena for economic policy coordination. Already these trading blocs encourage coordinated economic, financial, and social policies. The EU CSDDD is expected to further contribute to agenda-setting and political discourses. To facilitate regional trade and exports to the European Common Market, a harmonisation of standards based on the rules defined by the EU and their effective enforcement can be of common interest. Hence, the EU CSDDD may prove to be a catalyst for dynamic processes at the macro-regional level. This in turn feeds back into national political processes and economic governance structures, leading to more widespread, effective, and rapid compliance with human rights standards.

Fourthly, the EU CSDDD contributes to accelerating the global trend toward taking human rights more seriously and inspires respective governance in other world regions and countries. Thereby, it contributes to the process of including value-based elements in international economic governance structures. Opening the debate about global trade and investment flows by implementing the EU CSDDD will probably have a tailwind effect on demands to re-regulate international trade and investment flows and to include social and environmental standards. Hence, demands such as those raised within the context of UNCTAD to change the global economic rules to reduce existing structural economic disadvantages for the Global South (see Gallagher/Kozul-Wright 2019) may have a better chance of being implemented internationally. This, as UNCTAD (2019) demonstrates, is essential for promoting stable and ecologically sustainable economic growth in the Global South and contributes to stable economic development globally. The EU CSDDD can, hence, be seen to be contributing further to value-based economic governance structures in the international economy. As outlined above (section 3.1), a human-rights-based approach represents an appropriate foundation for this. The most prominent and important example

is the process to develop a Legally Binding Instrument (LBI) on transnational corporations and other business enterprises with respect to human rights under the umbrella of the UN Human Rights Council ("UN Binding Treaty"). This process was initiated by governments from the Global South such as Ecuador and South Africa in 2014 against resistance from the EU, the US and other governments from the Global North. A few months before the adoption of the CSDDD, for the first time, the EU signaled a willingness to enter into formal negotiations on the LBI in Geneva with a negotiation mandate based on the provisions of the CSDDD (see Paasch 2024b and Mohamadieh et al 2025). However, as a consequence of the Omnibus process and the related uncertainty about the future of the CSDDD, the EU has refused to develop such a negotiation mandate up until now; a lost opportunity to promote a global level playing field in support of a Global South initiative. Today, the future of the LBI process is uncertain. A fifth transmission mechanism is that other countries are expected to adopt similar policies to those of the EU. The reason is that they can be inspired to join the trend, abandon backward-oriented specialisation, and implement forward-looking strategies that respect human rights. This shift in policies is likely to have long-term economic benefits, which makes it desirable not only for workers, but also for other stakeholders such as companies and governments.

The final transmission mechanism is that the EU CSDDD is expected to foster discussions, in the Global North as well as in the Global South, on solidarity over internationally binding social and environmental standards and on their impact on workers. These discussions could lead to new alliances of the international workers' movement and strengthen existing ones. Demanding internationally binding social and environmental standards represents a win-win situation for workers in the Global South as well as in the Global North (Jäger et al. 2024).

With the **Omnibus proposal**, all the above dynamic transmission effects are expected either to be substantially weaker or to not occur at all. As these dynamic transmission effects have a more long-term impact, foreseeability and credibility of EU policies are crucial. The simple act of having initiated the Omnibus process can already be expected to have had a significant negative effect in terms of weakening these dynamic effects. Having opened the debate about the CSDDD reduces the EU's credibility as a leader in global economic governance and human rights.

Summing up, focusing solely on static and direct economic effects is inappropriate for adequately assessing the economic effects of the EU CSDDD. Indirect and dynamic effects must also be considered. As this section has shown, these effects are expected to be very important and will further enhance the already identified positive effects of the current CSDDD. In terms of the power resources approach, 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. However, under the Omnibus process the indirect and dynamic effects as well as the dynamic transmission effects can be expected to be largely absent. Moreover, reopening the debate of the CSDDD is likely to already have negatively affected the EU's credibility in terms of human rights and economic governance. This can be expected to have weakened potentially positive spill-over effects.

5.3 Specific economic effects on the Global South

It is sometimes argued that a due diligence regulation may have negative effects on the Global South (see Kolev/Neligan 2021, Felbermayr et al. 2021). The main reason given is that companies might suspend economic relations with certain economic partners in the Global South or even withdraw from countries where it becomes difficult to ensure that human rights standards are respected. As shown above (Section 5.1), this is indeed a possible outcome under specific circumstances. However, it is expected to be a rare phenomenon that has yet to be documented.

As outlined in section 5.1, the overall net effect of the direct impact of the **current CSDDD** on economic welfare is expected to be positive. Moreover, additional positive effects are expected due to indirect and dynamic effects (section 5.2). In the following a more detailed analysis on the effects particularly relevant for the Global South is provided.

A critic focusing on direct effects and adopting a comparative-static approach might conclude that the potential withdrawal of companies from certain countries can have a negative impact, e.g. in terms of local job losses. However, if economic activities that cause human rights violations are abandoned, the associated negative externalities will no longer exist. It is, therefore, an empirical question whether such a change will result in a net welfare loss in the short-term. Under current economic activities it may be that the cost of negative externalities is higher than the market values produced (see Exenberger 2016, Goliathwatch 2022). Therefore, based on neoclassical reasoning, the argument that withdrawal by certain companies or countries is necessarily or mainly negative must be refuted.

Moreover, in a dynamic, mid-term to long-term perspective, the positive effects of withdrawing from certain countries or economic activities in the Global South are expected to be even higher. As demonstrated in section 5.1, reducing economic relations with non-compliant companies (or regions or countries) will not result in reduced demand for their products. The previous level of demand will continue and, consequently, production will be shifted to companies (or regions or countries) that comply with the EU CSDDD. Hence, there should be no overall negative effect on economic activity and employment. Production will simply move to other locations. In addition, as these market-correcting effects are expected to reduce negative externalities, this increases economic welfare in a neoclassical perspective. In the long run, the adoption of more demanding regulations like the CSDDD, may diminish the impact of extractive institutions in Global South countries and in the Global North also, allowing and fostering at an international level the democratic institutions that enable long-term growth (Acemoglu/Robinson, 2012).

To estimate the specific impact of the current CSDDD on the Global South, a disaggregated analysis at a lower level of abstraction is required. As shown above (section 5.1), changing the competitive terrain and creating a level playing field may have different impacts depending on the reaction of companies. Compliance with standards is the intended outcome of the regulation and likely to be the prevailing reaction. This means that the goal should be achieved, and that the economic effects will be positive, as negative externalities will be reduced. However, in public discussion, potential problems for the Global South tend to be highlighted by mainly corporate-related interests. These hypothetical cases are analysed in more detail in the following.

The impact on the Global South will differ between different types of countries. Companies in countries that are less compliant with human rights standards (see the list provided by the EU Commission 2020: 440, tab. 8.39 and ITUC 2022) and that have important economic relationships with Europe are possibly affected most directly. However, there is no empirical evidence that regulations such as the non-financial reporting directive do have any

measurable impact on trade flows between the EU and countries of the Global South. In addition, countries/companies in the Global South that had already been compliant with human rights standards will benefit, as the competitive advantage in gaining access to European markets, for companies that violate human rights, is expected to end.

As outlined above (section 4), the distinction between countries/companies whose exports are mainly based on (i) the extraction of natural resources and those that are (ii) part of value chains in the manufacturing sector is important. In addition, (iii) the financial sector and its impact on the Global South must be considered.

5.3.1 EXTRACTION OF NATURAL RESOURCES

In the case of natural resource exporters (mining, agriculture), the competitive advantage of resource-rich countries is not likely to be affected by setting standards such as the **current CSDDD** as supply remains limited and international demand strong (EU Commission 2020: 440). Alongside improving working conditions in compliance with human rights, the potential costs may affect the owners of natural resources and decrease their rents. This may be considered positive, as income from natural resources tends to be highly unequally distributed. Ownership is often characterised by monopolistic structures, e.g. in the case of Chile (Fazio 2023). Decreasing rents may, therefore, contribute to a more equal distribution of income with all the associated potential positive effects on society and on the economy.

Under the Omnibus process, the decreased scope that covers a smaller number of companies, the exclusion of the financial sector and the focus only or mainly on tier 1 suppliers, drastically reduces the direct and indirect effects in the Global South. The Chilean examples illustrate the problematics (see box 1).

BOX 1: CASE STUDY ON THE EXPECTED ECONOMIC EFFECTS IN CHILE

Mining and energy in Chile

Chile has a long history as a mining exporter. Today the country is a relevant partner for the EU, because of its abundant critical mineral reserves, its potential as an energy exporter and its institutional stability within the region. Chile has 19% of the world's copper reserves, 9% of the molybdenum reserves and 31% of the world's lithium reserves (Consejo Minero, 2025). The country has a portfolio of mining investment projects under evaluation for the period 2023-2032 that amounts to US\$65.7 billion (Cochilco 2023).

The Chilean mining sector represents 11.5% of the country GDP in 2025. Foreign companies play a key role in Chile's mining exports in that 77% of all copper extraction is in hands of private firms. Chile's share in lithium production was about one third of global production in 2024 (Cochilco 2025). The EU is Chile's third largest market for goods export, and Chile is the third largest trading partner for the EU in Latin America. 55% of the EU's lithium imports come from Chile. The EU invests more than 64.9 billion Euro in Chile's economy ([EU-Chile: Factsheets](#)). The EU's raw materials partnership with Chile could foster a more direct involvement of EU firms in lithium extraction, considering European firms' strength in the chemical sector (Carry 2025).

Thus, by direct investment in the country or through trade, as part of supply chains second or third tier, the activities of private foreign firms can have a significant and direct effect on

human rights and the environment, hence the relevance of regulations for foreign companies in the private sector such as the CSDDD.

In Chile's mining sector, companies make extensive use of outsourcing not only for support services but also for core activities (Durán and Stanton, 2025). Almost 80% of workers employed in this sector are outsourced according to administrative records (SERNAGEOMIN, 2025). This strategy allows multinational firms to partially circumvent the high levels of structural and organisational power resources held by workers (Durán, 2023).

According to a recent income and wage survey (Encuesta Suplementaria de Ingresos ESI 2024) directly employed mining workers earn about 90% more than outsourced workers. The CSDDD has the potential to address this "race to the bottom" phenomenon when applied across the entire value chain.

The observed wage gap, along with disparities in safety standards and labour conditions between directly contracted and outsourced workers - despite these workers performing similar roles - impacts workers' rights and stems from contractual arrangements designed to enable large corporations to avoid accountability and reduce costs. The complexity of modern supply chains, involving multiple tiers of contractors and providers beyond tier 1, may inadvertently contribute to this issue by shifting responsibility onto larger buyers in a monopsonistic market where a few dominant firms can impose unfavourable terms.

This dynamic undermines the effectiveness of policies like the Omnibus proposal in which only tier 1 suppliers are considered. To ensure protection against such strategies, broader application across the supply chain is necessary.

The following case illustrates the impact of considering only tier 1 suppliers and reducing the company size thresholds in sectors with high outsourcing.

KGHM Chile is a subsidiary of Kghm Polska Miedz SA, a Polish mining firm that owns 55% of the Sierra Gorda mine located in the region of Antofagasta in the north of Chile. The remainder of the shares are owned by South32 Limited, an Australian firm.

Sierra Gorda serves as a clear example where the CSDDD may play a role in mitigating outsourcing impacts. The firm states that it employs 1513 direct workers alongside 2669 outsourced "contratistas," representing a total of 4182 employees. In essence, 60% of the company's operations depend on contractors from other entities.

The limitation of tiers within the Omnibus proposal could restrict the CSDDD's scope in addressing potential human rights violations and environmental harm caused by the suppliers of these contractors, the second tier. If the responsibility of Kghm Polska Miedz SA is confined to tier 1 suppliers, then a further significant number of the 2669 contracted workers may be sourced externally. Since 2016, Sierra Gorda has faced accusations of environmental damage that directly endangers the inhabitants of Sierra Gorda and Baquedano. The main problem is air pollution. In 2024, parliamentarians requested a special session of the Cámara de Diputados Environment Committee to address the serious pollution in the area resulting from mining activity, which has led to an alarming increase in illnesses in the community, especially cases of cancer.

The fatal accidents rate in mining is the highest among all the economic sectors in Chile with a rate of 6.3 fatal accidents yearly per 100000 workers, three times more than the national average. Considering the main sectors associated with extractive activities, mining, energy (2.6 fatal accidents every 100000 workers), manufacturing (2.1 fatal accidents per 100000 workers) and agriculture (5.7 fatal accidents per 100000 workers) (SUCESO 2025), an initiative as CSDDD would have a significant impact in the reduction of fatal accidents.

Agriculture in Chile

The EU's main imports from Chile are agricultural products, accounting for almost 40% of all Chilean exports to the EU. The agricultural sector is also characterised by frequent violation of human rights. In Chile's agricultural sector, trade unions lack sufficient power resources. This is mainly due to the nature of the work, which is typically casual, outsourced, and geographically fragmented (ENCLA, 2023). Union density remains below 10% (SIRELA, 2025), compared to a national average of about 20%. In practice, the organisations that have driven concrete initiatives to advocate for better working conditions are NGOs/civil society organisations rather than trade unions (e.g. ANAMURI). Additionally, NGOs such as OLCA work closely with local communities to expose and denounce environmental hazards.

Under the Omnibus proposal, the definition of stakeholders excludes human rights and environmental NGOs, effectively sidelining their expertise and the scientific support they provide to workers' agendas and community struggles.

The monoculture production of fruits and other alimentary products for exports is part of a long chain of supply. If tier 1 is the limit of the scope of the CSDDD, it will be very difficult to determine whether the complete supply chain respects due diligence to avoid damage to the environment, workers and consumers.

The CSDDD requires due diligence of firms, which includes a human rights risk analysis related to the working conditions and production safety and standards along their supply chain. The "reduction of costs" in this regard, as Omnibus proposed, means a high risk of deterioration of health conditions and a potential threat to human rights and the environment.

The use of pesticides in monocultures to ensure the production of fruits for exports is directly associated with dangerous hazards such as carcinogenic substances in pesticides, herbicides and other chemical products. Paradoxically some EU countries are the main exporters of agrochemicals that are prohibited in the EU. In 2018 "the EU exported of 81,615 tons of pesticides containing substances banned in European fields" (Public Eye 2020).

There is empirical evidence in Chile of the impacts of high exposure levels of the general population and agricultural workers in territories of agricultural production. The affected population includes also the paediatric population exposed directly or indirectly to gene mutations and other health issues such as higher rates of cancer (Muñoz-Quezada, 2025).

"The concept of 'chemical colonialism' has been used to describe the disproportionate burden of pesticide use in South America (...) It is important to note that such a pattern of highly hazardous products is not observed in Europe or the United States, where most of the chemical industry is located" (Muñoz-Quezada, 2025). There is evidence that 25% of the of chemicals (active ingredients) are highly hazardous because of their acute, chronic and environmental effects. It is estimated that 102 active ingredients in the Chilean market are classified as highly hazardous by the EU and 28 of them are banned by the EU (Rozas, 2019).

The CSDDD as currently adopted is expected to have a direct impact on reducing the use of the 28 hazardous ingredients banned in the EU. The CSDDD would minimise the negative direct impact for workers and communities in areas of monocultural plantations for the European market, the most damaged because of these chemicals (Rozas, 2019). The administrative register shows more than 30000 accidents related to substance exposure and environmental conditions, directly associated with hazardous active ingredients. The current CSDDD definition of the "chain of activities" excludes the use of products exported by business enterprises from the scope of the CSDDD. Therefore, even under the current CSDDD, it will be difficult to file complaints or to take civil action against European exporters

of pesticides in such cases. However, European importers of agricultural goods, where pesticides are used, have to take measures to prevent or end violations of the right to health related to the use of these pesticides. Thus, the CSDDD has the potential to reduce these accidents significantly.

In addition, the current CSDDD can also be expected to reduce the negative effects for European consumers, reducing the boomerang effect of hazardous chemicals and pesticides. For example, recent evidence shows the presence of banned pesticides in 75% of fruits imported by Austria (Pesticide Atlas 2022). The CSDDD is therefore expected to reduce externalities on both sides of the supply chains, including the final consumers also in the EU that would benefit from more sustainable standards in production. However, under the changes suggested in the Omnibus proposals fewer companies are subject to the directive and the focus on tier 1 will drastically reduce the positive effects expected under the current CSDDD.

5.3.2 VALUE CHAINS IN THE MANUFACTURING SECTOR AND FDI

In the case of manufacturing, as outlined above (sections 4 and 5.1), it is mainly South-South, not North-South, competition that is affected by introducing the EU CSDDD. This means that unintended consequences such as a reshoring of activities to Europe or other parts of the Global North due to the regulation is highly unlikely and is expected to happen only in isolated cases. The net effects for the Global South are expected to be strongly positive.

The effect of the **current CSDDD** on foreign direct investment (FDI) and financing by EU institutions in countries of the Global South must also be considered. The directive is expected to discourage direct and financial investment (if the financial sector remains within scope of the CSDDD) in activities associated with dramatic human rights violations. Instead, European FDI and financial investment in other fields not associated with human rights violations is expected to be fostered indirectly. This has the effects of both reducing negative externalities and potentially introducing new positive externalities in countries in the Global South. Thereby, it contributes to forward-looking specialisation patterns in the Global South and indirectly has positive effects on European companies and economic development in the EU (see section 5.4).

As direct activity by companies in terms of FDI is in principle still expected to be covered under the **Omnibus proposal**, at least for very large companies, these effects can be expected to remain. However, as the number of companies subject to the directive will be significantly lower these effects will be much weaker. In addition, as shown in the case study on Chile, a focus on tier 1 is highly problematic because of outsourcing practices which are also a common practice in manufacturing sectors such as the textiles industry. Hence, the measures proposed under the Omnibus process would considerably weaken the effects of the directive. The Rana Plaza tragedy, in which 1135 people died and more than 2400 were injured in a factory in Bangladesh because of a lack of safety standards for workers was a crucial event. It made the need for obligatory due diligence obvious and triggered political processes to reduce the risk that such catastrophes might happen. (ECCHR / Brot für die Welt / Misereor 2025: 36). The EU CSDDD is intended to avoid such problems and would effectively reduce the risk of such events. Ironically, under the changes proposed in the Omnibus process, mainly the narrow focus on tier 1 suppliers, such events are expected not to be prevented, as most of the companies involved in the Rana Plaza disaster were beyond tier 1 in European companies' value chains, as these companies use outsourcing and subcontracting in their value chains.

5.3.3 THE FINANCIAL SECTOR

Though the financial sector and its specific impact have been largely excluded from regulation in the **current CSDDD**, the directive includes a clause stipulating that this should be evaluated after two years of the CSDDD being in place. Hence, the current version of the CSDDD at least allows for the possibility that the financial sector and its financing activities will be considered more systematically in due course. An essential benefit of hindering financial flows from the EU that imply human rights violations is that negative externalities associated with questionable financial practices, for example pushing people into over-indebtedness (see section 4) can be reduced. Against the background of the increasing importance of the Global South in supporting the green transition, this is becoming even a more important field. Introducing accountability through the CSDDD is expected to contribute to investments that do not cause negative environmental effects.

The **Omnibus proposals** completely omit even the option of including the financial sector. This is likely to have substantial negative effects on human rights and the environment in the Global South.

In a dynamic perspective, which considers also indirect effects, an important positive effect of the current CSDDD for workers in the Global South can be expected. Instead of repeating the arguments outlined in detail above (section 5.2), only the main effects of the **current CSDDD** for the Global South are summarised below.

Firstly, power of workers and other stakeholders in GVCs in the Global South will increase. Beyond the benefits of complying with human rights standards, and the related benefits, this can increase their share in the values produced. As indicated above, such measures have positive effects in strengthening workers in the Global South in GVCs by increasing the power resources of workers and other non-corporate stakeholders in governance processes at different spatial levels.

Secondly, based on the power resources approach, the EU CSDDD is expected to increase the power of workers and other stakeholders (such as indigenous people, often negatively affected by economic activities) to reshape, in part, economic governance structures at different scales in their own interest.

In addition, the EU is expected to have a strong interest in fostering its own rules based on the EU CSDDD in international economic governance structures, e.g. at the UN, in order to universalise its own approach. This is expected to have a far-reaching positive effect on workers in the Global South and other vulnerable stakeholders. As Scherrer (2017) insists, the goal of binding international standards is to end a situation in which human rights are subject to harmful competition.

Given that the effects of a CSDDD following the **Omnibus process** should be restricted to substantially fewer companies and exclusively or mainly to tier 1 suppliers, much weaker effects can be expected in the Global South. Moreover, it cannot be guaranteed that a threshold can be reached that any impact on dynamic effects can potentially occur.

BOX 2: QUANTITATIVE ASPECTS OF ECONOMIC IMPACT ON THE GLOBAL SOUTH

While the Chilean analysis above provides concrete evidence of the potential positive effects of the current CSDDD compared to the proposals suggested in the Omnibus process, the following provides a more general quantitative estimate focusing on the Global South. The mechanisms and effects are expected to be similar. However, quantifying human rights violations and their consequences in economic terms is problematic. No amount of money can ever represent the value of people's lives and health. Nevertheless, estimates that calculate the economic costs of work-related deaths and health problems can be used as a starting point to provide an indication of the costs and benefits related to the current CSDDD and the expected effects of the proposals under the Omnibus process. As demonstrated in the Chilean case study, accidents and worker fatalities are more prevalent in outsourced companies, where workers are less protected. The ILO (2023a) estimates that nearly three million people die from work-related accidents and diseases annually worldwide. The costs of these deaths, injuries, and diseases are largely externalised by production, and the ILO (2023b) has estimated them for the first time at 1.25 trillion US dollars annually, close to 4% of global GDP. According to the ILO, this toll could be prevented if international safety standards were respected. The ILO states that in some developing countries, fatality rates are four times higher than in the safest industrialised countries. Furthermore, the ILO asserts that companies play a pivotal role in ensuring workplace safety by implementing occupational health and safety management systems that align with ILO guidelines. Moreover, the ILO holds that stronger unions lead to safer workplaces, and that the involvement of workers, based on freedom of association, in planning and running the company's health management system is crucial. Finally, the ILO states that although much of the action on safety and health must be local, the framework must be global. This is where the CSDDD, as an important international framework for protecting basic human rights, including workers' rights, comes in.

Based on Hickel et al. (2024), we estimate that 87.6% of workers are in the Global South. In terms of hours worked, this percentage is considerably higher. A total of 8677 billion hours were worked in the Global South, 906 billion of which were embodied labour exported to the Global North (as defined narrowly based on the IMF's list of advanced economies). A significant proportion of labour from the Global South is embodied in exports to the EU. The EU accounts for 12.9% of the global market for imported goods (Eurostat, 2025: fig. 16). Only the USA has a larger share of global imports (16.4%). Overall, extra-EU imports amount to 2.4 billion Euro. (2.08 billion USD). Relative to the imports of major Global North countries (around 11 billion USD), the EU's share is 18.3% (World Bank, 2025). Assuming, as a first approximation, that other Global North countries have a similar share of Global South imports to the EU, with a comparable structure, we can conclude that the EU also receives a similar proportion of labour from the Global South. Assuming that imported global labour correlates roughly with the value of imports, and abstracting from the narrow IMF advanced economies definition, we can estimate that 18.3% of the 906 billion hours exported from the Global South are imported by the European Union. Therefore, it is responsible for 18.3% of the 906 billion hours worked, representing 10.4% of global work. Based on this, the EU's imports are directly responsible for 18.3% of the 10.4% of global work, i.e. 1.9%, and therefore of the associated external costs.

Therefore, of the estimated 1.25 trillion US dollars (1.08 trillion Euro) of external costs caused by work-related injuries, diseases, and deaths, we conservatively estimate that the direct negative external costs of exports to the European Union amount to around 21.2 billion Euro

annually. Assuming a proportional share of deaths, this equates to around 57000 people dying each year due to work-related issues in production for export to the EU.

This is where the current CSDDD could make a substantial difference. While it is difficult to quantify this, it can be dealt with in terms of scenarios to indicate the magnitude of the effects. Assuming that a significant proportion of Europe's trade is covered by the directive, a substantial direct impact on reducing these external costs can be expected. If standards align with European standards and negative impacts in these areas are halved, 15-30% of the external costs could be reduced, thereby increasing economic welfare by 3-6 billion Euro annually.

However, the changes proposed in the Warborn draft report and by the Council imply a respective reduction of 47% and 70% in the number of companies subject to the directive. This will drastically reduce the directive's reach. Additionally, focusing on tier 1 suppliers is expected to reduce effectiveness, given that supply chains are usually longer and outsourcing is commonplace. While it is difficult to quantify this, the effects of this scenario will be much smaller.

It should be noted that these scenarios and estimates offer a preliminary indication of the scale of the direct effects and should be interpreted with caution. As mentioned above, the indirect and dynamic transmission effects are expected to be much greater in quantitative terms, given that the empowerment of workers in the Global South and the spill-over effects of regulation are expected to impact production processes that are not directly linked to European supply chains. The positive economic effects will far exceed the direct effects.

5.3.4 EFFECTS ON THE GLOBAL SOUTH SUMMARISED

In summary, under the current CSDDD substantial positive net effects in the short-run and even stronger effects in the long-run are expected for the Global South. The **current 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. While binding international rules for all are the preferred option, beginning with EU companies and their GVC partners is expected to have significant positive effects. However, the effects of binding standards will affect South-South rather than North-South competition, due to the specific resources and specialisation patterns of these economies and their insertion into GVCs. Those who have until now violated these rules will no longer be able to do so and they will lose their competitive advantage arising from the abuse of human rights. Those who already comply with the standards are expected to benefit once the competitive advantage of not doing so is eliminated. This is essentially positive for the Global South which has often suffered substantial human rights abuses. Moreover, the current CSDDD is expected to strengthen vulnerable stakeholders, in particular workers in the Global South, and to contribute to change governance processes accordingly. This changes completely with the **Omnibus process**. The main reasons are the significant reduction in the number of companies covered by the directive, the focus exclusively/mainly on tier 1 suppliers and the weakening of civil liability. As the case study on Chile drastically shows, this means that much fewer human rights abuses can be remedied. This is accompanied by substantial external costs, and hence, an economic welfare loss.

5.4 Specific effects on global competition

A key criticism of due diligence regulation at the national level is that it might have negative effects on domestic companies relative to competitors from third countries (Felbermayr et al. 2021). As Kolev/Neligan (2021: 24) hold, a regulation at the EU level is preferred over separate rules at the national level. This is an important point. According to Scherrer (2017: 11ff) it is primarily South-South competition, not North-South competition, that is affected by internationally binding standards. The EU CSDDD regulation would, therefore, implement a level playing field for South-South competition and, hence, not have any significant impact in North-North trade relations and global competitiveness. In addition, as mentioned, compliance costs are expected to be less than 0.009% of the turnover of large companies. However, the underlying assumption of the Omnibus process — that reducing compliance standards would further reduce these already very low costs and thereby strengthen the European economy by increasing competitiveness — is not based on evidence. This assumption (European Commission, 2025: 1) is based solely on the Draghi report (Draghi, 2024a), which merely presents the argument without providing any foundation. This echoes the Commission's problematic practice of dealing with figures on supposed financial savings related to reducing administrative burdens (ETUC 2024c). Furthermore, unlike with other legal initiatives, no impact assessment has been conducted, nor has any evidence been provided.

Hence, the argument of a generally negative impact on Europe's global competitiveness cannot be concluded. A more detailed analysis of potential economic effects of the EU CSDDD on global competition is required. This allows for a different and more nuanced picture:

In a comparative static perspective, four different cases can be distinguished. Firstly, final consumption in the EU. Secondly, import of intermediaries and re-export beyond the EU (i.e. to countries that do not comply with the EU CSDDD). Thirdly, activities of European companies in third countries. Fourthly, the case of European companies acting as buyers in third markets and their relation to other buyers that do not fall under the European legislation as they produce for other markets.

Firstly, for goods imported for final consumption in the EU, the current CSDDD requires not only European companies, but any company that exports to the EU and that surpasses a defined threshold, to comply with due diligence requirements. Thus, there will be a level playing field for all large companies involved in importing goods for final consumption in Europe. Hence, global competition is not expected to be negatively affected, and there should not be any significant economic impact. It is more likely that the positive effects will protect European companies via the level playing field.

However, under the **Omnibus proposal** a significantly smaller number of companies not only from Europe but from abroad will be subject to legislation. The latter is likely to substantially limit the effects creating a level playing field for companies. A substantially larger number of non-European companies will be able to supply European markets without taking human rights issues into account. Potentially this gives them a competitive advantage, undermines a level playing field and, hence, eventually causes negative effects on European companies' competitiveness.

This first case of final consumption in Europe is, in quantitative terms, by far the most important case. However, intermediate goods from non-EU and non-OECD countries constitute a very small share of goods used in EU countries (Stehrer et al. 2011: 20). It is difficult to estimate the extent to which these inputs are part of extra-European re-exports, but in terms of value this is expected to be fairly insignificant. In the second case of re-exported

goods, the economic effects are more complex. For goods that are ultimately consumed in non-EU countries, using European companies as intermediaries will probably face higher costs than competitors, as the former will be required to comply with the **current CSDDD**. The higher costs could reduce profit margins of European companies, which might, in extreme cases, even lose market share. However, the costs of intermediate goods such as imported primary goods tend to be a very small portion of the total cost of the final re-exported product. The majority of the value of such goods is usually added in production in Europe (Amador et al. 2015). An increase in costs resulting from compliance with the EU CSDDD is unlikely to have a significant effect on the overall competitive position of European companies. In addition, where the competitive advantage of European firms arises mainly from the superior quality of the products (Aiginger 2000), price competition is of little importance.

Besides this static perspective on corporate behaviour, dynamic economic effects must also be considered. Among these dynamic effects is the emergence of specialisation patterns that do not rely on the violation of human rights. Based on the history of human rights legislation, the introduction of **the current CSDDD** and enforcement trends (see section 2) it may be expected that the strengthening of human rights is a secular trend. Forcing European companies to adapt to this trend earlier will lead to forward-looking innovation and specialisation patterns and, hence, promises long term economic benefits for European companies and the European economy. Therefore, for those companies for which price competitiveness is relevant, this is expected to be an incentive to increase productivity and/or to foster forward-looking specialisation patterns. Positive economic long-term effects in terms of improved global competitiveness can be expected.

However, already having started the **Omnibus process** has undermined this process. Companies have lost trust in the direction the EU will take in terms of human rights and sustainability. Many companies had already prepared by adapting to the CSDDD. Companies have started to create knowledge, and specialised startups were founded to provide knowledge and advice to companies in terms of due diligence and sustainability. Companies that had voluntarily adhered to standards already or started to prepare as well as business that have invested in creating specific knowledge now face the threat of sunk costs if the Omnibus proposal is implemented. Hence, many companies have made their concerns about this public (IDVO 2025).

Significant damage has already been done. If the final version of the directive deviates substantially from its current form, no clear signals will be sent to the market regarding the future direction the EU will take in terms of human rights and sustainability. This would increase investment risk, and hence, is likely to reduce investment and economic dynamics. In addition, the opportunity to support European companies in a forward-looking specialisation path complying with human rights standards and sustainability will be squandered. Hence, a promising strategy to increase dynamic competitiveness of the European economy will be lost.

In the third case we consider European companies that are active in third countries with weak enforcement of human rights standards. Here two different types of economic activities must be considered: firstly, FDI (real investment) in other regions by EU companies, and secondly, financial investment in other regions by EU companies. In both cases European companies operating in third countries must potentially compete with domestic companies and with companies from other countries. This competition cannot be analysed exclusively at the level of the company but must also consider the broader context of international trade and investment treaties. Potentially, the compliance of European companies with human rights standards under the **current CSDDD** makes European economic partners more attractive to important domestic stakeholders such as workers (see

section 3.3). This could be essential for promoting bilateral economic agreements with the EU, as these agreements could more easily find the support of workers and civil society in these countries. Hence, it would potentially facilitate the access of European companies to foreign markets.

If the **Omnibus proposal** is implemented, then the positive effects will be substantially undermined. The main reasons are the reduced number of companies that will be subject to the directive and the diluted requirements.

The fourth case considers European companies acting as buyers in third markets and their relation to other buyers that do not fall under the European legislation as they produce for other markets. Here suppliers may work under different standards and only those related to the production for European companies will benefit from complying with human and environmental rights standards. As European and non-European companies act as buyers for different markets, competition in this regard will not be affected. It can be expected that in case of higher costs due to compliance, these costs will enter as production costs for the European market and not alter competition between European companies and companies not related to the European market. This holds for the current CSDDD as well as for the Omnibus proposal in a similar way as no significant effects can be expected.

Regarding specific cases, the following impact can be expected:

European FDI in third countries

Where activities abroad are related to exports or imports to or from the EU, no specific effects are expected and the consequences of the first two cases described above can be expected. For non-trade related activities, the European Commission (2020: 441) holds that EU companies might face competitive pressure from companies that do not comply with the EU CSDDD. This might be the case, not only for economic sectors that are frequently subject to relatively high human rights risks such as mining, textiles, and agriculture, but also for other sectors such as the construction sector. In these sectors European companies may lose market share to companies from other countries not obliged to respect human rights standards. However, this potential negative economic short-term effect on European companies operating abroad should not be analysed in isolation. They should rather be compared to the overall benefits in terms of fostering forward-looking economic specialisation patterns that are not based on the abuse of human rights. Against this background the net effects for European companies can be expected to be positive in the long-term. These long-term positive effects, though, would be considerably lower compared to the **current CSDDD** in case of the changes proposed by the **Omnibus process**. In particular, the focus on tier 1 companies can be expected to reduce the potential impact because of outsourcing strategies. Hence, an opportunity to create potential for the European companies and the European economy to be a driver of forward-looking specialisation respecting human rights and the environment will be largely given up.

European financial investment in third countries

For the financial sector, the **current CSDDD** established that there should be a revision to see if and how the financial sector with its specific business model should be included in an amended directive. This could mean that companies will be induced to abstain from financing projects or economic activities in the Global South that have problematic effects and cause human rights violations. Examples of such a problematic area include microfinance and institutional investors (see section 4). As financing the green transition and providing green financial products such as carbon offsetting certificates are an important and growing market in the Global South, ensuring that these activities are compliant with

human rights from the very beginning may not necessarily represent an obstacle for European financial companies. On the contrary, companies that follow the EU CSDDD may have a competitive advantage in terms of Environmental Social Governance (ESG) investment criteria. Hence, the EU CSDDD may help to push a forward-looking specialisation pattern in the case of financial investment and support European financial companies' positions in global competition. Eliminating the option to include the financial sector and its specific business model under the **Omnibus process** would imply that all these potential effects and opportunities would be given up.

In a dynamic perspective and considering the indirect effects, the **current CSDDD** contributes to international standard-setting and, hence, to political and institutional processes. The EU, as an important global player and a potential first mover, can set standards that others may decide to follow. China has already adopted parts of the European data protection law (see Daum 2021). Further such developments can be expected and are often referred to as the Brussels-effect. In addition, the EU CSDDD and its effects must be analysed within the context of other European initiatives that will affect global trade and economic development such as the planned carbon border adjustment mechanism which is also under review in the Omnibus process. This European leadership in pushing for new forms of modern international economic relations that seriously address human rights and ecological concerns can be expected to cause synergies as they promote a value-based economic policy aimed at the transformation of global economic governance structures in line with European values. Against the background of the power resources approach (see section 3.3), it can be argued that the positive effect of shifting the balance in favour of stakeholders such as workers is likely to lead to global governance structures that benefit early movers in terms of human rights.

However, the **Omnibus proposal** is expected to significantly weaken and undermine these dynamic and indirect effects, and hence, Europe's global role. Additionally, the proposed changes in the Carbon Border Adjustment mechanism in the context of the Omnibus process further undermine these effects. A less ambitious CSDDD and the abandoning of environmental issues sends signals that undermine processes that had been initiated in the context of the European Green Deal.

To sum up, against the background of the current CSDDD there should not be any negative effect on the European economy's global position with regard to imported goods or services for the purpose of final consumption within the EU. On the contrary, a more level playing field is expected to be created. This, however, is different when goods are re-exported outside the EU or when European corporations operate in non-EU countries. The European Commission (2020a: 438ff) holds that it is difficult to assess what the impact of the EU CSDDD on global competitiveness and trade will be. In general, the European Commission argues that if the EU imposes the rules alone, this may result in higher administrative costs and greater risks and uncertainties. Although this has potentially negative effects on EU trade flows, the effects are estimated to be very low (less than 0.1% in terms of ad valorem tariff equivalents (European Commission 2020a: 439). Compared to a 15% tariff for exports from the EU to the USA as recently agreed upon and perceived as success by the European Commission, this is not significant. Moreover, this extremely small negative impact must be compared to positive long-term and dynamic impacts in terms of forward-looking specialisation patterns that are compliant with human rights. In addition, the positive indirect effects on international and global economic governance structures must be considered. In quantitative terms these are difficult to assess in advance. However, we may expect that the positive economic effects easily surpass the relatively small possible direct costs, and hence, a positive net effect on European competitiveness relative to other countries and world regions is expected. The **Omnibus process**, however, undermines these positive effects. Although compliance costs for the large companies and their supply

networks that will be left out might be expected to reduce, this must be compared to costs that may end up as sunk costs of companies that have already prepared. The Omnibus process also implies that the opportunity to contribute to a more level playing field is abandoned. This is expected to cause a competitive disadvantage for European companies. Consequently, European companies are less protected against dumping practices at the expense of human rights abuses from non-European companies. Certainly, this does not contribute to strengthening the European economy. In addition, a substantial dilution of the CSDDD as suggested in the Omnibus process, will weaken Europe's position as a global leader moving towards sustainability. In sum, while difficult to quantify, for companies not subject to the legislation anymore, costs might be lower. However, other European companies will face higher cost-pressure because of a less level playing field. As a clear commitment to sustainability is undermined by the Omnibus process, Europe's role and expected positive dynamic effects for the European economy are also substantially weakened in a dynamic perspective. Hence, an opportunity to strengthen a future-oriented shape of the European economy towards more sustainable business models with a focus on innovation instead of cost-competitiveness is substantially weakened. This is likely to contribute to a strategic long-term loss of global competitiveness.

5.5 Specific impact on the economy and workers in the EU

As the above analysis on the effects on the Global South and, in particular, on global competition (section 5.4) indicates, negative effects of the current CSDDD on European companies might be expected only in a minority of cases. In addition, these costs are very low. Some of the literature and much public debate on the issue tends to focus on the potential negative effects of due diligence regulation. It concentrates on costs and a loss in competitiveness (Felbermayr et al. 2021). However, the European Commission (2020b: 66) estimated that the due diligence costs for large companies represent only 0.009% of the revenues of these companies. The **Omnibus proposal's** focus on tier 1 companies might reduce these already very low costs, but this is expected not to be very significant. However, abandoning a risk-based approach and focusing on tier 1 may increase costs for other companies, as outlined above, and drastically reduce effectiveness in terms of protecting human rights. Because of uncertainty created by the proposals, costs might even increase. Furthermore, the costs for companies that had already started to prepare would be a sunk cost. What is more dramatic, is that the positive effects of the CSDDD are expected to be reduced drastically. Hence, an opportunity to create potential for European companies and the European economy to be a driver of forward-looking specialisation respecting human rights and the environment will be largely foregone.

The costs of the CSDDD should not be the exclusive focus. They should rather be compared to the benefits when assessing the economic net effects for Europe. These, as shown above, are positive overall. Studies based on macroeconomic general equilibrium models come to the conclusion that, despite the costs, the overall economic effects are positive for the European economy. Recently, Meyer (2024: 5) estimates positive net effects of the **current CSDDD** on the European economy at between 0.01% and 0.02% of the European GDP.

While not only costs but also the positive effects for the EU are considered, these models tend to underestimate the positive effects because they miss out positive feedback-loops (climate effects, specialisation effects) and dynamic developments related to stabilising expectations for investors. Although these effects are extremely difficult to quantify, we may assume that the positive economic welfare for the EU must be considerably higher. However, the proposals made under the **Omnibus process** are expected to substantially

weaken the positive net effects on the European economy. In the following, hence, we provide a detailed analysis combining a comparative static analysis and a dynamic view on the expected economic effects on Europe.

In a comparative-static analysis, the potential negative effects on economic output and, therefore, on employment must be compared to the positive direct employment effects due to activities to ensure compliance with **current CSDDD**. For the majority of European companies active in third countries it can be expected that no significant effect, and hence no significant direct employment effects, will be observed. Negative direct employment effects may be caused only in the very specific case (see analysis in section 5.1 above) that European companies' activities abroad are reduced or even shut down in some countries and no alternative economic relations with other companies are developed. Countries whose companies tend strongly to have economic ties with companies in countries where the risk of human right violations is high, hence, tend to face a higher risk. However, with overall positive estimated macroeconomic effect of the CSDDD as outlined above, also small but positive employment effects may be expected.

For the EU27 it was expected that implementing the regulation in companies with more than 250 employees will create a number of jobs (European Commission 2020: 517, Tab. 8.56). Though these estimates are based on company surveys and seem rather high, they at least suggest that positive direct employment effects are likely to somewhat offset potential job losses. However, increasing monitoring of the value chain contributes to potentially reducing risks that could negatively affect workers either directly or indirectly. This implies more economic stability and more job security.

There is another important reason why workers in the EU are expected to benefit from the EU CSDDD. The regulation can be expected to reduce the threat of social dumping based on the violation of human rights abroad. The wage productivity gap in the Global South results in a resource transfer from the Global South to the Global North. However, it is an empirical question whether this transfer ultimately benefits workers rather than companies in the Global North. The tendency of declining wage shares in Europe (Stockhammer 2017) is an indicator that it is corporates in the EU that benefit in terms of higher profits, not workers.

This is expected to be of varying importance for different countries within the EU. Poorer countries generally have lower standards and significant employment in vulnerable sectors. They also tend to have specialisation patterns in which they compete more directly with countries from the Global South. These countries are expected to benefit more from establishing a level playing field than relatively richer countries (European Commission 2020).

Besides workers, consumers will also benefit from the EU CSDDD. Prices for some products which hitherto have heavily benefited from human rights violations (e.g. cheap cacao due to child labour (see Goliathwatch 2022)) might increase. However, for many products supply costs will not be affected significantly, as compliance costs are expected to be relatively low and wages from the Global South constitute a small share in GVCs. For these products prices will not change significantly.

Furthermore, the current EU CSDDD is likely to reduce asymmetric information problems. As shown in section 3, voluntary measures and private standards fail to provide reliable information for consumers. As the EU CSDDD is expected to set binding standards and implement effective mechanisms that ensure compliance, the asymmetric information problem is substantially, if not completely, solved. Hence, consumers will make better decisions, based on being better informed. Though difficult to quantify, the reduction of this

type of market inefficiency is expected to increase economic welfare in addition to the economic effects outlined above.

The proposals made under the **Omnibus process** are expected to significantly diminish the overall positive effects on the European economy and on employment.

A dynamic analysis including the indirect effects provides an even more positive picture for the overall effects of the **current CSDDD**. As indicated above, the legislation is expected to foster innovation and forward-looking specialisation patterns that are not based on the exploitation of human rights. This is expected to strengthen the position of European companies within GVCs. Eventually, this will increase the competitive position of Europe and have a positive impact on economic output and jobs in Europe.

Additionally, against the background of the power resources approach, it can be expected that the position of workers relative to other stakeholders will be strengthened. This is due, not only to the expected elimination of direct pressure because of social dumping based on the violation of human rights. Workers positions are also improved by strengthening value-based approaches in international economic relations, thereby creating the basis for and facilitating the implementation of more far-reaching social clauses at different governance levels. This is expected to be supported by an overall tendency fostered by the current CSDDD to strengthen workers and other vulnerable stakeholders beyond the EU. Eventually, this is expected to benefit workers not just in the Global South but indirectly and in a dynamic perspective also workers in the EU.

Under the **Omnibus proposal** the scope and the effects of the CSDDD are considerably smaller. This implies that the positive net effects on the European economy and employment will be significantly lower. In addition, giving up environmental goals in the CSDDD may make international efforts to combat climate warming even more difficult. The external costs of this are expected to be substantial and have to be considered, although it is difficult to quantify them.

Summing up, the current CSDDD is expected to have overall positive economic effects in terms of economic output and employment in Europe and in terms of contributing to reducing external costs related to climate warming. Hence, an increase in economic well-being is expected. However, the direct effects on the economy will be rather small. Therefore, no substantial impact on the structure of the European economy is to be expected in the short run. There might be single cases of companies that shut down or relocate economic activities, but these negative effects are expected to be more than offset by the generally positive effects on the economy. 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 addition, in a dynamic perspective the strengthening of innovation and forward-looking strategies are incentivised by the current EU CSDDD and facilitate competition beyond cost-competitiveness. Hence, companies, workers and consumers in Europe are expected to benefit economically. In addition, dynamic and indirect effects on power relations and governance structures are expected to be highly beneficial and contribute to global worker solidarity and to combat climate warming.

The proposal to amend the CSDDD put forward in the Omnibus process all tend to substantially undermine these overall positive effects for the European economy, workers in Europe and the environment. An exclusive focus on direct costs without taking direct and dynamic benefits into account is too narrow and may lead to wrong decisions.

5.6 Overview of the mechanisms, effects and impact compared

Based on the above analysis, table 2 presents a comparison of the current CSDDD and the changes suggested in the Omnibus process. The comparison considers the different mechanisms (direct, indirect, dynamic transmission mechanisms) and the specific impact on the Global South, global competition, and the economy and workers in the EU.

Table 2: Mechanisms and economic effects: The original CSDDD vs. the Omnibus proposal compared

	Current CSDDD	Omnibus I Commission proposal (1) Council Position (2)	Warborn Draft Report
Direct effects	Strong positive effects	Smaller effects because of smaller reach (1) Substantially smaller effects mainly due to focus on tier 1 only (2)	Slightly larger scope than Council's proposal and but still substantially smaller effects compared to original CSDDD
Indirect effects	Significant positive effects on human rights, economic well-being	Substantially smaller but still significant positive effects due to limited scope and reach (1) Very small but still significant positive effects due to limited scope and reach (2)	Very weak positive effects
Dynamic transmission effects	Significant positive effects on global economic governance and economic well-being	Largely absent but still small positive effect expected	Largely absent but still small positive effect expected
Global South	Strong positive effects significantly reducing work-related deaths, injuries and diseases and strong positive economic welfare effects	Substantially weaker positive effects	Substantially weaker positive effects

Global Competition	Significant positive effect on competition due to a more level playing field, innovation and forward-looking specialisation	Considerably weaker positive effects due to less level playing field and weak incentives to innovation and forward-looking specialisation	Considerably weaker positive effects due to less level playing field and weak incentives to innovation and forward-looking specialisation
Economy and workers in the EU and the environment	Significant positive effects, on the economy, for workers and overall well-being, weak positive effects for the environment	Substantially weaker positive effects for the economy, workers and well-being in the EU, no positive effects on the environment	Substantially weaker positive effects for the economy, workers and well-being in the EU, no positive effects on the environment

Source: own compilation

6 CONCLUSIONS

This concluding chapter restates largely the conclusions drawn from the original study from 2023. The second part summarises the specific expected economic effects of the Omnibus process.

6.1 Effects of the current CSDDD

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 considered 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 CSDDD. Based on the insights from a GVC perspective and the power resources approach, in a dynamic institutionalist 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 in an integrative perspective with a solid basis.

A further finding, based on empirical evidence is that 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 violations of human rights occur. Strict regulations and specific effective governance processes are essential for avoiding human rights violations and for inclusive social development. Voluntary measures fall short in effectively providing results. Ideally, these problems are addressed at the

international level, for example in the form of a UN Legally Binding Instrument (LBI) on transnational corporations and other businesses with respect to human rights, as it is currently being negotiated, and other binding social and ecological clauses. However, as shown, in the absence of binding international rules, the EU CSDDD is an important start for effectively promoting human rights globally, and can inspire or complement an international treaty (see Mohamadieh et al 2025). Regarding the concerns raised by some companies and lobbying institutions, it has been shown that these concerns 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. As outlined above, the potential positive economic effects as well as dynamic developments must also be considered. Therefore, in this study a balanced approach analysing potential positive and negative effects in a short-term and long-term perspective has been chosen.

Based on the findings of the study, the effects of the current CSDDD can be summarised as follows:

In a standard neoclassical perspective, the violation of human rights, destruction of the environment and the related negative impacts must be conceptualised as external effects. Enforcing compliance with human rights is essential to reducing negative externalities and other market failures and increases economic welfare. In addition to the neoclassical perspective, combining a human rights perspective with the value chain approach and the power resources approach provides an important further theoretical foundation. This allows for the analysis of the impact on the relation between stakeholders within value chains and on economic governance structures in general. Based on this, the effects on economic governance structures in a dynamic medium-term to long-term perspective can be assessed systematically.

Non-compliance with human rights standards has substantial negative external effects, mainly in the Global South. Although it cannot be ensured 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 the area of trade with final consumption within the EU no significant effects are expected (less than 0.1% in terms of ad valorem tariff equivalents). More significant effects might be expected for re-exported goods and for goods and services provided by European companies to third countries. However, as shown, 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 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.

In general, the effects on Europe's economy are likely to be relatively small. 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 as the regulation reduces "unfair" competition from third countries based on the violation of human rights. The EU CSDDD 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 companies are unlikely to leave the single market.

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.

In conclusion, the current CSDDD is not only an important step towards effectively reducing human rights violations in GVCs. As shown, the stricter the regulations and the fewer the loopholes that are left open, the more effective the CSDDD is, 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. A strict CSDDD is expected to have a significant net direct positive economic impact and economic welfare is expected to increase. Moreover, as shown, in a dynamic perspective it can be expected that the current 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.

6.2 Economic effects of the proposals presented in the Omnibus process

Based on the analysis in this updated study the answers to the specific research questions regarding the economic effects of the Omnibus process can be summarised as follows:

RQ1: *What will be the economic impact of the current version of the CSDDD compared to the changes proposed in the Omnibus process? How will companies doing business in the EU be affected and how will they react? What will be the direct consequences?*

There will be a significant effect only if the whole range of activity is subject to the directive rather than its scope being confined to tier 1 suppliers. Even then, the effects will be greatly reduced, when compared to the current version of the CSDDD, as the higher size thresholds reduce the number of companies subject to the directive. Weakening enforcement and legal liability is also expected to substantially reduce the effectiveness of the regulation. Furthermore, omitting the requirement to present and/ or implement climate transition plans would further reduce the effectiveness of the measures. Hence, overall, the changes proposed under the Omnibus process significantly weaken the effectiveness and the impact on human rights and the economy of the regulation, albeit with some differences between the different proposals. Under the Omnibus process the direct and therefore, the indirect and dynamic effects as well as the dynamic transmission effects can be expected to be substantially reduced and rather weak. Moreover, reopening the debate of the CSDDD can already be considered to have negatively affected the EU's credibility in terms of human rights and economic governance with negative impacts on the economy.

RQ2: *How will the changes suggested in the Omnibus process affect human rights and economic welfare in the Global South compared to the expected effects of the current version of the CSDDD?*

Under the current CSDDD, substantial positive net effects are expected in the short term and even stronger effects in the long term for the Global South. The CSDDD is also expected to contribute to increased compliance with human rights standards. Additionally, correcting market failures, particularly externalities, will substantially improve economic well-being in the Global South. However, this changes completely with the Omnibus process. The main reasons for this are the significant reduction in the number of companies covered by the directive, the exclusive focus on tier 1 suppliers, and the weakening of civil liability and stakeholder involvement. As the Chile case study also shows, this means that significantly fewer human rights abuses can be remedied due to the usual length of supply chains and the frequent practice of outsourcing and subcontracting. These practices are common not only in extractive industries such as mining and agriculture, but also in the manufacturing sector. The CSDDD aimed to ensure compliance with human rights and prevent catastrophes such as the Rana Plaza tragedy. Ironically, under the proposed changes suggested in the Omnibus process, such events are unlikely to be covered. These easily avoidable additional deaths and injuries and indirect negative environmental impacts that would result from the implementation of the Omnibus proposals represent additional external costs and, consequently, a considerable loss of economic welfare in the Global South. A quantitative estimate based solely on direct effects in the Global South shows that a significant reduction in external costs and an increase in economic welfare are expected. The positive effects on the Global South due to indirect and dynamic transmission are difficult to estimate but are expected to be much greater — potentially many times higher — than the direct effects. Even under the proposals suggested in the Omnibus process, the direct positive economic effects are expected to be much smaller and only moderately significant. The indirect positive effects are expected to be negligible.

RQ3: *How will global competition potentially be affected by the current version of the CSDDD compared to the effects of the amendments suggested during the Omnibus process? How will changing the scope and the due diligence requirements along the value chains affect the competitiveness of European companies? Will the proposed changes to the CSDDD contribute to a level playing field or invite dumping strategies, thereby putting EU companies further under pressure? Will the proposed amendments by the Omnibus proposal improve the EU's competitiveness and economic performance compared to the current version of the CSDDD? How significant are the costs of due diligence processes, and what are the potential impacts and positive effects?*

Although the primary objective of the CSDDD is to mitigate human rights abuses and destruction of the environment within EU-connected international supply chains, it is also anticipated that the current CSDDD will have a positive impact on the European economy and its global competitiveness. By contributing to a level playing field, the CSDDD effectively remedies human rights violations in the supply chain. However, the proposed changes in the Omnibus process substantially weaken these effects, thereby largely eliminating the positive effects. Due diligence processes across the entire supply chain are inexpensive, with estimated costs amounting to less than 0.009% of large companies' turnover. By comparison, the direct macroeconomic net effects of the current CSDDD alone are estimated to be +0.01% of the EU's GDP. While it is difficult to quantify the positive indirect and dynamic effects, they are expected to be much higher than the initial increase of GDP. Furthermore, it cannot be guaranteed that the cost of conducting due diligence will significantly decrease for companies subject to the regulation due to the proposed changes in the Omnibus process, as these changes have created significant uncertainty. The effects of the CSDDD following the Omnibus proposals will be significantly weaker, meaning the overall positive effects will be much lower. Therefore, in terms of strengthening the medium-term economic benefits in the EU and the long-term competitiveness of companies doing business in Europe, the current CSDDD is preferable to the amendments suggested in the Omnibus proposals.

RQ4: *What are expected effects of the current version of the CSDDD, compared to the proposals suggested in the Omnibus process, on European companies, workers in Europe and the environment?*

Focusing exclusively on direct costs without taking direct and dynamic benefits into account is too narrow and does not provide an adequate basis for assessing the effects of the CSDDD. Overall, the current CSDDD is expected to have positive effects on the European economy, European companies and European workers, as well as sending positive signals in terms of environmental protection. Furthermore, indirect positive effects, such as reducing the use of pesticides that are banned in the EU but used for agricultural export production in the Global South and then exported to the EU, must be considered. This has a positive impact on European consumers and increases their welfare. Another long-term positive effect for European workers is that the CSDDD currently strengthens human and labour rights globally. This is an important step forward in terms of reducing unfair dumping and increasing solidarity in the global economy. However, the proposals under the Omnibus process substantially weaken these positive effects, resulting in a drastic reduction in their overall positive impact.

In summary, the amendments proposed through the Omnibus process would have only a very limited impact on reducing costs, which are already very low. However, the Omnibus proposals will substantially reduce the positive effects of the current CSDDD. The current CSDDD is expected to have a significant positive net economic effect on the Global South by reducing human rights violations and destruction of the environment, thereby decreasing negative externalities and increasing economic welfare. Moreover, from a dynamic perspective, workers in the Global South will be empowered, which is expected to have further positive effects on economic welfare. Additionally, the CSDDD has positive direct effects on the European economy by establishing a level playing field. Furthermore, from a dynamic perspective, the current CSDDD is expected to strengthen the competitiveness of European companies based on innovation and forward-looking specialisation patterns that respect sustainability. Therefore, positive effects on the economy, workers and employment, and the environment can be anticipated. However, the proposed changes under the Omnibus process weaken these positive effects drastically. The possible slight reduction in compliance costs, resulting from fewer companies being affected and a smaller scope for the due diligence requirements, must be weighed against the opportunity costs of not

introducing the CSDDD in its current form. The opportunity costs in terms of lost positive economic welfare effects are estimated to by far exceed any possible direct reduction in compliance costs. Therefore, the current CSDDD should be retained (and even expanded to cover more companies and close loopholes) to maximise welfare gains for the Global South and the EU. The path initiated by the Omnibus process, which aims to reduce the scope and effectiveness of the directive, will reduce economic welfare and should, therefore, be halted.

7 POLICY IMPLICATIONS

The policy implications can be summarised as follows:

- 1 Based on the study it can be concluded that the EU CSDDD should be implemented in its current version. The directive is expected to effectively contribute to reducing human rights violations and is expected, therefore, to have positive economic welfare effects. This is particularly important for workers in the Global South.
- 2 A broad scope and closed loopholes (i.e. including the financial sector, addressing not just large companies, but also SMEs, and the inclusion of environmental goals such as the Paris Agreement) are essential to increasing the effectiveness of the CSDDD.
- 3 The current CSDDD is expected to induce forward-looking specialisation patterns in Europe that are not based on human rights abuses. In a dynamic perspective, such specialisation patterns have positive effects at the company level. They also result in positive externalities and spill-over effects. For these reasons these specialisation patterns are economically beneficial for Europe.
- 4 The CSDDD is an important starting point for implementing more far-reaching, binding international social and environmental standards at EU level, as well as in other international governance arenas, such as the UN Legally Binding Instrument (UN Binding Treaty), if it is promoted by the EU. Ultimately, strengthening human rights internationally will also bolster the European economy and its long-term performance.
- 5 The attempts of the Omnibus process and volatile political processes cause uncertainty to European companies and undermine their business and investment strategies and punish those firms that voluntarily comply with human rights standards and those that have already taken measures to implement the standards required by the CSDDD. Hence, this is another important economic reason why the CSDDD should be maintained in its current form.
- 6 If the proposed changes to the CSDDD cannot be avoided completely, then at least the following priorities are essential. Firstly, the scope of covered companies should not be changed but left at the thresholds stipulated in the current CSDDD. Secondly, the risk-based approach to due diligence should be substantially expanded beyond tier 1 suppliers to cover the whole supply chain. Thirdly, climate transition plans and their implementation should remain part of the CSDDD. Fourthly, the EU-wide civil liability provisions and representative action clause should remain in place.
- 7 The attempt to increase competitiveness through weakening the CSDDD in central parts, and hence, have a positive impact on the European economy, is expected to fail. On the contrary, weakening the directive under the banner of reducing bureaucratic costs will reduce substantially its effectiveness and still incur substantial costs. Furthermore, giving up the aspiration to establish a more level playing field will continue to expose European companies to competition from dumping practices by corporates from abroad. Hence, it will have a negative impact on the European economy relative to the current CSDDD.

- 8 To support the European economy, a stable policy framework supporting companies toward a forward-looking specialisation taking human rights issues and the environmental challenges seriously via adequate regulations and a proper industrial policy and macroeconomic management should be implemented. The current CSDDD is an important pillar for this and should, therefore, remain in place.

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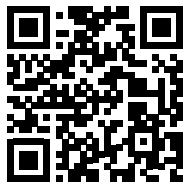
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