

# The CSDD Directive: A way to solve the puzzle of the geopolitics of energy supply chains?

YES-Europe Policy Brief

June 2023



The EU parliament plenary session of May can be considered as a historic moment for the energy supply chains sector, as the Corporate Sustainability Due Diligence (CSDD) directive was voted and came into effect. The CSDD has long been a subject of debate, which can be reflected on the fact that, despite the successful outcome of the voting procedure, it did not enjoy the approval of the vast majority of the caucus and it was definitely not a unanimous vote.

The Directive, even though affecting the economy on a broader scale, has a substantially **larger impact** on the future energy markets and supply chains in Europe, having an impact virtually in every one of its segments and aspects. At the same time, it is a depiction of how the EU views its energy (and not only) relations with external actors, with a strong emphasis on the Global South, hence additional attention ought to be paid to the **geopolitics of energy dimension of CSDD**.

It is of uttermost importance that both issues are critically assessed and solutions are viewed from a more holistic perspective.

# What is the CSDD?

The **Corporate Sustainability Due Diligence (CSDD)** directive aims at adding two crucial elements to the corporate behavior across the supply chains:



Sustainability



Social & ethical  
responsibility

Hitherto, it focuses on examining whether there are good practices taking place to:



Tackle child  
labour



Respect human  
rights



Protect the  
environment

The directive, initially proposed in **February 2022**, was put into vote in **May 2023** and received the official support of the EU. Eligible companies are mainly limited liability companies with either a huge turnover (larger than EUR150 million) or with over 500 employees.

This numbers will change after 2 years, when additionally companies with a turnover of over EUR40 million and over 250 employees will fall under this category.

Currently there is no provision to include SMEs in the directive.

# — Why does it affect the energy & sustainability sector? —

Energy and sustainability lie at the epicenter of importance of CSDD. The EU is a demand-hungry actor when it comes to energy and this has been prevalent both at the conventional fuel supply chains, but also at the renewable energy-dominated ones. Regarding the former, amidst the Russian invasion of Ukraine, the EU is shifting towards a severely diversified gas supply chain, which is dominated by the LNG fleet and has origins from throughout the world.

Shipments may range from the USA to Malaysia, painting a mural of very divergent working conditions and environmental regulations. The colors and shapes of this mural become exponentially more as we transition into a clean energy grid. Renewable energy technologies, such as solar and wind, require a myriad of critical raw materials, metals and minerals, which have to be procured from around the world, whilst their processing adds more countries into the supply chain mix. Energy storage through batteries enhances the diversity of the supply chains.

For example, lithium can mainly be procured from Chile, Australia and Indonesia, whereas its processing takes place in China. Similarly, cobalt, another essential element of the energy transition, is mined in countries such as Bolivia and DR Congo, however the production of renewable energy units happens mostly on the Asian markets and industries.

# —What are the main challenges?—

1

## Implementation

EU directives are expected to be put into national laws of member states. However, this implies that each member state has **established relationships** with all countries that fall under each company's supply chain, which in several situations is not the case. Countries like DR Congo or Bolivia have diplomatic ties with very few EU member states, even though their supply chains are linked with companies from virtually all of them. This severely reduces the prospects for **accountability and transparency** and, unless this framework addresses them, there is a high chance for a low efficiency of the directive.

## Gap in regards to SMEs

2

**Energy systems** so far used to rely solely on energy giants, companies such as Shell or BP, for their energy supply. Currently we are viewing a shift away from this and numerous startups, with a low number of employees and turnover have emerged. These firms also rely heavily on government subsidization so that they can push their energy innovations from the niche market into the socio-economic regime, and hence their financial statements and workforce might paint the wrong picture. However, these firms are also actively participating in the bulk of the clean energy supply chains and ought to **show responsibility**, something for which there is currently no provision in CSDD.

3

## Legal loopholes

The most important one concerns the term “established business relationships”, as only these kinds of relationships fall under the CSDD at the moment. This gives companies the flexibility to switch suppliers at any moment. Also, amidst the resource nationalism trend, the newly-established nationalized companies that are responsible for the extraction of metals and minerals might be seen as a different entity and hence avoid any responsibility that might come with regards to human

rights or the environment. The example of the nationalization of the lithium industry in Chile shows that there is a high chance that other countries might soon follow that trend.

## No civil society

4

The role of civil society is also not touched upon as much as it should be. Local civil society actors are responsible for **human empowerment, mobilization of citizens** to express their views and, on the other hand for **policy advocacy and dialogue** with the decision-makers. They have great potential to increase the efficiency of the CSDD, however their resources are very small.

There should be a funding and further support provision for these non-state actors on behalf of Brussels.

5

## Lack of pragmatism

CSDD is one of the various examples that there is a **lack of understanding towards the Global South**. The requirements that are being set on the human rights and democracy front seem to not be completely understanding local culture, values, self-perception and tradition. An example is the governance models of countries such as Thailand, Cambodia and Laos, which defer from the Western ones, however they still result in an overall smooth governance structure. In addition, the way that local communities function is different, nonetheless it remains a working model.

Requesting **governance and societal reforms** from such state actors might have the exact opposite impact for the EU strategy and push these countries away as supply chain partners.

# The way forward

A series of **policy recommendations** and shifts are expected to make this policy directive as efficient as possible, while increasing engagement with the Global South.

The first revision ought to take place with the **eligibility criteria**. Companies should be eligible based on their overall engagement with external actors and SMEs that work across crucial supply chains that involve critical raw minerals and metals should be taken into account. **Special provision** should exist for energy startups. This provision should also include benefits, however, such as mentoring to equip them with corporate accountability and transparency skills. With regards to incentives and benefits, technology has provided us with means to increase transparency. The most effective one so far is blockchain technology. CSDD can include a mandate of companies adopting this very useful **web 3.0 tool**, but also provide them with the financial support to incorporate it within their supply chains.

Another issue that ought to be revised is the **involvement of civil society**. Local NGOs should be explicitly mentioned in the directive and their role should be audibly articulated. They should be supported not only financially, but also in terms of capacity building and creating a **joint framework of action**, together with experienced European NGOs. The Aarhus Centers that had been established in Central Asia is a great initiative to be adopted in other regions, with small adjustments however.

One final remark is the stance of the EU should be **more pragmatic**. Human rights and democracy elements should be revised in order to respect local values and have a less interventionist approach, as that might be seen by external actors as neo-colonialism. Discontinuing lecturing policies from European countries is expected to ameliorate governance in the Global South but also improve foreign relations with these countries.