27 January 2025

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The Cumulative Effects of EU Sustainability Legislation (CEULA)

Impacts on Finnish firms

Ministry for Foreign
Affairs of Finland

Publications of the Ministry for Foreign Affairs 2025:1

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Ministry for Foreign Affairs of Finland Helsinki 2025

Publication distribution

Institutional Repository
for the Government
of Finland Valto

julkaisut.valtioneuvosto.fi

Ministry for Foreign Affairs of Finland

ISBN pdf: 978-952-281-793-8
ISSN pdf: 2737-0844

Layout: Government Administration Department, Publications

Helsinki 2025 Finland

Description sheet
27 January 2025

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Publications of the Ministry for Foreign Affairs 2025:1

Publisher	Ministry for Foreign Affairs of Finland
Author(s)	Dorothée Cambou, Martin Fougère, Heidi Herlin, Neema Komba, Amin Maghsoudi, Mikko Rajavuori, Elina Sagne-Ollikainen, Juho Saloranta, Nikodemus Solitander
Language	English
Pages	63

Abstract

The CEULA project assesses the cumulative effects of five EU sustainability regulatory instruments on large Finnish firms and their global value chains. It addresses the following issues: the cumulative impacts of the regulations on Finnish firms, firm preparedness for current and future regulations, and the feasibility of fulfilling obligations through a unified CSR management system. The analysis focuses on the Regulation on Deforestation-free Products, the Directive on Corporate Sustainability Due Diligence, the Carbon Border Adjustment Mechanism, the Regulation on Prohibiting Products Made with Forced Labour, and the Ecodesign for Sustainable Products Regulation, with case studies from the agri-food, forestry, mining and textiles sectors based on in-depth interviews with representatives of Finnish firms. Our findings indicate a divide between Finnish firms regarding preparedness and highlight challenges such as a reactive approach to sustainability, confusion regarding regulations, conflicting requirements and uncertainties about resource allocation. Well-prepared firms express confidence in their readiness but are concerned about supplier compliance. The report provides recommendations for both Finnish firms and authorities, emphasising the importance of collaboration within value chains, the establishment of cross-functional task forces, stakeholder engagement, clear communication and mechanisms for continuous improvement. The steps outlined aim to enhance actionable sustainability practices and provide clear guidance on navigating complex regulatory landscapes.

Provision

This report is commissioned as part of UniPID Development Policy Studies (UniPID DPS), funded by the Ministry for Foreign Affairs of Finland (MFA) and managed by the Finnish University Partnership for International Development (UniPID). UniPID is a network of Finnish universities established to strengthen universities' global responsibility and collaboration with partners from the Global South, in support of sustainable development. The UniPID DPS instrument strengthens knowledge-based development policy by identifying the most suitable available researchers to respond to the timely knowledge needs of the MFA and by facilitating a framework for dialogue between researchers and ministry officials. The content of this report does not reflect the official opinion of the Ministry for Foreign Affairs of Finland. The responsibility for the information and views expressed in the report lies entirely with the authors.

Keywords	green transition, corporate responsibility, EU regulations, soft law, governance
ISBN PDF	978-952-281-793-8
ISSN PDF	2737-0844
URN address	https://urn.fi/URN:ISBN:978-952-281-793-8

Kuvailulehti
27.1.2025

EU:n kestävyyslainsäädännön kumulatiiviset vaikutukset suomalaisiin yrityksiin (CEULA)

Ulkoministeriön julkaisuja 2025:1

Julkaisija	Ulkoministeriö
Tekijä/t	Dorothée Cambou, Martin Fougère, Heidi Herlin, Neema Komba, Amin Maghsoudi, Mikko Rajavuori, Elina Sagne-Ollikainen, Juho Saloranta, Nikodemus Solitander
Kieli	englanti
Sivumäärä	63

Tiivistelmä

CEULA-projekti tarkastelee viiden EU:n kestävyyssääntelyinstrumentin vaikutuksia suuriin suomalaisiin yrityksiin ja niiden globaaleihin toimitusketjuihin. Tutkimuksessa arvioidaan säädösten kerrannaisvaikutuksia suomalaisiin yrityksiin, yritysten valmiutta nykyiseen ja tulevaan sääntelyyn sekä mahdollisuuksia täyttää velvoitteet yhtenäisen vastuullisuushallintajärjestelmän avulla. Tutkimus keskittyy metsäkatoasetukseen, huolellisuusvelvoitedirektiiviin, hiilirajamekanismiasetukseen, pakkotyöasetukseen ja ekosuunnitteluasetukseen. Tutkimusta varten haastateltiin maatalous- ja elintarvikealalla, metsäteollisuudessa, kaivosteollisuudessa ja tekstiilialalla toimivien yritysten henkilöstöä. Tutkimus osoittaa, että suomalaisyritysten valmiudessa täyttää EU-sääntelyn vaatimukset on merkittäviä eroja. Tunnistettuja haasteita ovat etenkin yritysten toimien reaktiivisuus, epävarmuus säädösten sisällöstä, sääntelyn luomat ristiriitaiset vaatimukset ja riittävien resurssien kohdentamiseen liittyvät kysymykset. Sääntelyyn hyvin valmistautuneet yritykset ovat luottavaisia omiin valmiuksiinsa, mutta nekin ovat huolissaan toimittajiensa kyvyistä täyttää sääntelyn vaateet. Tutkimuksessa esitetään suosituksia sekä suomalaisille yrityksille että viranomaisille. Suositukset painottavat toimitusketjujen sisäistä yhteistyötä, moniammattillisten työryhmien perustamista, sidosryhmävuoropuhelua, selkeää viestintää ja toiminnan jatkuvan kehittämisen mahdollistavia järjestelmiä. Nämä toimenpiteet luovat mahdollisuuksia konkreettisille kestävyystoimille ja tarjoavat selkeitä ohjeita luovia monimutkaisessa sääntely-ympäristössä.

Klausuuli

Tämä raportti on osa ulkoministeriön rahoittamia ja UniPID-verkoston hallinnoimia kehityspoliittisia selvityksiä (UniPID Development Policy Studies). Finnish University Partnership for International Development, UniPID, on suomalaisten yliopistojen verkosto, joka edistää yliopistojen globaalivastuuta ja yhteistyötä globaalin etelän kumppanien kanssa kestävän kehityksen saralla. Kehityspoliittinen selvitysyhteistyö vahvistaa kehityspolitiikan tietoperustaisuutta. UniPID identifioi sopivia tutkijoita vastaamaan ulkoministeriön ajankohtaisiin tiedontarpeisiin ja fasilitoi puitteet tutkijoiden ja ministeriön virkahenkilöiden väliselle dialogille. Tämän raportin sisältö ei vastaa ulkoministeriön virallista kantaa. Vastuu raportissa esitetyistä tiedoista ja näkökulmista on raportin laatijoilla.

Asiasanat	Vihreä siirtymä, yritysvastuu, EU-asetukset, soft law, kestävä kehitys
ISBN PDF	978-952-281-793-8
ISSN PDF	2737-0844
Julkaisun osoite	https://urn.fi/URN:ISBN:978-952-281-793-8

Presentationsblad
27.1.2025

Kumulativa effekter av EU:s hållbarhetsreglering (CEULA) på finländska företag

Utrikesministeriets publikationer 2025:1

Utgivare	Utrikesministeriet
Författare	Dorothée Cambou, Martin Fougère, Heidi Herlin, Neema Komba, Amin Maghsoudi, Mikko Rajavuori, Elina Sagne-Ollikainen, Juho Saloranta, Nikodemus Solitander
Språk	engelska
Sidantal	63

Referat

CEULA-projektet undersöker de kumulativa effekterna av fem EU-regleringar för hållbarhet på stora finländska företag och deras globala värdekedjor. Projektet behandlar specifikt följande aspekter: de kumulativa effekterna av dessa regleringar på finska företag, företagens beredskap för nuvarande och framtida regleringar, och möjligheten att fullgöra skyldigheter med ett enhetligt system för företagsansvar. Analysen fokuserar på förordningen om produkter förknippade med avskogning och skogsförstörelse (EUDR), direktivet om företagens tillbörliga aktsamhet (CSDDD), mekanismen för koldioxidjustering vid gränserna (CBAM), förordningen om förbud mot produkter som tillverkats genom tvångsarbete (FLR) och förordningen om ekodesignkrav för hållbara produkter (ESPR), med fallstudier från jordbruks-, skogsbruks-, gruv- och textilsektorerna som baserar sig på djupintervjuer med finska företag. Enligt projektresultaten finns det klara skillnader i beredskap bland finländska företag. Utmaningarna består främst av reaktiva förhållningssätt till hållbarhet, osäkerhet om regleringens innehåll, motstridiga krav, och frågor som gäller resursallokering. De företag som är väl förberedda har tilltro till sin beredskap men är oroade över sina leverantörers förmåga att uppfylla regleringens krav. Rapporten ger rekommendationer för både finska företag och myndigheter och betonar vikten av samarbete inom leveranskedjorna, skapandet av tvärfunktionella arbetsgrupper, intressentengagemang, tydlig kommunikation och tekniker för kontinuerlig förbättring. Med dessa steg syftar man till att förbättra konkret hållbarhetspraxis och ge tydlig vägledning för att navigera i EU:s komplexa hållbarhetsreglering.

Klausul

Denna rapport är beställd som en del av UniPID Development Policy Studies (UniPID DPS), finansierad av Finlands Utrikesministerium (MFA), och hanterad av Finnish University Partnership for International Development (UniPID). UniPID är ett nätverk av finska universitet som etablerats för att stärka universitetens globala ansvar och samarbete med partner från det södra halvklotet, till stöd för en hållbar utveckling. UniPID DPS-verktyget stärker en kunskapsbaserad utvecklingspolicy genom att identifiera de mest lämpliga, tillgängliga forskarna för att svara på utrikesministeriets kunskapsbehov i rätt tid och att underlätta ett ramverk för en dialog mellan forskare och departementstjänstemän. Innehållet i denna rapport återspeglar inte Finlands utrikesministeriums officiella uppfattning. Ansvaret för informationen och åsikterna i rapporten ligger helt på författarna.

Nyckelord	grön omställning, företagsansvar, EU-förordningar, soft law, hållbar utveckling
ISBN PDF	978-952-281-793-8
ISSN PDF	2737-0844
URN-adress	https://urn.fi/URN:ISBN:978-952-281-793-8

Contents

FOREWORD

At the Ministry for Foreign Affairs, we follow all legal initiatives of the European Union related to business, and at the Technology and Sustainability Unit especially those related to sustainability. As many new legal initiatives have been introduced in recent years, we started to wonder what the cumulative effects of these initiatives might be to Finnish business and their value chains. We found that there is hardly any research on the cumulative effects of EU sustainability legislation. To address this gap, we commissioned this study from Dorothée Cambou, Martin Fougère, Heidi Herlin, Neema Komba, Amin Maghsoudi, Mikko Rajavuori, Elina Sagne-Ollikainen, Juho Saloranta, and Nikodemus Solitander, with administrative help from the Finnish University Partnership for International Development (UniPID).

We identified Regulation on Deforestation-free Products, Carbon Border Adjustment Mechanism, Directive on Corporate Sustainability Due Diligence, Regulation on Prohibiting Products Made with Forced Labour and Ecodesign for Sustainable Products Regulation as key legal instruments in shaping business models, especially related to value chain sustainability. We also saw these as "new" legal instruments and wanted to know how business viewed them and how prepared business is for these new obligations. As it turned out, according to the interviews, business still considered sustainability reporting obligations as new and may have wanted to discuss the impacts of those obligations.

We hope that the selected scope nevertheless displays the familiarity and preparedness of Finnish companies, when it comes to the introduction of multiple, simultaneous legal instruments. While these legal initiatives are needed – especially considering the planetary boundaries and issues related to the realization of human rights – the study shows that obligations alone will most likely not realize the goals set by the legal initiatives. The study gives recommendations both for business and public authorities. We hope that these recommendations will be read and discussed, despite the current constraints on resources and state of the world. Sustainable trade needs protection of the environment and respect for human rights in order to exist in the long run.

Lastly, we would like to thank the researchers for their excellent work. We are also grateful to UNIPID's Kaisa Kurki and Kelly Brito for the administrative support they provided.

Ministry for Foreign Affairs of Finland, Sustainable Trade team

1 Executive summary

The overall objective of the CEULA project is to analyse the cumulative effects of five different EU sustainability regulatory instruments on large Finnish firms and their global supply chains. We do this by posing the following questions:

1. What are the cumulative effects of EU sustainability regulatory instruments on Finnish firms?

2. How prepared are Finnish firms for current and future regulatory instruments?

3. To what extent can obligations under these regulatory instruments be fulfilled, monitored and verified using a unified corporate social responsibility management system?

The report analyses the cumulative effects of the following five regulatory instruments: the Regulation on Deforestation-free Products (EUDR), the Directive on Corporate Sustainability Due Diligence (CSDDD), the Carbon Border Adjustment Mechanism (CBAM), the Regulation on Prohibiting Products Made with Forced Labour on the Union Market (FLR) and the Ecodesign for Sustainable Products Regulation (ESPR). Case studies of four sectors are discussed: agri-food, forestry, mining and textiles (including apparel). The study builds on in-depth interviews with representatives of 18 Finnish firms.

Our study reveals four different categories of challenges faced by firms due to the cumulative effects of the regulatory instruments: 1) process, 2) administrative, 3) information and 4) awareness and preparedness challenges. Our empirical data shows a clear divide between Finnish companies that are prepared for upcoming regulations and those that are not, a divide which is not strictly sectoral or based on the level of control over suppliers. Key observations include:

- Companies are largely reactive in their strategies and focus more on reporting and data collection rather than taking proactive measures regarding sustainability, which may lead to resource misallocation.

- There is confusion and a lack of clarity regarding certain regulations, resulting in varied interpretations and demands for overcompliance.
- Firms perceive conflicting requirements in different regulations, which makes it complicated to understand and integrate the requirements into a unified corporate responsibility management system.
- Tensions exist between firms demanding clearer regulations to reduce ambiguity and those that prefer less detailed frameworks – at times, these are the same firms.
- Uncertainty remains a significant challenge, especially concerning resource allocation and supplier impacts.
- Well-prepared firms are confident in their long-term readiness but are uncertain about their suppliers' preparedness. They rely heavily on external certifications and auditing.
- Concerns have been raised that large suppliers may benefit more from regulations, potentially disadvantaging smaller suppliers.
- Firms have expressed difficulties due to unclear terms in EU regulations, particularly the EUDR and CBAM, and seek more guidance from authorities.
- Investment in IT solutions for tracking and tracing is significant but uncertain due to the evolving landscape of standards and providers.

Based on our analysis we present a set of recommendations for Finnish lead firms and Finnish authorities to better equip themselves to navigate the impacts of current and future EU sustainability regulations. The focus of our recommendations is on enhancing actionable sustainability practices, stakeholder engagement, and collaboration across the supply chain, as well as the provision of clear guidance by regulatory bodies.

Recommendations for Finnish firms:

1. Increase supply chain collaboration: Lead firms should actively utilise their leverage to encourage greater collaboration and shared responsibility within their supply chains. Acknowledging the differing capacities of suppliers and supporting the capacity development of small and medium sized firms will be critical in achieving the sustainability targets enshrined in these regulatory instruments.

2. Establish cross-functional Task Forces: Firms should establish internal task forces that include representatives from legal, compliance, supply chain and sustainability teams. This will foster alignment on emerging regulations and engage experts to navigate complex human rights considerations.

3. Stakeholder engagement: Sustainability initiatives should not be siloed or isolated; a wide range of stakeholders, especially those impacted by the firms' activities, should be engaged in meaningful and material ways.

4. Clear Communication Channels: Firms need to develop effective communication strategies to keep all stakeholders informed about sustainability practices and outcomes. Transparency is essential for building trust and advancing collaborative initiatives.

5. Feedback and continuous improvement: Feedback mechanisms should be implemented to adapt to stakeholder concerns and evolving standards. Due diligence processes must be established to ensure respect for human rights and environmental practices while aiming for positive impacts on communities and workers.

Recommendations for Finnish Authorities:

1. Official guidelines: Authorities are encouraged to create clear guidelines that clarify sustainability legislation and instruments, including case studies and best practices that companies can implement in their specific contexts and chains of activities. Clear, actionable guidelines aligned with international frameworks, such as the UN Guiding Principles on Business and Human Rights, should be provided. Sector-specific examples will assist companies, especially those in high-impact industries like textiles, mining and agriculture.

2. Advance sector-specific guidance: Timely provision of sector-specific guidance and compliance tools before enforcement deadlines will enable companies to adjust their practices effectively.

3. Facilitation of collaborative efforts: To prevent antitrust violations, authorities should define conditions under which companies can collaborate on sustainability initiatives. Safe harbour regulations could encourage joint efforts on sustainability metrics and technology investments.

2 Introduction

Due to the slow progress being made towards the targets of the UN Sustainable Development Goals, as well as the introduction of the ambitious EU Green Deal, the landscape of governance of corporate environmental and social impacts is changing. The EU, once dominated by the promotion of Corporate Social Responsibility (CSR) as self-regulation, is moving towards a complex jigsaw of interrelated corporate sustainability regulatory instruments that particularly target firms with activities organised in complex, global value chains. While the EU has a long history of corporate sustainability governance, for example the setting of broadly applicable labour standards (Hadjiyianni, 2019), the last decade has seen the enactment of several instruments that target firms' environmental and social performance and the global impacts of their value chains (Salminen, Eller and Rajavuori, 2024). Whereas the scope of many of the previous regulations was limited to the internal market, the regulatory initiatives associated with the Green Deal can be seen as an approach that particularly targets sustainability issues in global value chains and global trade flows (Lund and Sandström, 2024).

The targeting of global trade flows is also largely aligned with international legal initiatives that have pushed the boundaries of corporate responsibilities towards stronger requirements, as encapsulated in the UN Guiding Principles for Business and Human Rights (UNGP, 2011), OECD guidelines and ILO Conventions. While some major recent regulatory instruments have their roots in reporting (e.g. the CSRD) and finance (e.g. Taxonomy Regulation), many of the newer instruments target firms' value chains. This is also the case with the instruments that fall within the scope of this study, i.e. the Regulation on Deforestation-free Products (EUDR)[1], the Directive on Corporate Sustainability Due Diligence (CSDDD)[2], the Carbon Border Adjustment Mechanism (CBAM)[3], the Regulation on Prohibiting Products

1 https://environment.ec.europa.eu/topics/forests/deforestation/regulation-deforestation-free-products_en

2 https://commission.europa.eu/business-economy-euro/doing-business-eu/sustainability-due-diligence-responsible-business/corporate-sustainability-due-diligence_en

3 https://taxation-customs.ec.europa.eu/carbon-border-adjustment-mechanism_en

Made with Forced Labour on the Union Market (FLR)[4] and the Ecodesign for Sustainable Products Regulation (ESPR)[5] (see Annex 1 for an extended overview of each). To date, very few studies (for exceptions see Lund and Sandström, 2024) have been carried out with the aim of understanding these instruments' interrelated and cumulative effects. This report is rooted in two main fields of academic expertise. First, it draws on a legal analysis to characterise the five regulatory instruments. Second, it draws on Global Value Chain (GVC) governance theory to understand and analyse inter-firm relations and supply chain governance. The latter approach acknowledges that patterns of governance are always to an extent contextual, depending on particular characteristics prevalent in specific industries and the relative power of firms and other actors in the chain, as well as the distinct social and institutional characteristics of the places where the GVCs are rooted (Ponte and Sturgeon, 2013). While this report is empirically limited to understanding the effects on large Finnish firms and their chains of activities, the governance patterns of the global supply chains of many other European firms are similar (Mayer and Phillips, 2017; Yeung, 2018). Therefore, the findings should be relevant to the EU context as a whole and not merely the Finnish context.

2.1 Study objective

The main objective of this study is to analyse the cumulative effects of the five different EU sustainability regulatory instruments named in the previous chapter, with a particular focus on the effects on large Finnish firms (TE500) and their global supply chains. To achieve this objective, the following research questions are posed:

1. What are the cumulative effects of EU sustainability regulatory instruments on Finnish firms?

2. How prepared are Finnish firms for current and future regulatory instruments?

3. To what extent is it possible to fulfil, monitor and verify the obligations of the regulatory instruments with a unified corporate social responsibility management system?

4 https://www.europarl.europa.eu/doceo/document/TA-9-2024-0309_EN.pdf

5 https://commission.europa.eu/energy-climate-change-environment/standards-tools-and-labels/products-labelling-rules-and-requirements/ecodesign-sustainable-products-regulation_en

As the focus is on global chains of activities and intra-firm trade aspects, the study also provides some insights into potential trade impacts related to the cumulative effects studied.

Following the GVC approach, the report underscores the importance of situating the analysis in particular chains rooted in particular sectoral contexts. This also supports our chosen methodology, a case-based approach, whose value is based on the richness, variance and depth of data (Flyvbjerg, 2011). The report analyses four sectors as case studies: 1) agri-food, 2) forestry, 3) mining and 4) textiles (and apparel). These sectors were chosen based on the likelihood of cumulative effects as well as sustainability risk aspects.

Instead of adopting a strict sectoral classification, we follow a GVC approach, focusing on value chains of activities that can span several sectors. For example, the mining chain includes activities such as battery production, which trade statistics categorise under different industry standard (NACE) codes.

While we mainly collected data from large Finnish companies, we also included some limited data from small suppliers to gather insights into how their understanding and expectations in terms of the cumulative effects align with and diverge from those of the lead firms.

2.2 Study structure

The study is structured as follows: in the following section we briefly review the literature on how global value chains are governed for sustainability, particularly through soft-law mechanisms and in the absence of legal instruments that govern chains of activities. We then present our legal analysis of the instruments, with a focus on anticipated effects in the form of obligations for firms (and by extension, their suppliers). In Section 4 we present the methodology used and our sample, and present our findings for each global value chain analysed. In the final section we present our overall findings and conclusions as well as our two sets of recommendations; one for firms impacted cumulatively by the regulations and one for authorities.

3 Governing sustainability risks and impacts on global value chains

While our report is focused on relatively large firms' understanding of how five forthcoming EU regulatory instruments concerning corporate sustainability will affect their activities and supply chains and the impacts they anticipate, the underlying theme is that of trade and trade flows. Our inquiry centres on how the trade flows that emanate from the activities of EU-based multinational firms can be effectively organised and governed; particularly how the negative environmental and social externalities caused by firm activity under the conditions of international 'fragmentation', i.e., the physical separation of different parts of a production process into a complex global chain of activities (Gereffi et al., 2005), can be mitigated through governance. These fragmented chains of activities, often described in terms of the process of globalisation, pose very particular challenges in terms of the legal obligations, accountability expectations and ethical responsibilities of large multinational firms, who exert varying degrees of power over the configuration of their value chains and thus influence other firms in different parts of the world without having direct ownership. The power of these multinational firms to 'govern' value chains is in constant interplay with the power of states and other institutions to shape how trade flows in the chains and what the external impacts of these flows are on the environment and societies (Van der Ven, 2018; Ponte and Sturgeon, 2013).

Historically, it has been assumed that firms can mitigate or even eliminate negative externalities in their chains of activities by voluntarily changing their sourcing and production practices to more sustainable configurations through adopting voluntary soft law mechanisms that shape how the chains are organised and governed (Fougère and Solitander, 2020). Recently, particularly within the EU, this assumption has been questioned; it is argued that chains are not being reshaped effectively or quickly enough to deal with issues such as climate change, human rights violations or any of the global challenges outlined in the UN Sustainable Development Goals (LeBaron and Lister, 2021). At the same time, the interplay between the logic of self-regulation, co-regulation through soft law initiatives, and hard law is mostly kept intact in the EU's sustainability regulatory framework. This means that while the regulatory instruments spell out what externalities firms should be held responsible and accountable for in fragmented chains, how they should deal with them is largely still reliant on the self-regulating logic of CSR

(Dupont et al., 2024; Monciardini et al., 2021; Jentsch, 2020). Still, the increasing number of regulatory instruments at play is likely to affect how firms organise their sustainability functions internally, for example the interplay between sustainability and the legal functions of the firm.

In this report, we examine how the relationship between self-regulation and compliance has been reorganised by integrating insights on sustainability governance from GVC and CSR literature with insights from a legal perspective.

In the following section, we first give a brief conceptual overview of the changing nature of the governance of corporate sustainability in global value chains, after which we lay out a legal analysis of the regulative mechanisms within the scope of this study.

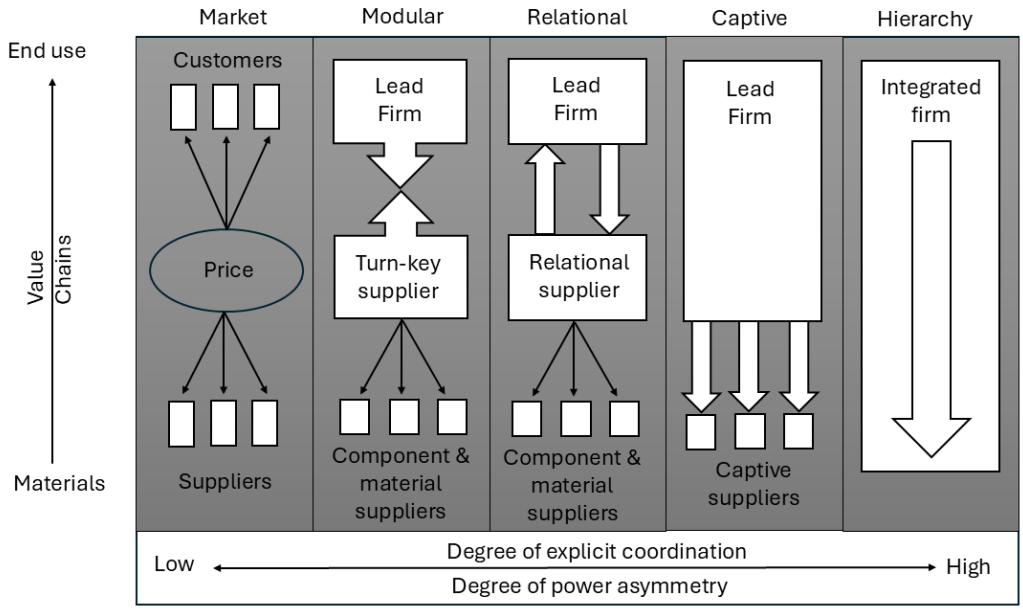
3.1 Governing sustainability in global chains

In this section of the report, we draw on Global Value Chain literature (cf. Gereffi, 2005; Bae et al., 2021) to make sense of the various sustainability governance patterns in different sectors and chains of activities. A GVC perspective emphasises the need to understand the impacts and challenges that Finnish firms face in the context of their positioning in chains of activities and within their sectors.

GVC analysis focuses on how lead firms organise and govern sourcing in product flows with globally dispersed suppliers (Gereffi and Lee, 2016). The literature emphasises that certain characteristics of the value chain predict how the chain is governed. These characteristics are a) the complexity of information, which refers to the nature of the information that must be transferred to ensure a particular transaction can occur (the GVC model predicts that suppliers working with more complicated product specifications are more difficult to govern, which increases supplier switching costs), b) the codifiability of that information, which refers to the extent to which complex knowledge can be converted into standards or transmitted in the value chain at minimal cost and c) the capabilities of suppliers, meaning the ability of suppliers to meet all the requirements of a transaction. These capabilities include suppliers' capacities to meet quality, sustainability, labour and safety standards. Usually, suppliers need access to support services, such as certification assistance, to develop new capabilities. If such assistance/resourcing is not available from supporting markets, suppliers will be more heavily reliant on lead firms to meet these needs (Gereffi, 2005; Ponte and Sturgeon, 2013).

Based on the above, the GVC model posits that different combinations of these three variables give rise to five generic value chain governance structures: (1) Market, governed by price; (2) Modular, governed by standards; (3) Relational, governed by trust and reputation; (4) Captive, governed by buyer power, and (5) Hierarchy, governed by management hierarchy (see Figure 1).

Figure 1. Value chain governance structures (Gereffi et al 2005, p.89)



Using this typology, it is possible to predict how sustainability issues are (voluntarily) governed within global supply chains (Bae et al., 2021) and thus also predict existing capacities to deal with sustainability regulations. In market structures, buyer firms leave it to suppliers to enact CSR on their terms. Buying firms may not want to govern the social responsibilities of suppliers, as this would require them to form more long-term, durable relationships and increase the costs of switching suppliers. In modular governance models, the buying firm exercises some control over suppliers, e.g. through codes of conduct or third-party auditing. As the suppliers in modular chains are highly competent, and because buyers prefer arm's-length relationships, firms turn to external parties (for example auditing companies) to monitor suppliers' code compliance instead of executing this function in-house. In relational chains, the knowledge required to fulfil sustainability demands is complex and difficult to codify, and thus buying firms are likely to demand supplier

compliance but also help with their compliance efforts through capacity-building. In captive or hierarchical governance, buying firms exert very strong control over supplier operationalisation of CSR. The firms might directly audit the suppliers' code compliance and make direct interventions in their business operations. The difference between captive and hierarchy structures is that the latter usually involves in-house suppliers (Bae et al., 2021). The mining and extractive sector is usually assumed to operate by means of strong hierarchies of captive governance (Katz and Pietrobelli, 2018), the textile and apparel sector usually operate by means of captive or relational governance (Gereffi and Sturgeon, 2005), while in the agrifood sector the form of governance varies greatly depending on whether the lead firm is a food producer or retailer, but is trending towards more explicit forms of coordination after having been more reliant on market forms (ibid).

These forms of governance are typical in contexts where chains are not regulated through legal and regulatory instruments but rely on soft-law and voluntary mechanisms. In the following section, we lay out a legal analysis of the expected effects, particularly in terms of obligations for lead firms, and by extension how they can increase their control over their suppliers in global value chains.

3.2 Companies' obligations under sustainability regulations: A legal analysis

Over the past decade, the EU has launched several regulatory instruments that attempt to control and mitigate negative environmental and social impacts caused by companies. These instruments, which range from carbon border levies to product design principles, share many elements, particularly their overarching normative vision and the propensity to stipulate corporate responsibilities for environmental damages and adverse human rights impacts. At the same time, however, the instruments are diverse in terms of their areas of focus, scope, regulatory strategies and sanctions.

In this section, we will briefly outline the EU sustainability regulation instruments which are relevant to this study. We propose an analytical framework for delineating and discussing the different types of obligations they impose on companies. It should be noted that this section does not go through all the instruments in detail. Instead, extended summaries of the regulatory instruments can be found in the Annex.

While all the instruments can be understood as part of the EU's larger sustainability governance landscape, there are important differences among their principal areas of focus (Berning and Sotirov, 2023; Salminen, Eller and Rajavuori, 2024). While some of the instruments focus on mitigating certain types of environmental (the EUDR) or social harms (the FLR), others tackle both dimensions of sustainability (the CSDDD). Similarly, the instruments differ in their particular scopes. Some of the instruments target only very large companies (e.g., the CSDDD), while others focus on companies in specific sectors (e.g., the CBAM, EUDR, ESPR). Still other instruments aim for universal applicability (e.g., the FLR). As a result, some companies may fall under the scope of all these instruments.

Regulatory strategies differ as well. The most common strategy hinges on market access: the CBAM, ESPR, FLR and EUDR all regulate which products can be sold in the EU's internal market (Pauwelyn, 2024; Salminen, Eller and Rajavuori, 2024). Still, there are important differences between the instruments. The ESPR, for example, imposes a series of physical conditions, such as repairability or carbon intensity, on covered products, whereas the FLR concerns the production conditions, principally the use of forced labour, of goods (Fruscione, 2023). The logic for operationalising the regulations differs as well. Thus, the CBAM establishes a distinctive carbon tax system, while the EUDR integrates market access obligations with a robust due diligence scheme (Pauwelyn, 2024). Due diligence, which primarily refers to processes through which companies are expected to identify, mitigate and remedy any social or environmental harms they cause or contribute to, constitutes another clear regulatory strategy. This is referenced explicitly in the CSDDD and EUDR, but elements of due diligence regulation can also be identified in the FLR and even the CBAM. Thus, a single regulatory instrument can often be seen to rely on different strategies.

Finally, the regulatory instruments also employ diverse penalties and sanctions (Korka-Knuts, 2024). In many cases, penalties are financial, and they are set directly in the regulation or directive. Pecuniary penalties come in many forms. In certain circumstances, they may involve a set amount, as is the case with failure to report embedded emissions under the CBAM (Pauwelyn, 2024). In other cases, the penalties may be proportional to the company's global turnover or be uncapped, such as the CSDDD's administrative sanctions and private liability scheme (Bueno et al., 2024). Alternatively, sanctions can also involve the removal of products deemed incompliant from the single market or even their destruction (FLR).

Because the EU's sustainability regulations are based on several regulatory strategies (see details in Annex), the concrete obligations that companies must fulfil are also diverse. These obligations range from very concrete administrative

duties, such as the CSDDD's requirement that companies adopt and put into effect a transition plan for climate change mitigation, to amorphous duties such as the obligation to assess the risk that forced labour will occur based on a due diligence process. In fact, the instruments discussed in this study impose dozens of distinct obligations. These obligations may also take different forms depending on the size of the company and its position in the industry value chain (cf. Salminen and Rajavuori, 2019). For the analytical purposes of this report, we have developed a typology of the obligations that balances their inherent complexity with a streamlined representation of the regulatory requirements.

3.2.1 Framework of corporate obligations

The EU's regulatory instruments impose various duties and obligations on companies. Keeping track or assessing the content of these obligations requires a major effort, which is compounded by the fact that the majority of the instruments are not yet fully applicable. As such, there are limited options for analysing the true scope of regulatory requirements, their operationalisation and impact. For this reason, this study seeks to identify, in broad strokes, the different types of obligations involved and assess their impact on companies' compliance, risk management and operative functions. Thus, we propose an analytical framework based on three broad categories of obligations: a) administrative, b) information and c) process obligations.

The first category is administrative obligations. These obligations take several forms. The CBAM, for instance, requires covered companies to apply for a special status as CBAM declarants to be able to import goods into the EU. Further obligations flow from this administrative status. Similarly, under the EUDR, it is mandatory for companies to submit a due diligence statement to the Commission's information system prior to placing certain products on the market (Pauwelyn, 2024). In both cases, the instruments require companies to take certain actions whose form and timing is regulated in detail. Therefore, these obligations establish bureaucratic systems or actions with which companies must conform.

Such administrative obligations essentially serve as checkpoints that connect companies' internal compliance functions with the oversight mechanisms at the EU or Member state level. Other regulatory instruments focus on different administrative tasks. For instance, the ESPR contains closely related obligations on importers, who are responsible for making sure that relevant conformity assessment procedures are followed by manufacturers and that goods are accompanied by the necessary information and a digital product passport

(Becker, 2022). In contrast, the CSDDD demands that companies establish internal notification mechanisms and complaint procedures that enable affected persons or their representatives to raise concerns regarding companies' potential adverse impacts (Bueno et al., 2024). Here, the administrative obligation concerns potential victims of adverse corporate impacts rather than official enforcement mechanisms. While these mechanisms are broadly linked to due diligence processes, they nevertheless establish distinct obligations that companies have in place certain bureaucratic structures.

The second category consists of information obligations. This is by far the most extensive category of obligations, given that the majority of the instruments require companies to produce extensive and often fine-grained information on their environmental and social impacts. The EUDR, for instance, requires companies to "collect information, documents and data", including geolocation data, that show their imports to be deforestation-free (Berning and Sotirov, 2023). Although these information obligations share some similarities with different due diligence frameworks that may require comparable actions, the instruments analysed also place greater emphasis on directly linking the gathered data and information to company operations. As a result, it can be said that information obligations deviate from sustainability reporting or disclosure obligations (Fisch, 2018).

Information obligations can take other forms as well. Often these obligations are directed towards oversight and enforcement officials. For example, the FLR grants authorities the power to require companies to provide "information on their relevant actions taken to identify, prevent, mitigate, bring to an end, or remediate risks of forced labour in their operations and supply chains". Similarly, the CBAM declaration must include information on e.g. total imported goods and their embedded emissions (Pauwelyn, 2024). Information obligations can also be directed towards markets in general. For example, the CSDDD requires companies to report on their due diligence processes by publishing an annual statement on their website. The ESPR introduces an additional type of information obligation: an easily accessible digital product passport. This passport includes data such as carbon footprint and repairability, along with other information designed to guide customers toward more sustainable product choices (Becker, 2022).

The third and final category is process obligations, which are very distinct in the various EU sustainability regulatory instruments. Due diligence obligations are essentially process obligations (Viljanen, 2024). While the exact definition of due diligence varies between the instruments, generally it refers to companies' internal procedures through which they aim to identify, prevent, mitigate, bring to an end or remediate their adverse social or environmental impacts (UNGP, 2011).

Accordingly, the instruments require companies to have in place organisation-wide internal controls for assessment, action and reporting to manage various forms of sustainability risks.

Process obligations in global value chains are enumerated in the greatest detail in the CSDDD, but they are also key elements in the EUDR and FLR (Bueno et al., 2024). The arrangements required to meet due diligence obligations are broad, and the regulations differ when it comes to sanctions and penalties. For instance, while the obligations in the CSDDD are supported by turnover-based financial penalties and a civil liability scheme, the FLR is ultimately enforced by destroying the goods that do not pass the due diligence investigation by officials.

In our forthcoming analysis, we rely on this three-tiered framework - administrative, information and process - of companies' obligations. The framework allows us to rise above the dozens of obligations established in the regulatory instruments while also connecting our analysis to the concrete corporate functions tasked with fulfilling the legal requirements. As will become clear in the following sections, companies themselves often describe regulatory expectations or the tasks that they execute for the purpose of complying with these new instruments using broadly similar categories.

However, it should be borne in mind that our analytical framework operates on an abstract level. It is not always possible to assign concrete obligations neatly to one category. Due to the design features of the EU's sustainability regulation (e.g. reliance on multiple regulatory strategies), many obligations can serve diverse functions and be classified in different ways. Due diligence obligations, for example, often span all three categories but with different intensity. Similarly, our framework arises from the regulatory instruments and their operating logic. When transferred into actionable compliance performed by companies, the obligations necessarily take different forms. For example, companies' IT systems (such as SEDEX) are key infrastructures that serve as the nexus for information gathering, due diligence processes and reporting to government entities.

Table 1. Overview of regulatory instruments

	Aim	Regulatory strategy	Obligations
CBAM	To reduce emissions, level the playing field	Market access, carbon tax	Provide data on embedded emissions, CBAM fees
EUDR	To reduce deforestation & forest degradation	Due diligence, market access	Prohibit commodities, information & risk management, reporting
ESPR	To reduce the environmental footprint of products	Product regulation	Design product attributes as specified in delegated acts, provide information
FLR	To prevent forced labour	Market access	Prohibit products, participate in investigations
CSDDD	To effectively address adverse corporate impacts on human rights and the environment	Due diligence	Information & risk management, reporting, civil liability, transition plan

Source: Authors.

4 Sectoral assessments

In the following sections, we first describe our methodology, then reflect on the overall pattern of preparedness, and finally proceed to an analysis of each of the identified themes. After discussing the question of awareness and preparedness, we analyse the challenges associated with administrative obligations, information obligations and process obligations in turn.

4.1 Methodology

To study the cumulative impacts of these five EU sustainability regulations on Finnish companies, we took a case-based approach (Flyvbjerg, 2011) with a GVC focus (Gereffi, 2005; Bae et al., 2021) that allowed for a nuanced understanding of the impacts and challenges that Finnish firms face based on their sectoral context and position in the supply chain. As such, the report analyses four sectors as case studies: 1) agri-food, 2) forestry, 3) mining and 4) textiles. We interviewed representatives of Finnish lead firms in each of the four sectors, which were identified from the TE500 list based on turnover. In order to take supply chains into account, we also interviewed several suppliers.

Agri-food chain: We conducted eight in-depth interviews for this sector, while one potential interviewee declined to participate. Due to the unique nature of the supply chain within this sector, we needed to gather insights from multiple actors in the global value chain. Therefore, in addition to the interviews with senior sustainability and compliance experts from three Finnish lead firms operating in the sector, we interviewed sustainability and marketing experts from two large multinational suppliers, CEOs from two Finnish supplier firms (SMEs) and a general manager from one supplier firm based in a Least Developed Country (LDC). Six interviews were conducted in English and two in Swedish. On average, the interviews lasted approximately 60–70 minutes, except for one interview with a smaller supplier, which lasted 35 minutes. Two interviews were conducted face-to-face, and six were carried out remotely via Microsoft Teams. The interviews in Swedish were translated into English before analysis.

Forestry chain: We conducted a total of three in-depth interviews for this sector, while one potential interviewee declined to participate. Two of the interviews were with head of responsibility and sustainability managers from large multinational corporations and one with a CEO of a smaller supplier. The supplier interview, originally conducted in Swedish, was translated into English prior to analysis to maintain consistency with the other data sources. Each interview lasted approximately 60–70 minutes and was carried out virtually via Microsoft Teams.

Mining chain: We conducted a total of three in-depth interviews with VP/head of sustainability from three lead firms, all large multinational mining companies. Although initial outreach included eight companies, five ultimately declined to participate. The interviews were conducted in English. Each interview lasted approximately 60–70 minutes and was carried out remotely via Microsoft Teams.

Textile and apparel chain: We carried out a total of four in-depth interviews with representatives of two lead firms, one large retail firm and one supplier in the sector (none declined). It should be noted that Finnish lead firms are relatively small buyers on the international market. A retailer was included because retailers often carry in-house textile brands or have exclusive licenses on certain textile brands, and the governance approaches of producers and retailers in the GVC framework were predicted to be different. The interviews were conducted in English. Each interview lasted approximately 60–70 minutes and was carried out remotely via Microsoft Teams.

4.2 Overall pattern of preparedness

In addition to the obligations and challenges identified in the legal analysis (process, administrative and information challenges), the empirical analysis revealed an additional thematic challenge, which we label below as "awareness and preparedness." This theme became apparent early in the interviews when it emerged that several firms cumulatively impacted by the regulatory instruments were relatively unaware of the scope and requirements of these instruments. This finding is particularly noteworthy as the participating companies are major actors not only within their respective sectors but also in Finland more broadly, given that they are lead firms identified from the TE500 list based on turnover.

When it comes to an overall pattern of (lack of) preparedness in relation to the five regulatory instruments, analytically it is possible to group the firms into two categories, prepared and unprepared firms. Prepared firms are firms with fairly comprehensive knowledge and understanding of the instruments and whose

representatives expressed both readiness for and knowledge of their obligations (we did not attempt to confirm the actual level of knowledge/readiness). Unprepared firms are firms whose representatives openly admitted ignorance of the regulative instruments, showed low awareness/understanding of the instruments and their obligations, and were generally extremely reactive in their strategic response to the instruments. For analytical purposes, we can also say that the decline rates of interviews, and the way interviews were declined, constitute a result in themselves. We saw this especially in the mining sector, which was extremely reluctant to engage with this study, the firms having a very different approach to the kind of stakeholder dialogue this report constitutes than the other sectors we approached and analysed.

4.3 Awareness and preparedness

There were certain common themes in that interviewees consistently showed knowledge gaps about the regulatory instruments almost irrespective of sector and chain positioning. First, there was confusion regarding responsibilities beyond tier 1 suppliers. In general, the interviews showed that there appears to be a lack of clarity among firms on how to manage obligations further upstream in the value chain.

In relation to some of the instruments, such as the CSDDD, this can be considered somewhat surprising, as the UN Guiding Principles for Business and Human Rights (the model for human rights due diligence), for example, have been available and supported by businesses for over ten years. However, this finding is in line with previous research on Finnish firms' preparedness for the CSDDD (Tran-Nguyen et al., 2021).

Another identified indicator of the lack of preparedness for the management of the value chain beyond tier 1 is that the firms that participated are yet to implement particular sustainability clauses in their procurement and other contracts to manage sustainability risks in value chains more effectively. Such contractual clauses should go beyond mere expectations that suppliers adhere to human rights and environmental standards – a standard procedure, which is required by supplier codes of conduct nowadays as business as usual. Almost all firms acknowledged that they have not considered changes to contracts to facilitate collaboration to develop human rights and environmental due diligence processes, despite being aware of the need for more comprehensive due diligence requirements under the CSDDD framework.

Similarly, we found that contractual clauses were not utilised to obtain sustainability data from the value chain at large. Based on the interviews, companies' legal and/or compliance teams at times lack a holistic view of the regulatory landscape and its role in corporate sustainability efforts. In some companies, sustainability teams appear to follow the evolution of sustainability legislation more closely and have more insightful views on it. However, since they are not responsible for drafting contracts, the knowledge gap between contracts and sustainability remains in many of the firms. Interviews also showed a lack of clarity on which types of collaboration among competitors are acceptable and compliant with competition regulations, creating hesitation in cooperative efforts.

Many interviewees, across all sectors, voiced frustration and uncertainty regarding the timing of (sector-specific) tools and guidance. They highlighted that crucial resources are being made available by authorities too close to enforcement dates, which makes preparation more difficult. Due to a lack of official guidance, many private companies have started providing solutions to tackle data and process challenges that stem from legislative requirements. These private consultancy services, however, create another problem, as these market players are often fairly new and experimental. One interviewee mentioned that it is difficult to guess which will be "the winning horse" (Textile 1) as many new start-up companies provide data gathering and reporting tools, but due to the nature of startups, "it's really hard to say which of them will be on the market after three years [as] some of them [will] have probably vanished completely" (Textile 1).

As for understanding the cumulative effects of regulations, few companies have developed estimations of the overall financial costs. There is a general understanding that more resources are required to close the knowledge gap. Given the perceived volatility of the regulatory environment, some companies have established in-house capabilities to monitor EU regulatory changes, while others have opted to outsource this task to external consultants in order to stay informed about regulations affecting their operations. While some of the firms are, on a general level, aware of the regulatory instruments that (will) impact their businesses, the level of detailed understanding of each regulation varied depending on whether they perceived it to be critical in relation to time. For example, one interviewee from a mining company was quite aware of the CSDDD and CBAM but admitted to not knowing much about the FLR. Another interviewee from a mining company also mentioned their lack of familiarity with the ESPR and FLR and how they could be relevant to their production, expressing keenness to know more about them during the interview. Companies in the textile industry considered all the regulatory frameworks in this study to be relevant, although the binding nature of the CBAM was perceived as a not very important issue for them

(as few of their products fall under the scope of that regulation). In agri-food supply chains, most companies were aware of the CSDDD and EUDR, but did not mention the FLR, probably due to its recent adoption.

In the forestry sector, the level of engagement of companies with the new regulatory instruments appears to vary broadly. Mixed or paradoxical feelings and statements were common. Some companies expressed confidence that they are ready to comply with the EUDR, while others seemed quite reactive and still waiting for further legal specifications to emerge, for instance in relation to the digital passport required by the EUDR. This is also reflective of the responses related to the Ecodesign directive. Because it is a framework directive, companies are waiting to see how the legislator will further specify the requirements before seeking to comply. Forestry companies did not really seem to be focusing on the CBAM.

It is noteworthy that none of the companies which participated seem to approach sustainability regulations as a whole, or even as the sum of their parts. They seem to prioritise instruments that are either deemed business-critical or align with their implementation timelines. As a result, there is a hierarchy in terms of what the companies put their efforts and resources into. For example, even though the EUDR, FLR and CSDDD will all impact agri-food supply chains, companies in this sector have put more emphasis on the EUDR, as it will affect them sooner. Regarding regulations that are not identified as relevant for their sector, some of the sustainability experts demonstrated a lack of awareness of the substance of the instruments. For example, a respondent from the agri-food sector told us, "I have to say that this ecodesign, I googled it, what it means and [as] we are in the food industry, I assume that it's not for us" (Agri-food 3). In contrast, even though the Corporate Sustainability Reporting Directive (CSRD) was not included in our study, most interviewees mentioned it, which indicates that they are disproportionately focused on specific critical regulations at the moment, and when the time comes they will start thinking about the other regulatory instruments.

Overall, companies appear to follow a pattern of 1) **Prioritisation:** Companies are prioritising instruments based on when they will come into effect. In the agri-food sector, this means companies are mostly focused on the EUDR. The CSDDD is on the periphery for some proactive companies, but most have not started to look at the other directives. The FLR was hardly talked about. The CSRD, although not in focus, is highly relevant. Since the CBAM is currently in its transitional phase (2023–2025), mining companies are prioritising it and even dedicating human resources to it, while forestry companies, particularly those importing heavy equipment, also have it on their radars; and 2) **Bundling:** Although there are quite significant differences between the regulatory instruments as previously stated, companies are trying to

make sense of how everything works together. Ultimately, they will try to bundle the processes as much as possible, but that will happen gradually over time as they seek to comply with the various regulations. However, the interviewees perceive this bundling differently based on their interpretations of the regulations as well as their specific processes. Within the agri-food and forestry supply chains, some companies were considering the possibility of bundling due diligence processes (e.g. an across-the-board risk assessment process for all their operations). Some interviewees indicated that it made sense for their companies to bundle due diligence and reporting requirements (e.g., CSDDD with CSRD, or EUDR with CSRD). Others emphasised the importance of separating process-related legislation from product-related legislation.

Our findings suggest that although the level of preparedness varied, most companies were still preparing to meet their various obligations under these regulations. The obligations faced by companies and the challenges mentioned as being associated with compliance depend on sector of operation, the interviewee's role, the types of products and services offered, the raw materials used and their origins, the company's location and position within global supply chains and the scale of its operations. For instance, a respondent from one of the large forestry companies expressed frustration with the postponement of the EUDR, while a smaller forestry supplier conveyed relief at the delay in the same instrument coming into force. Overall, within the sectors we studied, agri-food and forestry companies appeared more prepared than their mining and textile counterparts. Keeping in mind the size of our sample, it is nevertheless possible to hypothesise that the size of the various companies and the characteristics of the supply chains within these specific sectors account for some of these differences (e.g., in the agri-food sector control and even traceability of suppliers is often lacking whereas the textile sector has a largely 'captive' supply chain).

In addition, it is also evident that some of the differences are due to the substance of the specific regulatory instruments. For example, in the context of agri-food supply chains, the EUDR only applies to specific commodities such as soy, palm oil, coffee, cocoa and cattle, and products made from these commodities. Of course, companies which do not deal in these commodities are not faced with these obligations. Moreover, a company's position within the value chain can further determine the obligations it faces. For example, the EUDR imposes different obligations on operators and distributors. In this case it is the operators, as opposed to the distributors who introduce a product into the EU, who face the main responsibility for due diligence requirements. Size also matters when it comes to some regulations. For example, smaller suppliers are granted certain exemptions when it comes to EUDR requirements.

The origin of key raw materials has also prompted some companies to be more vigilant than others about their obligations. For example, some mining companies with mostly Nordic suppliers assume that their Human Rights risks are low or non-existent. However, this assumption seems to be unfounded as Finland and Sweden have longstanding issues in relation to indigenous peoples' (i.e. the Sami) rights in the mining sector (cf. Poelzer et al., 2021). In both Sweden and Finland, the mining-sceptical movement has gained momentum over the years and opposes the negative environmental and social impacts of mining (cf. Eerola, 2024). This indicates that although companies might feel or say they are prepared, some are more biased and may not have thoroughly assessed the human rights and environmental risks of their operations.

Interestingly, it is also noteworthy that the companies displayed various deliberate attitudes when it comes to preparedness. For example, some companies were in "wait-and-see" mode, while other interviewees made a point of emphasising their company's more proactive approach to preparing for their obligations. Nevertheless, all the companies in the various sectors face a myriad of compliance challenges. In the sections below, we discuss the multifaceted administrative, information- and process-related challenges faced by Finnish companies amidst evolving regulatory landscapes.

4.4 Administrative obligations/challenges

Below we look into the challenges stemming from the administrative obligations imposed by the five regulatory instruments in the agri-food, forestry, mining and textile sectors in turn.

4.4.1 Agri-food

Within agri-food supply chains, companies are creating new positions to meet their responsibilities, including legal as well as broader sustainability functions. When in-house capability is limited, use of consultants is preferred. Although there seems to be an understanding that sustainability requires company-wide efforts and knowledge and not just a separate sustainability unit, very few companies are implementing company-wide sustainability training across their operations. Moreover, some companies are seeing a shift in focus and resources from sustainability programmes to reporting and compliance.

All the interviewees reported that their companies are facing challenges balancing the numerous compliance obligations related to sustainability with operational demands. MNEs, even those who claim sustainability is at the core of their strategic agenda, seem to struggle to find a balance between operations, strategy and compliance. For these large companies, a great deal of work and resources are currently devoted to finding ways to report based on the new standards introduced by the Corporate Sustainability Reporting Directive (CSRD). For example, a respondent from one agri-food lead firm told us: "We are working heavily on the CSRD and EUDR, and those two are different in that way, [in] that [the] CSRD is a reporting directive and it's more that what you report is reliable and correct. You don't actually need to do anything if you don't want to. You can just report that [you] haven't done anything. And if that is right, that is right. Of course, we are not going to do that but kind of the pressure from what is affecting, or how it is affecting our business is not as high [with the CSRD] as it is with [the] EUDR, which is really business-critical for us" (Agri-food 3). Thus, even though the CSRD is not included in the five regulations that are the focus of this study, some companies spent a disproportionate amount of time in the interviews going back to the CSRD. To some degree, some of the companies seemingly assume that the main impact of the new regulatory instruments will be more reporting (for example, on how the company goes about due diligence). Since the spirit of the new regulatory instruments is supposed to go beyond earlier instruments to ultimately ensure more sustainable value chains, the disproportionate insistence on the logic of reporting is noteworthy.

The challenge of balancing operations and compliance is especially taxing for the smaller suppliers we interviewed as part of MNEs' value chains. In our interviews with smaller suppliers in the agri-food sector, the difficulty allocating resources for administrative, regulatory and compliance tasks due to the small size of their operations was evident, as was the challenge of balancing these tasks with core business activities, as illustrated by the following interview extract: "The compliance demands are becoming so complex that we cannot simply have someone handling it as a side task anymore" (Agri-food 1). In a seemingly counterintuitive fashion, some smaller suppliers are downsizing personnel to keep up with the rising cost of compliance and opting to leverage technology to minimise their administrative burdens. Furthermore, in our interviews with local producers, we learned that the additional costs of compliance can make it hard for small suppliers to compete on price, which is vital in the food industry. As such, without deliberate support mechanisms, small Finnish suppliers are likely to be pushed out of value chains as they will be unable to comply and compete with international and larger players in the market. One supplier made this fear very explicit by stating they are

"losing [their] competitive advantage" (Agri-food 1). The belief that smaller suppliers and farmers were likely to be pushed out of value chains was shared by all the lead firms and multinational suppliers in the agri-food sector.

The dual burden of high operational costs and stringent regulations produces a nuanced view: while positive advancements in sustainability are necessary, they must be balanced against the possibility that smaller businesses who may lack the resources to comply efficiently will be strangled. For example, a CEO of a smaller agricultural supplier articulated significant frustration regarding the increasing demands of regulatory compliance without corresponding support mechanisms from authorities. This disconnect highlights a growing concern over how regulatory frameworks are formulated without a realistic understanding of their operational impacts. Moreover, while regulations may aim to promote good practices, they often do not take the realities of small businesses into account, leading to higher operational costs and potential downsizing instead of sustainability gains.

4.4.2 Forestry

Generally speaking, respondents from both the lead firms and their suppliers shared their concerns that the regulatory instruments are going to be burdensome. One interviewee indicated that they "are not calling it a list of five [regulatory instruments]; [instead, they] are calling it a tsunami" (Forestry 2). In line with that thought, companies indicated that the regulations created significant administrative workloads due to the requirement to document all their activities to ensure that they have the proper audit trail to demonstrate how they exercise their due diligence. It was also noted that the focus of daily work has shifted from efforts to improve processes to prioritising the preparation of reports, something considered to be an unintended consequence of the implementation of the instruments.

A representative of a lead firm highlighted how overly detailed requirements could impact business efficiency. Furthermore, the company pointed out inconsistencies across EU member states, noting that varying interpretations of regulations make compliance particularly challenging for businesses operating in multiple countries. For example, the documentation required under the EU Timber Regulation in Germany differed from that in Finland.

At the same time, it was indicated that some regulations, such as the CSDDD, do not come with much guidance from the EU, which leaves a great deal of uncertainty about how to interpret them. In this regard, companies appeared to be waiting to

see how other companies will implement the directive. They explained that, due to the lack of a clear interpretation, it is currently unclear what these requirements will entail, how they will need to be met, and what level of scrutiny they will face. It was noted that "something that all companies hate is uncertainty, and this is now what is coming from the EU" (Forestry 2). Even though further guidance from the EU is expected to assist with implementing the EUDR (such as specifying high-risk countries), many representatives mentioned that interpretative gaps pose a significant administrative burden in ensuring compliance. Likewise, one supplier expressed frustration with the regulatory demands imposed by the EU particularly in relation to the EUDR, describing them as overly detailed and burdensome.

In terms of human resources, respondents from lead firms stressed that the regulations will not greatly impact their payroll. However, mentions of new hires were made. In general, it was emphasised that large companies changed their hiring practices to ensure that new employees have the skills and competencies to understand and implement the sustainability regulations. Where positions have already been added, they relate to sustainability roles specific to ethics and compliance, for the purpose of ensuring the implementation of measures to align with the new regulations—especially the CSDDD and EUDR—and compliance. In addition, new employees with financial backgrounds were also added to the payroll to complement existing positions in the fields of environmental and social sustainability, for instance. The Finnish suppliers interviewed mentioned the challenge of having limited resources to respond to all the requirements of the EUDR, for instance. Even though they are FSC (Forest Stewardship Council) and PEFC (Programme for the Endorsement of Forest Certification)-certified, this small supplier was mainly concerned about missing legal requirements due to a lack of personnel. Small suppliers within the forestry sector seem to prefer to hire consultants to gain a better understanding of the impact of the EUDR in practice.

The need to improve grievance mechanisms to align with the EUDR and CSDDD was also mentioned. Although some companies indicated that these mechanisms already exist, they also signalled that they were not sufficient to meet the regulatory requirements set by the EU.

4.4.3 Mining

The interviewees from mining companies stated that they have spent significant resources to comply with the obligations of the various regulations that apply to them. This has included hiring more legal experts and consultants and also spending more time understanding and implementing measures to comply with the regulations. They reported facing administrative obligations and challenges implementing EU sustainability regulations such as the CBAM and the CSDDD. The interviewees expressed that their firms face an increased administrative burden due to the substantial time and resources dedicated to compliance requirements. One company has had to hire new personnel specifically for CBAM compliance, highlighting the complexity of reporting emissions and other data requirements under this mechanism. This administrative complexity is further exacerbated by uncertainty and a perceived lack of clear, detailed guidance.

To better utilise resources and access the most current knowledge, companies are hiring Finnish environmental consultants. One of the firms interviewed felt that CBAM compliance might be better suited to financial positions due to its financial nature. In general, mining firms expressed concerns that some regulations, such as the EUDR, result in "expensive bureaucratic exercises" without leading to actual changes in company actions.

4.4.4 Textile

Within the textile industry, Finnish companies are creating new positions or reorganising their work around sustainability due to the regulatory instruments. The companies are reorganising their compliance in practice, focusing on the need to increase laboratory testing of materials, make processes more effective and ensure human rights due diligence is performed. One textile company representative indicated that their sustainability team is following all legislation closely and planning for the right moment to start preparing for the work required. In many cases, representatives expressed hesitation about which of the regulatory instruments affect the company's operations, suggesting a current lack of preparedness related to several of the instruments.

Administratively, some staff have been moved within companies to ensure that the sustainability and procurement teams have the relevant knowledge of materials. One representative acknowledged a need for more human resources for the legal compliance team. As such, textile companies acknowledged that the increased burden of sustainability-related legislation requires the involvement of different process owners within the company.

Concerning administrative challenges, two specific themes were recurring in the interviews: unclear timeframes were identified as a problem by various representatives, and guidance was perceived to be provided very late and to be either too vague or too specific. As a result of this, in some cases new administrative measures have not yet been put into place as a reaction to the lack of "concrete guidance" and "exact requirements" from authorities. Some companies acknowledge a certain level of scepticism with regard to complying with the different obligations.

Depending on the human resources dedicated to sustainability work within their company, representatives expressed either confidence in the administrative capacity to deal with the upcoming legislation or the "impossibility" of complying with current resources. Most representatives said their own administrative systems will handle the ongoing preparations and development of internal systems to meet the requirements. Textile companies are getting new management tools and also investing in the work by acquiring more knowledge, either by themselves, through networks or via the recruitment of more staff or consultation. As one interviewee highlighted: "it's not possible [for] the sustainability team [to have] ownership [over] everything. So, who owns issues in different situations? I think this is a very important issue to figure out" (Textile 2).

4.5 Information obligations/challenges

Below we look into the challenges stemming from the information obligations imposed by the five regulatory instruments in the agri-food, forestry, mining and textile sectors in turn.

4.5.1 Agri-food

Within agricultural supply chains, a variety of information will be needed to support environmental and human rights due diligence, as well as specific demands for traceability due to the EUDR. As such, companies are required to produce more traceability information for some of their products, as well as information on their impact on biodiversity, emissions and human rights.

Obtaining this information was felt to be quite challenging for certain products, depending on the specific raw material and their country of origin. From the interviews with producers and tier 1 suppliers in coffee and cocoa supply chains, we noted that the degree of readiness to meet the demands of the regulations varies

depending on the sourcing country. For example, with coffee, suppliers intimated that only Brazil seems somewhat prepared to meet some EUDR information needs, especially when it comes to geolocation and GPS mapping. There were several concerns over LDC smallholder farmers' ability to provide the data needed to comply with the EUDR. The demands for traceability do not reflect the reality on the ground in many of the countries of origin of agricultural commodities. For example, some LDCs favour auction-based trading for their agricultural commodities and lots aren't traceable. Other LDCs legally oblige their smallholder farmers to trade only through their local agricultural marketing cooperative societies.

The lack of clarity and common understanding in relation to some of the regulatory instruments, such as the EUDR, have led to subjective interpretations of the regulations, with demands varying from company to company even within the same product category. There is also a tendency for retailers and producers to demand overcompliance of tier 1 and 2 suppliers, as expressed by a respondent from one lead firm: "With the EUDR…I can't say that we have been in trouble, but it has required a lot of our resources because interpretation of the guidelines has been quite different, not only from nation to nation, but from actor to actor.. if it's not unambiguous interpretation of the regulations, we tend to see [a] kind of overcompliance or requests for overcompliance and then we have all our customers, for example, sending in different types of formats and different types of excel, et cetera, that we should fill in because [they are] understandably wanting to make sure that they are compliant…We would really, really appreciate it if the guidelines were detailed and…there wouldn't be so much room for interpretation. I think it would be really, really important if we had this high-level agreement that overcompliance is not where we should go, but we should go kind of towards the bigger ambition of the regulation and directives" (Agri-food 5).

What is needed and enough to disclose is still very unclear for firms. Moreover, with unclear guidelines, some of the information demanded by lead firms for compliance can also infringe upon the rights of some actors on the value chain. For example, some companies demand to see information like title deeds from farmers, which is private information. In some instances, especially for suppliers and farmers in LDCs, there is also a lack of understanding of why the information is needed and how it will be used, triggering a reluctance to share data.

Companies also lack reliable baseline information for due diligence risk assessment. For example, in grain supply chains, Finnish farmers do not have reliable baselines for the emissions and biodiversity data that producers demand. Suppliers of agri-food products subject to the EUDR, especially those in LDCs, were still unsure about the deforestation map the EU would use and whether it would be the same

as their maps, as indicated in the following interview extract: "… there's also the worry… for me that the app that they're using, the map that they're going to use, the underlying map that's going to be checking for deforestation is not the map that we probably use to check for deforestation. So we could be saying, OK, we've checked and we have no deforestation on our supply chains. And then the map they use flags one or two and says those have deforestation.... For a very long time, we didn't have access to the system. I think the system has only been opened recently, so people can access it. But people were unsure of what is going to be used to check the deforestation, like I said.... I'm not really sure if officially we all know… I think everybody is just trying to check against as many maps as possible" (Agri-food 8).

4.5.2 Forestry

All companies stressed the need for data as a principal issue of concern. Receiving reliable and primary data from suppliers that provide detailed indications about "the origin of the wood", which includes "every piece of wood raw material" (Forestry 1), is now required. Another firm representative indicated that they were not yet complying with the obligation to obtain this localisation data. They indicated that they will need to request more information from suppliers. In this regard, the main concern is the level of detail that is required by the instruments, as expressed in the following interview extract: "The common denominator in these challenges is that the company's longstanding practices and systems, which were previously sufficient and even ahead of their time, are no longer adequate under the new regulations. The main issue lies in the increased detail and different nature of the data required. As a result, the company must significantly adjust and enhance its existing processes to meet the new regulatory demands" (Forestry 2).

Accordingly, a primary challenge is the need to upgrade and modify existing IT and ERP systems to handle new data requirements, such as the precise geolocation data mandated by the EUDR, which was said to constitute "an additional burden" (Forestry 2). This involves integrating company IT infrastructures with EU databases. Specifically, it was underlined that "enhancing IT systems in order to take the data in and also build integration with the EU databases for sending the geolocation data to the EU and [then] receiving so-called reference IDs back from the EU and then sending them over to the customers… requires many changes to existing IT infrastructure" (Forestry 1). This said, it was not felt that this would require major IT changes, and a representative from one of the lead firms said that they are lucky to already have the resources in-house (Forestry 2). In contrast, suppliers with limited resources indicated that they face uncertainty about the type of

data required as they work to update their IT systems and enhance traceability across their value chain. Currently, they are only able to track the transportation system, not geolocation data. The complexities of EU regulations, particularly regarding traceability, pose significant challenges for smaller suppliers, but also entail opportunities to improve operational practices, for instance by incentivising upgrades to their operational capabilities and data management systems, thereby increasing competitiveness.

While it was clearly expressed that the obligations place significant pressure on forestry companies to improve their IT capabilities and data management practices, the extent of the costs associated with these IT changes remains uncertain, leaving it unclear whether they will become a major financial burden for companies.

Data collection presents another major challenge, especially obtaining accurate information from an extensive supplier base. Collecting geolocation data is perceived as particularly challenging by forestry companies when suppliers operate in regions with fragmented land ownership or limited technological infrastructure. Suppliers may struggle or lack the capacity to provide the required data, which hampers the companies' ability to meet regulatory obligations. These data provision challenges necessitate investment in improving data collection processes but also require lead firms to support their suppliers to meet the data requirements of the EUDR.

4.5.3 Mining

The new regulations relevant to the mining sector have imposed new information obligations on companies, with most preparation until now focused on the CBAM and CSDDD.

Mining companies are confronting data obligations that present substantial implementation challenges under regulations like the CBAM. A critical issue is the difficulty in obtaining reliable primary data from suppliers, particularly those outside the EU, as expressed in the following interview extract: "It is a bit of a difficulty to get the data also from the perspective that some suppliers are not too willing to provide it and we cannot force them to provide the data either because our contract, some of them are quite long term and they do not include any provisions regarding sharing that data. So we cannot force them to do that and if they are very long-term contracts, obviously we cannot just change them" (Mining 1). The respondents from lead firms expressed concern that their suppliers may lack an understanding of the scope of data reporting, calculation methodologies,

or simply the capability to provide the required data points. Existing long-term contracts might not include provisions for mandatory data sharing, limiting companies' leverage to enforce compliance and creating contracting constraints, according to a respondent from one mining company.

Furthermore, the perception of escalating data requirements for each new regulatory instrument exacerbates these challenges: "[The] CBAM is asking for 100 data points [to be collected]; we currently have [space] for 30 data points in our system...." (Mining 2). This increase in required data points necessitates significant upgrades to IT infrastructure, compelling companies to seek immediate but perhaps third-party solutions while their internal capabilities lag behind due to technological constraints and insufficient cloud storage capacity, as specified by a respondent from one mining company. One mining company highlighted the challenges of "working with both structured and unstructured data, archiving vast amounts of documentation for up to ten years, and converting primary data points into meaningful information" (Mining 2).

Compounding these issues is the lack of a unified data management system or language that can adapt to different measurement units and variables—requiring translation of CO_2 emissions reported in tons with varying coefficients—which is crucial given the global nature of mining operations and the introduction of similar regulations in countries like Australia and China. One mining company among the respondents mentioned that they are experimenting with new technologies like Power BI and using AI tools to see how they can support data analysis.

Additionally, a representative of one mining company pointed out that there are insufficient resources within customs organisations to verify the vast amounts of data submitted, making it difficult to audit data quality effectively. This situation places companies in a precarious position where they must act as intermediaries for small suppliers and family businesses that depend on them for sustainability information.

4.5.4 Textile

Textile companies have their own product data, supplier relations and company relationship management systems.

Data collection is an issue that was mentioned both as being challenging and as being taken care of already on many different levels, such as through the collection of data concerning water usage in the industry, HR data on the companies in the

supply chain and initiatives to improve the platforms where the data is stored. One representative expressed a view that "almost all companies struggle with data management". Representatives mentioned that they do not use any specific digital platform to implement the transparency initiative but rather have several tools in place.

One interviewee shared that obtaining CO2 data from suppliers, especially those located at the source of raw material production like metal sourcing, is seen as entirely unrealistic. This sentiment was echoed in statements about difficulties in working with suppliers from regions such as China, where the regulatory requirements are not fully understood or even acknowledged by some suppliers. The process has necessitated new questionnaires and additional data-gathering efforts, which have further strained resources.

Despite these efforts, many companies find themselves grappling with tools and systems that are inadequate for the complexity of the data required. The process remains marginally effective at best, yet compliance with legislation such as the CBAM is non-negotiable to ensure imports are not disrupted. Some respondents emphasised what they see as the disjointed nature of the regulatory and supply chain timelines, claiming that companies are often required to report data even before products reach their destination markets.

To cope, some companies have turned to benchmarking and informal discussions with competitors (with legal permits) to navigate transparency requirements. Still, the overwhelming consensus is that existing tools fail to offer a streamlined or simplified solution. Given these realities, a more focused approach to building resilient data collection and management ecosystems is seen as critical. This requires not just technological upgrades but also fostering stronger supplier relationships and investing in supplier education about evolving regulatory expectations.

4.6 Process obligations/challenges

Below we look into the challenges stemming from the process obligations imposed by the five regulatory instruments in the agri-food, forestry, mining and textile sectors in turn.

4.6.1 Agri-food

The demands of the new regulations, especially the CSDDD and EUDR, force companies to improve their due diligence processes. For most companies, this means more rigorous risk assessment of their suppliers. Under the CSDDD, companies are also expected to put in place grievance mechanisms and to enhance their engagement with rightsholders. However, to avoid punitive impacts like fines, most companies are also legally passing and assigning responsibility to their suppliers more effectively. This entails contractually passing down the responsibility to suppliers by entering into contracts with full indemnity clauses and more detailed supplier codes of conduct. As such, a company's position in the value chain often determines the extent of the legal obligation they will be saddled with. For example, within coffee and cocoa supply chains, retailers and producers depend highly on their suppliers' due diligence processes. However, when it comes to suppliers, passing the responsibility to farmers has limitations, especially in LDCs. As such, suppliers are likely to converge towards larger players or suppliers, while pushing smallholders out from supply chains. Moreover, as companies keep passing responsibility on to their suppliers, it is either the farmers or the consumers that are likely to pay the price, as one supplier intimated: "Everyone says it's someone else's responsibility, like the retailer says that the coffee roaster is responsible, the coffee roaster says that the trader is responsible. Traders say that the intermediary is responsible or the supplier or whoever. And everyone says that we don't have enough money to do this, which is true. The cost will end up going to the consumer at the end of the day, hopefully, rather than the farmer. I think our role in the middle, like we need to be clear that, you know, we need to trade responsibly, and we need to improve what we're doing now. But we are not able to take [on] all the cost or all the responsibility. There's, we have loads of clients who [want to add] full indemnity clauses to our contracts, which is pretty crazy because we can't put full indemnity to a farmer, you know, like we can't, you can't keep pushing it down the chain" (Agri-food 6).

Meeting due diligence obligations is likely to impact many activities within supply chains. For example, within transport and logistics, companies would have to separate products more clearly by DDS code to enhance the traceability of certain products throughout the chain. Finnish producers have also had to invest heavily

in improving data flow within their own operations to ensure that commodities governed by the EUDR can be traced in their production as well. Companies need to upgrade their ICT systems to improve traceability in their own operations, and have also had to invest in ensuring the interoperability of their systems with those of suppliers, customers and national authorities (for example the Traces database for the EUDR). Although costly upfront, upgrading ICT systems to improve traceability and compliance has also proven to be an opportunity, especially for smaller suppliers. However, for most companies, there are still no reliable ready-made systems to help with enhanced due diligence, although some see themselves as on their way there.

Companies within agri-food supply chains are contending with contradictory regulatory instruments. For example, companies see the EUDR and CSDDD as inherently contradictory because of the EUDR's lack of remediation, which forces them to exclude some actors, while the CSDDD calls for meaningful engagement. However, since the EUDR is more punitive (and thus ultimately prevails as per EU law) and limits market access, companies are more likely to follow it and thus exclude actors anyway.

4.6.2 Forestry

All large-scale forestry companies reported having due diligence processes in place and long-standing engagement with these processes due to their commitment to the UNGPs. However, they also acknowledged the "need to improve [their] risk assessment process" as the new legislation requires "more robust assessment processes" (Forestry 1). They noted that to comply with the CSDDD, they are "just now do[ing] that work in a more diligent manner" (Forestry 1), because the voluntary efforts of the past are "not enough anymore" (Forestry 2). Due to the required level of detail, it was noted that the process will become "much more bureaucratic" and will differ significantly from past practices, meaning they "kind of need to reinvent the wheel again to some extent" (Forestry 2). The statements from the companies reveal a tension or paradox. On the one hand, they feel confident in their existing know-how and perceive that the new instruments do not demand transformative changes. On the other hand, they expressed concerns that these instruments might still have a significant impact. However, one representative also stressed that even though it creates a cost, "doing the due diligence well could also…help us to save money" (Forestry 1), since "better preparedness and risk identification then also help" to save costs (Forestry 1).

That said, it was suggested that the key to ensuring adequate due diligence processes was to obtain data, data that they could use effectively. To face challenges, companies mention the need for more collaboration with suppliers and increased awareness of the need for more specific data such as the origin of manufacture (Forestry 1). This appears to imply that an increase in workload will be imposed on suppliers.

Companies indicated that they are committed "to sustainable forest management and a key tool for verifying forest certification schemes". This includes PFC or FSC which have both environmental and social requirements, including Free Prior and Informed Consent to ensure indigenous people's engagement. None of the companies expressed that the EUDR requirement would affect how they conduct due diligence processes in relation to indigenous peoples. They were confident that certification schemes such as the FSC, even though they "are far from perfect" (Forestry 2), would support their compliance with the EUDR. However, one company stated that their existing voluntary system may not fulfil EUDR obligations and thus adjustment of their current CSR system would be necessary. Thus, companies' statements highlight a recurring tension between confidence in traditional practices and the need for adaptation to meet new regulatory demands.

The need to reformulate contracts with suppliers was also mentioned. Companies anticipate a need to reformulate certain contract clauses or potentially rewrite entire contracts. This task is expected to be particularly challenging, as supplier selection is a lengthy process. Consequently, companies recognise the need to strengthen their risk assessment procedures for supplier selection, encompassing identification, prioritisation and mitigation strategies. In this regard, information about responsible contracting was mentioned to be "very much needed" (Forestry 1). That said, there is no evidence to date that supplier contracts have been cancelled or products removed. However, smaller suppliers and SMEs based outside the EU are expected to struggle with the administrative burden and resource constraints of complying with the EUDR and CSDDD, potentially leading to exclusion from the EU supply chain. Furthermore, as discussed in the section on trade, it was mentioned that some suppliers might be "kicked out of the supply chain" (Forestry 2). Together, these statements highlight how both internal and external pressures—stemming from bureaucratic requirements and EU firms—could negatively impact smaller suppliers.

4.6.3 Mining

Some respondents from mining MNCs reported that they already have voluntary due diligence processes in place, especially based on the United Nations Guiding Principles. However, the companies recognised that these systems are weak and need to be strengthened to meet the requirements of the CSDDD.

This entails ramping up risk assessments and audits (both internal and third party) and establishing due diligence processes that include their business partners from upstream in the chain of activities. However, interviewees also indicated the need to pass responsibility (or liability) further down the supply chain more clearly, using more detailed contracts and enhanced supplier codes of conduct. Although the companies are yet to understand the impact of enhanced due diligence on their operations, they also intimated a likelihood of excluding some suppliers and regions if they do not meet the compliance requirements.

What was interesting is that some of the mining companies also have downstream-focused processes. For example, one mining company indicated that they have a business code of conduct that applies to their customers, while the CSDDD only covers the chain of activities for downstream business partners related to the distribution, transport and storage of the product.

Furthermore, one mining company discussed particular challenges associated with their strategy of engaging more local smaller suppliers, which offers competitive advantages but also poses sustainability challenges. These suppliers often lack the resources and expertise to understand and meet compliance requirements, placing the responsibility on larger mining companies to educate and provide legal information to their suppliers. As one representative explained: "A strategy is to work more with small local suppliers because that gives us some sort of competitive advantage. But then also that poses a certain challenge for sustainability. Because our company is a widely networked player, but we're not a large player, so we are dependent on others to drive the actions. But when we go to local suppliers that are often family-owned businesses, and [they're] even more dependent on players like us to provide the latest information on responsibility [and] environmental management topics because they simply don't have the staff, they don't have resources in place to educate themselves" (Mining 2).

Small local suppliers in regions like Latin America, who rarely export across borders and operate under their own regulations, are less affected by EU regulations. This prompts companies to question how actions taken to comply with EU regulations might impact their operations in non-EU markets.

Long-term contracts with suppliers add another layer of complexity. These contracts are labour intensive, costly and involve considerations beyond legal compliance, such as payment terms, one-time delivery, trust, quality and price. One mining company representative highlighted the implications for contracting, stating: "We're starting to involve HR a little bit more [in] other sustainability and procurement functions…[There really are] a lot of grey areas in human rights. We don't understand where we should be tuned to be more sensitive to stop the work. Of course, if we find child labour, if we find you know, absolute breaches, those are well listed, [we] stop work. But in the five years that we [have the] latest statistics for, we don't have any recorded cases of that" (Mining 2).

4.6.4 Textile

As legislative changes, especially regarding the CSRD, have taken up a lot of resources, the textile companies feel they have not been able to develop any "true" sustainability work related to the processes governed by the pieces of legislation mentioned in this study. In general, the companies have had to deprioritise some projects because they have had to concentrate on other upcoming changes.

The textile companies interviewed had very different levels of preparedness regarding processes. Voluntary human rights due diligence processes based on the UNGPs and other soft law practices have been implemented to varying degrees. One textile company noted that while they feel they are prepared at the policy level, there is still much to consider regarding how to integrate the due diligence obligation throughout the organisation: "We want to make a special effort on integrating and making sure that procedures that are already [in place] are incorporated into all business units. That is the main kind of internal work we still want to move ahead [with]."

The companies are aware that the process of obligations-related work will take time and are concerned about timelines, as the CSDDD is already in force with its implementation period ongoing. The interviewees expressed a need for additional guidance on the due diligence obligations and what the legislation will specifically require from them. The lack of clear guidelines creates operational uncertainty and leads to delays in developing processes. Nevertheless, all the textile companies who participated wish to adopt due diligence processes even if the CSDDD does not apply to them due to their size.

The interviews revealed that company size plays a significant role in advancing due diligence within value chains. Larger companies often have more resources and capabilities to implement these measures effectively. Additionally, having a presence in a third country where garments are manufactured is seen as essential for building trust with suppliers, enabling such companies to progress to tier 2 in their supply chains.

However, the work remains in its early stages, and there is still limited understanding of responsibility requirements in manufacturing countries. Notably, some suppliers who position themselves as responsible may not fully comprehend the upcoming regulatory demands. Despite this, they generally express support for the five regulatory instruments examined in this study.

Larger companies have initiated some measures related to process obligations. One textile company mentioned having a supplier selection process, a supplier code of conduct, its own whistleblowing channel, monitoring through audits and several questionnaires, as well as being a member of multiple initiatives (such as amfori BSCI), which help mitigate risks in the supply chain. However, the interviewees' companies have not yet used sustainability clauses in procurement contracts or similar more concrete measures to formalise cooperation in advancing due diligence. Auditing is still considered a significant method for ensuring compliance with the supplier code of conduct and advancing responsibility efforts within the value chain.

Last, the companies who participated recognise the importance of establishing grievance mechanisms and fostering meaningful stakeholder dialogue as key components of due diligence under the CSDDD, alongside the implementation of whistleblowing mechanisms. However, most companies are still in the very early stages of developing and implementing these practices.

5 Conclusions/findings

In our report we have identified a number of **overarching themes:**

- We identified a clear divide between Finnish (T500) companies that are prepared for the coming legislative measures and those that are not. The dividing line is not necessarily sectoral, or linked to how much control the lead firms exert on suppliers or how hierarchical their predicted governance of suppliers is (cf. the GVC framework). It is beyond the scope of this study to analyse the reasons for the differences, so this remains a mere empirical observation.

- At this point, the focus of firms - irrespective of the regulatory instrument - seems to be on reporting/data collection processes rather than other forms of action. For example, companies were more likely to bundle the CSDDD with the CSRD rather than with the other regulations, which is likely to cause friction since the former concerns much more than reporting. This finding is also in line with previous studies (Tran-Nguyen et al., 2021; LeBaron and Lister, 2021). While an explanation might be that firms are simply focusing on the regulation that is temporally the closest, the risk is still that not enough resources are being allocated to transforming activities to ensure more sustainable impacts/outcomes, with the heaviest focus instead being on reporting and data collection.

- Among the participating firms there is a sense of a lack of clarity regarding some regulations, such as the EUDR. Delayed guidelines have resulted in varying interpretations between companies and lead to demands for overcompliance. Firms feel uncertain about what is required and what disclosures will be 'enough'.

- Relatedly, firms perceive conflicting demands in different regulatory instruments. For example, the EUDR does not include remediation provisions, requiring products from areas deforested after 2020 to be excluded, whereas the CSDDD emphasises greater engagement with rights holders.

- There is a clear lack of holistic understanding of the interrelations between the instruments. The significant differences between the regulatory instruments have led firms to report that they cannot yet comprehend how everything fits together. Therefore, it seems unlikely that firms will develop one unified corporate responsibility management system to address all the pieces of legislation mentioned in this study.

- There is a tension between the companies calling for more detailed regulations to reduce negotiability and minimise varying interpretations (to 'even' the market) and those advocating for less detailed regulation – sometimes in these interviews, both these viewpoints were evident in the same firm.

- Increased uncertainty is perceived as a major challenge, especially in a context where hard law is expected to provide greater certainty, predictability and eventually a level playing field. Open questions include: What kind of resourcing is needed? Where should resources be allocated or investment made? How will suppliers be affected by potential disruptions?

Considering the above finding on the differences in levels of preparedness, the following points summarise the findings regarding Finnish **firms who are seemingly prepared** for the cumulative effects of the regulatory instruments:

- While these lead firms are relatively confident about being well-prepared in the long run, they remain uncertain about the readiness of some of their suppliers.

- In terms of the governance approach of the supply chain, there is a significant reliance on external certifications, standards and third-party auditing, similar to the modular governance model of the GVC framework.

- Among the well-prepared firms there is a prevailing perception that the regulations will favour large suppliers while disadvantaging or crowding out small suppliers (cf. Komba et al., 2023) due to the administrative obligations involved. This would indicate governance models where turnkey and relational suppliers become more prevalent in the future.

- The firms expressed concerns about a lack of clarity on certain issues on the EUs' part, making preparatory action challenging and reactive – e.g., terms like "chain of activities" and "conflict area". There is a perception that the EU itself is "not prepared". In terms of lack of clarity and unspecific regulations, the CBAM was mentioned in several interview as lacking clear specifications on how calculations should be made, and it was emphasised that further guidance from authorities would be extremely useful.

- Investment in IT solutions, particularly tracking and tracing systems, is perceived as "huge". However, there is significant uncertainty about which standards or IT solutions will prevail or even survive, as many of the system providers are startups.

- Currently, the EUDR is seen as particularly challenging in terms of missing data points.

- Most of the prepared firms do not see the creation of a unified management system for the various mechanisms as feasible. However, one interviewee expressed the belief that it is possible.

- These firms generally express displeasure about postponements and drastic changes to mechanisms/directives as they proactively invest in processes to prepare for the anticipated laws.

- Even the most prepared firms feel it is still too early to determine how the regulations will ultimately impact their operations.

Our analysis of the **underprepared firms** shows slightly different themes and patterns:

- Some firms appear thoroughly underprepared, largely unaware of the timelines or scope of upcoming regulations, and even to assume that their activities are not covered (e.g., the FLR).

- In general, for these firms the prioritisation of efforts and resources is not necessarily based on impact but rather on which regulations will take effect sooner – thus displaying a very reactive approach to corporate sustainability.

- For underprepared firms, current investment is geared towards hiring external consultants to make sense of and navigate upcoming regulations, which in many interviews were mentioned as the largest cost. The interviewees did not show an intent to strengthen internal capacities or to contribute to strengthening supplier capacities, thus indicating an arm's length approach to sustainability governance in the supply chain.

- Similarly to the prepared firms, unprepared firms worry about their suppliers' capacities, but here the reliability of primary data is considered particularly questionable, and suppliers providing inconsistent or incomplete information was raised as a concern.

- Many of the interviewed firms legitimised their reactive or inactive stance by stating they are waiting for "guidance from Finnish authorities or the EU".

5.1 Recommendations for Finnish companies

Based on our study we recommend that firms take the following actions to be better equipped to handle the cumulative impacts of current and future EU sustainability regulations:

- Lead firms need to more actively explore ways to use their leverage, where possible, to foster greater supply chain collaboration and shared responsibility in sustainability efforts. Access to and visibility within deep value chains are crucial. This necessitates consideration of the varying capacities of different suppliers, recognising that smaller companies may not have the same resources or capabilities to address sustainability challenges as larger firms.

- Firms' sustainability work cannot be conducted in silos: instead, all process owners within the company must be identified, and relevant stakeholders meaningfully engaged. It is important to note that here the definition of 'stakeholders' is wider, as it includes the company's own workforce, workers across the value chain, affected communities and customers or end-users. It is also important to note that the definitions of other legal concepts, such as 'due diligence' and 'remediation', also differ between corporate responsibility legislation and traditional business practices.

- Lead firms are recommended to establish a dedicated internal cross-functional task force that includes members from legal, compliance, supply chain and sustainability teams. This task force should focus on emerging sustainability regulatory instruments and their implications for contracting and action plans. Additionally, it should engage relevant experts and rights holders to address human rights grey areas when needed.

- Firms need to establish clear communication channels that ensure all stakeholders are informed about sustainability practices and their outcomes. Such openness not only enhances transparency but also builds trust, which is vital for the success of collaborative sustainability initiatives.

- Firms need to develop mechanisms for feedback and continuous improvement, enabling them to respond dynamically to stakeholder concerns and evolving sustainability standards. They should put due diligence processes in place that aim to transform business practices to ensure respect for human rights and the environment. Maintaining business as usual will fail to achieve the core objectives for which sustainability instruments were designed. When harm is caused or contributed to by firms, they must consider ways to provide remediation to those affected. That said, businesses should aim to ensure their operations benefit both workers and communities. This approach not only mitigates risks but also maximises the positive impact on economic, social and environmental aspects throughout the supply chain.

5.2 Recommendations for Finnish authorities

Based on our interviews with Finnish firms, we suggest the following actions for Finnish authorities:

- Firms are calling for official guidelines to clarify the essence of the sustainability legislation mentioned in this study. The companies also expressed a need for specific case studies, pilots or examples of best practices to better understand how to comply with these instruments in their unique operational contexts.

- Relatedly, authorities could enhance compliance with sustainability due diligence by providing clearer, understandable and actionable guidelines that detail how companies can align their practices with foundational international frameworks like the UN Guiding Principles on Business and Human Rights (UNGPs) and the OECD Guidelines for Multinational Enterprises. These guidelines should include specific examples of compliance for various sectors and chains of activities, particularly those with significant sustainability challenges such as textiles, mining and agriculture. While it is acknowledged that no set of guidelines can be entirely comprehensive, outlining specific requirements for each sector would undoubtedly offer valuable support for companies. Additionally, training sessions, tools and public-private partnerships could be promoted to assist companies in understanding and applying these principles effectively.

- Policy makers and government agencies could issue sector-specific guidance and compliance tools well before enforcement deadlines, providing companies with ample time to align internal processes and data management requirements.

- Authorities should clarify how companies can cooperate without violating antitrust laws. This could involve issuing safe harbour regulations that specify conditions under which competitors can collaborate on sustainability goals. For instance, creating shared platforms for enhancing resource efficiency, developing standardised methods for tracking and reporting sustainability metrics or jointly investing in sustainable technologies could be encouraged. Authorities might also consider temporary exemptions from certain competitive restrictions when companies collaborate on pilot projects that aim to achieve significant sustainability outcomes.

- Authorities should hold regular and systematic consultations with industry stakeholders, sustainability experts, and rights holders to help ensure that guidance remains relevant and practical. By fostering a dialogue between the private sector, regulatory bodies and relevant stakeholders, authorities can adapt their strategies to support innovative and cooperative solutions to sustainability challenges, thus enhancing the overall effectiveness of due diligence processes and promoting a collective movement towards greater corporate responsibility.

- Authorities could extend support and guidance not just to large companies and lead firms but also to suppliers, as they are part of the value chain and are critical to compliance efforts. The risk of overlooking the needs of suppliers is also accentuated by the fact that the legal instruments often only by extension or implicitly target suppliers (who are often SMEs), while at the same time suppliers are at risk of carrying significant costs through contractual cascading (cf. Komba et al., 2023).

- Finnish authorities should regularly assess and monitor whether regulations contradict each other (e.g., the EUDR and CSDDD). They should seek to minimise such contradictions by engaging with the European Commission and other member states to identify solutions that uphold the spirit of the law—that is, to ensure more sustainable and responsible conduct. Furthermore, when consensus cannot be reached, Finnish authorities could provide guidance to companies operating in Finland on how to deal with these contradictions in their operations.

- The EU regulatory frameworks (which involve a combination of self-regulation, co-regulation through soft law initiatives, and hard law) have boosted the role of intermediaries/third parties such as auditing and consulting firms, as well as certification bodies, alongside regulators. Companies are increasingly relying on these intermediaries to interpret and help them comply with the obligations imposed by the regulations. Finnish regulatory authorities should identify and assess the credibility of these intermediaries, and enhance their engagement with them to ensure the efficiency and effectiveness of the regulatory processes.

Annex 1: EU Regulatory Instruments

Carbon Border Adjustment Mechanism Regulation (CBAM)

The Carbon Border Adjustment Mechanism Regulation (CBAM, Regulation (EU) 2023/956) is a regulatory instrument that aims to prevent carbon leakage due to products being imported into the EU. Carbon leakage occurs when the production of goods shifts to countries with less stringent environmental regulation, thus potentially increasing total global emissions and undermining the regulatory standards set by the regulator, e.g., through the EU Emissions Trading System (ETS). To counter this, the CBAM seeks to set a price on imported goods that is equivalent to the carbon pricing for goods produced in the EU. The overarching normative goal of the CBAM is to reduce emissions globally while also ensuring a level playing field between EU and foreign economic operators.

The CBAM does not cover all goods. Due to its alignment with the EU ETS, the CBAM targets the most emission-intensive sectors. These are the cement, iron and steel, fertilisers, electricity, aluminium and chemicals sectors, which together account for more than 50% of emissions covered by the ETS. However, the coverage of the CBAM may be extended in the future. The CBAM focuses on embedded emissions in the sectors covered. Embedded emissions can be direct or indirect, depending on whether they are a result of manufacturing processes or arise from the use of electricity in the manufacturing process. The CBAM includes formulas for estimating both direct and indirect emissions. If third countries use carbon pricing, the prices paid can be taken into account when calculating embedded emissions.

In essence, the CBAM is a carbon tax that puts imported goods on a level playing field with domestic goods based on their carbon footprint. This is done by acquiring CBAM certificates, which correspond to one tonne of CO2e of embedded emissions in goods. CBAM certificates will be required from 1 January 2026 onwards. During the transitional phase, which started on 1 October 2023, the regulation establishes a reporting obligation for embedded emissions.

The CBAM establishes two distinct sets of obligations for companies that import goods to the EU. The first set of obligations focuses on information demands. According to the CBAM, only authorised importers can import covered goods to the EU. Thus, companies need to apply for CBAM declarant status (starting from 31 December 2024) and submit an annual CBAM declaration. The CBAM

declaration includes information on the total quantity of goods imported, their total embedded emissions, the total number of CBAM certificates, and, finally, the necessary verification reports. This requires companies to examine their production processes and supply chains to quantify their embedded emissions. The second set of obligations is economic, and involves acquiring and surrendering the correct number of CBAM certificates to offset potential carbon leakage with regard to imported goods. The CBAM creates a marketplace for CBAM certificates, and their price tracks the price of EU Emission Trading System (ETS) allowances.

The sanctions envisioned by the CBAM involve pecuniary penalties. Failure to comply with the CBAM's information obligations by leaving embedded emissions unreported or reporting them incorrectly will result in a fine of between €10 to €50 per tonne, depending on the scale decided by each Member state. The same applies to those CBAM declarants who fail to surrender a correct number of CBAM certificates.

The CBAM is, on the one hand, a tax or customs-driven regulatory instrument. On the other hand, the CBAM also requires a high degree of visibility and control in the company's supply chain, thus bringing it closer to the EU's due diligence instruments. Because the logic of carbon pricing is tied to the embedded emissions of goods, the data that is used to calculate those emissions is crucial both for compliance and business. This will involve a robust understanding of a company's supply chain, revision of contracts to gather the information needed, establishing adequate internal systems for calculating and declaring embedded emissions, setting up external verification procedures and acquiring and surrendering CBAM certificates.

Deforestation Regulation (EUDR)

The Deforestation Regulation (EUDR, Regulation (EU) 2023/1115) aims to address the urgent issue of deforestation and forest degradation linked to the production of certain commodities and products. The EUDR replaces Regulation (EU) No 995/2010 and strengthens the EU's commitment to sustainability by prohibiting goods associated with deforestation from being placed on or exported from the Union market.

The regulation focuses on commodities that have historically contributed to deforestation and forest degradation, such as cattle, soy and wood. The EUDR applies to all companies that export or place specific commodities or products associated with deforestation or forest degradation on the EU market, but it

differentiates between larger companies and small and medium-sized enterprises (SMEs) in terms of obligations and the burden of compliance. Large companies must meet full due diligence requirements. This includes comprehensive traceability, geolocation data and detailed reporting requirements. In contrast, SMEs must also comply with the regulation but with potentially fewer reporting obligations.

Under the regulation, companies placing these commodities on the EU market or exporting them from it must implement strict due diligence measures. Corporations are required to provide traceability data for their supply chains, proving that the land from which these products originated was not subjected to deforestation after December 31, 2020. Key elements of compliance include collecting geolocation data from production areas to verify no deforestation occurred, establishing and maintaining due diligence systems to identify, assess and mitigate risks of deforestation in the supply chain and providing authorities with due diligence statements before placing goods on the market or exporting them. In practice, this means that from 2026 (the application of the EUDR was unexpectedly postponed in late 2024) any company placing relevant products on the EU market must first submit a due diligence statement to their competent national authority via a dedicated information system established by the European Commission. By submitting this statement, companies take on the responsibility for ensuring the product's compliance with the EUDR. Similarly, the due diligence obligation under the EUDR applies to companies that place relevant products on the EU market or export them from it.

The EUDR emphasises that mere compliance with national laws is insufficient for adherence to its requirements. Consequently, the regulation mandates that companies not only respect national laws but also ensure that the production of relevant commodities and products is deforestation-free. To be categorised as deforestation-free, additional criteria, such as traceability, have to be met. The regulation also notes that businesses should be allowed to exercise simplified due diligence when they import products from low-risk countries or parts thereof.

Failure to fulfil these obligations may result in penalties or bans on products being placed on the EU market. The penalties include fines, which are calculated based on the gravity of the violation, confiscation of goods if they are proven to be linked to deforestation, and suspension of business activities, including halting the marketing or export of non-compliant products.

In sum, the EUDR is deepening the level of corporate accountability, requiring companies that deal in regulated commodities to enhance the transparency of their supply chains. For many businesses, this means investing in new systems to track the origin of their products, as well as ensuring rigorous supplier checks. Failure to comply with the regulation can lead to significant financial penalties, disruptions to operations and reputational damage. On the other hand, companies that embrace these obligations could see benefits in terms of enhanced sustainability credentials, improved consumer trust and better alignment with global environmental goals.

Ecodesign for Sustainable Products Regulation (ESPR)

The Ecodesign for Sustainable Products Regulation (ESPR, Regulation (EU) 2024/1781) is a framework legislation designed to be coherent and aligned with existing and future sectoral legislation and policies. The regulation operates by controlling which products can be placed on the EU's internal market.

In essence, the ESPR is a regulatory framework which aims to progressively introduce ecodesign requirements for products. The product requirements will be rolled out following multiannual working plans, enabling the Commission to assess where regulatory action is most needed. Rules for making products more sustainable under the ESPR will be rolled out progressively as delegated acts for individual product groups or for several product groups with similar characteristics. The rules will be tailored to the specific groups; for example, the rules for smartphones, shoes and tyres will not be the same.

The ESPR will apply to any physical good that is placed on the market or put into service, including components and intermediate products. Some products, such as food, medicinal products and vehicles (excluding E-bikes and e-scooters) are not covered by the ESPR. The ESPR seeks to address problems related to products being replaced frequently, involving significant energy and resource use in order to produce and distribute new products and dispose of old ones. It aims to improve product durability, reliability, repairability, upgradability, reusability and recyclability, improve possibilities for the refurbishment and maintenance of products, address the presence of hazardous chemicals in products, increase the energy and resource efficiency of products including the possibility of recovery of strategic and critical raw materials, reduce expected generation of waste and increase the recycled content of products.

The obligations established in the ESPR vary based on the position of the company in the product value chain. Thus, product manufacturers, importers and distributors have different sets of obligations. As an example, manufacturers are required to ensure that product design meets ESPR requirements and provide relevant technical documentation, whereas importers need to verify that imported products comply with the regulation.

The ESPR also introduces new information requirements such as carbon and environmental footprints, including a Digital Product Passport. Digital product passports will be the norm for all products regulated under the ESPR, enabling products to be tagged, identified and linked to data relevant to their circularity and sustainability. Similarly, the ESPR also provides for the setting of mandatory green public procurement criteria and creates a framework to prevent unsold consumer products from being destroyed, thus seeking to cut waste by banning large and medium enterprises from destroying unsold textiles and footwear.

Failure to fulfil obligations might lead to penalties. Under the ESPR, Member States are responsible for setting the rules on penalties applicable for infringements of this Regulation and taking all measures necessary to ensure that they are implemented. The penalties established should be effective, proportionate and dissuasive, taking into account the extent of non-compliance and the number of units of non-complying products placed on the Union market. Member States shall notify the Commission of those provisions by one year after the date of application of this Regulation at the latest and shall notify it without delay of any subsequent amendment affecting them.

Regulation on Prohibiting Products Made with Forced Labour on the Union Market (FLR)

The Regulation of the European Parliament and Council on Prohibiting Products Made with Forced Labour on the Union Market (FLR, Regulation (EU) 2024/3015) is a comprehensive legislative measure designed to combat forced labour within global supply chains. The FLR operates by controlling which products can be placed on the EU's internal market or exported from it. If products are made with forced labour, they cannot be placed on the market. This obligation covers all product categories and companies. Forced labour is defined with reference to ILO conventions.

The FLR makes it clear that it does not create additional due diligence obligations for companies ("economic operators"). Instead, the Regulation places on them a ubiquitous obligation to not make available products that are made with forced labour. In practice, however, the FLR requires due diligence-like processes which are able to identify and mitigate forced labour practices in a company's supply chain. This is due to the Regulation's enforcement strategy, which gives both EU and member state authorities powers to conduct in-depth investigations of companies.

Investigated companies can be mandated to provide extensive information on their product supply chains and their own risk management systems. Economic operators are required to implement due diligence processes to trace and verify the origins of their products, ensuring their supply chains are free from forced labour. This involves providing detailed reports on their supply chain management, demonstrating compliance through transparency. The verification process is stringent, involving potential audits and requiring businesses to be open about their supply chain practices.

Non-compliance with the FLR may lead to severe sanctions, including financial penalties and restrictions on market access. Products made with forced labour are withdrawn from the market and, in some cases, disposed of. National penalties must be designed to be substantial enough to deter violations and encourage companies to maintain ethical supply chain practices.

Corporate Sustainability Due Diligence Directive (CSDDD)

The Corporate Sustainability Due Diligence Directive (CSDDD, Regulation (EU) 2024/1760) is a pivotal regulatory framework on corporate responsibility designed to ensure that large enterprises contribute effectively to sustainable development. The Directive mandates that companies operating within the EU adhere to sustainability due diligence processes aimed at identifying, managing and mitigating adverse impacts on human rights and the environment throughout their entire value chains. The CSDDD targets industries known for significant sustainability challenges, requiring them to integrate due diligence into their operational and management structures comprehensively.

The CSDDD only applies to the very largest EU and non-EU companies. Materially, however, it has broad applicability, covering the most significant human rights and a large selection of environmental instruments. This includes developing and implementing comprehensive risk management systems that can identify, assess, prevent, and mitigate potential adverse impacts effectively.

Moreover, the Directive seeks to address the entire spectrum of a company's activities, encompassing direct operations and extending to complex networks involving suppliers and partners across multiple levels. It emphasises the need for companies to adopt a proactive approach to due diligence by embedding it within their corporate policies and governance structures. Companies are required to systematically assess potential and actual human rights and environmental impacts associated with their operations, including value chains. This involves detailed reporting on due diligence practices, which must include thorough risk assessments and the measures taken to address identified risks. These reports should be publicly disclosed to enhance transparency and accountability. In addition, companies are required to adopt and put into effect transition plans for climate change mitigation.

While many obligations in the CSDDD include risk management processes, the Directive also outlines specific economic obligations for companies, including corrective actions when standards are not met and the company has caused or contributed to harm. As an example, the Directive requires companies to ensure compliance with human rights and environmental norms throughout their supply chains, which can mean revising their contractual agreements to include due diligence clauses and obligations. This is to ensure that their business partners also adhere to the human rights and environmental standards. The CSDDD also mandates robust verification processes to monitor adherence to due diligence practices. This includes internal checks but also external audits and public disclosures. Companies are also required to engage actively with stakeholders, including local communities, NGOs and governmental organisations, to ensure their due diligence processes are comprehensive and effective.

Enforcement is a key component of the CSDDD, with defined penalties for non-compliance. These penalties range from turnover-based fines to more civil liability, depending on the nature and extent of the violations. The directive empowers EU Member States to play a critical role in enforcing the CSDDD, ensuring that companies operating within their jurisdictions comply with the due diligence requirements.

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Publications of the Ministry for Foreign Affairs of Finland

2025:1

ISSN PDF 2737-0844
ISBN PDF 978-952-281-793-8