U.S. Government Comments on the Corporate Sustainability Due Diligence Directive Guidelines (CSDDD)

The U.S. Government requests that the European Union (EU) address the following U.S. concerns with the EU's Corporate Sustainability Due Diligence Directive, as amended (CSDDD). Considering that CSDDD and the Corporate Sustainability Reporting Directive (CSRD), as amended, have significant interoperability, complementarity, and overlap, particularly in reporting, we believe it is important to address these directives collectively.

The United States strongly encourages the EU to implement its commitments with respect to the CSDDD and CSRD in the August 21, 2025 United States-European Union Joint Statement on a Framework on an Agreement on Reciprocal, Fair and Balanced Trade (Framework Agreement). In the Framework Agreement, the EU committed to "undertake efforts to ensure" that the CSDDD and CSRD "do not pose undue restrictions on transatlantic trade" and "to work to address U.S. concerns regarding the imposition of CSDDD requirements on companies of non-EU countries with relevant high-quality regulations."

While the United States acknowledges some positive reforms in the December 2025 Sustainability Omnibus, those reforms failed to fully address U.S. concerns regarding these directives. The directives' extraterritorial reach and costly and onerous supply chain due diligence obligations will adversely impact the ability of U.S. businesses to compete on a level-playing field in the EU market. In particular, reporting on due diligence practices pursuant to the CSDDD and the CSRD include impact-based materiality reporting and a "double materiality" standard, which differs from the single financial materiality standard under US law. Therefore, the extraterritorial reach of the CSRD and CSDDD would significantly expand the reporting burden for non-EU companies with minimal links to the EU market.

Additionally, the CSDDD's expansive extraterritorial scope will capture companies and suppliers with only minimal indirect nexuses to the EU market that have not purposefully availed themselves of it. The CSDDD challenges the objective territorial principle of international law according to which states limit the application of their laws to persons with either a physical presence in their territories or who engage in conduct with direct effects or consequences in their territories. The United States therefore requests that the EU address remaining U.S. concerns with the obligations CSDDD and CSRD impose on U.S. businesses domiciled outside of the EU, so that U.S. companies, producers, and farmers are not unduly burdened by these directives. The United States has a rigorous regulatory regime governing supply chain mapping and due diligence. Therefore, extending the CSDDD to U.S. companies subject to this regime would create duplicative and potentially conflicting obligations for U.S. firms, thus violating basic principles of international comity. The United States will take any actions necessary to address unreasonable burdens on U.S. commerce absent a solution that addresses these concerns.

In particular, given the substantial concerns set out in this submission, the United States asks that the EU and its Member States:

a. Significantly limit CSDDD and CSRD reporting and due diligence requirements on U.S. businesses, and limit enforcement actions against U.S. businesses.

i. Specifically, the EU and its Member States should limit the application of CSDDD to the activities of the EU subsidiaries of U.S. businesses or the EU business partners of U.S. businesses. In addition, the EU should only apply the CSDDD to goods that are produced in, or services that are supplied from, the EU.

b. Prohibit the levying of any penalty on a U.S. business, or an EU subsidiary of a U.S. business, that is based on revenue derived from activities outside the EU.

c. Prohibit private rights of action that are not premised on an official sector supervisory enforcement finding.

i. Specifically, as explained below, the United States requests the EU take a regulator-led approach to promote consistent enforcement, by allowing civil claims to proceed only after the appropriate supervisory authority has assessed compliance and concluded that the company that is the target of the action failed to comply with the relevant CSDDD obligations.

Specific comments:

1. Scope

- As written, U.S. companies and subsidiaries with no physical presence, operations, employees, or assets in the EU could fall within the scope of CSDDD even if they do not do business in the EU or engage in any activity with foreseeable, direct effects in the EU market. As a result, firms that do not do business in the EU market will be required to comply with the CSDDD's overly burdensome reporting obligations. This unnecessarily affects U.S. companies that do not sell to, source from, or otherwise interact directly with the EU market. For instance, a U.S. subsidiary or supplier to an EU-headquartered company in scope of the CSDDD may produce products exclusively in the United States, for U.S. consumers only. Given that these entities do not intend to place products on the EU market, they should not be subject to onerous due diligence and reporting requirements for operations that do not directly touch EU borders or consumers.

- The United States has high-quality corporate governance regulations, and each U.S. company is subject to the laws of the U.S. state in which it is incorporated, as well as numerous federal laws requiring supply chain due diligence. Extending the CSDDD's requirements to non-EU firms imposes duplicative and potentially conflicting obligations on American companies. Therefore, we request that the EU eliminate CSDDD Article 2.2(a) -(c), narrowing the scope to EU-domiciled businesses.

- Due diligence requirements in CSDDD's Articles 7 -17 should apply only to activities and products linked to the EU market. Producers that do not directly supply the in-scope EU buyer, including producers and farmers who do not purposefully avail themselves of the EU market and whose products are not sold there, should not be subject to audits or information requests under CSDDD. Extending requirements to unrelated upstream producers and farmers creates disproportionate and unjustified burdens, especially for small and medium-sized enterprises (SMEs).

- The United States requests that the EU, when issuing CSDDD guidance defining risk-based supply chain assessment, designate the United States as a jurisdiction that poses negligible risk given its robust corporate governance framework. The EU should establish a "presumed compliance" provision for companies operating in high-quality regulatory jurisdictions, such as the United States, and eliminate reporting and due diligence requirements for firms operating in countries with robust corporate governance and supply-chain mapping regulations. To this extent, the EU may review third countries' relevant laws, regulations, and standards with a view of recognizing equivalent due diligence frameworks.

- Implementing guidance should also narrow the definition of "stakeholders" under CSDDD's Article 3. The reference to "individuals or communities whose rights or interests are or could be directly affected" is speculative and overly broad. It should include an element of reasonable foreseeability to avoid creating overly burdensome requirements, including consultation requirements, for companies. Proposed changes:
    - *'stakeholders' means the company's employees, the employees of its subsidiaries and of its business partners, and their trade unions and workers' representatives, and individuals or communities whose rights or interests are or could <u>reasonably be expected to</u> be directly affected by the products, services and operations of the company, its subsidiaries and its business partners and the <u>legitimate</u> designated representatives of those individuals or communities*

- Regarding supervisory authorities in CSDDD Article 24, implementing guidance should further clarify the definition of "net turnover" in Article 3 and throughout the CSDDD. Implementing guidance should also specify procedures for a company to request to change the supervisory authority when circumstances warrant.

- Finally, while the United States appreciates that the CSDDD's due diligence obligations only apply to the "upstream" business partners of financial services sector companies, and do not include "downstream" business partners, the EU should take this opportunity to clarify the permanence of this approach for financial firms, regardless of the legal or investment structure a financial firm uses.

2. Compliance Obligations

- Implementation should support the CSDDD's risk-based approach under CSDDD's Articles 5 and 7. Any action under CSDDD should be evidence-based and draw on credible sources and in consultation with the affected entity.

- The EU subsidiary or firm located in the EU, and not the parent company located in a third country, should hold responsibility for due diligence and related enforcement in order to avoid duplicative compliance structures.

3. Enforcement

- Criteria for setting fines should refer solely to revenue derived from activities inside the EU. Any reference to "worldwide turnover," such as in CSDDD Article 27(4), creates the opportunity for abusive fines with extraterritorial impact.

- The United States further emphasizes that verification measures under CSDDD, including audits, site visits, and stakeholder engagement, should be risk-based and only undertaken where authoritative domestic findings demonstrate a credible and documented risk that cannot be adequately assessed through less burdensome means. The CSDDD should not instigate on-site audits of upstream suppliers that do not directly supply an EU buyer.

- The United States also has concerns with the unregulated system of third-party verification bodies that the CSDDD appears to create under Article 20(5). The CSDDD does not require oversight for third-party assessors. This could lead to inaccurate and inconsistent reports and under-qualified assessors. U.S. companies have raised concerns that, despite the fact that CSDDD has not yet been implemented, their customers have threatened to terminate contracts based on information from inaccurate verification reports produced by unreliable third-party verifiers. The United States understands that the EU plans to issue guidance related to criteria and methodology for assessing the fitness of third-party verifiers. The United States encourages the EU to issue detailed guidance and to establish oversight by Member States to ensure that reports are accurate, effective, and free of conflicts of interest. We suggest that the EU ensure verifiers are independent, accredited, and maintain sufficient sectoral expertise to assess compliance.

4. Litigation

- Article 29 appears to create a private right of action for failing to comply with certain CSDDD obligations. Any in-scope company operating in Europe could face a wave of civil litigation in Member State courts when the CSDDD comes into effect. This can create a legally uncertain landscape for companies, especially due to the potential for inconsistent and conflicting interpretations across national court systems and supervisory authorities. To create consistent, balanced, and practical expectations for investments, the United States requests that the EU take a regulator-led approach to promote consistent and predictable enforcement by allowing civil claims to proceed <u>only after</u> the appropriate supervisory authority has assessed compliance and concluded that the company has failed to comply with the relevant obligations. If a civil claim is allowed, Member States should require plaintiffs to demonstrate direct links to harm occurring in or materially affecting the EU.

- The United States requests that the EU Member States refrain from creating new procedural avenues for litigation.

5. Net Zero

- The EU should respect the deletion of the provision on combatting climate change (Article 22), and should not reintroduce mandatory net zero climate transition plans and related requirements through its guidance process. OECD voluntary guidelines, replicated in the CSDDD, make reference to environmental requirements and net zero commitments. In the transposition process, Member States should not refer to or require compliance with OECD guidelines not listed in the CSDDD.

This comment is provided without prejudice to any additional comments the United States may submit to the EU regarding CSDDD, CSRD, or any future revisions to the directive or other measures. The United States would welcome an opportunity to engage further with the EU in relation to its comments.