

ONE STEP CLOSER: U.S. COMPANIES ACTIVE IN EUROPE WILL NEED TO TRACK POTENTIAL NEW DUE DILIGENCE REQUIREMENTS AS NEW QUESTIONS ARISE

The EU's Corporate Sustainability proposal, which is currently being negotiated and would impose due diligence obligations regarding human rights and environmental impact on EU and non-EU companies, is causing U.S. lawmakers to raise concerns.

BACKGROUND

The EU institutions have begun final legislative negotiations on a new Corporate Sustainability Due Diligence Directive ("**CSDDD**"). Once passed, the CSDDD would require large EU businesses and non-EU businesses with significant operations in the EU to perform mandatory human rights and environmental due diligence. Final adoption of the proposal is expected early in 2024. See our original U.S. briefing on CSDDD's initial publication [here](#). Further, see our original EU briefing on the European Commission's initial CSDDD proposal [here](#) and our latest briefing on CSDDD [here](#).

U.S. LAWMAKERS AND POLICYMAKERS HAVE EXPRESSED CONCERNS ABOUT THE PROPOSED DIRECTIVE IMPACT ON U.S. BUSINESSES

U.S. lawmakers have [raised concerns](#) with the U.S. Securities and Exchange Commission ("**SEC**") and the U.S. Department of the Treasury about the extraterritorial application of the CSDDD to U.S. business activity outside of the European Union. On June 13, 2023, a group of Republican lawmakers sent a letter to Treasury Secretary Yellen identifying their concern that the requirement for U.S. companies with a significant footprint in the European Union to address the environmental and human rights impacts throughout their supply chains could implicate U.S. businesses with no connection to the European Union. Specifically, the CSDDD in its current form could discourage large corporations from sourcing from or selling to U.S. businesses, including small businesses, and result in actions against U.S. companies for failing to meet E.U. requirements. Treasury

Secretary Yellen had herself previously expressed the Administration's concern about the CSDDD's potential "negative, unintended consequences" on U.S. firms given its extraterritorial scope.

WHAT DOES THIS ALL MEAN FOR POTENTIALLY IMPACTED U.S. COMPANIES?

We expect further EU-U.S. discussions around the CSDDD at an official level, but in the meantime potentially impacted U.S. companies will need to consider how to prepare for the new E.U. requirements, in addition to monitoring the new SEC requirements (now expected in October 2023), which will add a further layer to the due diligence landscape.

Our global team is monitoring in real-time the due diligence developments that impact all aspects of our clients' businesses and understand how to translate these developments into concrete and strategic actions for our clients.

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