









Joint Statement on Extraterritoriality

The undersigned associations, representing companies and industries headquartered outside the EU but with significant investments and operations within the Single Market, recognise the EU's central role in shaping global sustainability standards. While our members are deeply committed to responsible business conduct, transparency and contributing to the EU's green and just transition, we have concerns about the legal uncertainty created by some of the extraterritoriality requirements in the ongoing Omnibus 1.

The EU is currently refining its sustainability framework through the review of initiatives such as the Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CSDDD). As policymakers adapt these frameworks, their implementation must support practical, globally compatible approaches to sustainability and not create unintended legal or economic barriers. In particular, both the CS3D and the CSRD fail to address the significant challenges created by their extraterritorial obligations.

The current approach is creating in both files:

- Legal risks, by exposing non-EU companies to overlapping and potentially conflicting
 obligations under EU law and the laws of their home jurisdictions. This can result in
 non-EU companies facing fines and risking multiple lawsuits in different Member
 States. The latter is further compounded by the fact that non-EU companies may face
 litigation in any Member State, regardless of their compliance with local regulations,
 even if the concerned businesses have no EU nexus.
- Competitiveness concerns, as such far-reaching rules risk rendering the EU less attractive for global investment compared to other regions. It currently creates an uneven playing field, where non-EU companies' operations outside the EU and with no nexus to the internal market risk to be bound to two regimes (their home country and the EU regime) just by virtue of having an EU footprint, while EU companies only need to comply with one (the EU framework) for their European operations and are not subject for those EU operations to the regulation of third countries in which they have presence.

• **Geopolitical sensitivities**, as the extraterritorial application of EU rules may be perceived as incompatible to the regulatory framework of third countries and could complicate international cooperation on shared sustainability goals.

Recommended adjustments to the CS3D

In the CS3D, Article 2(2) continues to cast an excessively broad net. For this reason, Article 2 (2) should be replaced to adopt the following language:

'This Directive shall also apply to companies which are formed in accordance with the legislation of a third country and generated a net turnover of more than EUR 1 500 000 000 in the Union in the financial year preceding the last financial year and will apply only to value chain operations related to products sold in the EU and services provided in the EU".

This more proportionate formulation ensures that only non-EU companies with a direct and substantial business presence in the EU are subject to the directive, while respecting international law principles and avoiding unnecessary extraterritorial overreach.

The €1.5 billion threshold is aligned with the position of the EU co-legislators, ensuring coherence with the political compromise reached during trilogue discussions and maintaining a level playing field for companies operating within the Single Market.

Further, the current wording of the CSDDD exposes non-EU parent companies to potential uncontrolled litigation risks, even for activities unrelated to the EU market. Therefore, further jurisdictional clarification is needed to manage litigation risks, therefore, we propose the amendment of CS3D Article 29(3) as follows: "(n) Member States shall ensure that courts of a Member State shall not have jurisdiction over claims under this Article unless there is a clear and demonstrable connection between the alleged adverse impact and the territory of that Member State."

In creating a globally compatible and fully operational EU due diligence framework, there should be guidelines for non-EU companies subject to CSDDD, two years before rules take effect. These guidelines should elucidate the different requirements upon entities' jurisdiction of establishment (Articles 2.1 and 2.2) and nexus to the EU. Providing supportive measures for effective implementation by non-EU actors connected to the EU market is crucial to understanding the extra steps they shall take in complement to their OECD Guidelines- & UNGP-aligned activities.

Recommended adjustments to the CSRD

In addition, policymakers should adopt **targeted technical adjustments to the CSRD** to address remaining extraterritorial concerns in its implementation:

• Integrate an EU nexus requirement in Article 40a

To ensure proportionality and legal certainty, reporting obligations for non-EU parent companies should be mandatory **only where a clear and demonstrable EU nexus exists**. This clarification would better align the CSRD with international norms and prevent the inclusion of companies with indirect links to the EU market. Additionally, the value chain cap for third-country undertakings should be directly referenced under Article 40a to avoid any accidental pull of activity that should not be reported within the scope.

Prolong artificial consolidation as a transitional measure
 The transitional regime of artificial consolidation should be extended to allow non-EU groups to fulfil their reporting obligations through a single EU-based subsidiary.
 This pragmatic approach would facilitate compliance, reduce administrative burden and give companies time to develop comprehensive global sustainability reporting systems aligned with EU standards.

• Align employee threshold

The employee thresholds applicable to non-EU and EU companies under the CSRD should be aligned to ensure a level playing field and delivery on the intended burden reduction that can preserve and enhance the business attractiveness of the EU. As it stands, the absence of an aligned employee threshold for EU subsidiaries of third-country companies can lead to situations where CSRD-compliant group-level reporting of the ultimate third-country parent company would be required, even though no EU subsidiary has triggered CSRD reporting obligations by itself. This would result in an inconsistent treatment of EU companies depending on where the ultimate parent company is incorporated and as such in a differing burden relief to the detriment of non-EU companies. The proposed turnover threshold increases for EU entities further aggravate this misalignment.

- In creating a globally compatible and fully operational EU sustainability reporting
 framework, Non-EU Sustainability Reporting Standards (ESRS) should be adopted two
 years before rules take effect. NESRS should also be in line with existing frameworks,
 namely the Global Reporting Initiative (GRI) and the International Sustainability
 Standards Board (ISSB) standards. Timely adoption of globally interoperable
 standards will provide the necessary time for consolidation of global information as
 well as of EU subsidiaries' data.
- Companies which do not include in their annual financial statements data from their non-EU subsidiaries, let alone in which they also have no management or operational involvement, they should not do so under CSRD either. The scope of financial & nonfinancial reports in that sense should be aligned to prevent dichotomy in applying CSRD Articles 19a, 29a, 48i, and the EU Accounting Directive.

As a coalition of international business associations, we are committed to supporting the EU's sustainability objectives while preserving the attractiveness and competitiveness of the European economy. Well-calibrated CSRD and CS3D frameworks can strengthen both responsible business conduct and Europe's global economic resilience. We urge policymakers to integrate these adjustments into the final texts to ensure legal clarity, proportionality as well as the furtherance of the EU's sustainability goals.

List of Signatories:

American Chamber of Commerce to the EU: https://www.amchameu.eu/

European Australian Business Council: https://eabc.com.au/

Europe India Chamber of Commerce : https://www.europeindia.eu/

Japan Business Council in Europe: https://www.jbce.org/en/

Korea International Trade Association : <u>https://kita.org/</u>