EU scales back supply chain sustainability law following US pressure

Financial Times Europe
10 déc. 2025
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The law forces groups to root out and address environmental and social abuses in their supply chains and had become a scapegoat for opposition to the EU's ambitious climate agenda from foreign trade partners, notably oil and gas exporters such as the US and Qatar.

EU lawmakers and diplomats agreed yesterday that only European companies with more than 5,000 employees and €1.5bn in annual turnover worldwide, as well as non-EU companies with more than €1.5bn in turnover within the EU, would have to adhere to the law.

Originally the directive stated that EU companies with more than 1,000 employees and at least €450mn in annual turnover would have to comply, as well as non-EU companies with more than €450mn of turnover in the EU.

The new agreement also reduced penalties for non-compliance from up to 5 per cent to up to 3 per cent of global turnover. Further, it abolished the need for companies to draft mandatory climate transition plans that would set out how they planned to decarbonise in line with attempts to limit the global temperature increase to 1.5C as set out in the 2015 Paris Agreement.

The rules will also be delayed by a year, coming into force from July 2029.

Oil and gas groups had lobbied hard against the climate transition plans. In a letter to the European Commission in October, the Qatari and US energy secretaries had argued that the climate transition plans and the extraterritorial jurisdiction of the law threatened the EU's energy security and could "disrupt trade and investments across nearly all the EU's partner economies".

ExxonMobil, the US oil and gas group, had called the legislation "bone-crushing". Yesterday, it said the EU had managed to "remove some of the most irrational and harmful parts of CS3D [corporate sustainability due diligence directive] but they didn't go nearly far enough". "The ability of Brussels to regulate a US company's operations anywhere in the world remains and this is completely unacceptable," it added.

"The Trump administration has made clear this is a non-starter for trade talks and we look forward to a common sense resolution in the near future."

US officials have said the due diligence law is a particular concern to the Trump administration, which would like to see the directive repealed.

The law has also been heavily contested by rightwing lawmakers within the bloc, who see it as emblematic of the EU's administratively burdensome and overly ambitious climate laws.

Jörgen Warborn, the conservative lawmaker who led talks for the parliament, described the agreement as "delivering historic cost reductions".

But Richard Gardiner, interim head of EU Policy at ShareAction, said the compromise was "an alarming dismantling of good policymaking" after intense pressure from the far right.