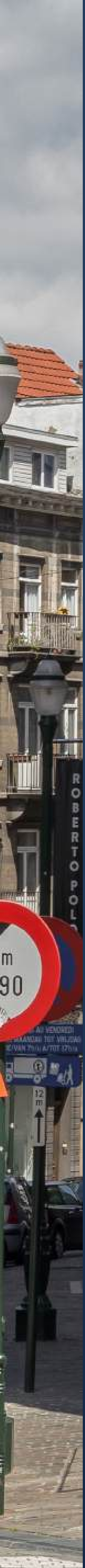
BARON

EUROPE’S ECONOMIC WAR ON AMERICA

FALL 2025

This report is designed to equip policy makers and experts to understand structural factors and the latest events in the U.S.-Europe relationship. An earlier version of this draft was shared with experts and thought leaders at an event in Washington, DC, in mid-June 2025. This final draft was updated to include feedback from these experts, as well as other experts who expressed interest, and to reflect recent developments in the US-EU relationship.



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Cover: The Berlaymont Building, home to the headquarters of the European Commission in Brussels, Belgium (Thijs ter Haar, CC BY-NC-SA 2.0).

Previous page: A street view of Brussels (Michielverbeek ,CC BY-SA-4.0).

About Baron

Baron has guided clients through the most challenging political terrain for more than 15 years. Applying a methodology focused on mastering the strategic competition of interests, Baron has advised some of the nation's most prominent organizations, including members of the *Fortune* 10, several of America's largest privately held businesses, and the U.S. Department of Defense.

EXECUTIVE SUMMARY

The European Union is waging what amounts to an economic war on U.S. industry. The United States – long oblivious to this dynamic – is beginning to wake up.

A new series of European regulations seeks to impose progressive agendas onto dominant American companies across the economy. Europe's "regulatory imperialism" reflects a moral agenda rather than an economic one.

Facing diminished economic leverage and declining geopolitical power, Brussels is increasingly turning to regulation – self-righteously framed in the language of consumer protection, values, and environmentalism – to exercise power on the world stage as a moral authority. New regulations go beyond controlling what happens in Europe, and instead dictate the global behavior of major companies doing business in the EU. In many cases, business conducted by American companies in the United States falls under cumbersome new EU regulations such as the Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CS3D). This new pattern, amounting to "regulatory imperialism," poses new challenges for U.S. sovereignty and threatens to impose significant compliance costs on American companies.

As of July 2025, the only official estimate of compliance costs for CS3D from the EU neglected to include transition costs. This estimate, put out by the European Commission, gave the impression that the compliance burden for in-scope companies would be less than $1 million annually. Self-reported estimates by C-suite leaders suggest much higher transition and annual compliance costs. In the absence of an accurate estimate, U.S. policy makers have overlooked the outrageous costs CS3D imposes on U.S. industry. The federal government has a crucial role to play in measuring the potential impact on U.S. industry and consumers, protecting the United States from this extraterritorial tax, and ensuring that no such threats can emerge in the future.

The EU's increasingly aggressive regulations seek to reshape American industry and are exacerbating longstanding points of friction in the transatlantic relationship, including NATO members failing to meet defense commitments, as well as traditional protectionist policies such as tariffs, taxes, quotas, and local subsidies. The Trump Administration has taken notice of the EU's regulatory imperialism. In July's US-EU trade negotiations, the EU made commitments to the U.S. on reducing the burdens of CS3D and CSRD. Many of these commitments appear primarily theatrical in nature, however, referring to simplifications already under debate in the EU due to internal pushback. Congress also has shown significant interest. The end of 2025 into 2026 will be a critical period for Congress and the Trump Administration to translate momentum into enduring solutions that protect Americans from Europe's regulatory imperialism.

DEFENSE FREE-RIDING

- NATO free-riding on U.S. defense spending
- As of 2025, the United States is financing 16% of NATO's yearly expenditures[1]

U.S. RESPONSE

- Since President Trump's first term, growing efforts to push NATO members to increase their defense spending

ECONOMIC PROTECTIONISM

- Taxes
- Tariffs
- Quotas
- Subsidies

U.S. RESPONSE

- Tariffs and trade negotiations – although too early to determine their longer-term effects

MORALISTIC REGULATORY IMPERIALISM

- CS3D (environmentalism & human rights)
- CSRD (climate & ESG)
- GDPR (personal data)
- Digital Services Act (content moderation)

U.S. RESPONSE

- Proposed legislation (PROTECT USA Act) – viability in Congress and extent of Executive Branch support too early to tell

SURVEY OF THE LANDSCAPE

The post-World War Two era has been defined by the transatlantic relationship. During the Cold War, in particular, the Marshall Plan and NATO formed the backbone of American efforts to contain the Soviet Union. Today, Great Power Competition is reemerging, with Americans typically viewing China as America's main competitor, with Russia, Iran, and North Korea as secondary threats. Yet Europe itself – primarily through the European Union – is emerging as a competitor of its own kind.

A quiet economic war is unfolding across the Atlantic. Veiled in the language of consumer protection, sustainability, and fair competition, Europe has increasingly deployed a range of non-tariff barriers that collectively amount to a decades-long, coordinated attack on American industry. These measures systematically constrain American access to a vital market, distort global competition, and erode the foundations of U.S. commercial power.

Even as European officials limit American companies' ability to compete in Europe, certain EU member states – most notably Ireland, Luxembourg, and the Netherlands – have welcomed U.S. firms seeking tax relief with open arms. In doing so, they extract disproportionate benefits from America's leading businesses without providing fair market access or contributing to the infrastructure or human capital that led to their success.

The economic imbalances extend beyond the commercial sector. Europe's chronic failure to meet its defense obligations – and its corresponding dependence on American military support – reflect the same asymmetry in the transatlantic alliance. Just as European economies benefit from U.S. corporate leaders while handicapping their competitiveness, European security rests upon American strength even as defense investments languish on the Continent.

Europe's increasingly aggressive economic posture is driven not by strength, but by insecurity. Bereft of its own leading global companies and unwilling to undertake the reforms necessary to compete, Europe has chosen to constrain American companies. It is not a coincidence that the brunt of European regulatory action has fallen on America's largest businesses – nor that the U.S. tech industry was an early target: Europe's lag in global tech leadership largely preceded its decline in other traditional economic sectors.

In sectors where Europe lacks globally competitive players, including tech, health care, energy, and logistics, regulation increasingly serves as a substitute for industrial strategy. Expansive regulatory influence – and the self-ascribed moral authority that accompanies it – ultimately provides Europe with a means of maintaining global relevance despite lacking the economic strength or military power typically required to shape international affairs. Rather than retreat from the global stage, the EU has reinvented itself as a normative power, exercising influence by exporting rules, standards, and values. Such behavior – often framed as protecting *European* sovereignty – in fact infringes on American sovereignty: EU regulations have come to regulate not just American companies' behavior in Europe, but also in the United States.

While framed as a moralistic imperative, Europe's regulatory imperialism is hypocritical: many American companies will reorient to abide by Europe's progressive agendas, but in all likelihood most Chinese companies will not – a reality that Brussels is almost certainly aware of. Europe's relative comfort with China – America's top competitor – upends the very foundation of the transatlantic relationship: unity against a common threat.

Europe's regulatory crusade could intensify in the coming years. Even as political unity within the EU frays – or perhaps precisely because political unity is fraying – the regulatory engine powering it shows no signs of slowing. The long-term future of the EU is not one of dramatic collapse, but of managed fragmentation: a complex and increasingly stratified bloc, held together less by consensus than by administrative force.

BACKGROUND

The Corporate Sustainability Due Diligence Directive (CS3D) was meant to be the crowning achievement of Europe's moral regulatory agenda: a sweeping legal mandate compelling companies to take responsibility for human rights and environmental harms far beyond their borders. When it was adopted in 2024, European officials declared it a triumph of values over commercial interest. But within months, celebration gave way to unease. Energy shocks from the war in Ukraine, capital flight, and a widening gap with U.S. and Chinese competitors forced Brussels to confront reality: it had gone too far.

The reckoning arrived with former Italian Prime Minister and European Central Bank President Mario Draghi's Report on European Competitiveness. Commissioned by European Commission President Ursula von der Leyen in 2023 and delivered in September 2024, the Draghi Report was a blistering critique of European competitiveness, which he diagnosed as strangled by high costs and overlapping regulations. The prescription was unforgiving: simplify, cut back, and reconcile regulation with competitiveness – or fall further behind.

The European Commission's response was the two-part Omnibus package, unveiled in February 2025. Although presented as a streamlining initiative, it was in fact an act of retreat. Part I, the Stop-the-Clock Directive, became law in April 2025. The Directive pushes back CS3D's transposition two years, to July 2027, and its first wave of obligations back two years, to July 2028 for EU companies and July 2029 for non-EU companies.

Part II, a broader directive amending the substance of CS3D and CSRD, is still under debate. For CSRD, the Commission's proposal would reduce the number of in-scope EU companies by around 80 percent, raise the threshold for non-EU companies, limit how much information companies must collect from their supply chains, and drop sector-specific standards. For CS3D, it would narrow obligations to tier-one suppliers, soften enforcement by replacing mandatory contract termination with suspension, erase the harmonized civil-liability regime in favor of national law, and overhaul penalties. The Council agreed on its position in June 2025, which kept much of the Commission's proposed streamlining measures but diverged on several key points, including on scope and penalties. The Parliament is expected to decide on its position by late 2025, paving the way for trilogue negotiations between the Council, Commission, and Parliament that will likely stretch into 2026.

Until trilogue negotiations are completed and any proposed changes become law, the 2024 CS3D directive, modified by the April 2025 Stop-the-Clock Directive, remains binding law. The more substantive amending directive remains only a proposal, and is likely to change during negotiations. This report, therefore, focuses primarily on the 2024 CS3D directive and the Stop-the-Clock directive, while noting the specific areas that are currently under debate and therefore likely to change.

Mario Draghi in a European Parliament plenary session in 2022 (Credit: Roberta Metsola, CC-BY-2.0).

THE EU'S NEW APPROACH: REGULATORY IMPERIALISM

Europe's economic attacks on American companies are not a series of isolated policy decisions but the product of the EU's decades-long rise as a cohesive regulatory authority. As the EU evolved from a loose economic alliance into a fully integrated single market, it gained the institutional power to develop and enforce uniform rules across its now 27 member states – transforming what was once a fragmented regulatory environment into an integrated one. For U.S. companies, this consolidation promised market efficiencies and simplified compliance.

As the EU's regulatory regime matured, however, it began to impose increasingly complex and far-reaching obligations that now encroach on American sovereignty.

The burdens of complying with the EU's expansive regulatory regime have been most widely recognized in America's tech sector. Under General Data Protection Regulation (GDPR), which governs how organizations collect, process, and store personal data, companies like Meta have been fined more than €1 billion for mishandling user data and now face extensive constraints on how they collect and transfer personal information.[2] GDPR reflects Europe's desire to position itself as a moral leader by establishing individual privacy as a fundamental human right – with Europe as its protector.[3] Emerging from Europe's historical sensitivity to surveillance and authoritarian overreach, GDPR asserts that personal data belongs to the individual, not the corporation. In doing so, GDPR seeks to establish and export European views on digital rights as a universal baseline for digital privacy. A key feature of GDPR is that it shapes how companies behave even in their business activities outside of the EU. Inspired by GDPR's expansionism, a new wave of ESG-driven regulatory frameworks – with CSRD and CS3D among the most prominent – has introduced sweeping due diligence requirements that will apply to hundreds of U.S. companies operating in or selling to the EU.

CSRD mandates expansive sustainability disclosures aligned with EU standards, including climate risk exposure and Scope 3 emissions – i.e. indirect emissions from the value chain going beyond direct emissions from owned sources (Scope 1) and emissions from purchased energy (Scope 2). Such indirect emissions (Scope 3) are notoriously difficult to quantify, and create a significant opening for aggressive environmentalist regulation. For EU companies, CSRD reporting requirements will apply broadly to "large undertakings," which are defined as having more than 250 employees and either a balance sheet above €25 million or revenue above €50 million.[4]

CSRD will apply to non-EU companies that generate over €450 million in annual EU revenue, and have either: (i) an EU branch with at least €50 million in revenue, or (ii) an EU subsidiary that qualifies as a "large undertaking." CSRD requirements are entering into application in four waves: large public interest entities in 2025, large enterprises and parents of large enterprises in 2028, listed SMEs in 2029, and non-EU companies with significant EU activity in 2029.

The Commission's Omnibus proposes that CSRD would apply only to the largest companies — those with more than 1,000 employees (rather than 250) and either €50 million in revenue or a balance sheet above €25 million — cutting about 80% of the companies currently in scope.[5] For non-EU multinationals, the threshold for mandatory "enterprise-level" reporting would rise to €450 million in EU revenue (up from €150 million). Reporting standards would also be simplified, with fewer required datapoints, clearer guidance on materiality, and no sector-specific standards. Audits would stay at the lighter

Apple's European headquarters in Cork, Ireland (Credit: Anthony Sigalas, CC BY-NC-SA 2.0).

"limited assurance" level, and large companies would no longer be able to push detailed reporting requests onto smaller suppliers (≤1,000 employees); instead, they could only ask for information through a new, simplified voluntary SME template.

The Council's negotiating position broadly supports these simplifications but narrows the scope even further for EU companies: it would require both ≥1,000 employees and ≥€450 million net turnover for EU undertakings (stricter than the Commission's 1,000-employee test paired with the €50m/€25m thresholds).[6] For non-EU parents, the Council agrees with the €450 million EU-turnover trigger. It also keeps limited assurance and the value-chain cap, and adds a safeguard that when large reporters ask small suppliers for information beyond the voluntary SME template, they must notify them and acknowledge their right to decline. Final details will be set in trilogues, so the enacted text may blend these positions.

CS3D requires companies to conduct thorough human rights and environmental due diligence across their global value chains and imposes legal liability if they fail to prevent environmental and human rights violations that due diligence could have avoided.[7] Companies therefore become responsible not only for what they do themselves, but also for what others do on their behalf. Companies can be held legally liable for harm caused by failures to identify and address risks through due diligence, including violations committed by their direct and indirect partners. This expands liability across the entire value chain, including not only a company's own operations, but also those of:

(1) Their subsidiaries, and

(2) Any entities or individuals that a company works with, including

> (a) Upstream partners whose work is "related to the production of goods or the provision of services by the company, including the design, extraction, sourcing, manufacture, transport, storage and supply of raw materials, products or parts of the products and development of the product or the service," and
>
> (b) "Downstream business partners related to the distribution, transport and storage of the [company's] product." In practical terms, this includes suppliers, subcontractors, resellers, and logistics partners – whether or not they are under a company's direct control, and whether or not they have any connection to Europe.

As outlined in the directive, conducting due diligence mandated by CS3D requires taking several steps:

> "1) Integrating due diligence into policies and management systems;
>
> 2) Identifying and assessing adverse human rights and environmental impacts;
>
> 3) Preventing, ceasing, or minimising actual and potential adverse human rights and environmental impacts;
>
> 4) Monitoring and assessing the effectiveness of measures;
>
> 5) Communicating, and
>
> 6) Providing remediation."

Under CS3D, companies can face civil legal liability in EU member states if they fail to prevent human rights or environmental violations within their value chains. This means that alleged victims – whether workers, affected companies, NGOs, or other entities – can sue companies in EU courts for damages, even if the harm occurred outside the EU.

CS3D derives its list of human rights and environmental obligations from a set of annexed international instruments, many of which the United States is not a party to. These are legally binding for the purposes of the directive even if not directly incorporated into domestic or U.S. law. For human rights, these include the International Covenant on Civil and Political Rights, the International Covenant on Economic, Social and Cultural Rights, and the Convention on the Rights of the Child. Violations include but are not limited to: child labor; forced labor/modern slavery; unsafe or exploitative working conditions; inadequate housing, if housing is provided by the company; denial of collective bargaining or trade union rights; discrimination in employment; unfair wages or excessive working hours; and unlawful restrictions on freedom of expression or movement.

CS3D defines its environmental requirements according to several international treaties that the United States is not a party to, including the Paris Agreement and the Basel Convention. Violations are similarly expansive, including illegal deforestation or land use change; excessive greenhouse gas emissions inconsistent with the Paris Agreement; pollution of air, water, or soil with hazardous substances; improper disposal or export of toxic waste; biodiversity destruction or habitat loss; use of banned chemicals or pesticides; overuse or contamination of water sources; and damage to protected ecosystems or cultural heritage sites. By anchoring its obligations in treaties never ratified by the United States, CS3D effectively forces American companies to comply with environmental norms that they not only had no role in shaping, but that have also been explicitly rejected by American policy makers and the American populace.

In order for companies to comply with CS3D, they need to implement a "transition plan for climate change mitigation."[8] Notably, every qualifying company's transition plans have to demonstrate the steps they are taking to abide by the most ambitious climate change target of the Paris Agreement, reduction goals for Scope 1, Scope 2, and Scope 3 emissions, and assess their exposure to "coal-, oil- and gas-related activities."[9] Simply quantifying these emissions, let alone planning for their reduction, requires monumental effort: accurately measuring Scope 2 and especially Scope 3 emissions

– those arising from indirect upstream and downstream activities – remains technically complex, data-intensive, and often reliant on estimates rather than direct reporting. For U.S. companies with sprawling global supply chains, this means attempting to track emissions data across thousands of suppliers, many of whom may lack the capacity, incentives, or regulatory obligations to monitor or disclose their environmental impact, and then developing plans to mitigate these emissions. The realities of executing these requirements are difficult to fully comprehend: data availability is inconsistent, emissions factors vary by industry and geography, and there is no universally accepted methodology for calculating Scope 3 emissions.

The expansive scope of CS3D means U.S. companies can be held accountable for a wide variety of violations that their due diligence failed to identify or prevent:

- Example one: A U.S. industrial company exports heavy-duty construction machinery to the EU. One of its Tier 2 suppliers – a steel producer in Southeast Asia – uses outdated, high-emitting furnaces without CO2 mitigation systems, operating well above EU-aligned emissions thresholds. Although the U.S. company does not own and is not in direct contract with the steel producer, the emissions generated by that facility contribute to the U.S. company's Scope 3 emissions. Under CS3D, the company could be held liable for failing to conduct adequate climate due diligence – including identifying and addressing material Scope 3 emissions risks within its upstream supply chain.
- Example two: A U.S. online retailer sells clothing in the EU that is produced in a factory in Bangladesh. The factory violates local safety standards, leading to a fire that injures workers. Under CS3D, the retailer could be sued in EU courts for not ensuring that workplace conditions met human rights and safety standards – even if it never directly managed the factory.
- Example three: A U.S. industrial company exports fire suppression systems to the EU. A third-party transporter hired by a regional distributor disposes of hazardous materials illegally during shipment. Under CS3D, the U.S. company could be held liable if it did not sufficiently vet the transportation practices used throughout its value chain.

CS3D requires member states to designate one or more national supervisory authorities with powers to investigate adherence, request information, and carry out inspections, and provide that authority with necessary personnel and financial resources. A supervisory authority can initiate an investigation independently, or based on substantiative concerns communicated to it by individuals. Investigations could include on-site inspections and discussions with relevant stakeholders. Supervisory authorities are to publish an annual report on their activities and the most serious breaches uncovered. The directive allows – but does not require – member states and their national supervisory authority to impose administrative sanctions, which may include penalties, exclusion from public procurement, and public statements identifying violators.

Non-EU companies will be subject to the supervisory authority in the country in which they have a branch; should they not have a branch or have branches in multiple member states, the supervisory authority will be that of the state in which the company generated most of its net EU revenue. U.S. companies large enough to get caught up in CS3D are likely to have business in multiple EU member states. The question, therefore, becomes in which member state U.S. companies generate their greatest amount of EU revenue. Although this will vary

The front of the Council Building at the Moncloa Complex, the residence and workplace of the Prime Minister of Spain. Spain is a strong proponent of CS3D and, if CS3D becomes law, Madrid could become one of the leading enforcers of CS3D in the EU (Credit: Ministry of the Presidency. Government of Spain. May 25, 2022).

by company, Europe's economic powerhouses – including Germany and France – are likely to frequently be those nations whose supervisory authorities U.S. companies will be subject to. Both of these nations have recently expressed concern with the scope of CS3D, suggesting their national supervisory authorities may take a more moderate approach to CS3D implementation than others in the bloc. On May 9, Chancellor Friedrich Merz of Germany said, "The permanent solution to this problem must be to simply repeal this Directive [CS3D], as we will do with the German Supply Chain Act in the near future" and President Emmanuel Macron of France said on May 19, "CS3D and some other regulations has not just to be postponed for one year, but to be put off the table."[10] CS3D also calls for the European Commission to set up a European Network of Supervisory Authorities, to be comprised of representatives of each member state's supervisory authority, to facilitate cooperation, coordination, and investigations across supervisory authorities.

CS3D was adopted by the EU in 2024, and member states must implement it into national law by July 2027. The April 2025 "Stop-the-Clock Directive," which has become law, delayed implementation. The directive will now take effect in two phases, based on company size and revenue:

1) By July 2028, it will apply to EU companies with over 3,000 employees and over €900 million in global revenue, as well as to non-EU companies that generate more than €900 million net revenue in the EU;

2) By July 2029, it will cover EU companies with more than 1,000 employees and an annual net revenue in excess of €450 million, as well as non-EU companies with an annual net revenue of €450 million generated in the EU. One Dutch non-profit estimates at least 315 American companies would qualify for the July 2029 implementation phase.[11]

The directive also applies to companies that franchise or license in the EU, if they earn more than €22.5 million in royalties and have over €80 million in EU revenue. This means that many American companies with significant sales in Europe will be fully subject to CS3D's due diligence, reporting, and liability requirements, even if they have little or no physical presence in the EU.

The Commission's 2025 Omnibus proposal would simplify these requirements in several ways: it would Inarrow day-to-day due diligence to Tier-1 (a company's own operations, subsidiaries, and direct business partners), only looking deeper when there is plausible information of issues beyond Tier-1; it would stretch regular reassessments from every year to every 5 years; and it would remove the harmonised EU civil-liability article. It also softens the climate transition-plan duty from "put into effect" to describing implementing actions. The Council's negotiating mandate broadly accepts the Tier-1 focus and five-year cadence but goes further by raising the scope thresholds (≥5,000 employees and €1.5bn turnover for EU parents; €1.5bn EU turnover for non-EU parents), postponing transposition by a year, to 26 July 2028), keeping the removal of harmonised civil liability. Taken together, both texts mark a pivot from the 2024 baseline toward lighter, Tier-1-focused, and less frequent due-diligence duties, as well as a reworked enforcement architecture,

Compliance costs for American companies remain unclear, but are far higher than official EU estimates. The only official EU estimate, put forth by the European Commission, projects compliance costs would be minimal: only €190,300 in one-time compliance costs and €643,300 annually, at most.[12] These figures are misleading – if not outright duplicitous: they do not include transition costs, which will be the most significant burden. Moreover, they were based on assumptions about EU companies' existing due diligence and ESG systems, not American companies. Subsequent changes proposed in the February 2025 Omnibus package reduced the directive's scope; yet no updated cost estimates have been released by the Commission reflecting these adjustments. One independent 2024 survey of 1,200 Europe-based C-suite leaders by a British law firm found that survey respondents estimated that, on average, it would cost around nine percent of their revenue to "achieve full CS3D compliance."[13] Should proposed changes to the scope of CS3D become law, however, these costs could become lower. The immense gap between official EU estimates and private-sector estimates suggests the EU may be deliberately misrepresenting the costs of CS3D.

Even a nine percent estimate could still be too low for U.S. companies. EU companies tend to have far greater preexisting alignment with CS3D requirements than many U.S. companies because they already operate under national-level due diligence rules or ESG mandates that align more closely with CS3D's expectations. For U.S. firms, especially those with limited prior exposure to such requirements, the compliance gap – and thus the cost – is likely to be far more substantial. U.S. companies likely need to create new compliance systems, hire technical specialists, and overhaul supply chain practices – costs not captured in estimates for EU companies.

Estimating the cost of CS3D compliance for U.S. companies is inherently difficult due to the directive's broad and still-evolving scope. CS3D imposes obligations not only on a company's direct operations but across its entire global value chain – including suppliers, contractors, and partners – many of which operate in jurisdictions with limited transparency. The legal obligations remain vague in key areas, such as the standards for "appropriate" due diligence and the thresholds for liability, making it difficult to model risk exposure. Costs will also vary widely by industry, supply chain complexity, and existing ESG practices. Further complicating efforts to estimate costs for U.S. companies, the directive's member-state transpositions will create a patchwork of rules that differ by country.

In the absence of a full estimate of CS3D compliance costs for U.S. companies, the true extent of CS3D's impacts remain unknown. Applying DWF's nine percent figure to *Fortune* 500 companies subject to CS3D, for example, reveals potential cumulative compliance costs of up to $894 billion.[14]

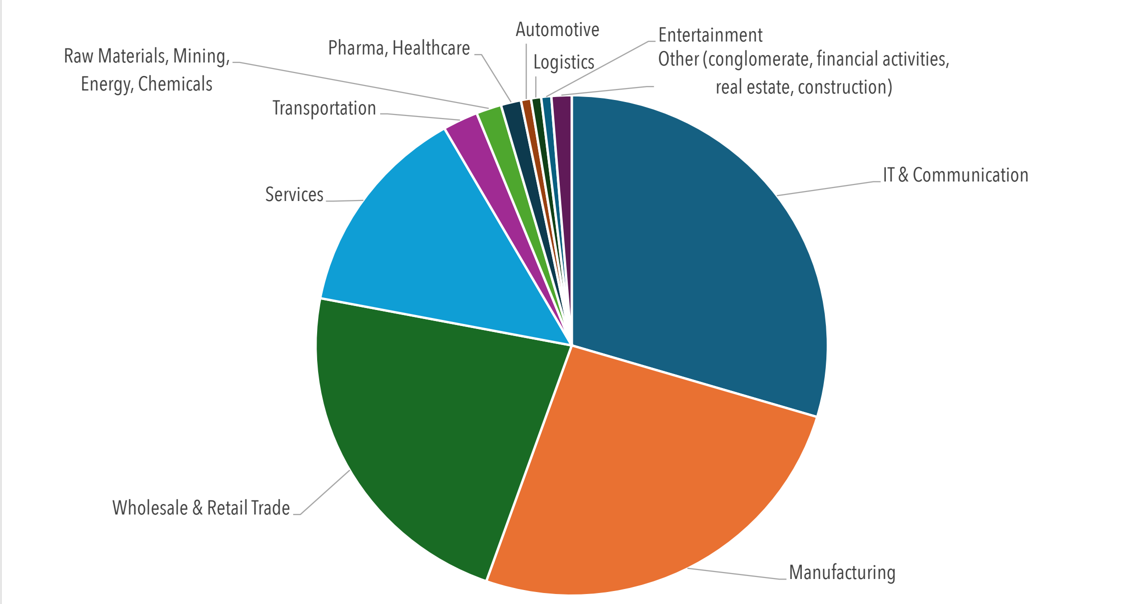
Without a comprehensive and rigorous assessment of the impacts on U.S. companies, the EU's outdated and misleading estimate is able to hold sway as the most authoritative source. Since the nine percent figure from DWF was derived from European businesses, and U.S. companies are even less prepared to comply with CS3D than their European peers, the average compliance costs for U.S. companies are likely higher. Increasing the average transition cost for qualifying *Fortune* 500 companies from nine to 12 percent, for example, bumps the potential cumulative cost to $1.1 trillion. Notably, in-scope U.S. *Fortune* 500 companies (a total of 172 companies) account for only a little more than *half* of the total number of U.S. companies likely to be in-scope of CS3D (314 companies), accoding to one list compiled by the Dutch non-profit Centre for Research on Multinational Corporations (SOMO).[15] Companies across many sectors are in-scope, as shown at the bottom of this page.

If a company is investigated by an EU member country and found to be non-compliant, CS3D requires penalties that are "effective, proportionate, and dissuasive" and take into account the nature, gravity, and duration of the violation; the severity of harm; and any mitigating or aggravating factors. The directive does not mandate a specific fine. Instead, it includes what amounts to a "minimum ceiling." In other words, if a member state decides to set a maximum cap on fines, that cap cannot be lower than 5 percent of the company's global turnover. Member states are free to set the ceiling higher, or to avoid setting a ceiling altogether.

The legislation describes these penalties in obfuscatory phrasing: "the maximum limit of pecuniary penalties shall be not less than 5% of the net worldwide turnover of the company." This convoluted phrasing has led to frequent misinterpretations around the ceiling of these penalties, including by several law firms, which have explained 5 percent as the maxium penalty – rather than the a minimum ceiling.[16] Such misinterpretations are understandable: the EU's language is likely intended to portray the outrageous terms of CS3D as much more moderate than they are. The Commission itself has now acknowledged that this clause has caused confusion. The 2025 Omnibus proposal deletes the "5% of net worldwide turnover" reference altogether. Instead, the Commission would publish EU-wide fining guidelines, and member states would be barred from setting caps so low that they prevent penalties from being effective, proportionate, and dissuasive. The link between fines and global turnover would be removed. By contrast, the Council's mandate would set a uniform EU cap of 5% of net worldwide turnover.

As the law stands today, however, companies could face penalties equal to 5% of their global revenue or more, depending on how member states implement the directive. Under the Omnibus, fines would still be substantial but guided by EU-level standards rather than a rigid turnover percentage. Table 1 shows U.S. *Fortune* 500 companies that would have to comply with CS3D if it was in currently in effect.[17]

The lack of clarity around the costs of CS3D is not unique: the EU does not have a strong system in place to assess costs of new legislation. The 2024 Draghi Report, the product of a European Commission intiative directing former European Central Bank President Mario Draghi to assess European competitiveness, notes that the EU "lacks a quantitative framework to analyse the costs and benefits of new laws. Among the EU institutions, only the Commission has developed a methodology (the Standard Cost Model) to calculate regulatory burdens, but its concrete application varies across pieces of legislation. The co-legislators – the European Parliament and Council – have no methodology in place to measure the impact of amendments they propose to draft EU legislation. Moreover, there is no single methodology in place to assess the impact of EU legislation once transposed at national level, with only a few Member States systematically measuring the impact of transposed EU law – in turn making it harder for national parliaments to exercise scrutiny."[18]



In-Scope U.S. Companies, by Sector (CS3D)

Table 1: CS3D In-Scope *Fortune* 500 (2025) U.S. Companies

Amazon	HP	Danaher	AES
Apple	Intel	Avnet	Berry Global Group
Berkshire Hathaway	Oracle	Booking Holdings	Westlake
Alphabet	Deere	Genuine Parts	Ball
Exxon Mobil	Nike	Lear	Alcoa
McKesson	Liberty Mutual Insurance Group	Live Nation Entertainment	Wayfair
Cencora	Bristol-Myers Squibb	Stryker	Avis Budget Group
JPMorgan Chase	Ingram Micro Holding	State Street	GXO Logistics
Costco Wholesale	Eli Lilly	Adobe	Agco
Cigna Group	Uber Technologies	Fiserv	International Flavors & Fragrances
Microsoft	Dow	Blackrock	Vertex Pharmaceuticals
Chevron	Thermo Fisher Scientific	Colgate-Palmolive	Servicenow
Bank Of America	World Kinect	Parker-Hannifin	Owens Corning
Ford Motor	Abbott Laboratories	Goodyear Tire & Rubber	Motorola Solutions
Citigroup	Bank of New York (BNY)	Manpowergroup	Interpublic Group
Meta Platforms	Warner Bros. Discovery	C.H. Robinson Worldwide	Expeditors International Of Washington
Walgreens Boots Alliance	CHS	PPG Industries	VF
Phillips 66	Netflix	Emerson Electric	Autoliv
Goldman Sachs Group	Qualcomm	Aramark	Dana
Valero Energy	General Electric (GE Aerospace)	Jacobs Solutions	Ebay
Comcast	Salesforce	Corteva	Celanese
Morgan Stanley	Philip Morris International	Boston Scientific	Biogen
Stonex Group	Mondelez International	Whirlpool	Analog Devices
Tesla	Starbucks	Kyndryl Holdings	Eastman Chemical
Dell Technologies	Visa	Illinois Tool Works	Zoetis
PepsiCo	Cummins	Texas Instruments	NOV
Walt Disney	Paccar	United States Steel	Graphic Packaging Holding
Fedex	Amgen	Estee Lauder	Avery Dennison
Archer Daniels Midland	Penske Automotive Group	Stanley Black & Decker	Equinix
Procter & Gamble	Hewlett Packard Enterprise	Baxter International	Franklin Resources
RTX	KKR	Super Micro Computer	Workday
Sysco	Gilead Sciences	Viatris	Dover
American Express	Mastercard	LKQ	Rockwell Automation
Metlife	Arrow Electronics	Otis Worldwide	Palo Alto Networks
Caterpillar	Baker Hughes	S&P Global	Vertiv Holdings
Merck	AIG	Regeneron Pharmaceuticals	Commercial Metals
Pfizer	Applied Materials	Borgwarner	Masco
IBM	Apollo Global Management	Expedia Group	Microchip Technology
Td Synnex	McDonald's	DXC Technology	Newell Brands
Conocophillips	Kraft Heinz	M&T Bank	Monster Beverage
Abbvie	Freeport-Mcmoran	Blackstone	Howmet Aerospace
Enterprise Products Partners	Carrier Global	Hess	
Cisco	3M	Kellanova	

Table 2: Assessing EU Member States' Voting Records on Key Legislation

	CS3D[19] (2024)	Nature Restoration Law* (2024)	CBAM (2023)	DMA (2022)	DSA (2022)	GDPR (2016)
Croatia	Green	Green	Green	Green	Green	Green
Cyprus	Green	Green	Green	Green	Green	Green
Denmark	Green	Green	Green	Green	Green	Green
Finland	Green	Orange	Green	Green	Green	Green
France	Green	Green	Green	Green	Green	Green
Greece	Green	Green	Green	Green	Green	Green
Ireland	Green	Green	Green	Green	Green	Green
Italy	Green	Orange	Green	Green	Green	Green
Latvia	Green	Green	Green	Green	Green	Green
Luxembourg	Green	Green	Green	Green	Green	Green
Netherlands	Green	Orange	Green	Green	Green	Green
Poland	Green	Orange	Orange	Green	Green	Green
Portugal	Green	Green	Green	Green	Green	Green
Romania	Green	Green	Green	Green	Green	Green
Slovenia	Green	Green	Green	Green	Green	Green
Spain	Green	Green	Green	Green	Green	Green
Sweden	Green	Orange	Green	Green	Green	Green
Austria	Yellow	Green	Green	Green	Green	Orange
Belgium	Yellow	Yellow	Yellow	Green	Green	Green
Bulgaria	Yellow	Green	Yellow	Green	Green	Green
Czech Republic	Yellow	Green	Green	Green	Green	Green
Estonia	Yellow	Green	Green	Green	Green	Green
Germany	Yellow	Green	Green	Green	Green	Green
Hungary	Yellow	Orange	Green	Green	Green	Green
Lithuania	Yellow	Green	Green	Green	Green	Green
Malta	Yellow	Green	Green	Green	Green	Green
Slovakia	Yellow	Green	Green	Green	Green	Green

Green: Votes in favor
Yellow: Abstentions
Orange: Voted against

Dates reflect when the legislation was adopted by the European Council.
* The law, a key component of the European Green Deal, sets legally binding targets for restoring at least 20% of the EU's land and sea areas by 2030.

EUROPE'S CONTINUED FREE-RIDING AND PROTECTIONISM

The EU's new efforts at "regulatory imperialism" build upon existing European free-riding on American taxpayers and industry across several major categories:

Europe's longstanding reliance on U.S. defense spending has provided EU member states with a significant, if often overlooked, economic advantage. While most NATO countries have recently committed to spending at least two percent of GDP on defense, many – including major economies like Germany, France, and Italy – have historically fallen short of that target. Reliance on U.S. defense effectively liberates European governments to redirect public funds toward domestic priorities, including social programs, climate initiatives, and even industrial policies that disadvantage American companies. At times, European leaders have directly acknowledged this reality: the 2024 Draghi report on European competitiveness notes that "The safety of the US security umbrella freed up [European] defence budgets to spend on other priorities."[20] An assumed advantage of the United States providing for European defense – that it grants America influence over the direction of European security policy – has proven illusory. Key European decisions on security and defense policy often reflect local political preferences and priorities, not American interests. On China, for example, Germany and France's respective advocacy for economic engagement is increasingly at odds with U.S. national security objectives.

Europe's tax shelters continue to be a significant drag on the United States. Even as Brussels seek to limit American companies' ability to compete in Europe, certain EU member states have eagerly embraced U.S. companies seeking tax relief. In doing so, they extract disproportionate benefits from America's most innovative companies. Tax haven states in the EU benefit from high-quality jobs, corporate tax revenues, and local investment – all without investing in the ecosystems that supported the emergence of these companies.

The costs for the U.S. government are enormous: according to one 2022 study, the United States loses more than $100 billion in corporate tax revenue each year.[21] This burden is ultimately shifted onto American taxpayers and smaller domestic companies that cannot take advantage of complex cross-border structures. The United States is among the nations most affected by the loss of corporate tax revenue: as one 2021 study found, U.S. multinationals "shift twice as much profit as other multinationals relative to the size of their foreign earnings."[22]

Europe provides countless subsidies to promote local companies over foreign competitors in key sectors. Through initiatives like the 2023 EU Green Deal Industrial Plan and Important Projects of Common European Interest (IPCEI), which was first introduced in 2014, the European Commission has approved billions in subsidies to companies including Sweden's battery developer Northvolt, Germany's BASF, and the French-German-Italian consortium Automotive Cells Company (ACC) for the development of electric vehicle batteries and clean energy technologies.[23] In the semiconductor space, Germany's Infineon Technologies has received EUR 1 billion and STMicroelectronics has received EUR 2 billion in state-

Ramstein Air Base, a U.S.-operated and -funded air base in Germany that serves as a vital hub for NATO missions, supporting joint operations, multinational exercises, and coalition logistics across Europe, the Middle East, and Africa. (Credit: Gerd Eichmann, CC-BY-4.0).

backed support for production expansion within Europe under the EU Chips Act.[24] Meanwhile, American companies such as Tesla and Intel have invested heavily in European operations but have faced delays or reduced access to subsidy opportunities. Tesla, for example, withdrew from a planned German battery factory subsidy package in 2021, and Intel has faced prolonged negotiations over subsidy funding for a chip manufacturing expansion in Germany.[25] These delays contrast sharply with the path taken by European companies.

Europe's environmental, climate, and product standards, while framed as essential for sustainability and consumer protection, serve as additional non-tariff barriers that disproportionately affect American companies. Europe's Carbon Border Adjustment Mechanism (CBAM) targets imports of emissions-intensive goods such as steel, aluminum, fertilizers, hydrogen, and cement that was introduced in 2023 provides but one example.[26] By 2026, foreign producers will be required to pay a carbon price equivalent to what EU manufacturers face under the EU Emissions Trading System (ETS) unless they can prove an equivalent carbon cost was incurred in their home jurisdiction.[27] Because the United States does not have a national carbon pricing system, U.S. exporters – particularly in the steel, chemicals, materials, and energy sectors – will bear the greatest costs of CBAM compliance, putting them at a competitive disadvantage in the European market. In the agricultural sector, longstanding EU bans on products treated with growth hormones or GMOs – despite approval by U.S. and international regulatory bodies – effectively bar entry for many American meat and grain producers, while European counterparts face no such restriction in exporting to the U.S. market.[28]

Europe continues to free-ride on U.S. pharmaceutical spending. According to the Executive Order on "Delivering Most-Favored Nation Prescription Drug Pricing to American Patients," issued on May 12, 2025, "the United States has less than five percent of the world's population and yet funds around three quarters of global pharmaceutical profits. This egregious imbalance is orchestrated through a purposeful scheme in which drug manufacturers deeply discount their products to access foreign markets, and subsidize that decrease through enormously high prices in the United States."[29] Many developed countries, particularly in Europe, use policy measures such as price controls and centralized drug price negotiations to sharply limit what they pay for prescription drugs. The result is that European prices for prescription medications are often a small fraction of U.S. prices for the same medicines, and pharmaceutical companies rely disproportionately on the U.S. market to recoup research and development costs and earn profits, leading to significantly higher prices for American patients and taxpayers. This dynamic has turned America into the primary underwriter of global drug innovation, allowing Europe to free-ride on American healthcare spending.

Europe has also launched a series of attacks on U.S. tech companies, allegedly to advance "fair competition." U.S. leaders including Google, Apple, Meta, and Amazon have faced an onslaught of investigations, fines, and new compliance burdens under the EU's increasingly aggressive antitrust and digital regulation regimes. Google, for example, has been fined more than EUR eight billion across multiple competition cases on the grounds that it abused market dominance. Amazon has also been targeted by EU competition authorities for its logistics dominance and use of third-party seller data, and faces ongoing scrutiny.[30] The EU's 2022 Digital Markets Act (DMA) and the Digital Services Act (DSA), sweeping efforts to ensure "fair competition" in the digital economy, serve as another avenue of attack. Both acts have disproportionately affected large American companies. The DMA targets "gatekeepers" – Alphabet, Amazon, Apple, Amazon, Meta, and Microsoft, as well as China's ByteDance – by prohibiting them from favoring their own products or services over others and requiring them to open up access to parts of their platforms to allow smaller businesses to compete. None of these requirements have so far been applied to any European company. Penalties for violations are severe: under DMA, the European Commission can impose fines of up to 10 percent of a company's net worldwide revenue, and up to 20 percent should there be repeated infringements.[31] Simultaneously, the DSA establishes a framework to make online platforms safer, more transparent, and more accountable – again placing the heaviest burdens on "very large online platforms" (VLOPs), almost all of which are, once more, American.[32] The stated goal, as described by the European Commission, is to "prevent illegal and harmful activities online and the spread of disinformation."[33] Penalties are similarly severe, with fines of up to six percent of a company's global revenue possible for breaches of DSA.[34]

The digital services taxes (DSTs), implemented by several EU member states starting in 2019, marked an early front in what has become a broader regulatory offensive against American industry. DSTs capture revenue from large digital platforms – primarily U.S. tech firms such as Google, Amazon, Apple, Meta (Facebook), and Microsoft – that generate substantial income from European users without maintaining a physical presence in the EU. These taxes are typically levied as a percentage of gross revenue, and apply to activities such as online advertising, digital intermediation, data transmission, and video streaming. Although not adopted at the EU level due to opposition from smaller states and concerns over trade retaliation, more than ten EU member states have implemented or proposed DSTs as of July 2025, including France, Italy, Spain, Austria, and Belgium, with others such as Germany considering similar proposals. According to one industry estimate, these taxes cost U.S. companies more than USD 9 billion from 2020-2024.[35] DSTs have fueled tensions between Brussels and Washington, and prompted the U.S. Trade Representative to investigate whether DSTs constitute unfair discrimination under international trade law and, more recently, led to the Administration addressing DSTs in trade negotiations.[36] Though narrower and framed as tax policy, DSTs have paved the way for the more comprehensive, ideologically driven regulations that have followed.

PSYCHOLOGICAL DRIVERS OF REGULATORY IMPERIALISM

A combination of insecurity and a sense of superiority drives Europe's economic attacks on America.

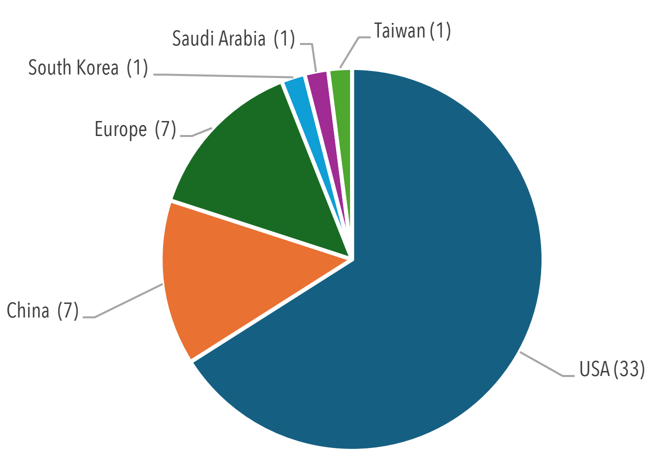
Nearly bereft of large, successful companies, and unwilling to undertake the reforms that could facilitate their emergence, Europe has chosen to constrain rather than compete with America's commercial champions. Among the world's 50 largest companies by market capitalization, the overwhelming majority – 33 – are American; only seven European companies make the list.[37] The discrepancy likewise appears in the tech sector: of the top 50 global tech companies by market capitalization, 33 are American and only four are European.[38] It is no coincidence that Europe's attacks began in the tech sector and later expanded to include other sectors: Europe's decline in global tech leadership began earlier than – and likely contributed to – its setbacks in energy, manufacturing, and telecommunications.

America's economic dominance over Europe – particularly in the tech sector – induces anxiety among European countries. French President Emmanuel Macron warned in 2019 that "the battle we're fighting is one of sovereignty… if we don't build our own champions in all new areas – digital, artificial intelligence – our choices… will be dictated by others."[39] An author of a 2024 French government report on the state of technological development in the EU echoed these concerns, arguing that "the challenge [facing Europe] is one of digital sovereignty, [for Europe] to avoid becoming a mere digital colony."[40] Germany's former Minister for Economic Affairs and Climate Action Robert Habeck shared similar views earlier in 2025: "Why don't we have a German or European communication platform of our own? … We cannot be dependent on Chinese algorithms or Elon Musk's far-right fantasies when it comes to shaping our democracy."[41] Yet even as European leaders allege American intrusions upon their nations' sovereignty, Europe is waging its own war on American sovereignty, seeking to export its norms, standards, and regulatory requirements.

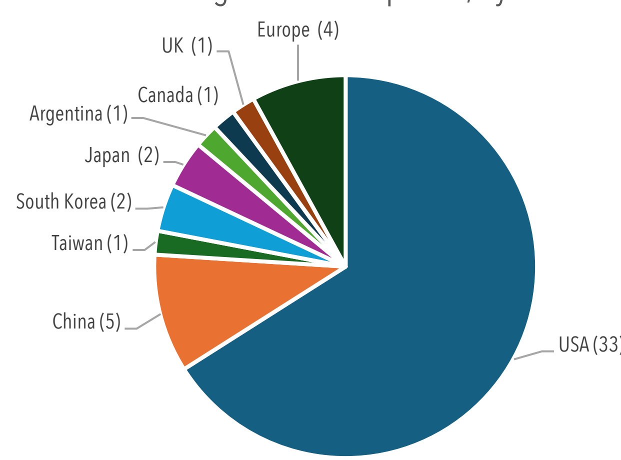
Europe's failure to produce global champions stems in part from Europe's political and institutional structure. The single market that the EU was intended to create remains deeply fragmented in practice. Regulatory complexity across what is now 27 member states hampers the scale and speed necessary for innovation-led growth. Companies seeking to grow or operate across borders still face a patchwork of national regulations, tax regimes, labor laws, and data governance rules – making it far more difficult to scale rapidly across the Continent than it would be across the unified American market. This is evidenced by the fact that while Europe has struggled to generate true global champions capable of competing head-to-head with American or Chinese giants, it has cultivated a strong ecosystem of resilient mid-size companies, such as Germany's Mittelstand. Moreover, Europe's cultural orientation toward precaution, consumer protection, and consensus governance often stifles the risk-taking, speed, and aggressive scaling that has underpinned the success of American and Chinese businesses.

The EU appears unlikely to undertake necessary reforms. Despite recognizing the strategic need for digital sovereignty, the bloc remains constrained by internal fragmentation, risk-averse policy culture, and a regulatory environment that is not conducive to scaling. Ambitious initiatives like Gaia-X – envisioned as a European alternative to American cloud giants – have struggled with delays, over-governance, and lack of market adoption.[42] Efforts to consolidate

World's 50 Largest Companies, by Market Cap



World's 50 Largest Tech Companies, by Market Cap



European semiconductor capacity, such as the European Chips Act, remain far behind U.S. and East Asian counterparts in both funding and execution. Meanwhile, industrial policy remains largely national in scope: Germany protects its auto sector and France protects its aerospace industry, for example, but coordinated EU-level investment in digital platforms or AI ecosystems is rare. Regulation has become a substitute for comprehensive reform, and it is therefore perhaps unsurprising that the EU has resorted to non-tariff barriers to attack the United States.

Expansive regulatory influence – and the self-ascribed moral authority that accompanies it – ultimately provides Europe with a means of maintaining global relevance despite lacking the economic strength or military power typically required to shape international affairs. Rather than retreating from the global stage, the EU has reinvented itself as a normative power, exercising influence by exporting rules, standards, and values. Non-tariff barriers, furthermore, not only allow the bloc to avoid dealing with WTO rules around tariffs but are also naturally aligned with European cultural preferences for technocratic governance, consensus, and normative power. Framed as protections for privacy, sustainability, or consumer welfare, EU regulations allow Brussels to pursue economic objectives while still presenting itself as a principled actor. This approach aligns with Europe's postwar political culture more broadly: cautious, process-driven, and consensus-oriented.

While the EU's "regulatory imperialism" has a truly global character to it, America is a disproportionate target – especially in contrast to China, which Europe continues to court. Well-meaning American companies are likely to comply with EU mandates such as CS3D, in keeping with America's typical literalism and regard for the rule of law. It is difficult to envision, however, any kind of rigorous compliance from major Chinese companies.

Pro- and anti-Brexit protestors outside the Palace of Westminister (2019, Credit: ChiralJon CC BY-2.0).

A TROUBLED OUTLOOK FOR EUROPE

The EU today faces profound and growing political fragmentation. Once envisioned as an ever-closer union, the bloc now grapples with internal divisions that threaten its cohesion. The rise of nationalist and Euro-skeptic parties across the EU – Italy's Brothers of Italy, France's National Rally, Germany's AfD, Hungary's Fidesz, and the Netherlands' Party for Freedom – reflects a deep disillusionment with centralized governance from Brussels. These movements reject core tenets of the EU project, including shared sovereignty, open borders, and supranational authority.

The EU's expansive regulatory regime coincides with looming demographic and economic challenges. As the Draghi report warns, the era of population-driven economic growth is ending, requiring the EU to rely upon increased productivity to sustain growth: "The EU is entering the first period in its recent history in which growth will not be supported by rising populations. By 2040, the workforce is projected to shrink by close to 2 million workers each year. We will have to lean more on productivity to drive growth. If the EU were to maintain its average productivity growth rate since 2015, it would only be enough to keep GDP constant until 2050 – at a time when the EU is facing a series of new investment needs that will have to be financed through higher growth."[43] The costs of these new investment needs, including digitalizing and decarbonizing the economy and increasing defense capabilities, are enormous: the report estimates that these goals would require "the investment share in Europe... to rise by around 5 percentage points of GDP... This is unprecedent for comparison, the additional investments provided by the Marshall Plan between 1948-1951 amounted to around 1-2% of GDP annually."[44]

Yet even amidst political splintering, looming demographics, and faltering economic growth, the EU's regulatory apparatus has become stronger and more assertive. Regulation appears to be filling the vacuum left by political unity, as it becomes one of the few tools left through which the EU can project power. As the European Commission's 2024 Draghi report notes, between 2019 and 2024, the EU passed 13,000 legislative acts; the U.S. Congress adopted 2,000 regulations and 3,500 laws.[45] Facing diminished economic leverage and growing geopolitical irrelevance, Brussels is increasingly turning to regulation not just to protect its values but to exercise power on the global stage. As the EU struggles to act as a unified political bloc, it is more likely to compensate by governing through rules that bind member states, constrain foreign companies, and attempt to shape global standards.

At its heart, the regulatory battles between the United States and Europe are a competition over who determines the direction of the West.

On the American side, there is a deep sense of betrayal, grounded in the belief that Europe is no longer a reliable partner in upholding the shared civilizational foundations that once bound the transatlantic alliance. This sentiment was made plain by Vice President JD Vance during his remarks at the 2025 Munich Security Conference: "what I worry about is the threat from within, the retreat of Europe from some of its most fundamental values – values shared with the United States of America."[46] Such statements reveal the growing perception in Washington that Europe is drifting – morally, culturally, and even spiritually – away from the West's core principles: free expression, democratic resilience, and national sovereignty. While the U.S. continues to invest heavily in Europe's defense and economic security, many American leaders see their counterparts in Brussels as preoccupied with bureaucratic conformity, regulatory excess, and moral relativism – sometimes more willing to appease autocracies than to defend traditional Western ideals. With the United States underwriting European security for so long, the EU's position is not surprising: it is far easier to adopt utopian, idealistic visions of a future society when the practical realities of maintaining today's society can be outsourced.

From the left-of-center European perspective, however, the growing regulatory divide with the United States is a consequence of America's perceived failure to adapt Western values to fit the 21st century. For many European policy makers, the turn toward stronger regulations on data privacy, sustainability, labor rights, and corporate power is not evidence of moral drift but of moral leadership – an effort to uphold human dignity, social responsibility, and democratic accountability in an age of digital disruption and economic inequality. Far from abandoning the West's foundations, European leaders see themselves as preserving its ethical core, especially in areas where they believe the United States has grown too permissive, including corporate surveillance, environmental degradation, and market absolutism. Many in Brussels would argue that it is not Europe but America that is drifting away from Western ideals and regressing towards 20th-century-style populism. Economic clashes between the United States and Europe are therefore, at their core, not about economics but about the direction of Western civilization itself.

The EU's effort to export its moral values beyond its borders increasingly mirrors that of America's top adversary: China. U.S. companies with a footprint in China have been under pressure to self-censor even within the United States – including by not listing Taiwan as a separate country on their websites and to – to avoid CCP backlash. Beijing's behavior has contributed to a steady retreat of U.S. firms from the Chinese market, as the costs of compliance outweigh the advantages. A similar dynamic looms in Europe. While not yet as acute, the EU's expansive regulatory regime risks turning values-based regulation into a barrier to normal commercial exchange. Yet unlike China, Europe's regime is still in its early stages – and recent delays suggest there is time for moderation. There is a window – albeit a narrowing one – for U.S. policy makers to shield American industry from Europe's regulatory imperialism before the latest crusade from Brussels takes effect.

RECOMMENDATIONS

AVENUE ONE: EXECUTIVE BRANCH

The White House should direct an interagency effort – led by the Department of Commerce and supported by the U.S. Trade Representative and the State Department – to quantify the direct and indirect costs of CS3D compliance. There is currently a lack of publicly available, detailed estimates for how CS3D will impact U.S. industry. The lack of these estimates has led to less scrutiny of CS3D than is merited. In today's data-driven society, numbers and statistics are incredibly influential: for CS3D, quantifying costs will therefore make the problem more "real" to key stakeholders. These estimates are an essential foundation for the United States government to push back against CS3D, and a key first step to pursuing many of the other recommendations detailed in this section.

In the event of future adjustments to the US-EU trade deal, the White House could seek greater commitments from the EU on CS3D and CSRD. As outlined in the August 2025 Framework Agreement, the EU made commitments to reducing the burdens of CS3D and CSRD in July's US-EU trade negotiations.[47] Yet many of these commitments appear primarily theatrical in nature, referring to changes already outlined in the Omnibus package and under debate in the EU. The recent example of President Trump making Canada's digital services tax a top issue, worthy of suspending negotiations over, shows the potential for U.S.-EU trade negotiations to bring about the repeal of CS3D and CSRD. Even without a finalized trade deal, Prime Minister Mark Carney acquiesced and rescinded the planned launch of Canada's DST.[48] While President Trump made the repeal of DST a top priority, it appears that securing this concession has not come at the expense of broader goals. The sway of the U.S. market gives the Administration leverage to push back on extraterritorial taxes and regulations, enabling President Trump to pressure the EU on CS3D and CSRD without sacrificing other priorities.

The Trump Administration could formulate a reciprocal tariff based on CS3D costs. If efforts to dissuade the EU from moving forward with CS3D stall, the Trump Administration can use estimated CS3D compliance costs to create a reciprocal tariff on EU imports. Similar to other conditional tariffs President Trump has implemented (e.g., tariffs on Colombia to force acceptance of deportation flights), this would remain in place until the negative impacts of CS3D are mitigated.

The Trump Administration could threaten to adjust U.S. defense commitments in Europe based on compliance costs and penalties assessed to U.S. companies. The Trump Administration has already leveraged Europe's reliance on America's security umbrella to push NATO to increase current defense spending and long-term defense spending targets.[49] Threatening to adjust U.S. defense commitments in Europe based annual assessments of the CS3D-related costs borne by U.S. businesses could tap into this source of leverage to force the EU to change course.

The Trump Administration could bring CEOs of major American multinationals into trade negotiations. During President Trump's May 2025 trip to the Middle East, he successfully facilitated bilateral investment deals by bringing along top business executives. A similar approach while

President Trump meets with the Secretary General of NATO, Mark Rutte, in the Oval Office on March 13, 2025 (Credit: The White House, public domain).

countering CS3D would both emphasize the scope of its economic impacts and the U.S. government's interest in American businesses' ability to engage in international commerce.

The Administration could list CS3D in the USTR's annual National Trade Estimate report (NTE), which lays out the foreign trade barriers U.S. companies face. Inclusion of CS3D in the NTE would formally elevate the directive as a trade concern and lay the groundwork for bilateral and multilateral engagement. Given CS3D's extraterritorial reach, vague legal standards, and potential for disproportionate impacts on U.S. companies, listing it in the NTE would signal strong U.S. opposition and prompt more detailed interagency analysis. It would also create pressure on the European Commission and EU member states to clarify enforcement practices, moderate the most burdensome implementation measures, and potentially consider carve-outs or adjustments for trusted foreign partners. This designation could further support eventual WTO consultations or trade retaliation, if warranted, while strengthening the Administration's ability to negotiate favorable terms for U.S. firms through diplomatic and trade channels. Work for the 2026 report will begin in September or October of this year.[50]

AVENUE TWO: LEGISLATIVE BRANCH

Policy makers can pass legislation restricting U.S. companies from complying with CS3D. The PROTECT USA Act of 2025 is already trying to do this, by prohibiting entities "integral to the national interests of the United States" from complying with CS3D.[51] However, it was referred to the Committee on Foreign Relations in March and no related actions have occurred since. Moving this bill forward would apply pressure on the EU and its member countries to either pause, amend, or limit the scope of CS3D. Alternatively, an executive order barring U.S. companies from complying would be an immediate means to pressure the EU to pull back.

This approach is the most effective way to confine CS3D's effects to EU jurisdictions and has strong precedent: in 2012, Congress passed a bipartisan law preventing U.S. airlines from complying with EU emissions regulations.[52] The law, spearheaded by Senator John Thune (R-SD), prohibited U.S. airlines from participating in the European Union's Emissions Trading System (EU ETS), which would have imposed a carbon tax on flights into and out of EU airspace. There is a strong basis for CS3D pushback to receive bipartisan support: the impacts of CS3D will ripple beyond large multinational firms to tier 1 and tier 2 suppliers in manufacturing, agriculture, and logistics, among other sectors – politically powerful labor constituencies. This makes it possible to mobilize pro-union Democrats and other traditionally regulation-tolerant lawmakers against CS3D on the grounds of job loss, supply chain disruption, and regulatory overreach.

There is also precedent on the European side for such actions: the EU itself has had no qualms about retaliating against perceived extraterritorial encroachments by the United States. The EU Blocking Regulation, first issued in 1996 and updated in 2018 and 2021, "protect[s] EU operators from the extra-territorial application of third country laws."[53] Two pieces of U.S. legislation are specified: U.S. sanctions against Cuba and Iran. Similarly, the Enforcement Regulation, which entered into force in 2021, empowers the European Commission to suspend or withdraw trade concessions – and even block foreign entities from public procurement or IP rights – in response to "breaches by third countries of international trade rules that affect the EU's commercial interests."[54]

AVENUE THREE: EU MEMBER STATES

The U.S. government can support litigation within the courts of EU member states that challenge national implementation of CS3D. Because CS3D requires transposition into domestic law, each country's version of the directive may be vulnerable to challenge under national legal frameworks. Legal actions could argue that national measures exceed what is necessary to achieve CS3D's aims, or that the EU has overstepped its authority relative to national governments. While it cannot directly fund lawsuits, the U.S. government – particularly the State Department, the Commerce Department, and USTR – can provide diplomatic backing, research, and technical guidance to support these efforts.

If Brussels forges ahead, the Trump Administration can appeal directly to member states. Since EU member states will be the ones who enforce CS3D, the Trump Administration can take a bespoke approach to discourage aggressive implementation of CS3D. Germany's coalition agreement between the CDU/CSU and SPD, for example, included a compromise on CS3D that called for a repeal of a domestic due diligence law, the German Supply Chain Act, in exchange for implementing CS3D with less bureaucracy and a focus on practical enforcement.[55] With Chancellor Merz's opposition to CS3D already stated, this compromise represents a model for EU center-right leaders looking to provide immediate clarity for U.S. and European companies worried about costs associated with CS3D. Pressure from the Trump Administration would only accelerate the EU's shift toward deregulation.

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