

# MONITORING ESG

## Supply Chain Act Germany, EU & Global

2022/08



The human rights impacts of global supply chains are clear: the use of precarious and informal employment is expanding at a rapid rate. Workers, especially migrant workers, are becoming ever more vulnerable, subject to a raft of human rights violations at the hands of their employers.

This vulnerability has been further compounded by rising inequalities within borders, by the devastating effects of the COVID-19 pandemic, as mentioned by the Minister, and by shrinking civic space.

Instead of sitting back and watching, we have a window of opportunity. There could not be a more important moment for the G7 and other key international actors to demonstrate vision and leadership.«

Michelle Bachelet, UN High Commissioner for Human Rights  
[Link](#)

# THE SUPPLY CHAIN DUE DILIGENCE ACT – MORE HARM THAN GOOD?

Social and economic development is moving in one direction: more sustainable, more social, more ecological. Even without a new law, corporate sustainability is scrupulously observed - at least externally. Misconduct can damage the company's reputation and thus its development. However, it becomes problematic if rules are not clearly defined and are vague - the major weakness of the Supply Chain Act (LkSG). The challenge will be to analyze one's own supply chains individually and, above all, to adapt to the changes in good time.

## In Germany

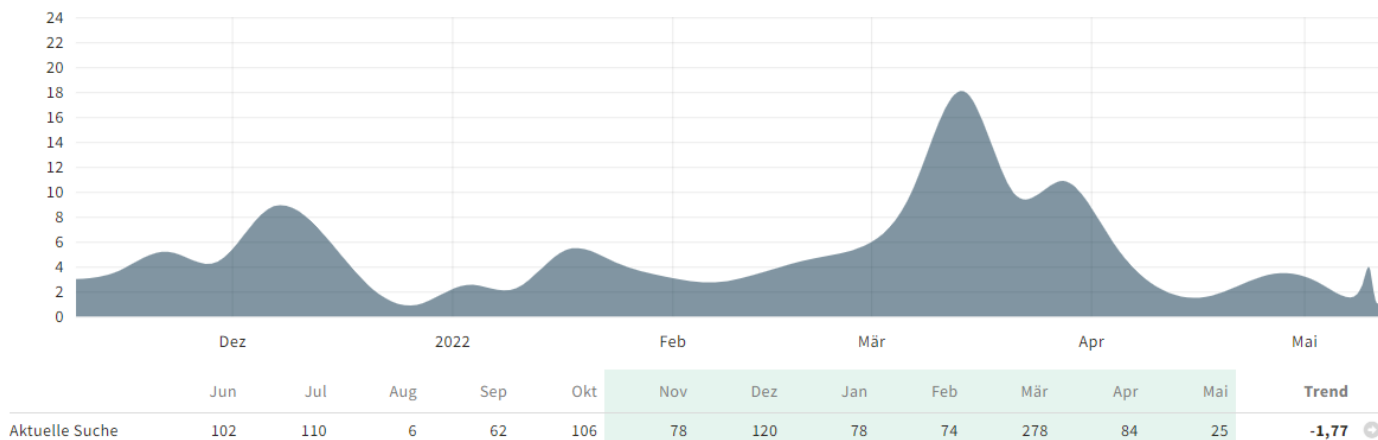
From 2023, the LkSG will affect partnerships and corporations under German and foreign law that are based in Germany and also have more than 3,000 employees. This includes more than 600 companies. From 2024, companies with more than 1,000 employees (2,891 companies) will also be affected. The due diligence requirements set out in the law include establishing a risk management system and conducting a risk analysis, adopting a policy statement of corporate human rights strategy and enshrining preventive measures. These must be implemented by the companies. In addition, there is a documentation and reporting obligation for the fulfillment of due diligence obligations, which will result in higher bureaucratic costs for many companies. Implementation is monitored by the BAFA (Federal Office of Economics and Export Control), and non-compliance can result in fines of up to 800,000 euros. Depending on the size of the company, the fines can even go as high as two percent of global sales. According to the German Federal Ministry of Labor and Social Affairs, this results in an estimated increase in annual compliance costs for industry of around 43.47 million euros. Of this, around EUR 15.14 million is attributable to bureaucratic costs. Small and medium-sized enterprises will not be directly affected by the project. However, indirect effects are to be expected in the supply chains.

## In Europe

At the European level, the EU Supply Chain Directive, a Commission draft, was published on February 23, 2022. Initially, this will have no immediate effect on member states, as it must first be approved by the European Parliament and Council as a next step. This is expected to happen this year, one can typically expect the draft to be watered down. In its current version, however, the directive would lead to a tightening compared to the German law. This is because the scope not only covers the protection of human rights, but also includes environmental and climate protection. Here, the directive is based on international treaties such as the Paris Climate Agreement. The scope of application will also be narrower. Companies with 500 or more employees and net sales of 150 million euros would be affected. In the case of companies that generate 50% of their sales in the food, raw materials or textile sectors, which are considered particularly critical, the directive will already apply from 250 employees and net sales of 40 million euros. In the event of a violation, the directive leaves the amount of the fine in the hands of the member states. However, it does provide for the possibility of civil actions and thus the payment of damages.

## Sophie Spilker

Junior Project Manager



Shows the relevance and trend (+0,10) of the topic "Act on Corporate Due Diligence in Supply Chains" in the EU in the last three months

# GERMANY & EU

## The Act on Corporate Due Diligence Obligations in Supply Chains

“The Act on Corporate Due Diligence Obligations in Supply Chains (Gesetz über die unternehmerischen Sorgfaltspflichten in Lieferketten) was published in the Federal Law Gazette on 22 July 2021 after completion of the parliamentary procedure. This is the first time the responsibility of German enterprises to respect human rights in global supply chains has been put on a legal footing.”

July 2021 – BMAS  
[Link](#)

## Supply Chain Compliance Is About To Get A Whole Lot Tougher

“In January 2023, the Germany Supply Chain Due Diligence Act will come into effect, requiring businesses to monitor supply chains for human rights violations and compliance with environmental standards.

There has been supply chain legislation before whose goal was focused on making sure various aspects of ESG (Environmental, Social, & Governance) performance were enforced by companies. But, as Abigail Myers-Antiaye - the principal product compliance manager at Coupa - pointed out in a presentation at Coupa Inspire last week, supply chain practitioners have never seen compliance legislation that was so broad and impactful.”

21 April 2022 – Forbes  
[Link](#)

## German Overshoot Day: 'We cannot continue like this'

“It is only the beginning of May, but already Germany's [Overshoot Day](#). In other words, per person, the country has used as much from nature in just over four months as can be regenerated in the space of a year.

If people across the world lived like those in Germany, we would need three planets to cater to them. Though clearly, we only have one.

“That should be an alarm signal to remind us of the gravity of the situation,” said Lara Louisa Siever, senior policy advisor for resource justice at the German development network INKOTA. “It's a wakeup call to all of us citizens, but also politicians and industry, that we cannot continue like this.”

4 May 2022 – DW  
[Link](#)

## Comply or disengage, businesses ask after proposal of due diligence law

“The German supply chain law is similar to the EU's due diligence directive, but the EU's directive is stricter and more far-reaching in some aspects than the current German model. If, instead of trying to improve the conditions in their value chain, European companies simply withdraw their investments from and cut their business ties to countries that seem risky, this could be detrimental to the economic development of these countries.”

25 February 2022 – Euractive  
[Link](#)

## Just and sustainable economy: Commission lays down rules for companies to respect human rights and environment in global value chains

“Today, the European Commission has adopted a proposal for a Directive on corporate sustainability due diligence. The proposal aims to foster sustainable and responsible corporate behaviour throughout global value chains. Companies play a key role in building a sustainable economy and society. They will be required to identify and, where necessary, prevent, end or mitigate adverse impacts of their activities on human rights, such as child labour and exploitation of workers, and on the environment, for example pollution and biodiversity loss.”

23 February 2022 – European Commission  
[Link](#)

## Supply Chain Law in the EU: Close Your Knowledge Gap

“Why is there a supply chain law?

In global trade, companies harm the environment and exploit people. This happens in the course of global value and supply chains and has been accepted until now, also because of its low controllability due to the distance to e.g. low-wage countries. This is because what is beyond the control of companies cannot be claimed via product liability.”

9 May 2022 – Salodooblog  
[Link](#)

## European Supply Chain Act: 'No more Rana Plazas!'

“Back in 2013, the eight-story Rana Plaza textile factory in Bangladesh's capital Dhaka collapsed, killing 1,134 people and leaving at least twice as many injured. The factory produced textiles mostly for European and US companies. Despite several inspections just a few months before the collapse, no deficiencies were found. The collapse has made it clear that voluntary commitments by multinational corporations are disastrously dysfunctional. Rana Plaza prompted a global outcry over exploitation, working conditions, and duties of multinationals.”

22 April 2022 – IPS  
[Link](#)

## EU: Disappointing Draft on Corporate Due Diligence

“The European Commission's new corporate due diligence [proposal](#) needs significant improvements to prevent and address human rights abuses and environmental harm, including in companies' global supply chains, Human Rights Watch said today. The bill is under the scrutiny of the European Parliament and Council, as co-legislators are tasked with amending and eventually adopting the final text. Legislators should ensure that the proposed directive covers more small and medium-size companies and extends due diligence requirements to all businesses in their supply chains, in line with international norms on business and human rights.”

28 February 2022 – Human Rights Watch  
[Link](#)

# GLOBAL

## Welcome to the new floor for supply chains

"The current state of supply chain disruptions has created a new floor across all supply chains due to multiple shifts in several key forces. These range from deglobalization to the relationship between labor and productivity as well as climate change and inflation. These shifts have brought on significant changes that are not likely to allow supply chains to return to "normal."

28 April 2022 – SupplyChain  
[Link](#)

## Climate sustainability in retail: Who will pay?

"The UN Climate Change Conference in Glasgow (COP26) served as a global reminder of the uphill battle to meet the world's decarbonization commitments by 2050. Businesses will play a major role in a lasting climate solution, meaning any chance for progress will require every industry to mobilize. Retail was late to the party, but it has begun to make up for lost time. In 2016, there were only a small handful of major retailers—including Walmart—with a science-based target to reduce carbon emissions. Just five years later, more than 65 global retailers set such targets, and the number is more than doubling each year."

4 May 2022 – McKinsey  
[Link](#)

## Four Crucial Questions to Ask Your Materials Supplier to Mitigate Supply-Chain Uncertainty

"As supply-chain disruptions rise in frequency and severity around the globe, procurement professionals in the plastics industry, from those working with masterbatchers to those working with processors, must plan for the worst. Major events have significantly disrupted the availability of materials in nearly every industry. Ongoing freight shipping issues, labor shortages, and natural disasters have put additional pressure on supply chains that were already hammered by the COVID-19 pandemic."

4 May 2022 – Plastics Today  
[Link](#)

## Combating Global Social Injustice Through Supply Chain Transparency Tech

"The global increase in regulations makes visibility of the supplier and vendor base a high priority, requiring quick mitigation strategies. Investments in vendor and supply chain risk transparency are critical, in response to the modern-day speed of information and impact of social media. A negative post can go viral around the world in hours. All these factors mean that organizations need to invest in systems and processes that provide transparency and insight into their vendors and supply chains. A recent global market study of over 300 risk management professionals by Exiger and Stax Inc. found that 77% of large companies saw the need to monitor risks of suppliers down to Tier 3 or deeper."

10 May 2022 – SupplyChain  
[Link](#)

## Sustainable Manufacturing Must Balance Profitability, People And The Planet

"Sustainability and environmental protection are becoming increasingly important to customers, shareholders, regulatory bodies and employees. This often manifests itself on company websites as part of a mission statement or corporate values where big commitments are being made when it comes to reducing carbon emissions, waste, and inequality across businesses and supply chains.

And no manufacturing company can claim to be sustainable without [sustainable supply chain](#) and manufacturing processes. These include socially responsible design practices, ethical sourcing, sustainable manufacturing and [logistics practices](#), and safe maintenance and services."

25 April 2022 – Forbes  
[Link](#)

## 7 Steps For Delivering Net Zero Supply Chains

"The need to mitigate climate change has never been clearer; the same cannot be said of the 'how'. The challenge is too big for governments to tackle alone and, with global supply chains accounting for as much as 80% of total carbon emissions, there's a real need and expectation for businesses to get involved. It's why COP26 pivoted and brought the private sector from the fringes of previous summits to join centre stage."

14 April 2022 – CITI  
[Link](#)

## Supply Chains Flare Up Again, Endangering Global Recovery

"Global supply chains are knotting up [from China](#) to Denmark, sparking re-examinations of things as macro as globalization itself and micro as trucking efficiency around American ports.

As for the big picture, the intertwined world economy took decades to stitch together and will take years to play out, however it evolves. In the meantime, economists are squinting to see the more granular, short-term shifts that the pandemic and Russia's war in Ukraine are forcing on consumption, investment, production and trade."

2 May 2022 – Supply Chain Brain  
[Link](#)

## Fashion is stalling on climate. Suppliers are trying to act

"Brands have goals for sustainability, but are far from meeting them. With the bulk of the fashion industry's footprint generated in the supply chain, from farmers to manufacturers, a supplier-led conference this week could offer a roadmap for closing that gap.

Fashion labels rarely own or directly oversee their supply chain, from raw material sourcing to fabric production. That means the work of meeting climate goals, which brands are increasingly ambitious and public about, needs to happen at a level they don't directly control."

12 May 2022 – Vogue Business  
[Link](#)

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