

Is Your Company Ready

FOR THE

German Supply Chain Act ?

(Lieferkettensorgfaltspflichtengesetz LkSG)

What is it?

The German Supply Chain Act has introduced a new legal standard for companies established in Germany and abroad designed to protect people and the environment connected to global supply chain operations. The LkSG is the latest Act in a series of rolling regulations companies must follow in order to demonstrate corporate social responsibility and the protection of human rights. Companies must comply with the standards outlined in the German Supply Chain Act or face financial penalties and fines up to 2% of annual revenues and exclusion from public tenders for up to three years.

The Federal Office for Economic Affairs and Export Control (BAFA) has been clear in its authority and intent to audit companies in relation to the LkSG. This is a significant difference from other regulations such as the Dutch Child Labour Due Diligence Law or the French Corporate Duty of Vigilance Law, which provides the governing bodies with little to no independent auditing authority. As such, companies should be prepared to show proof of action, and the criteria according to which it assessed the risks and took its measures.



Who is it for?

The LkSG applies to companies with more than 3000 employees that have their central administration, their principal place of business, their administrative headquarters, or their statutory seat in Germany (employees posted abroad are included in this number). Additionally, the LkSG also applies if a company has a branch office Germany, and more than 3,000 workers physically located in Germany. The law covers companies operating in all sectors, including manufacturing, agriculture, mining, and construction.

If your company supplies goods or services to Germany, it's important to be aware of the requirements of the Lieferkettengesetz (LkSG), or German Supply Chain Act. Businesses that supply to a large German company will likely have to send and track large amounts of detailed ESG data to their German customers in order to keep doing business with them. As such, having a centralized repository of your human rights and ESG information as well as efforts taken to remedy risks or violations will be necessary for continued business in Germany.

What will it achieve?

The LkSG is an important step forward in the fight against forced labor and other abuses in global supply chains. It is an interesting addition to the growing global body of legislation aimed at ensuring that companies take responsibility for their supply chains. The law serves as a reminder that businesses have not only moral but also legal obligations when it comes to human rights and environmental protection, for which they will be held accountable.

The LkSG is also a reminder that the German government is taking action on this issue. In recent years, the government has been criticized for not doing enough to combat forced labor and other abuses in global supply chains. The LkSG shows that the government is committed to addressing these problems, and that it is willing to hold companies accountable for their role in them.

What are businesses required to do?

1



Establish a risk management system

Zero tolerance policies, vendor agreements, and supplier questionnaires will not suffice. The law requires active monitoring and mitigation. This is why FRDM was created. With our comprehensive vendor mapping and risk modeling, FRDM uses your spend data to trace and risk assess suppliers up to end tiers. Most supply chains are too large for burdensome hand collection of data.

2

Designate a responsible party

This is an entirely internal decision that your organization must make. This officer should be responsible for all monitoring of suppliers, risk mitigation efforts, and reporting on effectiveness. Sorry we can't help you choose this person, but we look forward to working with them.



3



Conduct regular risk analysis

Questionnaires alone won't work. FRDM's monitoring and mapping features allows you to continuously monitor your supply chain at every level.

4

Adopt a policy statement

Policy statements require more than words and standards. The LkSG, and forthcoming EU law, require companies to meaningfully engage their suppliers. FRDM works with Fortune Global 500 companies helping them comply with multiple due diligence laws. We've also worked with governments and non-profit organizations worldwide. We are equipped to advise you on best practices for your policy statement work.



5

**Embed prevention measures**

You need to be demonstratively proactive in your risk management approach, measuring and mapping before a risk event occurs, and be able to produce proof of doing so. FRDM tracks all your risk mitigation activity and generates quarterly reports of prevention measures. All activity is archived and organized. FRDM is designed to help you get ahead of risk and collaborate with your suppliers.

6

Remediate violations

What should you do when you find a labor violation? Do you remove the supplier from your supplier base? Do you require training? Apply corrective measures? FRDM will guide your organization towards the appropriate action that will incentivize suppliers to implement measures in line with your company values.



7

**Set up complaints procedure**

Whistleblowing should be established by a third party and installed at the supplier level. You need to ensure suppliers are clearly communicating whistleblowing to its employees and contract labor. FRDM can assist by integrating data from multiple third party solutions into intuitive workflows.

8

Implement due diligence obligations for indirect suppliers

FRDM maps your indirect suppliers to your direct suppliers using proprietary supply chain mapping technology. We can also work with your suppliers to spot risky upstream sub-suppliers to identify sanctioned and high risk upstream suppliers.



9



Documentation and reporting

The LkSG requires 7 years of activity archives. Reports need to demonstrate empirical progress year over year. FRDM provides quarterly reports, ad hoc reporting, and archiving of all actions taken by your organization.

This is an issue that is not going away anytime soon, and it is important to be prepared. The LkSG is a step in the right direction, but it is only the beginning.

FRDM is here to help, so please don't hesitate to reach out if you have any questions.