

The German Supply Chain Due Diligence Act's Effect on Suppliers



The German Supply Chain Due Diligence Act (SCDDA) has introduced new obligations for numerous companies to scrutinize their supply chain and suppliers for any human rights or environmental violations. Standardized questionnaires typically include topics related to ESG strategy, human rights, occupational health and safety, environmental issues and supply chain management. These documents are further regularly used to gather relevant information from suppliers. This article discusses the most relevant questions suppliers will face from their business partners that need to comply with the SCDDA.

1. What happened so far?

The German Supply Chain Due Diligence Act (SCDDA) came into force on 1 January 2023, requiring companies with at least 3,000 employees in Germany to check their entire supply chain for violations of human rights and environmental concerns.

2. What are the SCDDA's main mechanisms?

The law is aimed at holding multinational corporations accountable for labour conditions in their supply chains, thus putting pressure on suppliers to improve their workers' employment conditions and comply with environmental standards.

The law imposes mechanisms to identify human rights and environmental violations and especially requires comprehensive

- risk analysis,
- risk management systems, and
- a published policy statement on the company's ESG compliance.

If the risk analysis or the risk management system gives cause for concern, preventive measures and remedial action must be taken. In any case a specific complaint procedure must be established.

The law also requires companies to publish and send annual reports to the relevant authorities to demonstrate compliance with these obligations.

Although the law initially applies only to companies with at least 3,000 employees, from January 2024 onward, it will expand to cover companies with 1,000 or more employees in Germany.

3. How are Suppliers affected by the SCDDA?

Suppliers are indirectly affected by the new law as their customers must ask them to comply with the increased requirements. Suppliers must thus establish transparency with regard to their own production and supply chain to identify where high risks of human rights violations and environmental concerns might exist.

Many companies use extensive standardized questionnaires to assess the risks and to identify potential violations. However, suppliers can face time pressure when completing these questionnaires because the necessary information is not always readily available. Such time pressure can be prevented by maintaining a regular collection of SCDDA-relevant information.

4. What are the recurring questions raised in the Due Diligence Process?

The recurring questions in the questionnaires can be assigned to the following topics:

- Basic data of the company,
- Strategy on ESG issues in general,
- Human rights,
- Occupational health and safety,
- Environmental issues, and
- Supply chain management.

a. Basic Data

Relevant basic data for each supplier includes

- the address,
- the number of (temporary) employees,
- the designation of affiliated companies,
- information on shareholders or owners and management bodies, and
- the industries or sectors to which a company belongs.

b. Strategy on ESG Issues

The strategy on ESG issues includes information on the supplier's general ESG strategy, e.g.

- whether there is a designated position/person dealing with ESG issues,
- whether the supplier regularly publishes reports on ESG and sustainability issues, and
- whether there is a code of conduct and related training for employees.

c. Humans Rights

Human rights-related questions cover

- how the responsibilities and accountabilities for respecting human rights are anchored,
- whether there are guidelines in this regard, and which human rights are covered by them, and
- how it is ensured that no human rights are violated.

d. Occupational Health and Safety

The Occupational health and safety-related questions relate to compliance with local occupational health and safety laws, company guidelines to ensure compliance, safety equipment and first aid measures available to employees, and whether employees are trained on a regular basis.

e. Environmental Issues

Environmental issue-related questions cover

- whether the consideration of environmental issues is covered by a policy,

- whether environmental issues are covered by a certified management system,
- which aspects are covered by it,
- whether employees are regularly trained on these issues, and
- whether the company has policies to reduce waste and emissions.

f. Supply Chain Management

In cases where the supplier relies on other suppliers (sub-suppliers), the supplier needs to address whether

- key suppliers,
- subcontractors,
- joint venture partners and other important business partners

are reviewed with regard to their commitment to social, human rights, environmental and human rights issues.

5. Conclusion & Outlook

In conclusion, the SCDDA imposes new obligations on many companies, which indirectly affects suppliers and the further elements of the supply chain.

To comply with the new requirements, companies must establish mechanisms to identify human rights and environmental violations, regularly conduct a comprehensive risk analysis, and introduce and maintain adequate risk management systems.

All suppliers must comply with the increased requirements placed on the supply chain and maintain a regular collection and documentation of SCDDA-relevant information.

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