The German Supply Chain Act – In a nutshell

**Applicable from 01.01.2023** for companies with 3,000+ employees and from 01.01.2024 for companies with 1,000+ employees. Irrespective of sector, revenue, legal form, headquarters location (i.e. applies to US-headquartered companies)

**Scope**
Human rights & environment along supply chain:
- Tier 1 (direct) suppliers
- Tier 2+ suppliers: obligations in case of substantial knowledge of violations
- Own business

**Consequences in case of non-compliance:**
- Fines of up to two per cent of the average global annual turnover
- Exclusion from public contracts

**Obligations:**
- Conduct and document risk analysis (suppliers and own business)
- Set up risk management system
- Define responsibilities, e.g. human rights officer
- Implement preventive measures
- Establish a complaints procedure
- Adopt a policy statement issued by management on the human rights strategy
- Take remedial action to prevent, stop or minimize infringements
- Prepare and publish an annual report on the fulfilment of obligations and measures taken (March 2024)

What you could learn from others

- Understand the requirements, be pragmatic initially, then evolve and mature. To start with:
  - Create a cross-functional team with sustainability, procurement and EHS experts, supported by legal and HR advice
  - Set up the required risk analysis method with assigned responsibilities for risk management
  - Process and content first, tools come second
  - Act locally but think globally, making use of existing processes, tools and templates within an overall integrated risk management approach
  - Align with your customers and suppliers, cross-check your industry associations and activities; remember that you are not alone in this
  - Design the implementation and application based on your organizational setup and your business
- Understand this law as another stepping stone on your ESG journey, and think ahead to related legislation like CS3D, CSRD, EU Taxonomy and EU Social Taxonomy
- Use a regional setup to cover overlapping rules centrally and cost-effectively (e.g. child labor regulations in different jurisdictions) to include legislation related to the Supply Chain Act in different jurisdictions, e.g. in the EU.
- Make use of this challenge to upgrade and professionalize your supplier evaluation and management with relevant ESG criteria; create impact by considering regulations and related cost and value drivers within an efficient holistic approach
- Inform and train both your external and internal stakeholders based on a clear ESG communication and change management strategy
What you should not miss

1. Risk analysis plays a significant role within the Supply Chain Act framework. It should be carried out annually and incident-based, internally as well as for all suppliers. We recommend the following approach:

2. Determine relevant risk indicators and indices in different categories
3. Gather and prepare master data
4. Run risk analysis and assess the total risk, internally and for your supplier base
5. Mitigate risks with defined preventive actions
6. Loop back lessons learned and improve the risk analysis continuously

Supplier evaluation and onboarding are sometimes neglected, with too much focus placed on regulatory compliance. There needs to be an integrated system of risk management that considers human and environmental rights as well as other criteria, alongside traditional evaluation drivers such as service level, quality, costs, business compliance or data security. What additional value does one supplier bring to your business based on environmental and human rights conditions compared to another supplier if those criteria are considered less?

For these processes, master data quality and IT capabilities are a must-have. As there are a plenty of professional IT tools in the market, we recommend to first running a simple risk analysis to understand the method requirements better, then defining the operating target model for your industry, organization, processes and IT landscape; and as a last step, screening the market for the best value IT tool support. Key functions that should be provided are:

- Integrated risk analysis and measures management
- Risk analysis and reporting
- Remedial actions management
- Transparency for industry types and countries

Learning from our client’s needs, we have developed tools specifically for the Supply Chain Act (DE), e.g. supplier risk analysis for semi-automated mass risk analysis of your supplier base. In this regard, we have also developed a fit-for-purpose app which digitizes the processes such as communication with suppliers, document collection (e.g. signed new supplier code of conduct). This will create efficiencies in the ongoing compliance process.

How we help you to get this right and get it done

Thanks to our profound understanding of the regulations, we keep business needs in focus, helping to create efficiency and impact while meeting the Supply Chain Act requirements. We guide you to successful and fast implementation, adapting organizational structures and competencies. Additionally, we are experienced in working with BAFA, the authority in charge of auditing compliance with the Supply Chain Act. We also bring vast experience to the table in assessing the right IT solutions based on your organizational requirements and IT capabilities. To do this we normally follow a traditional top-down approach; (I) reviewing your organization for Supply Chain Act gaps, supported by relevant stakeholder interviews and maturity screening (processes, documents, tools); (II) defining the necessary steps and actions with an implementation plan; and (III) finally supporting or driving the implementation.

Main takeaways

- Understand the required risk methodology first, then find the right IT solution for your business setup.
- The implementation can serve as basis for solid sustainability and supply chain risk management and lays the foundation for upcoming related legislation like CS3D, CSRD, EU Taxonomy and EU Social Taxonomy.
- Leverage your supplier management to save ESG-related costs on the top and bottom line while improving your investor relationship.

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