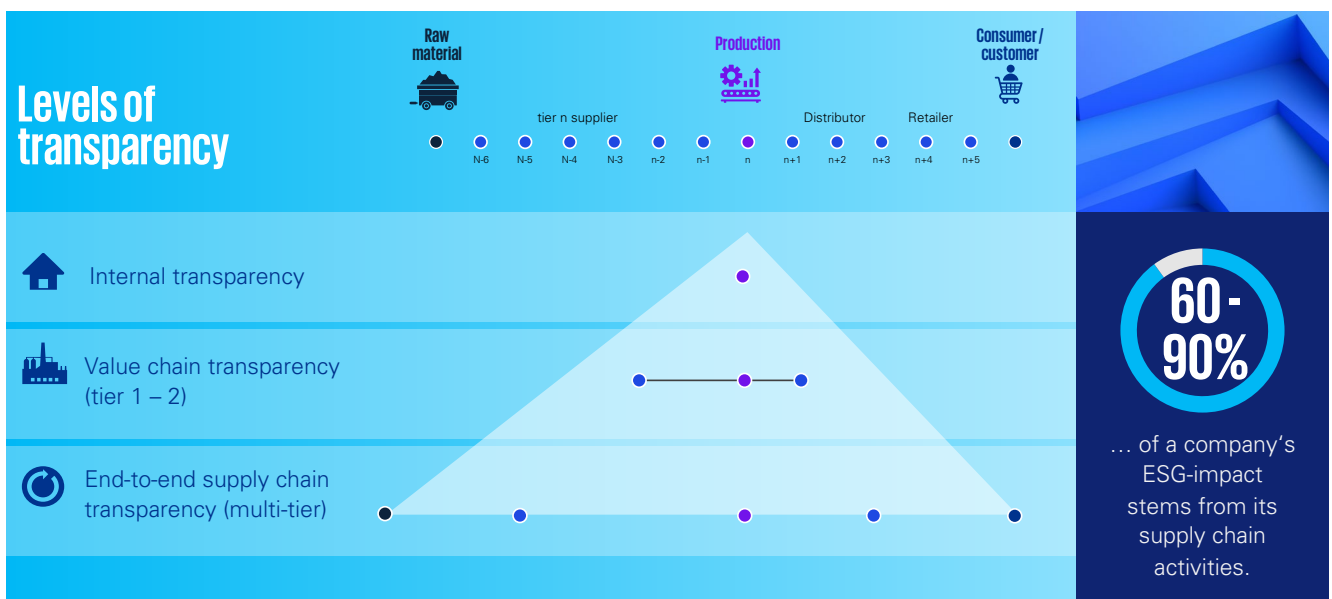


With CSDDD now on the horizon: Is Supply Chain Transparency a burden or an opportunity?

In the complex web of global commerce and trade, supply chain transparency has emerged as the beacon guiding businesses towards accountability and sustainability. Now, with **CSDDD passing the EU Parliament on 24 April, 2024**, due diligence across the end-to-end value chain is in the spotlight.



Who has not heard of the **German Supply Chain Act ("LKsG")**, the **Swiss Supply Chain Due Diligence (DDTrO)** – or the upcoming **EU Corporate Sustainability Due Diligence Directive (CSDDD)**? Many companies today are overwhelmed with basic questions: "which regulation applies to my supply chains – and what do we need to do?". The good news is that most regulations have one thing in common: the call for supply chain transparency, a solid supply chain governance and risk management. Companies need to be able to **assume control and responsibility for activities across their value chain**. And this is by far not the only reason for companies to invest into supply chain transparency.

There are many others:

- **The pulse of ethical consumerism** – consumers increasingly understand (and exercise) their purchasing power as a force for change. The result: value chain transparency has become currency. Empowered by information and driven by values, modern consumers demand accountability from the brands they support.
- **The essence of due diligence** – companies must commit to integrity and social responsibility way beyond compliance. From responsibly sourcing raw materials all the way to delivering the final product, companies must weave accountability into the fabric of their value chain.

- **A catalyst for innovation** – transparency can unlock new opportunities for efficiency, collaboration, and differentiation. Forward-thinking companies leverage data and technology to trace their supply chains, mitigate risks, and enhance their competitive edge.
- **Forging partnerships for progress** – through partnerships and collective action, industries can foster a culture of transparency that unlocks innovations, bridges borders and transforms economies.

In short: value chain sustainability is way more than a bare legal obligation. Large organizations expect all of their business partners – small or large – to provide insights into their value chains. Current regulations are focusing primarily on larger organizations, however, with full value chain transparency, this is rapidly becoming a must – also for smaller companies participating in global supply chains: a **“license to operate”** is the new normal.

How can companies master the challenges?

Way beyond compliance, **unlocking supply chain transparency’s full potential is where the true value lies.**

To effectively address regulatory challenges and capitalize on its benefits, consider the following four basic steps:

1. Assess future regulations applicability

First, establish an understanding of which current or upcoming regulation will impact your value streams. This can differ largely by industry, geographical spread of your value chain or the complexity of your supply chains. It is important to capture: which regulations are applicable to your company – and when?

2. Conduct gap assessment

Second, assess your current compliance status. “Are we meeting all expected due diligence parameters? Are we defaulting?” Frequently, this is supported by benchmarking your organization’s current supply chain governance model against the requirements outlined by the regulators – and

those of your peers. Embedding global standards (e.g. as defined by the OECD) into your overall supply chain governance is highly advisable.

This very important step will shine a light on how many resources you should consider – and identify first potentials to unlock some of the opportunities.

3. Design a roadmap for compliance

Third, manage the identified gaps: develop a roadmap for addressing the gaps and enhance your supply chain framework, starting with the governance model. By systematically addressing compliance gaps, companies can ensure that their supply chain approach is future-ready and capable of meeting evolving regulatory requirements, which certainly is a good thing.

4. Closing the gaps

Fourth, execute the roadmap, address and manage the gaps.

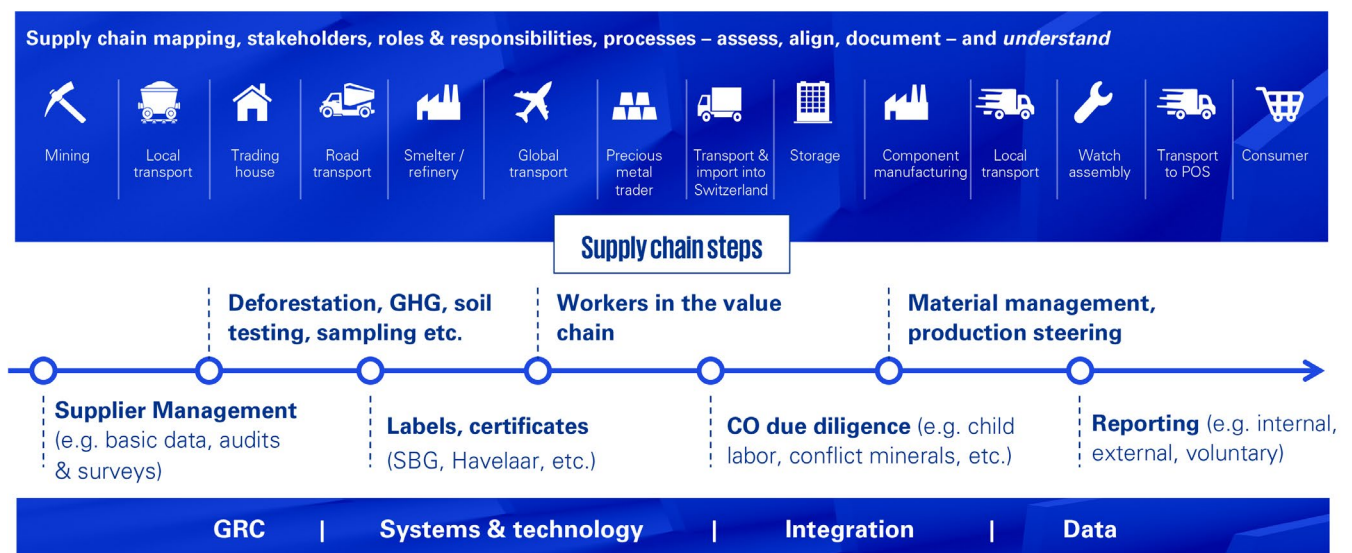
But there is more: unlocking additional value

Establishing full supply chain transparency and re-assessing your current technology: both serve as crucial enablers to comply with most regulations and will significantly enhance your operational capabilities.

Instill transparency into your value chain

Mapping the relevant parts of your value chain: a risk-based approach is highly recommendable, addressing the material aspects first. Knowing the stakeholders in your upstream (and downstream) supply chain is the crucial outcome: it helps to identify your **impacts, risks and opportunities**. This will empower you to go beyond compliance, make a lasting impact and profit from collaboration, innovation and positive brand association.

And there’s something in it for your value chain partners: agreeing upon a clear interaction model helps to advance your joint supply chain activities and helps unlocking further benefits for participants in your entire value chain.



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Enable data collection and processing through technology
Respective technology serves as a crucial enabler, also for reporting. Few current ERPs are capable of delivering the relevant data. In fact, we see companies struggle with this every day. Based on your needs, having the right technology available empowers you to collect and process supply chain sustainability data in a meaningful way. Allocate sufficient time and considerations prior to committing to a specific technology.

So, is this just another investment for companies?

In short – many companies will have to manage regulatory requirements – and are able to reap further benefits by doing so. Aside from “being compliant”, operating a rock-solid supply chain governance unlocks multiple positive effects for your future successes.

CSDDD at a glance



Scope



- Prevent violations of **human rights and environmental standards** in the “chain of activities” & operate a supply chain governance model
- Upstream** chain of activities (not of indirect business partners): design, extraction, sourcing, manufacturing, transport, storage and supply of raw materials, products or parts of products and development of products or services

Liabilities & inactivity penalty



Liable for **own activities** (not for indirect business partners unless „negligence“)

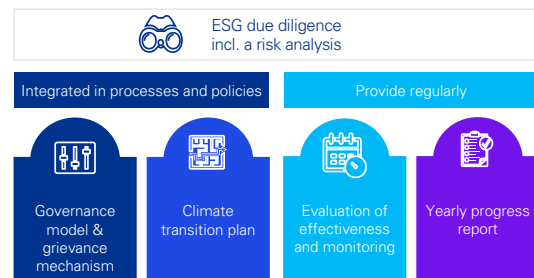


Civil liability (in line with national civil procedure rules)
Access to EU courts and enforcement of EU law



Fines of up to **5%** of the companies global turnover

Supply chain due diligence: main objective



KPMG is ready to help you on this mission. Together for better.

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