



Supply chain law FAQs

1. What is the aim of the law?

- The act is intended to improve the **protection of basic human rights** and, in particular, enforce the ban on forced labour.
- **Environmental concerns are also relevant** if – because of them – human rights are being violated (e.g. in the case of polluted water) or if it is a matter of human health.

2. Which companies come under the law?

- From 2023 onwards: companies with more than **3,000 employees (900 companies)**.
- From 2024 onwards: Companies with more than **1,000 employees (4,800 companies)**.
- After that, the area of application will be evaluated.

3. What are the most important rules and regulations?

1. Responsibility for the entire supply chain; tiered requirements for companies:

The requirements that companies must meet are tiered, based on the different stages within the supply chain:

1. the company's own business operations,
2. direct suppliers,
3. indirect suppliers.

and based on:

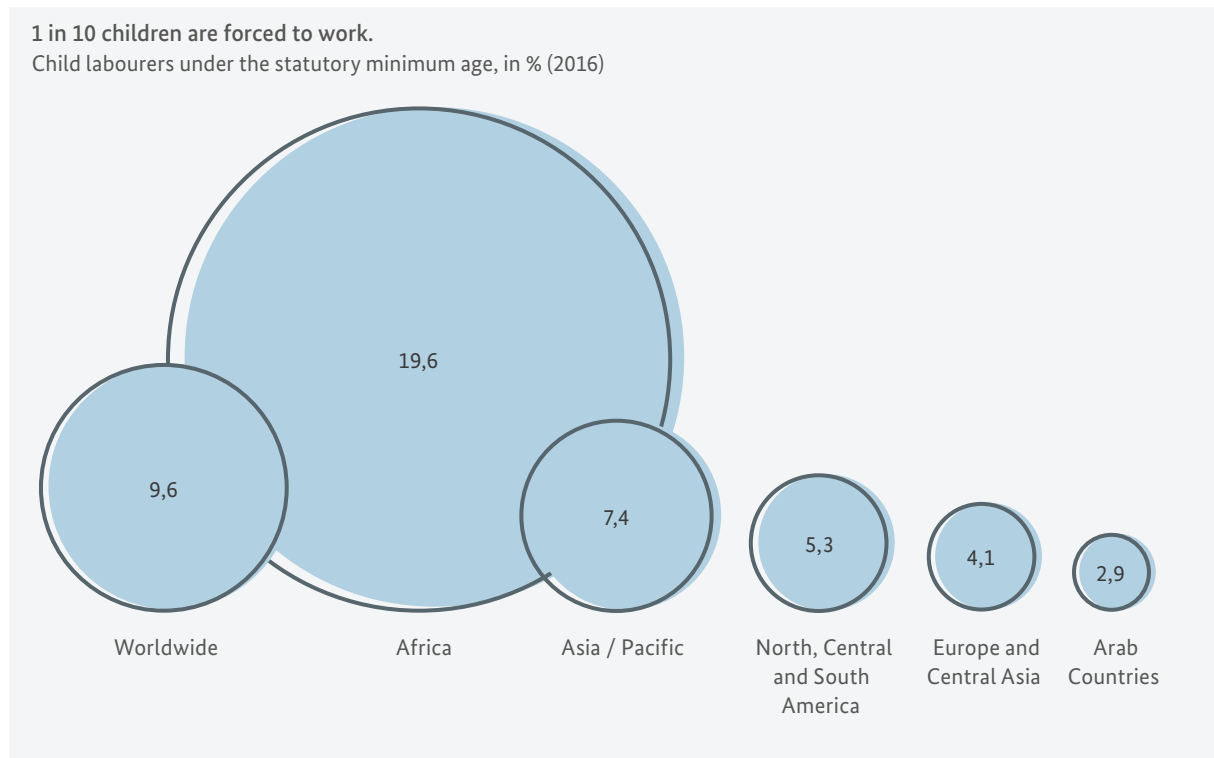
- the kind and extent of the business activity,
- the degree of influence the company has on the one committing the violation,
- the typically expected severity of the violation,
- the way in which the company has contributed to the violation.

2. External monitoring by a government authority

- An established government authority, the **Federal Office for Economics and Export Control**, is tasked with monitoring compliance with the law.
- It checks **company reports**, investigates any **grievances** made and imposes **sanctions**, if needed.

3. More rights for injured parties

- Not only can people whose human rights have been violated use the German courts to get their rights upheld, they can now also report their grievances to the **Federal Office for Economics and Export Control**.
- German trade unions and non-governmental organisations may also support injured parties from other countries by defending their rights **before a German court** (representative action).



4. What must a company do in the context of its own business operations and in the context of a direct supplier's business operations?

- Companies have to put the following measures in place both in their own and in their direct suppliers' business operations:
 - Draft and adopt a **policy statement** on respecting human rights.
 - **Risk analysis**: Implement procedures for identifying negative impacts on human rights.
 - Engage in **risk management (incl. prevention and remedial measures)** to avoid potential negative impacts on human rights.
 - Establish a **grievance mechanism**.
 - Implement transparent public **reporting**.
- In the event of a violation of rights, the company must, in its own **area of business**, take steps **immediately** that will necessarily cause the violation to cease.
- In the case of **direct suppliers**, the company must draft a **concrete plan** for minimising and preventing violations when it is unable to end the violation **in the foreseeable future**.

5. What must a company do in the case of an indirect supplier?

- Here, the due diligence obligations apply only as warranted by the circumstances and as soon as the company learns about potential violations.
- In this case, the company has to act immediately and:
 - conduct a **risk analysis**,
 - implement a **strategy to minimise and avoid** the problem,
 - firmly establish **appropriate prevention measures** vis-à-vis the one committing the violation. The implementation of **industry-wide initiatives** is a good option in this context.

6. Are companies liable for human rights violations in their supply chains?

- The law does **not create any new civil liability regulations**. Liability under civil law according to German and foreign laws continues to apply.

7. Must business relations be terminated?

- That is **not the aim** of the law. Instead the law is intended to sustainably establish improved protection of human rights in suppliers' operations, within the scope of what is feasible in these companies.
- **No company** will be expected to change the **legal and political conditions in the partner country**.
- The only time that **business relations need to be terminated** is when a serious violation of human rights has been found and the measures taken so far under the company's strategy have failed to succeed within a given period of time.
- At the same time, there will be substantial government **support programmes** for companies.

8. How will the law be implemented?

- The **Federal Office for Economic Affairs and Export Control (BAFA)** ensures the effective implementation of the law.
- Infringements of the law may result in **fin**es.
- Companies found to have committed serious infringements may be **excluded** from **public procurement procedures** for up to three years.

9. Don't we need Europe-wide rules?

- Yes, the goal is to have a uniform European regulation. In February 2022 the EU Commission has presented a draft that is currently being discussed.
- The German Supply Chain Due Diligence Act was an important momentum to regulate corporate due diligence obligations in a binding manner throughout Europe.
- A single European regulation will create a level playing field. As the world's second largest economy, the EU must lead the way towards fair supply chains to end human rights abuses and environmental damage in its supply chains.