

Understanding the German Due Diligence Act (Lieferkettengesetz)

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MEET WRANGU



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Elite

2

offices

53

employees

24

nationalities

29

languages

We provide flexible software solutions for integrated risk, security and privacy management.

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Across

18

industries

Across

15

countries

Agenda

- Supply Chain Due Diligence Act & EU Directive
- Due Diligence Obligations
- Challenges for Organisations
- Best Practices for Conducting Due Diligence
- Q&A

Supply Chain Due Diligence Act (Lieferkettengesetz)

Who is Covered

- All recorded “legal entities” that are domiciled in Germany and meet employee thresholds
- **From January 1, 2023: 3,000 employees**
- **From January 1, 2024: 1,000 employees**
- Due Diligence Report must be published by most companies by April 1, 2023
- EU Directive on Corporate Sustainability Due Diligence expected in 2022

Key Components

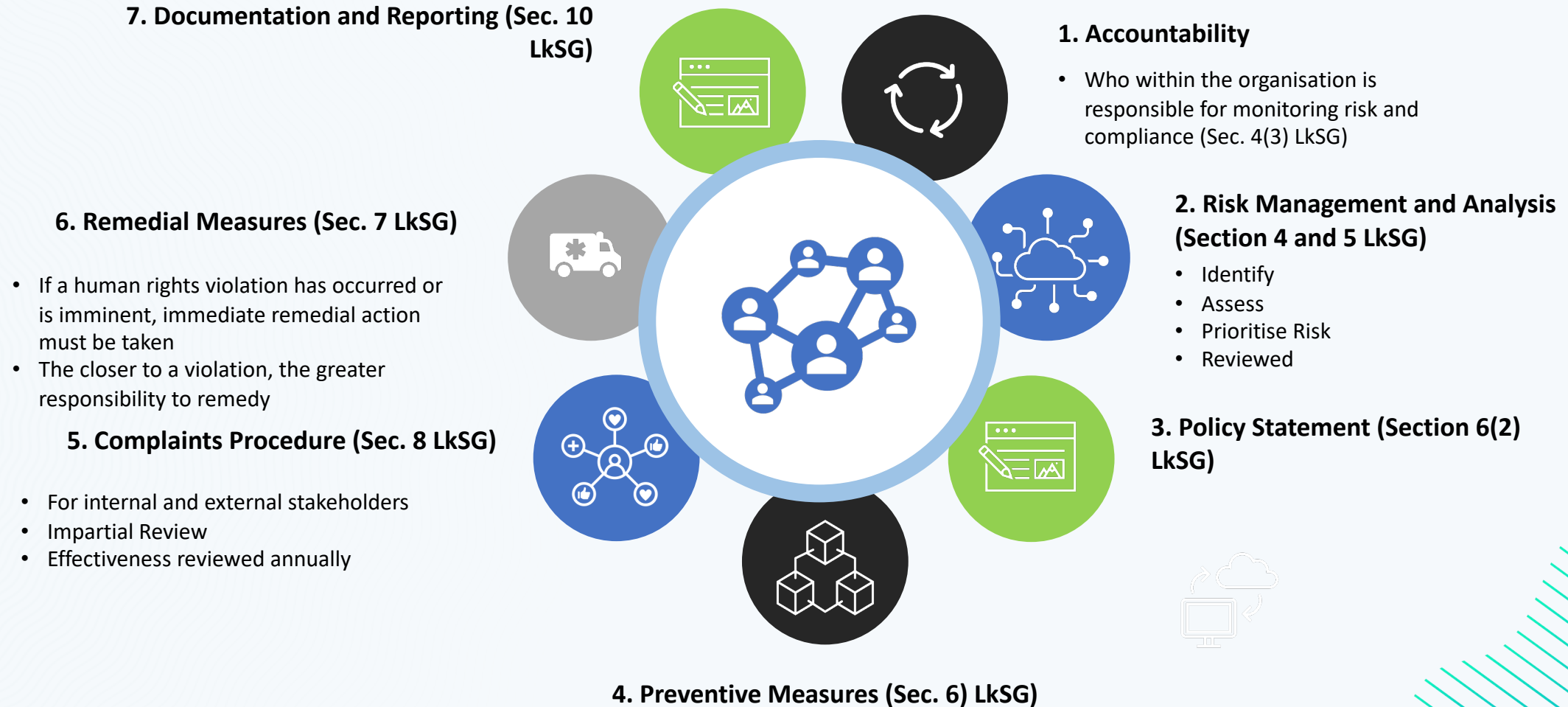
- Human Rights
 - Forced Labor
 - Child Labor
 - Working Conditions
- Environmental Obligations
 - Pollutants
 - Toxic chemical exposure
 - Unsafe disposal of hazardous waste

EU Directive on Corporate Sustainability Due Diligence

Who is Covered?

- **Organisations incorporated in a Member State with:**
 - (i) more than 500 employees and a net turnover of more than €150 million worldwide or (ii) 250 employees and a net turnover of more than €40 million and 50% turnover is in a high risk industry or
- **Third Country organisations that:**
 - (i) generate a net turnover of more than €150 million in the EU or
 - (ii) generate a net turnover of more than €40 million in the EU and 50% of net turnover is in a high risk industry

Obligation Framework



Policy Statement (Section 6(2))

Senior Management must adopt the policy statement. The statement must contain the following elements of a human rights strategy:

1. Description of the ways due diligence obligations under SCDDA are fulfilled;
2. Priority Human Rights and Environmental risks identified by the risk analysis; and
3. Human rights-related and Environmental-related expectations for employees and suppliers.

Preventive Measures (Section 6)

If a Company identifies a risk in the course of a risk analysis it must take appropriate preventive measures without undue delay

1. Implement strategies for one's own business area and Direct Suppliers
2. Develop procurement strategies and supplier scoring
3. Implement and deliver Training
4. Contractual Assurance from Direct Suppliers
5. Must be Reviewed Annually

Remedial Measures (Section 7)

If a company discovers a violation has occurred or is imminent it must take appropriate remedial action to prevent, end, or minimize the extent of the violation

1. Measures taken must be in proportion to the nature and scope of business activities taking into account its ability to influence suppliers/vendors (Graded Obligations)
2. The severity of violations, the reversibility and the probability of occurrence
3. The company's causal contribution

Documentation and Report Generation (Section 10)

- Publish a report once a year on website and remain available free of charge for seven years
- Must disclose risks identified and steps taken to meet obligations



What are Human Rights Violations?

- SCDDA serves to establish a general means of protecting human rights defined by §2:
 - Child labour and Forced Labour/Slavery
 - Unsafe Working Conditions
 - Denial of a Living Wage
 - Discrimination
 - Displacement
 - Violence

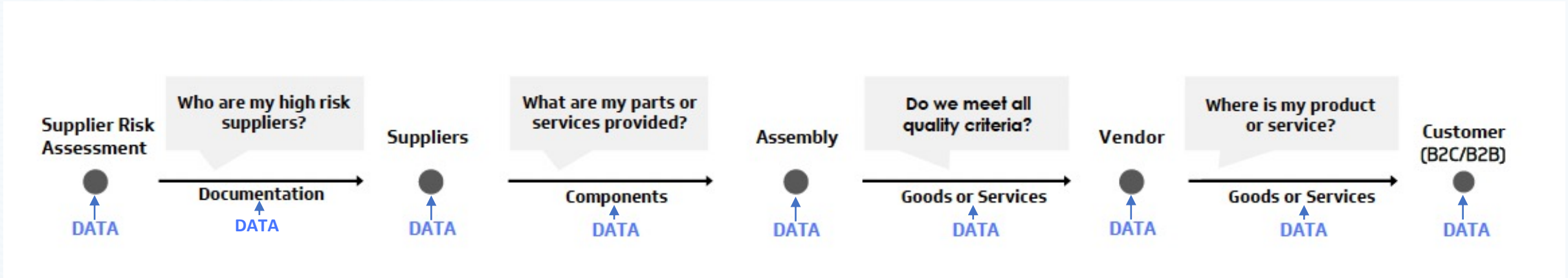


Environmental Obligations

- SCDDA serves to establish a general means of protecting Environmental Rights rights defined by §2 in connection with treaties and accords listed in the Act's Annex
 - Carbon Emissions
 - Waste Collection, Storage, and Disposal
 - Prohibition on mercury products and compounds
 - Prohibition on using certain chemicals

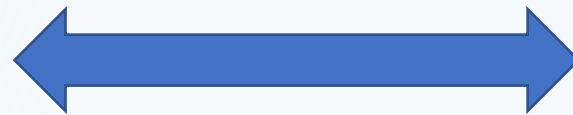


Direct and Indirect Suppliers



Direct Supplier

A partner to a contract for the supply of goods or provision of services necessary for the production of a product or service



In some instances: Both

Indirect Supplier

Any enterprise which is not a direct supplier and whose supplies are necessary for the production of a product or service

Enforcement

- Who is the supervisory authority?
- What are their enforcement powers?
- Fines, sanctions, and investigations

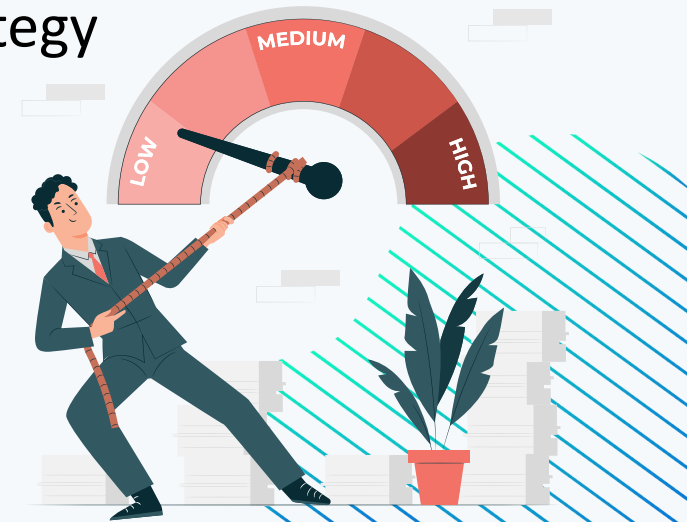


Challenges

- What needs to be done?
- Who within the organisation is responsible?
- How can we create metrics around compliance?
- How to manage our risk and supplier risk? And for what?
- Vetting and monitoring suppliers

Solutions

- Visualise Supply Chain
- Risk Analysis Questionnaire
- Identify Supplier Scores and Prioritise Risk
- Compliance as a KPI
- Using ESG to establish wider business strategy



Announcement

Webinar with ServiceNow in German April 12 @ 2 pm CET

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QUESTIONS?

