Supply Chain Act: What you need to know now and in the future

Introduction

The Supply Chain Act places greater responsibility on companies in Germany to protect human rights, comply with environmental standards and ensure transparency across global supply chains. But which organisations are affected, what does this mean in practice, and what role does the new EU Supply Chain Directive play?

This white paper provides a well grounded overview of the key requirements, obligations, challenges, and future outlook.

Supply Chain Act: Definition and context

For the first time, the Supply Chain Act requires companies in Germany to assume greater responsibility for human rights and environmental standards throughout their supply chains. Below, you can read exactly what the Act covers, why it is important, who it applies to, and what happens in the event of non-compliance.

What is the Supply Chain Act in Germany?

The Supply Chain Act in Germany is known as the Supply Chain Due Diligence Act (Lieferkettensorgfaltspflichtengesetz – LkSG). It came into force on 1 January 2023 and initially applied to companies based in Germany with more than 3,000 employees. Since 1 January 2024, companies with more than 1,000 employees have been subject to the Act.

Under the LkSG, in scope companies must fulfill specific due diligence obligations to minimise—or ideally prevent—human rights, climate-related, and environmental risks within their supply chains. The Federal Office for Economic Affairs and Export Control (BAFA) monitors whether organisations comply with these due diligence obligations and adhere to the relevant legal requirements.

The aim is to prevent incidents such as the collapse of the Rana Plaza textile factory in Bangladesh in April 2013, in which more than 1,100 people lost their lives. Since 2019, the **Supply Chain Act Initiative**, an alliance including NGOs and trade unions, has campaigned for stronger regulation. One key success was the introduction of the German Supply Chain Act. The second is the EU Supply Chain Directive (CSDDD), which is also discussed in this white paper.

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> **3,000** employees.

Why the Supply Chain Due Diligence Act is important

The German Supply Chain Act is significant because it legally obligates organisations for the first time to take responsibility for human rights and environmental impacts across their entire production and supply chains. Key risks to be identified and addressed include child labour, forced labour, slavery, health and safety violations, discrimination, breaches of freedom of association, unfair pay, and environmental damage.

Although the UN Guiding Principles on Business and Human Rights introduced an expectation in 2011 for companies to assume responsibility for human rights within their supply chains, this remained a voluntary commitment.

The LkSG goes further by not only imposing obligations, but also by ensuring that risk management, prevention, and remediation measures are monitored. Companies must report on their activities, increasing transparency and promoting more sustainable business practices and fairer working conditions.

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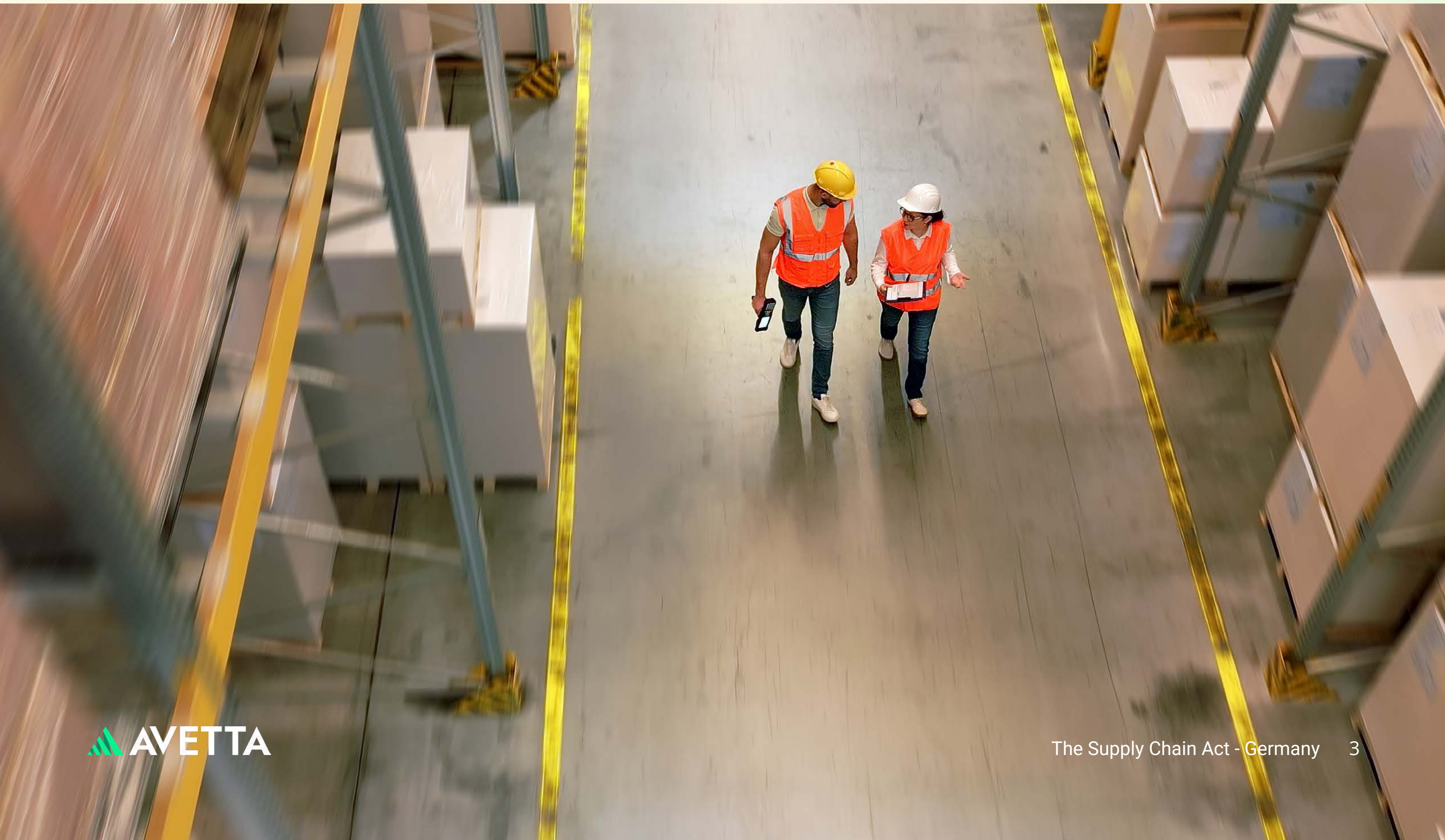
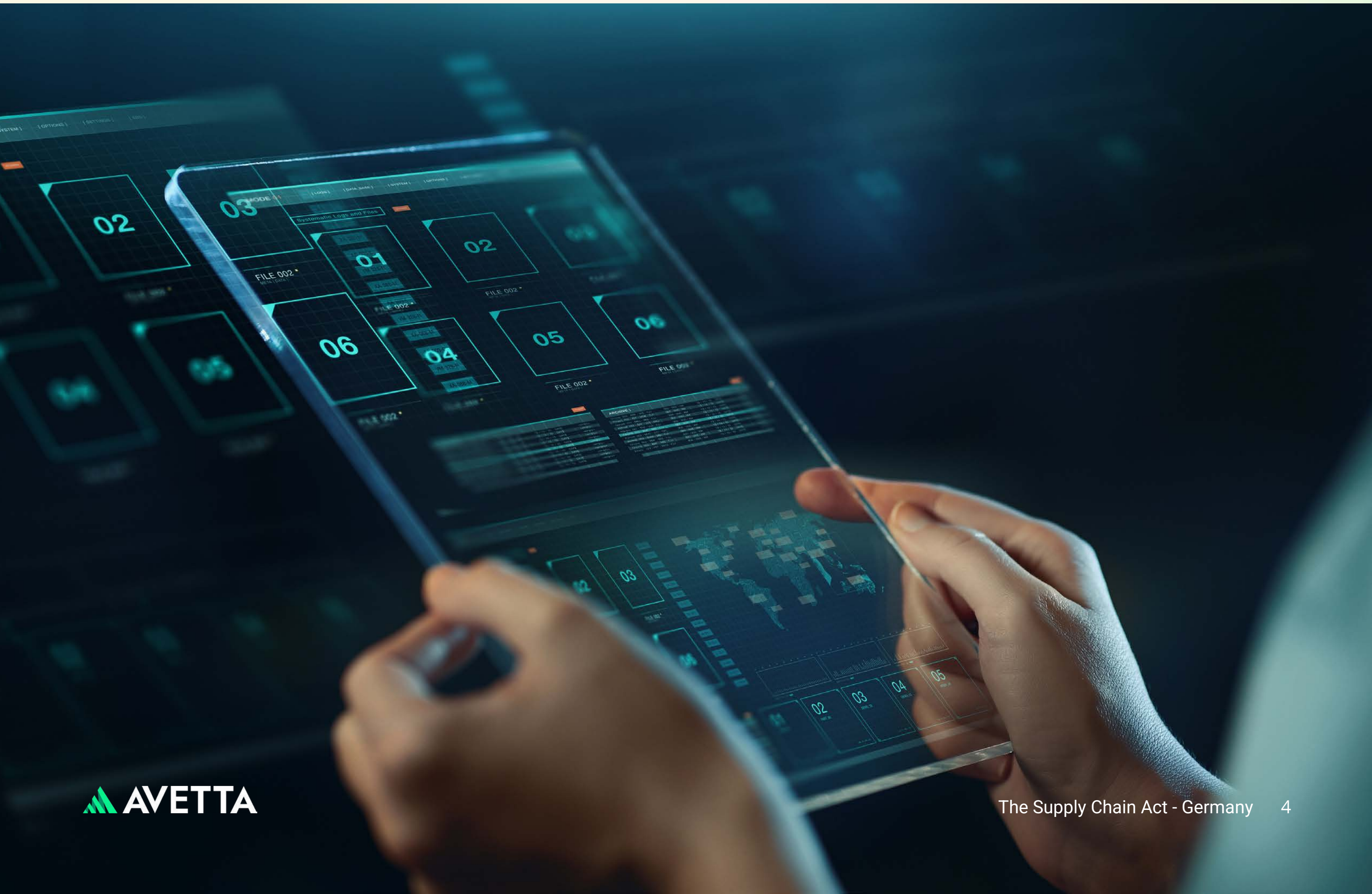


How the LkSG affects companies

The impact on affected companies is wide ranging. The LkSG requires them to systematically integrate environmental and human rights due diligence obligations into their operational processes. This includes identifying and assessing supply chain risks and addressing them through appropriate measures.

The principle of proportionality gives companies a degree of discretion based on the nature and scale of their business activities, their leverage, and the level of risk. This applies, for example, to the selection and design of measures or the allocation of resources.

The Act also significantly affects supplier relationships. Companies are expected to work closely with suppliers and obtain relevant information. However, legal due diligence obligations cannot simply be passed on. The Supply Chain Act therefore also indirectly involves contractors that are not themselves directly subject to the law but form part of the supply chain — encouraging coordination, transparency, and shared responsibility.



What the Supply Chain Act means for suppliers

Suppliers that are not directly subject to the LkSG must nonetheless act more responsibly. Human rights and environmental standards are not one way obligations; rather, they run in parallel and reinforce one another. As a result, indirectly affected companies also become part of the due diligence framework.

In practice, this means business partners may impose specific requirements, such as providing risk related information, complying with codes of conduct, and participating in preventive and remedial measures.

While suppliers may need to adapt their processes, this also presents an opportunity: in addition to contributing to the protection of human rights and the environment, suppliers can strengthen their market position by establishing themselves as reliable and responsible partners.

Consequences of non-compliance

If organisations fail to comply with the Supply Chain Due Diligence Act — or parts of it — and thereby accept or cause harm to people or the environment, they may face legal and financial consequences. BAFA is authorised to conduct inspections and intervene in the event of violations.

Typical sanctions include fines, which can be substantial and may amount to several million euros depending on annual turnover. Companies with an average annual turnover of more than €400 million may face fines of up to 2 per cent of their average annual turnover.

In addition, organisations may be excluded from public procurement procedures for several years. Reputational damage and economic disadvantages are also common consequences, as business partners withdraw and market opportunities decline.

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What does the Supply Chain Act require?

The official title of the LkSG is the **Corporate Due Diligence Obligations in Supply Chains Act.** The legal framework includes the following elements:

- Risk management
- Risk analysis
- Preventive measures
- Remedial measures
- Complaints procedure
- Indirect suppliers
- Documentation and reporting obligations

The due diligence obligations are set out in **Sections 4 to 10** of the Act.

Risk management

Companies must establish and integrate an appropriate and effective risk management system into all relevant business processes. In doing so, they must safeguard the interests of all workers involved in the supply chain, as well as those otherwise affected by the company's economic activities.

Organisations must clearly define responsibility for overseeing risk management, whether assigned to an individual or a group. Senior management must be informed at least once a year about how these activities are being carried out.

Risk analysis

Regular risk analyses must be conducted to identify risks within the company's own operations and among direct suppliers. Identified risks must be assessed, categorised, prioritised, and communicated to internal decision makers.

Risk assessments must take place at least once a year and following any major changes in the supply chain. Information obtained through complaints procedures must also be taken into account.

Preventive measures

Appropriate preventive measures must be implemented without delay for risks identified through the risk analysis. This includes issuing a policy statement in which management sets out the company's human rights strategy and expectations of employees and suppliers.

Preventive measures must be applied both within the company's own operations and in relation to direct suppliers. These may include training, adapted procurement strategies, contractual obligations, and monitoring mechanisms. Effectiveness must be reviewed at least annually and whenever the risk profile changes.

Remedial measures

If a company becomes aware of actual or potential violations of human rights or environmental obligations, it must take immediate remedial action. Violations within Germany must be brought to an end; for violations abroad, termination should be sought. Effectiveness must be reviewed regularly and measures adapted if necessary.

If violations by direct suppliers cannot be remedied immediately, the organisation must develop a concrete remediation plan with a timeline. The primary objective is to find joint solutions. Terminating the business relationship is only required in serious cases or where measures remain ineffective.

Complaints procedure

Under Section 8 of the LkSG, organisations must establish an internal complaints mechanism allowing individuals to report risks and violations within the company's own operations or those of direct suppliers. Submitted reports must be acknowledged and discussed with the reporting parties.

A consensual solution may be sought, or the company may participate in an external complaints procedure, provided that defined criteria are met — such as publicly accessible procedural rules and independence, impartiality, and confidentiality of those responsible. Effectiveness must be reviewed at least annually.

Indirect suppliers

The complaints procedure must also allow for reports concerning indirect suppliers, meaning those without a direct contractual relationship. Risk management systems must take such cases into account. Where there are substantiated indications of violations by indirect suppliers, a risk analysis and appropriate preventive measures are required. Organisations must also implement a prevention or mitigation plan and update their policy statement where necessary.

Documentation and reporting obligations

The Supply Chain Act requires organisations to continuously document how they meet their due diligence obligations. Records must be retained for at least seven years. In addition, an annual report must be prepared and published on the company's website no later than four months after the end of the financial year, remaining publicly accessible for seven years.

The report must outline identified risks and violations, measures taken, assessments of their effectiveness, and lessons learned for future action. If no incidents occurred, a corresponding statement is sufficient.

CSDDD vs. LkSG

Supply chain regulations at both the German and EU level form part of a broader debate that is likely to continue and may lead to further amendments.

One example is the reduction in reporting requirements following the German Cabinet decision of 3 September 2025, which means BAFA no longer reviews corporate reports under Sections 12 and 13 of the LkSG.

The introduction of the CSDDD was also subject to changes. Originally intended to cover companies with more than 500 employees and annual global turnover of €150 million, the scope has since been significantly revised.

What is the EU Supply Chain Directive?

The EU Supply Chain Directive was adopted as the Corporate Sustainability Due Diligence Directive (CSDDD) and entered into force on 25 July 2024. As a binding EU directive, it requires companies to identify, prevent, end, or mitigate risks related to human rights, environmental protection, and climate change throughout their entire supply and value chains.

It represents the EU's first harmonised framework that goes beyond national laws such as the German Supply Chain Act, establishing uniform standards for sustainable and human-rights-based corporate conduct across Europe.

Differences between the EU and German Supply Chain Acts

While the CSDDD builds on the German legislation, it extends further in scope — particularly in relation to environmental obligations. These include requirements related to emissions, biodiversity protection, and chemicals management.

In addition, the German Act focuses primarily on direct suppliers, whereas the CSDDD extends due-diligence obligations across upstream and downstream value chain activities. Another key difference concerns enforcement: the EU directive provides for civil liability for human rights violations, in addition to public sanctions.

Outlook: When does what apply and to whom?

The CSDDD ultimately applies to EU companies with more than 1,000 employees and annual net turnover exceeding €450 million, as well as non-EU companies generating over €450 million in turnover within the EU.

Implementation will occur in three stages:

- **3 years after entry into force:** EU companies with more than 5,000 employees and turnover above €1.5 billion, and non-EU companies with €1.5 billion EU turnover
- **4 years after entry into force:** EU companies with more than 3,000 employees and turnover above €900 million, and non-EU companies with €900 million EU turnover
- **5 years after entry into force:** Full application as outlined above

EU Member States must transpose the directive into national law within two years. For Germany, this likely means adapting or expanding the LkSG to align with EU requirements.

Meeting supply chain due diligence requirements

Even if CSDDD thresholds eventually align with the German Act, this applies only to company size. The LkSG does not differentiate by turnover and therefore remains applicable to all companies with at least 1,000 employees, regardless of CSDDD scope.

Avetta can provide significant support in collecting supplier data and increasing risk visibility in relation to the German Supply Chain Act — even for companies that fall outside current or future CSDDD thresholds.

Benefits for companies

The growing complexity of global supply chains presents increasing challenges, particularly in security, compliance, and risk management. Avetta addresses these challenges with proven solutions that improve working conditions and make supply chains more transparent, efficient, and safe.

Avetta's industry leading platform offers a holistic approach to risk, compliance, and environmental management, enabling organisations to centrally collect, analyse, and visualise contractor and supplier data through intuitive dashboards.

Transparency is a key pillar. Companies gain a comprehensive overview of contractor and supplier safety standards, qualifications, and compliance status, allowing risks to be identified early and reduced proactively.

Supplier prequalification is another essential component. Structured assessment processes ensure that only partners meeting defined safety and compliance requirements are engaged, reducing the risk of incidents and enabling smoother project delivery.

In addition, Avetta enables centralised management of health and safety programmes, allowing organisations to monitor contractor performance, verify training and certifications, and strengthen safety initiatives — leading to safer workplaces and improved hazard detection.

Compliance and third-party risk management are also strengthened, supporting consistent adherence to regulatory requirements and effective oversight of subcontractors.

Avetta's end-to-end service includes supplier onboarding. Standardised digital processes allow organisations to integrate new partners quickly without compromising on safety or quality standards.

How suppliers benefit

For suppliers and contractors, Avetta provides a comprehensive platform to streamline processes, win new business, and meet safety and compliance requirements efficiently.

A major benefit is simplified compliance management. Suppliers can store all required data, documents, and evidence in one central location and share them with multiple clients — saving time and avoiding duplicate submissions.

Suppliers also gain better access to new business opportunities. Visibility within Avetta's global network makes them easier for potential clients to find, expanding opportunities for partnerships, projects, and growth.

Proactive risk management is another advantage. Real-time data and analytics help suppliers identify and address risks early, reducing downtime, accidents, fatalities, and financial losses, while strengthening safety performance and reputation.

Internal processes are also improved through easy management of staff, training, assignments, and deployments via desktop or mobile access.

Finally, supplier support is a key benefit. Expert guidance helps suppliers assess existing safety programmes and implement targeted improvements to meet client expectations effectively.

Improve supply chain safety with Avetta

Looking to improve supplier safety and compliance while accelerating operational readiness from procurement to project delivery? With Avetta, you join a trusted, safety-focused community relied upon by more than 360,000 companies in over 120 countries.

Avetta optimises the entire process — from prequalification and audits to ongoing monitoring and reporting. Benefit from transparency, automation, expertise, proven results, and dedicated support.

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