

Supply Chain Due Diligence

A Beginner's guide for international suppliers

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Who is this guide for?

Are your German/European customers asking you to **provide them with information** on the environmental and human rights risks of your business operations and supply chain?



Are your customers requesting that you **implement human rights and/or environmental management processes** to demonstrate your sustainability performance?



Do you want to **communicate your sustainability credentials** to important stakeholders (investors, customers, consumers) to maintain and improve your reputation and/or your business relationships?



Context

- Large companies increasingly **need to demonstrate their sustainability performance**, both in terms of environmental and social/human rights matters. In doing so, they may react to vocal demands from civil society, investors and/or consumers, *as well as* to legal developments on mandatory due diligence.
- Key to increasing sustainability performance is the implementation of **supply chain due diligence mechanisms**.
- Over the course of these processes, large companies commonly **pass on sustainability requirements**, request information from suppliers on their sustainability performance and/or carry out audits.

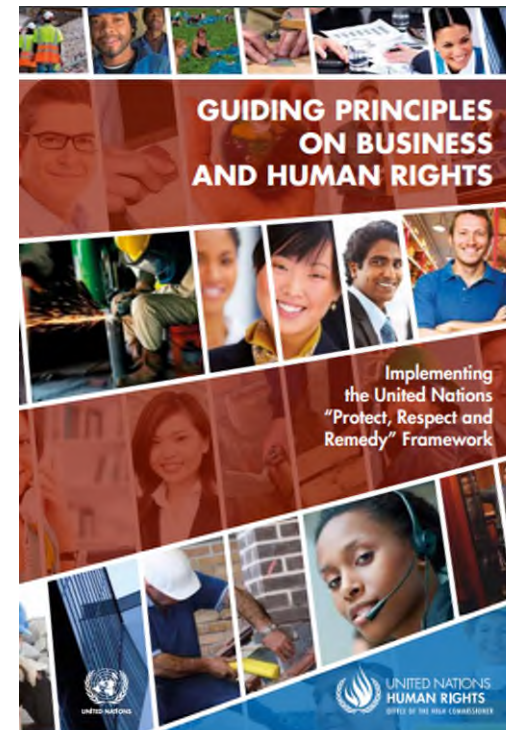
Objective

- This quick guide aims to **help suppliers understand and respond to customer requests** in such a way as to make sure that their organization benefits from the process, too.
- The **focus lies on the due diligence process** large companies are legally requested to follow (in Germany) and on the implications that this has for suppliers.
- For each step of the due diligence process, suppliers are made aware of the **expectations their customers** will (likely) have, how they can **best prepare for these challenges** and **benefit from the process**.

Due diligence: What's it about?

- The idea behind „supply chain due diligence“ is that companies are assumed to bare **responsibility for what happens in their supply chains.**
- Supply chain due diligence helps businesses **identify risks** related to human rights and environmental matters in their supply chains and **take measures** to mitigate or avoid them in the future.
- The main process elements are the **identification of risks, the implementation of preventative and remedial measures, as well as having documentation and reporting systems.**

Key reference documents are the [United Nations Guiding Principles on Business and Human Rights](#) and the [OECD Due Diligence Guidance for Responsible Business Conduct](#).













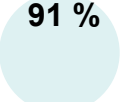





Why does the supply chain matter?

As the illustration shows for large companies, the **supply chain is typically where the greatest environmental and human rights impacts (and thus opportunities for improvements / risk mitigation) exist**. Supply chain data is vital to large companies who wish to pursue sustainability strategies and monitor KPIs. For example, carbon emissions data, resource usage, etc.

i Further information

- The [Atlas on Environmental Impacts – Supply Chains](#) provides an overview of environmental “hot spots” in the supply chain of selected industries.
- With the [CSR Risk Check](#) from the Helpdesk Business & Human Rights, in cooperation with MVO and UPJ, you can filter by raw materials, services or products and countries. The result is an overview of potential environmental and human rights risks based on more than 2,700 sources.

Distribution of environmental impacts along the value chain (example of vehicle manufacturing)					
Stages of the value chain	Sourcing of raw materials	Manufacturing of semi-finished goods (indirect suppliers)	Direct suppliers	Car manufacturing company (own production site)	Total
Greenhouse gases	8 % 	54 % 	28 % 	10 % 	140 megatonnes CO ₂ e
Air pollution	7 % 	57 % 	30 % 	6 % 	0,2 megatonnes NO ₂
Water consumption	21 % 	23 % 	18 % 	38 % 	1800 million m ³ water
Land use	91 % 	4 % 	3 % 	2 % 	3 million ha

• Source: Visualization based on the [Atlas on Environmental Impacts – Supply Chains](#)

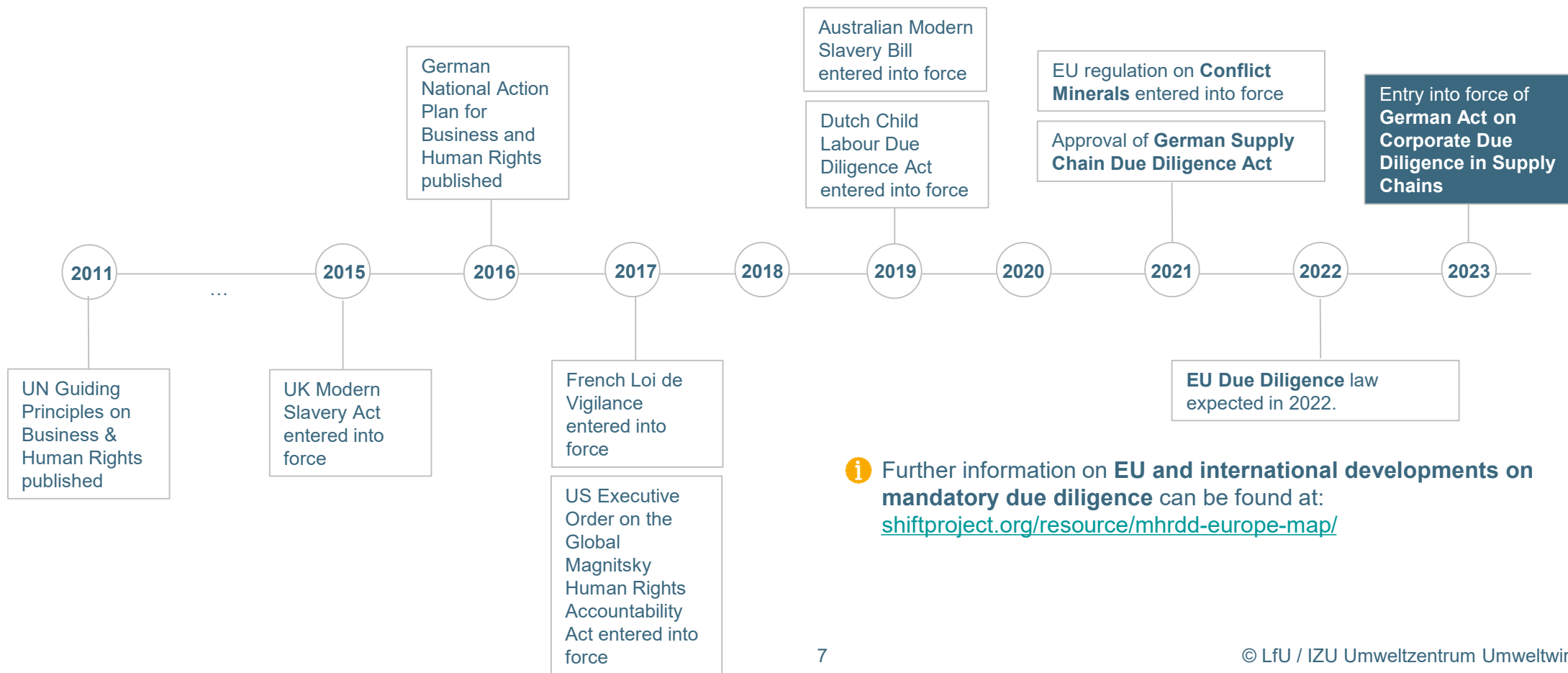
The business case for due diligence (Supplier perspective)

Supply chain due diligence is a driver of economic, social and environmental added value. The **business case** for supply chain due diligence for suppliers is based on **three key value drivers**.



Legal developments: State of play (selection)

There is a **growing body of laws** on mandatory human rights and environmental due diligence in Europe and internationally. The latest case is the German Act on Corporate Due Diligence in Supply Chains.



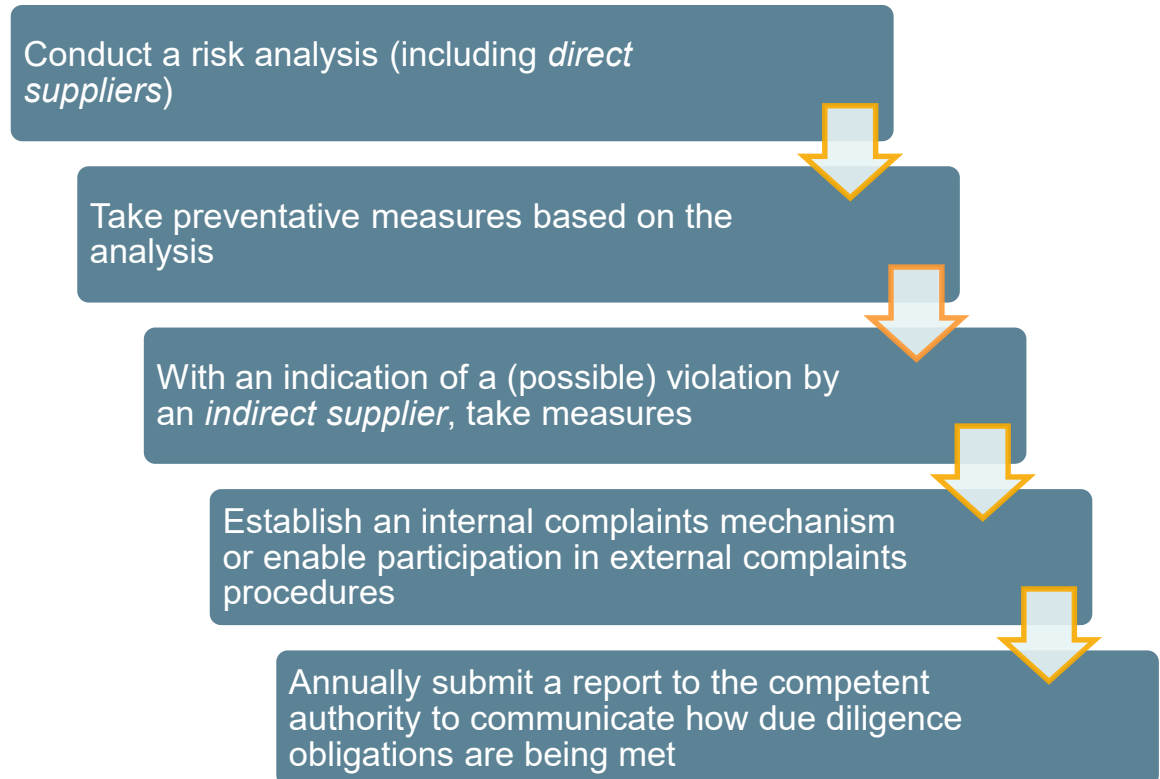
Legislature: German Act on Corporate Due Diligence in Supply Chains – five steps

The German Act on Corporate Due Diligence in Supply Chains (Lieferkettensorgfaltspflichtengesetz, LkSG) law imposes **mandatory obligations** on certain companies operating in Germany to **establish, implement and update due diligence procedures**. It applies along the entire supply chain.

Context

- From 2023, the Act initially applies to enterprises with at least **3,000** and, from 2024, additionally to enterprises with at least **1,000 employees** in Germany.
- It places enterprises that have their central administration, principal place of business, administrative headquarters, statutory seat or branch office in Germany under the obligation to **respect human rights by implementing defined due diligence obligations**.
- The due diligence obligations apply to an enterprise's own business area, to the **actions of a contractual partner** and to the **actions of other (indirect) suppliers**.
- If enterprises fail to comply with their legal obligations, **administrative fines** may be imposed.
- An authority will be equipped with **effective enforcement instruments** to monitor an enterprise's supply chain management.

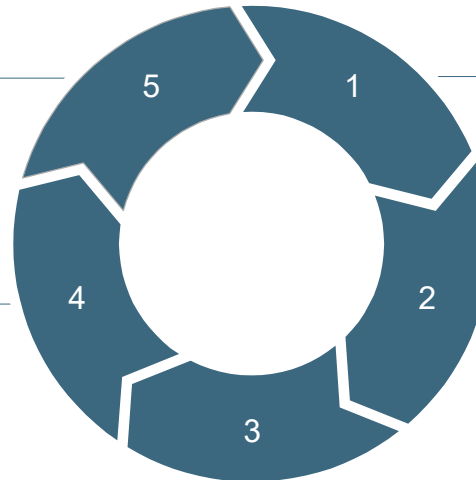
Core process elements of the Act:



Due diligence in five steps: A supplier's perspective

Manage complaints: Assess existing complaints channels and improve the relevant processes if necessary.

Measure and report: Ask yourself what you have achieved and communicate on your progress.



Develop a strategy: Evaluate your existing company principles and see how you can align them with the new requirements. Adjust your policy statement accordingly.

Perform a risk analysis: Get an overview of your business activities and conduct a risk analysis.

Take action: Based on your analysis, create an action plan and implement risk-based measures.

Step 1: Develop a strategy

Context

- Companies directly affected by the German Act on Corporate Due Diligence in Supply Chains (LkSG) must adopt a policy statement on their human rights strategy.
- The policy statement must cover the procedure for complying with human rights and environmental due diligence obligations in the supply chain (due diligence process), the specific risks and the company's human rights and environmental expectations of its employees and suppliers.

Implications for suppliers

- The wording of the LkSG in regard to the policy statement also points the way for adjustments of supplier contracts.
- The law indicates that preventive measures must be implemented, including "the contractual assurance of a direct supplier that it will comply with the human rights-related and environmental requirements demanded by the company's management and address them appropriately along the supply chain" (§ 6 para. 4 LkSG).

How to act as a supplier

- Familiarize yourself with international reference documents so that you can communicate with your customers on an equal footing.
- Essential human rights reference instruments are:
 - Universal Declaration of Human Rights;
 - United Nations human rights covenants; and
 - Core labor standards of the International Labor Organization (ILO).
- Review your existing corporate policies and adapt them as needed. In doing so, make sure to pay attention to the requirements for a policy statement set out by the LkSG.
- Also remember to make *your suppliers* aware of the issue. Especially if – as a direct supplier – your customers ask you to consider sustainability issues in the deeper supply chain and to pass on requirements.

Further information

- Consult your industry association or an industry initiative to see if they can provide you with a template for human rights (and environmental) policy statements.
- [The guide "How to develop a human rights policy"](#) provides information on developing a human rights policy statement.
- The information portal ["Business and Human Rights Resource Centre"](#) provides information from corporations that have published a human rights policy statement.

Step 2: Perform a risk analysis

Context

- In many industries, especially in manufacturing, human rights and environmental risks are primarily located upstream in the value chain. Suppliers in particular are therefore called upon to provide information so that transparency along the supply chain is strengthened and suitable measures for prevention and remediation can be implemented.

Implications for suppliers

- If your company has created clarity about the human rights and environmental risks in your own company and your value chain, this can be a valuable preparation when your customers enter into dialogue with you in this regard, and strengthen the customer relationship significantly.

How to act as a supplier

- Start with a focus on your main business activity. To do this, you should look at existing data sources - because risk assessments are already available for a large number of environmental and human rights issues.
- In view of customers' information requirements, it is helpful to prepare an overview of the topics that are relevant for your company (and thus also for your customers).
- Sustainability standards (certificates, labels, etc.) and the classification of their performance as instruments for implementing your own due diligence processes are helpful so that you can respond to queries from customers (e.g. in the context of self-disclosures).

Further information

- With the [CSR Risk Check](#) from the Helpdesk Business & Human Rights, in cooperation with MVO and UPJ, you can filter by raw materials, services or products and countries. The result is an overview of potential environmental and human rights risks based on more than 2,700 sources.
- The [study "Respect for Human Rights along Global Value Chains"](#) offers insights into the human rights risks along the value chains of German companies of different sectors.

Step 3: Take action

Context

- Based on the risk analysis, companies must implement or review appropriate preventive and remedial measures. This applies, for example, to the selection and monitoring of suppliers, the creation of codes of conduct, the implementation of training courses, and also sustainable contract design.

Implications for suppliers

- If the risk analysis identifies relevant risks within a supply chain, preventive measures must be taken. These can relate to suppliers (usually direct suppliers, but possibly also indirect ones). Measures can include such things as:
 - Amendment of contractual provisions with suppliers (e.g. in the form of renegotiations), requiring the supplier to comply with human rights and environmental standards.
 - Obligation of the supplier to adhere to these compliance standards in the downstream supply chain as well.
 - Regular reviews of existing and future suppliers with regard to their ability to comply with due diligence requirements.

How to act as a supplier

- Suppliers will likely be involved in the customer's due diligence management or prevention measures as part of reviews (via self-disclosures or audits).
- Review the customer's (new) Code of Conduct or self-disclosure and check whether you can meet the sustainability requirements listed.
- Find out whether customers use industry solutions or cross-industry supplier platforms for supplier verification and familiarize yourself with them.
- Make sure that you have employees in your company who can handle customer inquiries professionally.
- Evidence of management system codes and certificates strengthens the credibility of your self-disclosure. Audits should be prepared with sufficient lead time.
- Suppliers should not only think about auditing issues, but also about sharing knowledge and experiences with customers and perhaps initiating joint projects, e.g. regarding products or logistics solutions.

Further information

- The [Decent Work Toolkit for Sustainable Procurement](#) by the UN Global Compact provides practical guidance and examples for improving working conditions in the supply chain.

Step 3 deep dive: Supplier self-disclosure

- 1. Answering the questionnaire:** Detail and accuracy in filling out the self-disclosure form create transparency and communicate competence to your customer, enabling targeted action in the event of grievances.
- 2. Internal responsibility:** A trained sustainability officer as the person in charge and primary contact person for buyers can ensure the quality of the information you provide in the self-disclosure. This also facilitates communication processes with the buyer.
- 3. Documentation:** Evidence of codes and certificates of management systems strengthen the credibility of your self-disclosure. They provide the customer with important information about already existing guidelines, which play a role in the supplier evaluation, as well as for the subsequent supplier development.

Further information

- Industry benchmarks can help you understand sustainability requirements. The [World Benchmarking Alliance](#) provides a free and publicly available sustainability benchmark that rates companies on their sustainability performance and contribution to achieving the global Sustainable Development Goals (SDGs).

Step 3 *deep dive*: Preparing for an audit

- 1. Hotspot identification:** You should know the risks in your business operations and in your supply chain. Your information can be cross-checked with the auditor. This increases your credibility in continuously improving your manufacturing or service processes.
- 2. Employee preparation:** The sustainability officer (if any) should prepare your employees for the upcoming audit. Preparation includes explaining the audit process, rights and responsibilities when interviewing employees, and possible consequences for the company.
- 3. Employee training:** Training employees and management personnel to follow established Codes of Conduct and standards should not occur just prior to auditing, but immediately upon the implementation of management systems. Regular follow-up trainings ensure active integration into everyday business life.

Step 4: Measure and report

Context

- The fulfillment of due diligence obligations must be documented. In addition, a report on this must be prepared and published annually. This report must be submitted to the competent authority.

Implications for suppliers

- Many large companies require specific information from their suppliers as part of their sustainability reporting.
- This is further reinforced by the reporting requirement in the LkSG. It therefore makes sense to familiarize oneself with reporting requirements and to regard them not as an obligation but as a guide.
- Suppliers should also take into account that customers specifically ask for key figures to be included in their sustainability reporting.

How to act as a supplier

- Bundle information and present key figures: as a basis for your own reporting, but also for passing on information to customers. As a rule, relevant data should already be available, for example on internal training or supplier audits.
- Various guides and initiatives can help you communicate externally (see “Further information”).

Further information

- Environmental and human rights issues are already reflected in reporting standards like the [guidelines of the Global Reporting Initiative](#) (GRI).
- The "[UN Guiding Principles Reporting Framework](#)" is a guide for companies that want to report in accordance with the UN Guiding Principles on Business and Human Rights.

Step 5: Manage complaints

Context

- Companies shall establish, implement and publish a grievance mechanism in writing through which (potentially) affected persons and persons who have knowledge of possible violations can point out human rights risks and violations.

Implications for suppliers

- This is relevant for indirect suppliers insofar as the established grievance mechanism must be set up
- It needs to be set up in such a way that it also allows persons to point out human rights or environmental risks as well as violations of human rights-related or environmental obligations that have arisen as a result of the economic actions of an indirect supplier.

How to act as a supplier

- To increase the reach of your grievance mechanism, even setting up a dedicated email address or phone number and communicating on your own website can help.
- Establishing grievance mechanisms is increasingly being addressed at the industry level.
- Whether as a central or complementary solution for your company, check with your industry association before developing your own new solutions. Also ask your customers specifically; perhaps your grievance system can be linked to that of your customer.
- If negative human rights impacts occur that your company has caused or contributed to, your company must develop or participate in measures to redress them.

Further information

- The [UN Guiding Principles on Business and Human Rights](#) have defined eight criteria to determine the effectiveness of human rights grievance mechanisms. Use this as a checklist to help you focus and gradually improve your mechanism.
- [Interpretive Guide of the Office of the High Commissioner for Human Rights](#) (OHCHR) (p 63 ff)

Conclusion: Basics of being a good supplier

- Supplier reviews are important for the customer to ensure sustainability standards in the supply chain and to select and develop suppliers accordingly.
- Suppliers should therefore strive to comply with sustainability standards in order to maintain or even expand contractual relationships and to gain economic advantages.
- In addition, suppliers can use the review directly to disclose or identify grievances and opportunities for improvement and to initiate appropriate measures.
- Information and ideas from customers can, for example, lead to improvements in employee health protection. The exchange of experience with customers can also lead to joint projects, for example on more sustainable products/materials or more efficient and environmental-friendly logistics solutions.

Checklist: Getting ready for supply chain due diligence

- Have you familiarized yourself with the main human rights reference instruments?
- Are you aware of your existing corporate policies and how they match the (new) requirements of your customers?
- Have you gathered existing data on human rights and environmental risks? (e.g. purchasing or compliance data)
- Do you have an overview of already existing standards and certificates that you follow / have?
- Do you have key figures on your sustainability performance available that you can communicate to your customer?
- Do you have existing informal or formal complaint channels that you can improve?
- Have you reached out to your customers who are directly affected by due diligence laws to discuss the topics mentioned?

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