

# The German Supply Chain Act



What it means for you and how to get going

## A challenge and an opportunity

Which due diligence activities you must implement with the German Supply Chain Act are listed here.

- Establishing risk management within the own organisation and the extended supply chain.
- Assigning internal responsibilities so nothing is left behind.
- Continuous analysis of the risks in the supply chain.
- Defining a company policy on human rights strategy.
- Establishing prevention measures within the own organisation and with direct suppliers.
- Creating mitigation measures.
- Integration of a complaints procedure among all suppliers.
- Implementing due diligence activities for existing risks.
- collecting all relevant documentation and creating reports.

## How Xylene can help you

Xylene makes sustainable supply chains achievable today, by delivering impactful benefits even if you are not directly affected by the supply chain act.

- ✔ Full supply chain visibility of direct suppliers and beyond.
- ✔ Authentic data collection and trusted management.
- ✔ Product tracking with satellite data and blockchain.
- ✔ Achievement of own ESG targets.
- ✔ Calculation of scope 3 carbon footprint.
- ✔ Gain control over own supply chain
- ✔ Identify potential risks in order to be able to react to them in a targeted manner.



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# Xylene Roadmap – Your chance to be prepared

## Discovery Phase Q4/2021

 Initial supply chain analysis. Identify known suppliers and visibility gaps

 Identify sustainability and human rights risks with know suppliers

 Define critical raw materials

 Review internal supply chain management systems

 Introduce measures to map and visualise the whole supply chain

★ Tier 1 visibility barrier breached

## Implementation Phase Q1/2022

 Define responsible supply chain compliance leader

 Identify suppliers in source areas and analyse the country risk

 Adoption of risk mitigation and prevention plan

 Introduce industry and material standards to assess suppliers

 Define a complaints procedure

 Exchange documentation among mapped suppliers

★ Due diligence and risk mitigation implemented

## Integration Phase Q3/2022

 Share procedures for risk analysis and mitigation with suppliers

 Analyse the supply base

 Define reports based on requirements

 Introduce product flow traceability for critical raw materials

★ Full compliance achieved

## Establishment Phase Q4/2022

 Monitoring of processes and continuous improvement of value creation

1st January 2023 - Supply Chain Act (LkSG) comes into force

# More about the German Supply Chain Act (LkSG)

## The Supply Chain Act Today

The German Supply Chain Act was passed by the German Bundestag in mid-June 2021 and focusses on establishing ethical sourcing among German based companies with their international supply chains.

The law will come into force on the 1st of January 2023 and be initially mandatory for companies with more than 3,000 employees.

From the 1st of January 2024, however, the employee limit will be adjusted to more than 1,000. Parliament has also kept it open if a downward adjustment of the threshold shall be performed by the 30th of June 2024.

Even though there is no obligation of being successful at ensuring sustainable and ethical processes in the supply chain, there is an obligation of introducing due diligence measures the help identify and act upon risks in the supply chain. Key areas that shall be targeted are sustainable products, materials, and services that are imported and, additionally, ethical working conditions in the companies that these products and materials are sourced from.

This is not just an isolated German law that will never affect other countries. The EU is currently debating about a new directive called "EU Directive on Mandatory Human Rights, Environmental and Good Governance Due Diligence". In October 2021 the next debate will commence to further push forward the definition of the directive. Currently it is expected that this directive will apply to companies with a minimum of 250 employees, €50 million annual turnover, and a balance sheet that exceeds €43 million.

Under the Supply Chain Act it will be critical that companies introduce measures to help identify and mitigate risks in the supply chain.

## What needs to be done

The most critical include 9 obligations that have been defined by the law (§3, para. 1).

- 1 The establishment of risk management within the own organisation and the extended supply chain to manage the due diligence activities.
- 2 Assigning internal responsibilities so nothing is left behind.
- 3 Continuously analysing the risks in the supply chain can be considered the most important measure.
- 4 Defining a company policy on human rights strategy.
- 5 Establishing prevention measures within the own organisation and with direct suppliers.
- 6 Creating mitigation measures and a procedure for complaints that is cascaded along direct and indirect suppliers.
- 7
- 8
- 9 Finally, collecting all relevant documentation and creating reports.

The consequences from supply chain misconduct under the German Supply Chain Act are heaving when comparing to previous supply chain related regulation such as the EU Timber Regulation.

Fines can reach up to € 800,000 (§24, para. 1), however if a company has more than € 400,000 in annual turnover fines can peak at 2% of a company's global turnover (§24, para. 3). Additionally, if fines reach Euros € 175,000 companies can be excluded from public tenders of up to three years (§ 22, para. 1ff).

Although the financial risk a company faces may be estimated, the impact of reputational risk, financing risk, and the risk of retorsion may greatly impact businesses.

### Getting started today

The cornerstone for compliance and sustainability in a supply chain is the establishment of supply chain visibility. This means having a full overview of where direct suppliers and tier-n suppliers are located.

A supply chain mapping helps to identify suppliers in source areas and analyse the country risk. With this in place companies conduct assessments of supplier activities based on industry and material standards.

To fully understand supply chain risks it may be important to achieve traceability for selected raw materials. Following these materials through the supply chain not only provides a clear journey of the products but also helps with the adoption of risk mitigation activities.

With this information it is easy to identify unwanted activities and follow responsibilities, all collected information available through supply chain visibility and material traceability is usable to generate auditable reports along set requirements from auditors, regulator, and customers.



Interested in getting transparency and validated traceability to your supply chain?

Get in touch with Xylene and our experts to start with a simple exchange for a resilient and sustainable supply chain.

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