

The German Supply Chain Due Diligence Act (LkSG)

A comprehensive guide

Introduction

The German Supply Chain Due Diligence Act (LkSG) is a landmark legislation that came into effect on January 1, 2023. This guide provides a practical overview for supply chain, procurement, and sustainability professionals to understand and implement the law's requirements.

Overview Scope and Applicability

- Initially applies to companies with 3,000+ employees in Germany
- From 2024, expands to include companies with 1,000+ employees
- Covers the entire supply chain, including direct and indirect suppliers
- Applies to companies based in Germany or with significant operations there

Key Requirements

1. Establish a Risk Management System

- Implement a comprehensive system to identify, assess, and mitigate risks related to human rights and environmental issues
- Conduct regular risk analyses of the supply chain
- Perform annual risk assessments and ad-hoc analyses when new risks arise

2. Develop a Policy Statement

- Create a clear policy statement on the company's human rights strategy
- Communicate this policy throughout the organization and to all supply chain partners

3. Implement Preventive Measures

- Develop and implement measures to prevent identified risks
- Focus on both the company's own business operations and direct suppliers
- Examples include supplier codes of conduct, training programs, and sustainable contract design



4. Take Remedial Action

- Establish procedures to address violations when they occur
- Create a plan for remediation, including steps to end or minimize violations
- Collaborate with suppliers and affected parties to implement remedial actions

5. Establish a Complaints Mechanism

- Set up an accessible and efficient grievance procedure
- Allow workers and other stakeholders to report violations without fear of reprisal
- Ensure the mechanism is confidential and promotes accountability

6. Implement Due Diligence for Indirect Suppliers

- Extend due diligence obligations to indirect suppliers when there is substantiated knowledge of potential violations
- Conduct risk analyses and take appropriate preventive and remedial measures

7. Document and Report

- Maintain thorough documentation of all due diligence activities
- Maintain comprehensive internal records to demonstrate compliance to BAFA if required
- Prepare sustainability disclosures aligned with broader EU reporting requirements (CSRD/CSDDD) where applicable

Practical Steps for Implementation

1. Map your entire supply chain, including direct and indirect suppliers
2. Implement a digital supply chain management solution for better visibility and traceability
3. Conduct a comprehensive risk assessment of your supply chain
4. Develop a supplier code of conduct aligned with LkSG requirements
5. Include LkSG compliance clauses in supplier contracts
6. Establish a process for regular supplier audits and performance evaluations
7. Implement a supplier risk management platform to centralize assessments and monitoring
8. Invest in training programs for relevant staff to understand their responsibilities under the LkSG
9. Collaborate with suppliers to develop improvement plans when issues are identified
10. Regularly review and update due diligence processes to adapt to changing risks and evolving regulatory requirements, including alignment with the EU Corporate Sustainability Due Diligence Directive (CSDDD)

Enforcement and Penalties

- The Federal Office for Economic Affairs and Export Control (BAFA) oversees implementation
- Fines can reach up to 2% of annual global turnover or €8 million, depending on the violation
- Non-compliant companies may be excluded from public procurement processes in Germany
- BAFA enforcement focuses on substantive compliance (effective risk management systems, functioning complaints mechanisms, and demonstrable remedial action) rather than purely formal procedural requirements

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Conclusion

The LkSG represents a significant shift in supply chain management, requiring companies to take a more proactive and comprehensive approach to human rights and environmental due diligence. By following this guide and implementing robust processes, companies can work towards effective LkSG compliance while improving their overall supply chain sustainability and risk management practices.

Compliance with the LkSG is not just about avoiding penalties; it's an opportunity to build more resilient, ethical, and sustainable supply chains that create long-term value for your business and stakeholders.

Resources

German government website: [Gesetz über die unternehmerischen Sorgfaltspflichten in Lieferketten \(LkSG\)](#)

About Sedex

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Sedex has 20 years of expertise and provides end-to-end supply chain solutions for all businesses, including SMETA, our world-leading site-level audit. We're proud to work with a community of 100,000 businesses and 120,000 supply chain sites across 35 sectors globally. This includes some of the world's most recognisable brands such as Reckitt, Nestlé, Molson Coors, Yum! Brands, Marks & Spencer, Mengniu, Walmart, Tesco, Asahi, Li & Fung, John Lewis Partnership (JLP) and Barclays to name a few.

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