

Supply Chain Due Diligence Act: Human rights and environmental obligations in procurement

The Supply Chain Due Diligence Act (officially Lieferkettensorgfaltspflichtengesetz, LkSG) obliges companies in Germany to exercise due diligence in their global supply chains. Its aim is to prevent human rights violations and failures to meet environmental standards, such as child labour, forced labour or unacceptable environmental pollution, along the value chain. For technical buyers, the Act is directly relevant because procurement forms the main point of contact with suppliers and their upstream tiers.

Key facts

- The LkSG has applied since 2023 to companies in Germany typically from 3,000 employees, and since 2024 already from 1,000.
- Central to it are nine international conventions, including the UN Guiding Principles on Business and Human Rights.
- Core obligations include risk management, internal and — where there is substantiated knowledge — external analyses, a complaints procedure, documentation and reporting obligations.
- Covered are a company's own business areas, contractual partners and — in cases of de facto control — the conduct of their upstream tiers.
- Fines can reach up to 2% of annual turnover depending on company size; further debarment barriers in public procurement are possible.
- In practice, implementation relies heavily on supplier data, contracts, audits and a functioning supplier risk management process.

Definition: Supply Chain Due Diligence Act

The Supply Chain Due Diligence Act regulates corporate due diligence with regard to human rights and the environment along the entire supply chain. It is not a standalone procurement law but transfers international standards into company-specific obligations subject to supervisory oversight.

Purpose and scope of the Act

The purpose of the Act is for German companies to actively ensure that no serious human rights or environmental violations occur in their supply chains. Its scope covers a company's own business areas and direct contractual partners; in cases of de facto control, the contractual partners' own activities may also be covered. The legislator has already lowered the threshold for application, meaning that considerably more medium-sized suppliers are affected indirectly because their customers pass obligations on to them.

Distinction from the EU Directive

In addition to the German LkSG, there is the EU Directive on sustainability reporting and supply chain due diligence (CSDDD, in a CSRD context), which is to be transposed into national law step by step. Implementation, timelines and thresholds should be reviewed on a case-by-case basis and kept up to date, as details vary depending on the European transposition status. For procurement, both regimes follow the same basic principle: identify risks, derive measures, document outcomes.

Corporate obligations: what the Act specifically requires

The LkSG distinguishes between preventive and remedial obligations as well as procedural cross-cutting obligations. The requirements scale according to risk, the nature of the business area and the influence exercised on the contractual partner.

Risk analysis and ongoing monitoring

A risk analysis must be carried out at least annually and on an event-driven basis, systematically searching for human rights and environmental risks in a company's own areas and among direct suppliers. In practice, risk country lists are combined with commodity-specific risks (e.g. pig iron, coltan, cotton) and supplier data such as location, legal form and sanctions status. Supplier sanctions screening is also part of risk prevention, as violations of embargoes often go hand in hand with human rights violations.

Preventive and remedial measures

Where risks are identified, preventive measures must be taken, such as binding declarations, codes of conduct, training and contract design. Where there is substantiated knowledge of a violation, timely remediation obligations apply: measures appropriate to the situation at the affected party, at the contractual partner and — where necessary — at the company itself. If the contractual partner fails to comply with its obligations, a minimisation plan with fixed deadlines may be agreed; as a last resort, termination of the business relationship is on the table.

Complaints procedure and reporting obligation

Companies must establish an internal, directly accessible complaints procedure through which employees and affected parties along the supply chain can report indications of violations. The procedures must be designed to be low-barrier, confidential and auditable. In addition, the due diligence measures taken must be retained for at least seven years and disclosed publicly in an annual report (e.g. via sustainability reports or the company website).

Implementation in the procurement process: methods and approach

For buyers, the Act means concrete embedding in processes, systems and contracts. What matters is a pragmatic build-up that prioritises risks rather than treating every supplier relationship equally.

Prioritise the supplier portfolio by risk

Not all suppliers carry the same risk. An ABC analysis by purchase volume and a risk matrix by country and raw material group help determine for which partners enhanced reviews and audits make sense first. Critical A- and B-suppliers from high-risk countries or with risk-prone materials are prioritised;

C-suppliers from low-risk countries receive a leaner standard. This prevents procurement from being overwhelmed by blanket reviews that are neither feasible nor effective in practice.

Supplier data, onboarding and self-assessments

Implementation begins with a robust supplier master data foundation: master data, production sites, upstream tiers and certifications must be captured. A structured onboarding process with self-assessment, a sustainability questionnaire and code-of-conduct acceptance becomes the standard. Qualified supplier enablement also helps here, guiding suppliers in providing the necessary evidence rather than frustrating them with incompatible formats. Data maps along the bill of materials, particularly for critical materials, help make upstream tiers visible too.

Adapt contracts and procurement policies

Human rights and environmental clauses belong in framework agreements, general terms and conditions of purchasing and the procurement policy. A graduated architecture makes sense: core obligations for all partners, enhanced evidence for critical groups. At the same time, the procurement process should remain consistent — for example, when AI-supported selection processes or enquiries are combined with sanctions screening, human rights and environmental criteria must not stand in isolation but feed into evaluations, audits and supplier development.

Key KPIs and steering of supply chain due diligence

Success is not measured by the number of questionnaires issued but by the effectiveness of the processes. Meaningful KPIs link procurement data with due diligence progress.

Process KPIs: coverage and responsiveness

Common KPIs include the proportion of suppliers with valid risk and sanctions screening, the response rate to sustainability self-assessments, or the time from violation report to initiated remedial action. Common target values pursued in practice include a master data completeness rate of well over 95% and complaint handling within a few working days. What matters is that the KPIs reflect not only processes but also the state of affairs: a high response rate without verified substantive validity is worthless.

Outcome KPIs and interfaces with compliance metrics

Higher-value KPIs include the number of identified and completed remedial actions, the proportion of audited high-risk suppliers with a traceable action plan, or the proportion of suppliers that undergo sanctions screening and LkSG criteria in a combined process. Coupling to compliance and supplier risk management is also useful, so that due diligence, sanctions screening and operational supply capability do not operate as isolated silos.

Risks, fines and controls

Those who neglect the obligations risk fines, debarment barriers in public procurement and reputational damage. In addition, civil law consequences are possible where breaches of due diligence result in damage.

Fines, debarment and possible management liability

Violations can result in fines that may be substantial depending on company size — in extreme cases

up to 2% of annual global turnover. In addition, there are exclusions from public contracts for certain periods. Members of governing bodies may also be held liable if they demonstrably failed to monitor due diligence obligations. Legal details depend on the individual case and should be reviewed legally.

Typical mistakes and controls in procurement

Common mistakes include: a complaints procedure formally established without a process, failure to link the risk analysis to genuine procurement decisions, or compliance pressure on suppliers without the necessary exemplary conduct within the company itself. Controls work where they are applied systematically: clear review paths, documented decisions on supplier approval and deviation management for critical KPIs. This makes due diligence part of day-to-day procurement work — for example, with every RFQ, every new approval on the Approved Vendor List (AVL) or every contract renewal — rather than an annual paper exercise.

Current developments and outlook for procurement

Regulation and practice are evolving rapidly. For buyers, it is worth looking at how the LkSG interlocks with European legislation and with digital procurement tools.

European harmonisation and expansion of the affected circle

The EU sustainability directive leads to gradually expanded obligations and thresholds, which may also become relevant for non-German or smaller companies. Added to this is growing pressure along the value chain, as large customers pass their requirements on to upstream tiers via contracts and audits. Suppliers in DACH industry should therefore rely on a robust evidence system regardless of whether they exceed the thresholds themselves.

Digitalisation of due diligence

In practice, increasing integration is emerging between procurement platforms, supplier databases and compliance checks. Approaches such as automated risk analysis at supplier approval, sanctions checks on requisition proposals or linked evidence requirements during onboarding make due diligence scalable. The procurement data model is also being extended with sustainability and compliance attributes so that risk information is available directly in the procurement decision rather than as a separate document. Compared with unstructured formats such as simple email requests, structured platform processes retain the advantage that evidence remains versioned, auditable and retrievable across the entire product lifecycle management horizon.

Typical metrics

Risk screening coverage rate: > 95%

Proportion of active suppliers with a completed risk and sanctions check

Self-assessment response rate: > 90%

within a defined time window after request

Complaints processing time: < 7 days

time from receipt of report to first documented review step

High-risk supplier audit rate: typically 80–100%

depending on the underlying risk rationale and supplier development capacity

Practical example

A medium-sized mechanical engineering company with around 2,000 employees supplies several OEM customers that are themselves subject to the LkSG and pass the requirements on to their suppliers. The sustainability management officer in procurement coordinates implementation jointly with Legal and Procurement.

- Risk analysis by country and material group: focus on castings from high-risk countries and critical raw material inputs in electronics.
- Graduated self-assessments: a basic questionnaire for all partners, enhanced evidence on upstream tiers only for high-risk suppliers.
- Combining sanctions screening and LkSG risk checks directly with every new approval on the Approved Vendor List.
- A complaints procedure as a protected portal with a documented escalation path and binding response deadlines.

Conclusion

The Supply Chain Due Diligence Act makes sustainability and compliance risks a firm part of procurement work. For buyers, this means shaping supplier strategy, contracts and data processes so that due diligence obligations do not operate in isolation but along the entire process. Companies that prioritise risks early and document them in a structured way meet the statutory requirements and at the same time strengthen their position with demanding customers. Those who merely produce paperwork, by contrast, accept risks and may lose access to customers that already pass stricter standards on to their suppliers.

Frequently asked questions

From when does the Supply Chain Due Diligence Act apply to my company?

It has applied since 2023 to companies domiciled or headquartered in Germany, typically from 3,000 employees, and since 2024 already from 1,000. Suppliers below these thresholds are affected indirectly because their larger customers pass the obligations on contractually. The exact thresholds and the applicable European legislation should be reviewed on a case-by-case basis and kept up to date.

What obligations does the Supply Chain Due Diligence Act specifically comprise?

Core obligations include risk analysis, preventive and remedial measures, a complaints procedure, ongoing monitoring, documentation and annual reporting. The measures scale according to the level of risk, the nature of the business activity and the influence exercised on the contractual partner. Where there is substantiated knowledge of violations, graduated remediation obligations apply, up to and including termination of the business relationship.

What are the possible consequences of violations of the Supply Chain Due Diligence Act?

Possible consequences include fines of up to 2% of annual global turnover depending on company size, as well as debarment barriers in public procurement. Added to this are reputational damage and, in individual cases, civil law risks. The specific sanctions and liability issues depend on the individual case and must be reviewed legally.

Does the Supply Chain Due Diligence Act distinguish between direct and indirect suppliers?

Yes. Direct contractual partners are generally the focus of the obligations, while activities at upstream tiers are only covered where there is substantiated knowledge or de facto control. In practice, the contract-with-clauses approach means that many companies also request enhanced evidence from upstream tiers where risks suggest this is warranted.

What role does procurement play in implementing the Supply Chain Due Diligence Act?

Procurement is central, as it owns the supplier relationship and holds information on sites, materials and upstream tiers. Core tasks include risk-based supplier vetting, contract amendments, evidence requirements and embedding due diligence in enquiries, approvals and monitoring. Success depends heavily on how well sustainability and compliance data are integrated into procurement systems.