



Fraunhofer-Institut für Materialfluss
und Logistik IML

Fraunhofer IML

Social Sustainability and Corporate Social Responsibility

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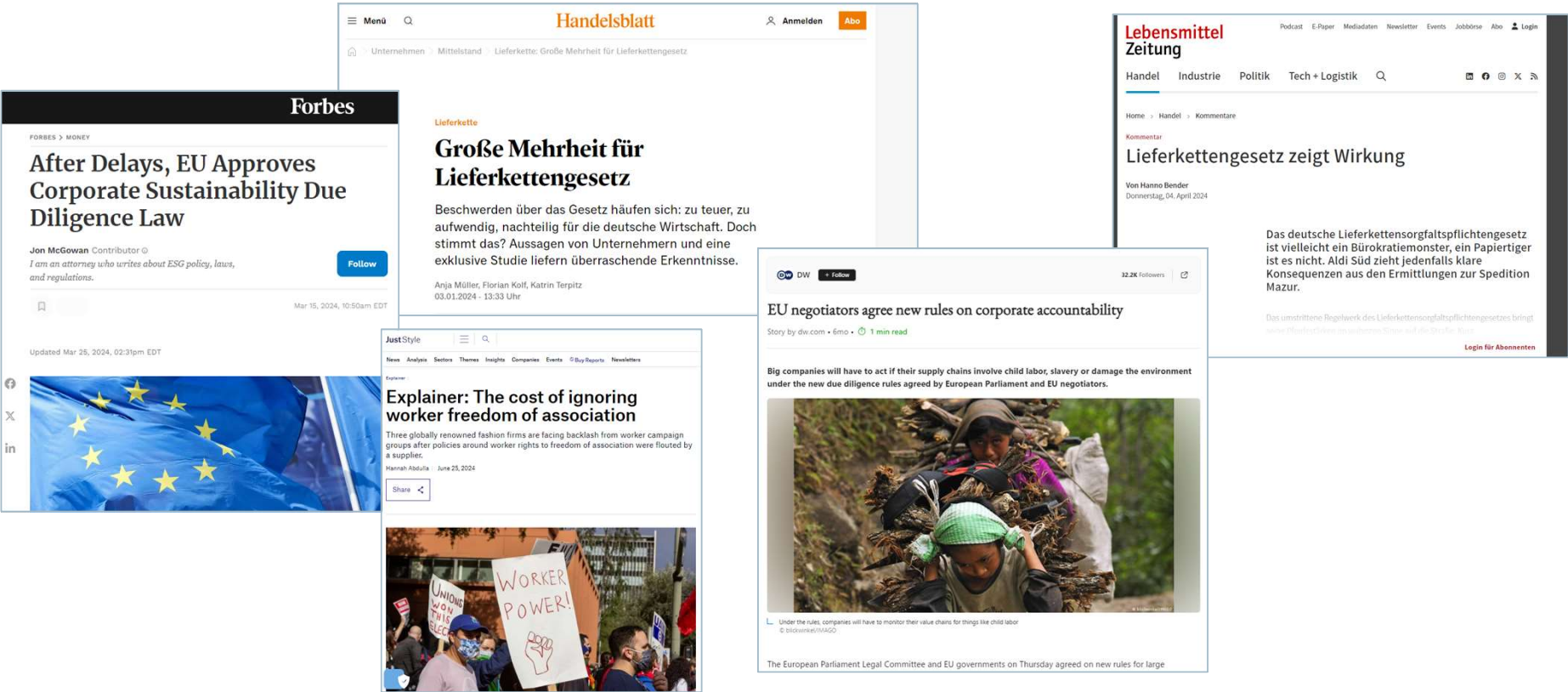
15th July 2024



The ReSChape project is funding from the European Union's Horizon Europe research and innovation programme under grant agreement No 101061729



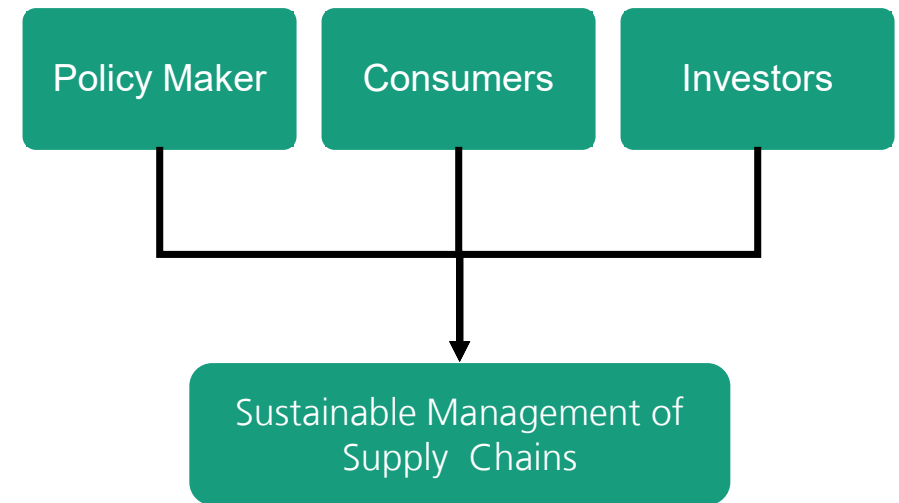
Importance of social, environmental and climate-related obligations for companies is increasing



Social, environmental and climate-related due diligence

Background: The 17 social development goals of the United Nations

SUSTAINABLE DEVELOPMENT GOALS



Social, environmental and climate-related due diligence policies

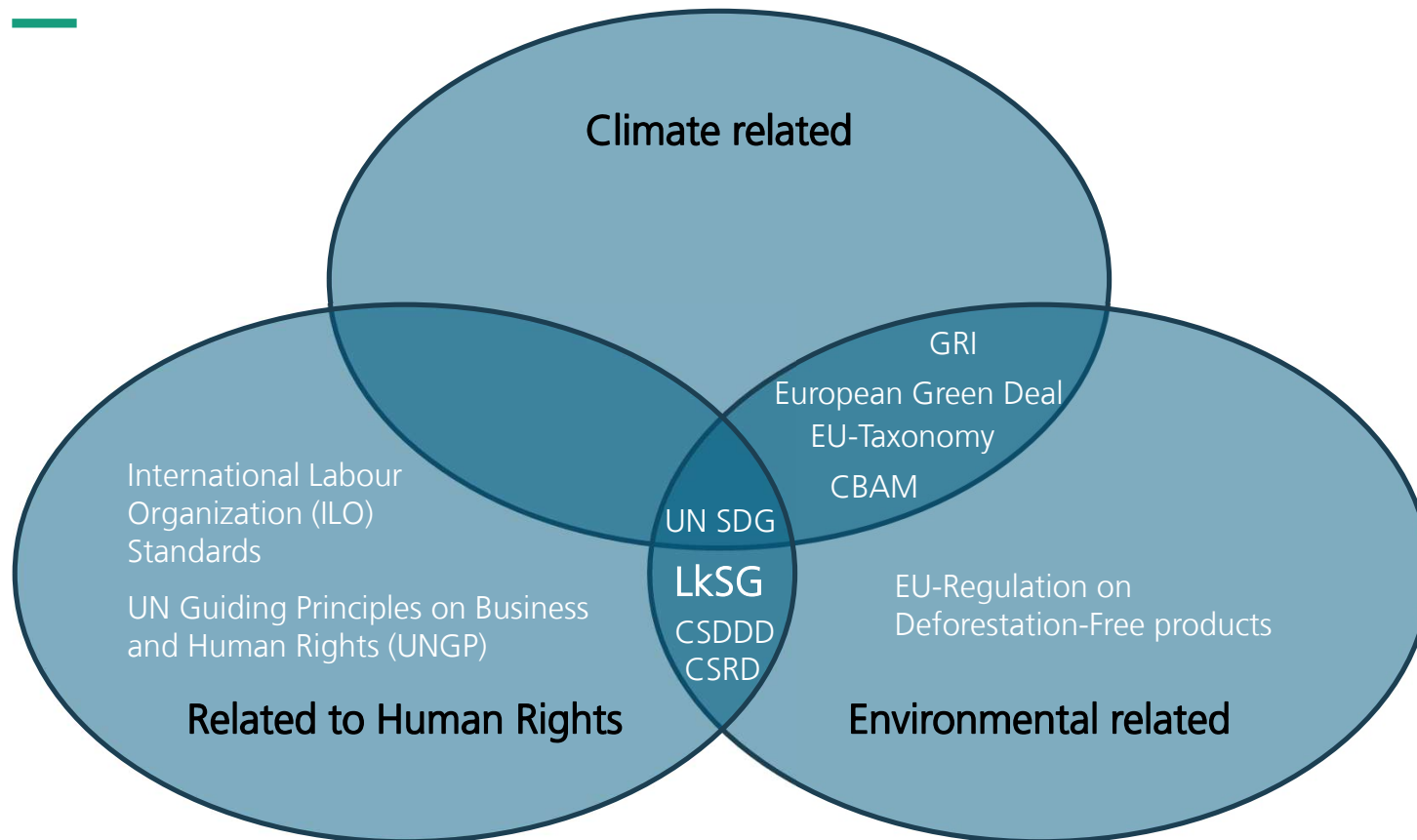
Many national and European have evolved in the last 15 years



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Laws, regulations and standards are still evolving

Selected European and German laws, directives and standards



GRI = Global Reporting Initiative

UN SDG = United Nations Sustainable Development Goals

CSRD = Corporate Sustainability Reporting Directive

CSDDD = Corporate Sustainability Due Diligence Directive

LkSG = Lieferkettensorgfaltspflichtengesetz

CBAM = Carbon Border Adjustment Mechanism

Example: The German Supply Chain Act (Lieferkettensorgfaltspflichtengesetz)

Motivation, objectives, and scope

Motivation for the LkSG?



- Germany tried on a voluntary commitment till 2023
- Target of 50% of companies implementing due diligence on a voluntary basis could not be achieved (<20%)
- Mandatory legal implementation of the UN Guiding Principles on Business & Human Rights in Germany

Objectives



- German companies must take responsibility for upholding human rights in supply chains (no child or forced labour)
- Environmental concerns are also relevant (e.g. water pollution)

Scope



- Companies with more than 1000 employees, regardless of their legal form
- Head office, main branch, administrative headquarters or registered office in Germany
- Foreign companies with branches or subsidiaries in Germany



Contents of the Supply Chain Act

Objectives and affected Companies

Due diligence and declaration of principles

Risk management

Management of Complaints

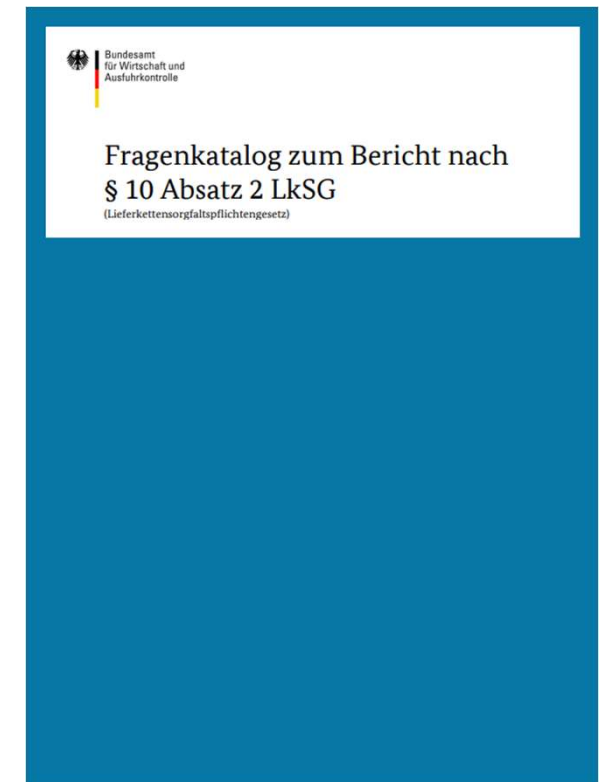
Documentation and Reporting

Possible consequences of non-compliances

Documentation and reporting in accordance with LkSG

Monitored by the German BAFA (Federal Office for Economic Affairs and Export Controls)

- Reporting companies must publish an annual report on the fulfilment of due diligence obligations
- The documentation must also be kept permanently within the company
- The BAFA report contains open and closed questions as well as multiple choice questions
- Submission takes place via an electronic report questionnaire after prior registration with BAFA
- Minimum content requirements for the report:
 - Whether and which risks or violations have been identified
 - Measures to implement the due diligence obligations
 - Evaluation of the effectiveness of the measures
 - Conclusions for future measures



Consequences of failure to fulfil due diligence obligations

Possible sanctions under the German Supply Chain Act (LkSG)

Companies subject to the LkSG

- If companies do not fulfil their due diligence obligations or do so insufficiently, they may be excluded from the award of public contracts
- Fines of up to €50,000 can also be imposed
- Fines of up to €8 million or up to 2 per cent of annual global turnover (applies to companies with an annual turnover of more than €400 million)

Companies whose customers are subject to the LkSG

- The contractual relationship may require the customer to fulfil the due diligence obligations
- Documentation and reporting obligations to BAFA are not required and therefore no sanctions are to be expected
- However, the contractual partner can terminate the contractual relationship if the due diligence obligations are not met

German Supply Chain Act (LkSG)

Fines imposed as of March 2024 according to BAFA

- The German Federal Office for Economic Affairs and Export Controls (BAFA) is monitoring the compliance of the LkSG
- In 2023, BAFA carried out 486 inspections at companies
- In addition, 38 complaints were submitted, and companies were contacted in 6 cases
- No sanctions have been imposed by BAFA to date
- BAFA will review the availability and publication of reports in accordance with the LkSG for the first time on 1st January 2025

Interviews and Survey on Key Horizontal Issues of European Supply Chains

Upcoming ReSChape Expert Consultations

- ReSChape will asking gather insights from experts (private sector, policy makers, NGOs, academia) on the challenges facing European supply chains.
- We would like to find out how companies and legislators are positioned to these challenges and what measures should be taken to overcome them.
- The consultations will start soon and will be performed by the partners of ReSChape project until the beginning of September 2024
- The consultations are supported by an online questionnaire.



Key Horizontal Issues of European Supply Chains

Welcome to our survey on the resilience of European supply chains

In this survey, we are asking experts for their views on the challenges facing European supply chains. In particular, we would like to find out how companies and legislators are positioned with regard to these challenges and what measures should be taken to overcome them.

Background of this survey is the EU-funded ReSChape project. This project has analysed changes and disruptions relevant for European supply chains and is currently evaluating the impact of these challenges. The ReSChape project will then develop policy scenarios with recommendations for future global value chains and will provide recommendations for EU, national and sectoral strategies, policy measures and targeted actions aimed at shaping fair, inclusive and sustainable supply chains.

Key Horizontal Issues of affected the resilience of supply chains

There are many issues affected the resilience of European supply chains. Some of these are specific to business sectors or even individual companies. For a discussion of supply chain resilience it is helpful to group and aggregate the issues. That is why the ReSChape project has a compiled a list of five Key Horizontal Issues (KHI) affecting the resilience of European supply chains. These KHIs cut across sectors and confront most companies – in industry, retail and services. Each KHI is characterized by several challenges. The remainder of this questionnaire is thus structured by the following 5 KHIs:

- Supply Disruptions Risks: critical raw materials (CRM), rare earth elements, supply disruptions, sanctions, boycotts, IC shortage, trade route disruptions, critical logistics infrastructure
- Fast-paced and volatile demand: Changing customer and consumers behaviour, demand, purchase patterns, trust, supply chain visibility
- Digitalization and data privacy Concerns: Corporate, ethical issues, digitalization, privacy, security
- Workforce Skill and Knowledge Gaps: Skills gap and talent shortage, growing popularity of lower-skilled jobs, shortage of digital skills in a digital working environment, managing training and developing employees across generations, AI requires specific knowledge
- Social, environmental and climate related issues: corporate social responsibility, ESG standards, labour rights in supply chains, green supply chain management, decarbonization, sustainability, green technologies, energy efficiency

The questionnaire is hosted by Fraunhofer in Germany. Answering the questions should take between 15 to 30 minutes.

Concluding Remarks

- **Regulations** on social, environmental, and climate related **will have a growing impact on European supply chains**
- Regulated **companies in Germany transfer tasks** (risk management, reporting) **to all their suppliers**
(→ SME and European companies are this indirectly affected)
- Policy makers should **refrain from national solutions** to avoid competition for business-friendly regulations between EU countries.
- There are some software providers offering services for companies in the context of corporate social due diligence
- Many companies **complain**, that the **processes imposed are too bureaucratic**
- Especially smaller companies suffer, because different customers require different reports on corporate due diligence
→ **Europe-wide standards and processes are required** to avoid unnecessary administrative work

What are your experiences (and your opinion) on the national and European regulations on social sustainability and CSR?

Imagine I am the fairy godmother (die gute Fee, la fée marraine, la fata madrina, a fada-madrinha, la fada drina, ...):

What wish should I grant you in the area of social sustainability and CSR?



IT WAS HER FAIRY GODMOTHER!

Image source: Childhood's Favorites and Fairy Stories
by Mabie, Forbush, and Hale, Project Gutenberg;
<http://www.gutenberg.org/etext/19993>



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NEWS MITTELSTAND-DIGITAL ZENTRUM RUHR-OWL

RATGEBER RUND UM DAS LIEFERKETTENGESETZ

Die wachsende Bedeutung von Menschenrechten, Umweltschutz und Klimawandel in der Gesellschaft spiegelt sich in verstärktem Bewusstsein bei Konsumenten sowie in politischen Programmen wider. In diesem Kontext haben die Vereinten Nationen die Agenda für nachhaltige Entwicklung bis 2030 mit 17 Entwicklungszielen eingeführt.

Neuer Ratgeber zum Lieferkettengesetz

Einkaufsführer

Nachhaltiges Lieferkettenmanagement

<https://mittelstand-digital-ruhr-owl.de/neue-broschuere-veroeffentlicht-nachhaltiges-lieferkettenmanagement-im-fokus/>