

# EU Directive on Corporate Sustainability and the German Supply Chain Act - Implications for EU and Chinese Companies



## Regulatory updates in the EU

### German Supply Chain Act

- ◆ Germany introduced the German Supply Chain Act (GSCA), which focuses on supply chain due diligence.
- ◆ The GSCA was officially enacted in 2021, and became effective on 1 January 2023.
- ◆ This legislation will impose legal responsibilities on companies operating in Germany to ensure that social and environmental standards are upheld throughout their entire supply chain.
- ◆ Initially, it applies to companies with over 3,000 employees, starting in 2023. In 2024, its scope will include companies with over 1,000 employees.

### EU Corporate Sustainability Due Diligence Directive (CSDDD)

- ◆ On 23 February 2022, the EU published a proposal for a Directive on Corporate Sustainability (“the Directive”). It is important to note that the Directive is still awaiting approval from the European Parliament and Council.
- ◆ When compared to GSCA, the proposed Directive has a broader scope. If it is enacted in its current form, it will consequently extend the requirements for companies and their supply chains further.



## What companies in China are impacted?

- ◆ Chinese suppliers engaged in trade exports to EU
- ◆ China subsidiaries of EU companies



## What do companies need to do?

Based on GSCA, companies need to have:

- ◆ Risk management system
- ◆ Internal responsible person
- ◆ Regular risk analyses regarding the risks in itself or at direct suppliers
- ◆ Relevant policy statement on the company's sustainability strategy
- ◆ Preventive and remedial measures in itself and at the contractual partners
- ◆ Due diligence at indirect suppliers
- ◆ Complaints procedures
- ◆ Regular documentation and reporting

## Potential consequences for non-compliance of GSCA

**Fines:** up to EUR 800k fines or, for companies with an annual turnover of more than EUR 400 million, up to 2% of the annual global turnover per violation

**Public procurement:** If the fine exceeds EUR 175k, the company will be banned from participating in public tenders for up to three year

**Lawsuit:** If anyone asserts that their rights protected by GSCA have been seriously violated, they have the right to entrust German trade unions and non-governmental organisations to file lawsuits against the relevant companies in Germany.

## Actions taken by companies in response to GSCA

- ◆ According to news reports, the GSCA has become a regulatory compliance focus of German companies. Some German companies have taken measures responding to GSCA, including launching/enhancing relevant compliance programme, performing risk assessment, and evaluating the risks of their suppliers all over the world.

## How can we help EU companies in China?



### Risk assessment

- ◆ Perform risk assessment on the China operation, based on China-specific risk scenarios
- ◆ Conduct analysis on the business model and business partners, to identify high-risk business partners



### Gap analysis and P&P enhancement/localisation

- ◆ Review the policies and procedures of the China subsidiaries, to identify potential gaps in the regulatory requirement
- ◆ Localise the global policies and procedures, and incorporate local relevant requirements (e.g., labor protection laws)



### Supply chain due diligence

- ◆ Design ESG-focused self-assessment questionnaires for business partners
- ◆ Review the self-assessments conducted by business partners
- ◆ Conduct on-site due diligence or audit on selected high-risk business partners



### Remediations

- ◆ Follow up with business partners on the remediation plans
- ◆ Re-visit the high-risk business partners and assess the remediation actions taken by the business partners

## Relevant project experience

### CSR audit on suppliers for a leading global electronic technology group

- ◆ Reviewed the CSR self-assessments performed by the selected suppliers in China.
- ◆ Collected and reviewed the CSR work-related documentation and conducted interviews with the management of the suppliers.
- ◆ Based on the document review and preliminary analysis, selected suppliers to be audited and conducted on-site CSR audits at the suppliers' factories, interviewed employees, and performed inspections on the working and living areas. Aligned with the management of the suppliers regarding the issues identified.
- ◆ Reported the audit findings and the remediation plan of the suppliers to the global supply chain department of the client.
- ◆ With the work performed, we helped the client to refine the CSR audit process and updated the internal audit manuals. In addition, the supply chain department of the client joined some on-site audits and learnt from our team on the key focus areas of the CSR audits.

## Contact us



**Antoinette Lau**  
Partner

+86 (21) 2323 5533

[antoinette.yy.lau@cn.pwc.com](mailto:antoinette.yy.lau@cn.pwc.com)



**Quentina Zhao**  
Partner

+86 (21) 2323 6601

[quentina.zhao@cn.pwc.com](mailto:quentina.zhao@cn.pwc.com)



**Alex Tu**  
Senior Manager

+86 (21) 2323 8069

[alex.q.tu@cn.pwc.com](mailto:alex.q.tu@cn.pwc.com)



**Bowen Zhang**  
Manager

+86 (21) 2323 3050

[bowen.b.zhang@cn.pwc.com](mailto:bowen.b.zhang@cn.pwc.com)