



EU Expands Forced Labor Laws

German and Norwegian Supply Chain Acts



Executive Summary

With every passing year, more countries enact laws requiring companies to perform “human rights due diligence” on their supply chains— and members of the European Union are leading the way. That push began in 2015 with the U.K. Modern Slavery Act, since followed by similar legislation in Switzerland, France, and the EU as a whole.

Now the due diligence community has two more additions to this family: the German Supply Chain Due Diligence Act (abbreviated in German as LkSG) and the Norwegian Transparency Act. How do these two laws fit within that greater push against forced labor in Europe? How can your compliance program integrate them into your existing efforts? Let’s try to answer those questions.

Setting The Stage

Like their predecessors, the Germany and Norway laws both require companies to look for instances of forced labor or similar abuses in corporate supply chains. That said, since every law is different in its details, companies are still stuck in a somewhat frustrating position. On one hand, your company must comply with each law individually. On the other, you want to achieve compliance without introducing duplicative procedures that will cost money and exasperate employees and suppliers alike.

In this white paper we'll first review exactly what the German and Norwegian laws require. Then we'll consider how corporate compliance programs can achieve compliance without those unnecessary, duplicative procedures.

The German Supply Chain Due Diligence Act (LkSG)

German lawmakers enacted the LkSG in 2022. The law first went into effect at the start of 2023 for all businesses with more than 3,000 employees working in Germany, and at the start of 2024 that threshold dropped to 1,000 employees. So as a practical matter, all large German businesses or global corporations operating in Germany are likely to be in scope of the law by now.

Additionally, small and medium-sized companies that fall outside of this minimum size must still focus on the requirements of the LkSG, as the implementation of these due diligence obligations is becoming an essential standard of supplier contracts.

The LkSG requires companies to perform due diligence across the entirety of their supply chain — from the sourcing of raw materials to the delivery of finished goods to the customer — looking for evidence of human rights or environmental abuses. The human rights violations include issues such as child labor, forced labor, occupational safety hazards, and even using corporate security forces to intimidate employees. The environmental violations include reckless handling of hazardous waste, as well as using mercury and certain organic pollutants in products or manufacturing processes.

2024 Required Employees

> 1000

2023 Required Employees

> 3000

The German Supply Chain Due Diligence Act (LkSG)

Many of the due diligence procedures that companies are expected to implement should sound familiar to compliance officers. For example:

- Designating a specific person as the company's human rights officer, responsible for LkSG compliance.
- Performing a risk assessment on your supply chain at least annually, and upon any significant change in your sourcing operations and strategy.
- Implementing a system to receive allegations of human-rights violations.
- Adopting policies and procedures describing the company's approach to human rights, and how employees are expected to comply with the policy.
- Taking appropriate action when the company finds evidence of a supplier violating human rights, such as by changing the contract to insist on better performance. (A company is only expected to cut ties with a problematic supplier when the company has no other means to impose corrective action.)
- Documenting your due diligence efforts annually, in a report that is posted publicly to the company's website and submitted to the German Federal Office for Economic Affairs and Export Control.

Enforcement of the LkSG is still in its infancy, but smaller companies found in violation of the law can face fines up to **€800,000**, while larger companies (those with annual revenue of €400 million or more) can face penalties up to **2 percent** of global revenue. Violators can also be barred from bidding on public contracts.

Penalties Against Natural Persons

Up to
€800K

Penalties Against Companies

€400M+
or
**2% of
avg annual rev.**

The Norwegian Supply Chain Transparency Act

The Norwegian Supply Chain Transparency Act (known in Norwegian as Åpenhetsloven) came into force in Norway in 2022. The law covers large businesses in Norway, including foreign businesses that meet any two of the following three criteria for two years in a row:

Annual Sales

>70M
NOK

Balance Sheet

>35M
NOK

Full-Time Employees

50 or More

Penalties Up To

4% of Total Revenue
or
25M NOK

Given historical exchange rates, this means that any business with more than **\$8 million in revenue or \$4 million on the balance sheet will fall under the law's jurisdiction.**

The Transparency Act requires companies to perform human rights due diligence on their supply chains, and companies must publish an annual report on their due diligence efforts no later than **June 30** of the following year. (So reports covering due diligence activities in 2023 must be published by June 30, 2024.) That report should discuss:

1. The company's procedures for assessing potential human rights risks in its supply chain;
2. Any actual violations the company found; and
3. What mitigation measures the company has implemented to address those violations or risks.

Companies are allowed to omit any personally identifiable information about victims of human rights abuses, as well as any technical measures or procedures that might be competitively sensitive.

Penalties for violating the Transparency Act can be up to 4 percent of a company's total revenue or 25 million Norwegian krone. So far Norwegian authorities haven't taken any enforcement action against companies, and observers generally believe Norwegian authorities would first resort to orders mandating improved compliance measures before turning to financial penalties.

Remember the Compliance Basics

Whether a company is struggling with these new laws from Norway and Germany or forced-labor regulations in other jurisdictions, compliance is not as insurmountable as one might first fear. On the contrary, to find a sustainable path forward, compliance officers should focus on the basics: those capabilities that your compliance program will need no matter which supply chain laws apply to your enterprise and what specific human rights risks might emerge.

Risk Assessments Are Crucial

Your risk assessment identifies the human rights risks that your company might face, as well as the likelihood and potential severity of those possible violations. Take time to talk with leaders of your procurement or business operation functions to understand who the company's suppliers are, where in the world those suppliers operate, and what potential violations might happen. The [Norwegian Human Rights Institution](#), for example, [published guidance](#) that listed 32 different types of potential violations.

Work on Your Intake of Due Diligence Data

Large companies will routinely have thousands of suppliers, and from there the number of sub-suppliers and other contractors grows much larger. Your due diligence systems will likely need to ingest a huge range of data: multiple languages, multiple formats, and substantively different types of information (names, addresses, dollar amounts, dates).

That will pose significant challenges as your company works to identify actual violations, and to build more holistic reports on your due diligence efforts overall. Work with your due diligence providers and IT teams carefully to assure that your program can handle the information.

Remember the Human Elements

In addition to due diligence capabilities, companies also need to adopt policies that define how they will address human rights violations in the supply chain and provide training to employees and third parties about how those policies should be followed. Companies also need to implement internal reporting systems that can receive complaints about possible violations, followed up by investigations to confirm or invalidate those claims.

Thankfully, large companies generally do already have apparatus for policy management, training, and internal reporting. The challenge is to expand the range of those tools to accommodate the demands of these supply chain laws — and whether you are working in Germany, Norway, or any other large economy, that challenge has now arrived.



How Certa Can Help

Certa's compliance automation platform has helped global Fortune 500 companies achieve greater transparency and control over their supply chain by proactively mitigating risk, automating processes, integrating seamlessly with your tech stack, and providing a single source for all your third parties. With Certa you can achieve:

- 1. Fully Automated Supplier Onboarding:** Data capture and storage of intake questionnaires, screening with industry-best data providers, custom risk scoring, and ongoing monitoring with auto-alert flags - it's all covered.
- 2. Automated Compliance Workflows:**
 - Automated workflows aligning with various forced labor regulations including UFLPA, LkSG, and the Norwegian Supply Chain Act.
 - Includes automated data processing pipelines with all the rules and reports required for forced labor compliance, remediation, and/or rebuttal.
 - Ensures data traceability and standardization to eliminate inconsistencies.

- 3. Industry-Best Data Partners:** Certa is directly integrated with industry-leading screening providers including Moody's, Dow Jones, Dun & Bradstreet, Sayari, and others, so that's one less thing on your compliance checklist to worry about.

- 4. Integration with Your Existing Systems:** From SAP to D&B, Certa connects with your apps and data so you can work across departments and systems with less friction (120+ integrations).

- 5. Enhanced Visibility:** Real-time data and analytics provide unparalleled visibility into every aspect of the supply chain, allowing organizations to monitor performance, identify risks, and make informed decisions promptly.

- 6. Cost Reduction:** Reduce operational costs through process automation, reduced manual intervention, and improved resource utilization, ultimately leading to increased profitability.

[Schedule a demo](#) to learn more about forced labor compliance from our experts.