Your 2024 guide to supply chain ESG due diligence requirements

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LRQA

Contents

Executive summary

Businesses are facing a new era of supply chain environmental, social, and governance (ESG) due diligence legislation marked by evolving scopes and increased stringency. With regulatory frameworks diverging across regions, each emphasising varying ESG components, compliance is becoming a multifaceted endeavor for businesses operating supply chains worldwide. Furthermore, the stakes for non-compliance are escalating as new laws threaten detained shipments or even confinement as penalties for legislative violations. Compliance is no longer a means for sustainability marketing but is a clear necessity to prevent supply chain disruptions, financial burdens, not to mention reputational damage.

With this guide, we aim to simplify the nuances between due diligence laws, offering businesses an overview of regulations by region, the specific requirements for each, how to alter your current programme to comply, as well as how to prepare for the future regulatory landscape.

It is not enough to ensure compliance solely at the individual organisational level; instead, it is essential to ensure that compliance is consistently applied across the entirety of an organisation's end-to-end operations. This guide should compel businesses to conduct a deep diagnostic of their supplier base and the specific obligations required of them based on their location: What are the emissions tracking requirements? What are the mandates around human rights reporting and risk management systems? Every requirement should be accounted for.

This guide also underscores the evolution of legislation and how this is shaping due diligence strategies and challenging our perception of risk management. Legislation in Europe, for example, is beginning to cover both human rights impact and environmental impact from businesses, while previous laws have primarily focused on one of these components.

While the United States has primarily focused on human rights with laws such as the Uyghur Forced Labour Prevention Act (UFLPA), we envisage the government will begin to follow European counterparts and implement more regulations covering holistic ESG aspects. Recognising the unique regulatory frameworks in different parts of the world is therefore essential for global enterprises. This is about moving beyond compliance to gaining a competitive advantage.

Lack of knowledge about your supply chain is no longer just fodder for non-governmental organisation (NGO) reporting. As businesses brace for the impact of forthcoming regulations, prioritisation becomes a strategic imperative. There is a clear expectation that business performance must be aligned with the needs of the planet and our communities. Whether in supply chain transparency, environmental impact assessments, or human rights considerations, this guide supports businesses in aligning their priorities with regulatory requisites.

Disclosure standards vs due diligence regulations

Before addressing regulations, it's essential to understand the differences and similarities between public disclosure standards and due diligence laws. Although distinct, these concepts are linked in the context of corporate responsibility and regulatory compliance. Understanding both components is crucial for developing frameworks that enhance reporting and ensure effective due diligence.

Key contextual highlights in this section

- Differences between reporting disclosures and due diligence laws
- Challenges of disclosure standards
- Benefits of disclosure standards
- Aligning with reporting requirements: dos and don'ts

Disclosure standards vs due diligence regulations

Differentiating reporting disclosures and due diligence laws

Reporting disclosure standards refer to frameworks or guidelines that outline how companies should disclose information related to their ESG. Supply chain due diligence regulations are legal or policy frameworks that require companies to conduct thorough assessments and take preventive measures to address potential adverse impacts within their supply chains.

Entities may use sustainability disclosure standards to guide their overall ESG reporting, while also complying with specific supply chain due diligence regulations relevant to their industry or the regions in which they operate.

While reporting disclosure standards guide companies in transparently reporting their broader sustainability efforts, supply chain due diligence regulations mandate a specific focus on identifying and addressing risks within the supply chain to promote responsible business conduct.

Disclosure frameworks are growing in importance as they serve as the framework for businesses to comply with due diligence laws. Internal documentation and external reporting are central components within the due diligence systems that companies must establish to comply with regulations. For example, under the EU's proposed Corporate Sustainability Due Diligence Directive (CSDDD), companies would also be required to report publicly on their due diligence system. However, if the organisation is also in the scope of the Corporate Sustainability Reporting Directive (CSRD), no additional reporting obligations apply. Businesses must consider both disclosure standards and regulatory requirements to efficiently report risks and implement robust processes to mitigate said risks in their supply chains.

Disclosure standards	Due diligence regulations
Purpose Disclosure standards are designed to promote transparency and accountability by establishing a set of consistent and comparable metrics for reporting on sustainability and responsible business practices.	**Purpose** These regulations aim to ensure that companies identify and mitigate risks related to human rights abuses, environmental harm, and unethical practices in their supply chains.
Establish a process for reporting ESG information.	Establish a process or the "how" companies are mitigating the ESG risks they report.
Usually voluntary, however, there is an increasing number of countries mandating reporting requirements (e.g., CSRD in the EU).	Often mandatory legal requirements, many of which use the Organisation for Economic Co-operation and Development (OECD) due diligence guidelines as a central framework.
A set of guidelines that companies follow to report their environmental, social, and governance (ESG) strategies, governance, and performance to stakeholders.	A set of rules and guidelines that companies must follow to ensure that their supply chains are free from human rights abuses, environmental damage, and other negative impacts.
Scope Reporting disclosure standards may cover a wide array of topics, including environmental performance, social responsibility, and corporate governance, extending beyond the supply chain.	**Scope** Supply chain due diligence regulations specifically address the practices and impacts within the supply chain, focusing on issues like labour rights, environmental sustainability, or human rights.
Examples Common reporting standards include the Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), and Task Force on Climate-related Financial Disclosures (TCFD).	**Examples** Notable examples include the German Supply Chain Due Diligence Act (LkSG) and the proposal for the European Union's Corporate Sustainability Due Diligence Directive (CSDDD).

Disclosure standards vs due diligence regulations

Challenges of disclosure standards:

Complexity of global supply chains

Modern supply chains often span multiple countries and involve numerous intermediaries. Tracking and reporting on every stage of this process can be a challenge, particularly for small and medium-sized enterprises.

Lack of standardisation

Different jurisdictions may have different disclosure requirements, and there are various additional voluntary reporting frameworks that companies can choose from. Different reporting revisions globally create a challenging landscape for companies reporting their sustainability efforts to their stakeholders.

This lack of standardisation can make it difficult for companies to know what information they should disclose and how to present their strategy and performance. Varying standards also create challenges for investors discerning the true impact of ESG factors on a company's financial performance and risk profile due to inconsistencies in reporting metrics.

Resource intensive

Developing and maintaining a robust disclosure process can be resource-intensive, requiring significant time, money, and expertise. This can be a particular challenge for smaller companies.

Benefits of disclosure standards:

Although challenging, disclosure standards promote best practices for businesses, and those that proactively embrace and excel in ESG reporting are likely to reap the long-term benefits in terms of stakeholder trust, market competitiveness and resilience amid the evolving regulatory landscape.

With effective disclosure standards, companies can display greater transparency in their operations. Consumers and investors place increasing pressure on businesses to prove that they operate ethically and sustainably. By adhering to globally recognised disclosure standards, such as the Global Reporting Initiative (GRI) or those mandated in their respective markets, companies can demonstrate that they are maintaining sustainable operations.

Disclosure standards also help companies identify and manage the risks in their supply chains and comply with regulatory requirements. Some jurisdictions legally require companies to disclose aspects of their supply chain operations. Standards help companies meet these requirements. We can expect to see further evolution in disclosure standards as companies, regulators, and stakeholders continue to grapple with the challenges and opportunities of sustainable development.

Disclosure standards vs due diligence regulations

Common voluntary reporting standards:

GRI
Global Reporting Initiative

TCFD
Task Force for Climate-Related Financial Disclosures

SASB
Sustainability Accounting Standards Board

IFRS
nternational Financial Reporting Standards

ISSB
International Sustainability Standards Board (part of the IFRS)

Examples of mandatory reporting standards:

UK Companies Act 2006 (Strategic Report and Directors' Report) Regulations

Applies to:
Mandatory for UK-incorporated companies

What it says:
Requires the inclusion of non-financial information in the strategic report, covering environmental and social matters.

Penalty:
Companies failing to comply with the reporting requirements may face financial penalties imposed by regulatory authorities. Directors of companies that fail to fulfil their reporting obligations may be subject to disqualification, preventing them from acting as company directors for a specified period.[1]

Swiss Code of Obligations

Applies to:
Any company with at least 500 full-time employees and total assets of at least CHF 30 million (USD 31 million) or revenues of CHF 40 (USD 41.5 million) million per year.

What it says:
The Code of Obligations requires companies to provide annual reporting on their supply chain activities relating to environmental issues, social issues, personnel issues, respect for human rights and combating corruption. Companies with risks in these areas must implement management systems and supply chain policies to address them, particularly related to conflicts minerals and child labour.

Penalty:
Those in violation of these obligations face potential fines of up to CHF 100,000.

Effective date:
Effective since 2022; reporting obligations apply as of financial year 2023.[2]

1. UK Companies Act 2006 →

2. Swiss Code of Obligations →

Disclosure standards vs due diligence regulations

Examples of mandatory reporting standards:

European Union's Corporate Sustainability Reporting Directive (CSRD)

Applies to:
From financial year 2024, companies with more than 500 employees that were previously required to report under the NFRD are affected.
First report to be published in 2025.

From financial year 2025, companies with more than 250 employees and/or a balance sheet of over €20m and/or a net turnover of over €40m are affected.
First report to be published in 2026.

From financial year 2026, EU-based, listed SMEs will be affected. However, they can choose to opt-out until reporting year 2028.

From financial year 2028, non-EU companies, with a net turnover of over €150m in the EU and with at least one EU subsidiary or branch office with a turnover of over €40m are affected.

What it says:
Large EU companies and listed companies operating in the EU must publish annual reports in which they report on how sustainability matters impact their business and how their operations are impacting people and the environment. Companies must carry out a "double materiality" assessment to identify material topics, must follow the European Sustainability Reporting Standards (ESRS)* and implement third-party assurance of their reporting.

Penalty:
Penalties will differ based on individual member state transpositions. France has been the first to transpose the directive into law as of this publication, introducing fines of up to €75,000 and the potential of five years imprisonment for directive infringements.

Effective date:
Effective since 2023.[3]

*European Sustainability Reporting Standards (ESRS)

The ESRS specify the information that a company shall disclose about its material impacts, risks, and opportunities in relation to ESG sustainability matters. The matters are specified, including general requirements, climate change, pollution, and affected communities, among others.

The ESRS include a double materiality assessment requirement, where a company must evaluate its impacts on its broader societal and environmental context, as well as the effects of environmental, social, and governance (ESG) factors on the company's financial performance.

In-scope companies will have to apply the standards in financial year 2024, for reports published in 2025. Listed SMEs are obliged to report as from 2026, with a further possibility of voluntary opt-out until 2028, and will be able to report according to separate, proportionate standards that EFRAG will develop next year.[4]

3. EU Corporate Sustainability Reporting Directive (CSRD) →

4. European Sustainability Reporting Standards (ESRS) →

Disclosure standards vs due diligence regulations

Aligning with reporting requirements: dos and don'ts

Dos

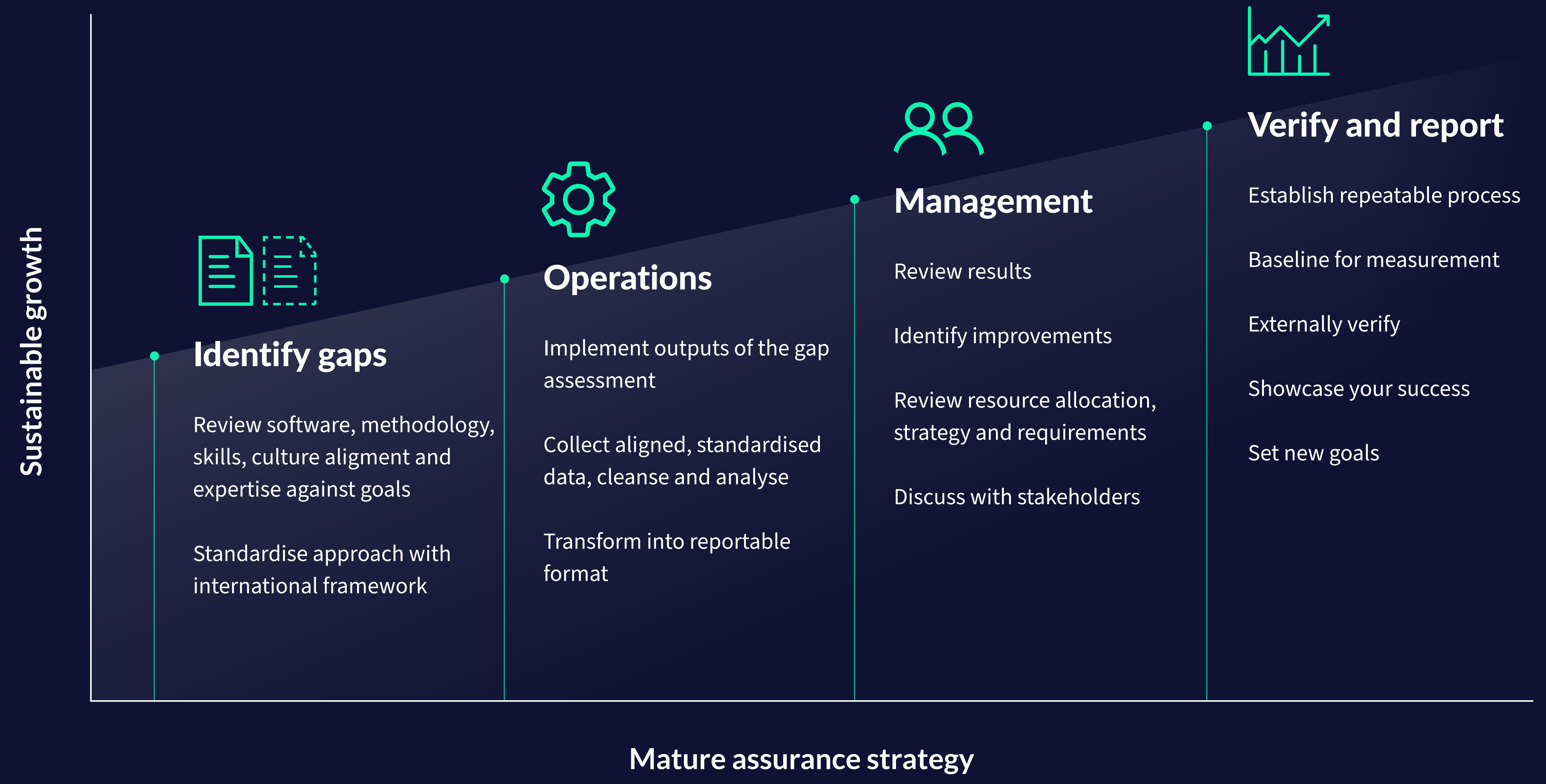
- Understand their requirements and objectives
- Build a culture of climate reporting and improvement
- Determine accountabilities within the organisation
- Review and standardise data collection, remediation and methodology
- Establish a repeatable process with required controls - cadence, data quality, reporting capability and frequency
- Develop a written report
- Implement third-party verification - 70% of investors think verification should be mandatory[5]

Don'ts

- Create unclear boundaries
- Greenwash
- Have inconsistent or incomplete reporting
- Enforce poor stakeholder engagement
- Use a one-size-fits-all approach
- Limit report validation or verification
- Under-prioritise Scope 3 emissions
- Have limited expertise in-house

5. PWC global investor survey, 2021 →

How to embed good practice:



Environmental legislation

As global concerns over climate change rise, Scope 3 data has become more important to regulators. This presents a challenge. Easier to track, Scope 1 and Scope 2 emissions data tracking have been the focal points for most organisations. Scope 3, which counts all emissions upstream of your own operations, have not historically been a focal point for most brands, though they make up the bulk of a company's environmental impact. Below is an overview of Scope 3 emissions and how businesses can begin to prioritise their Scope 3 tracking and managing.

Key contextual highlights in this section:

- What are Scope 3 emissions?
- Challenges around tracking Scope 3
- Scope 3 solutions
- Regional approaches to environmental legislation
- Key environmental due diligence regulations and mandatory disclosure requirements

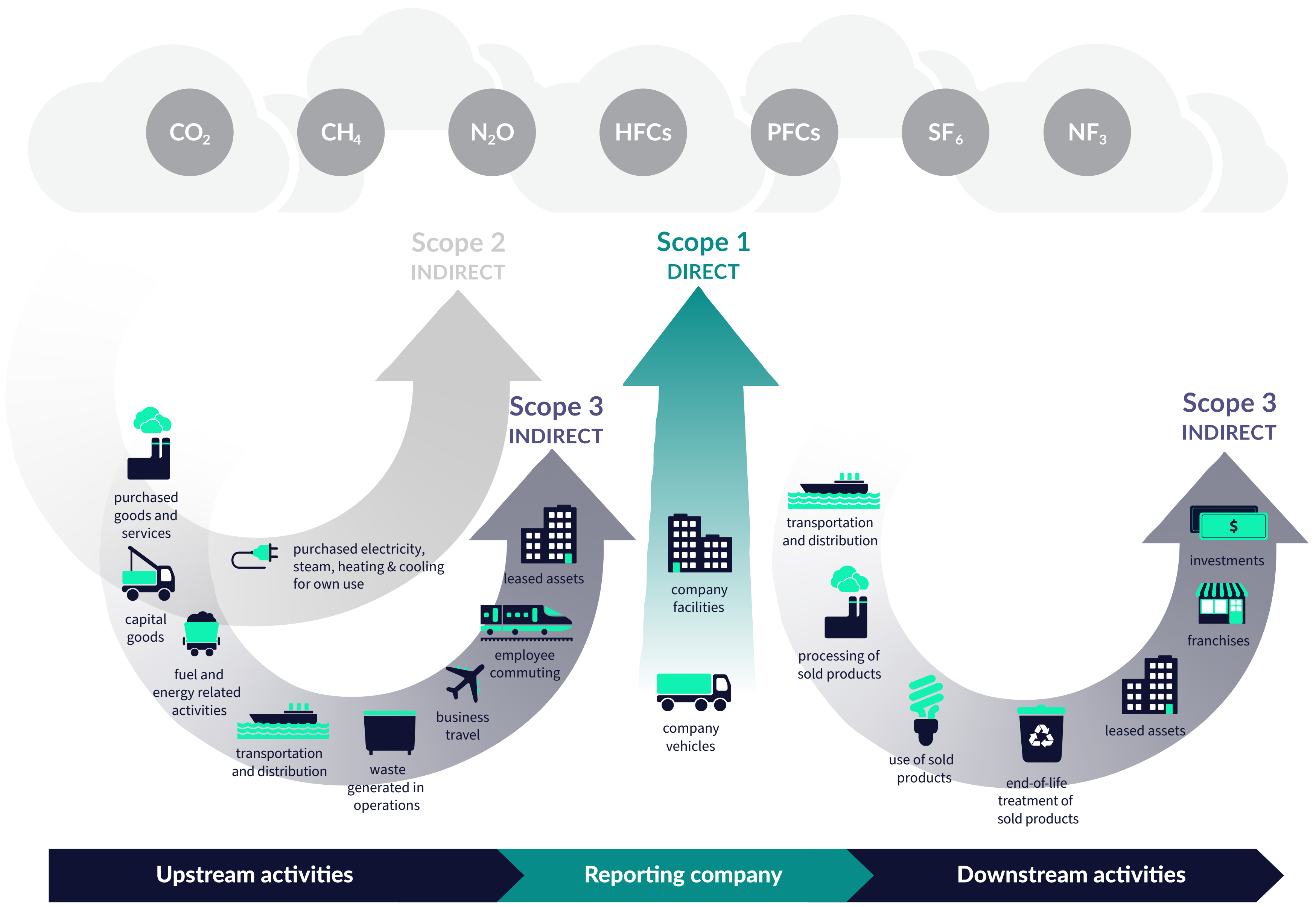
Environmental legislation: a focus on Scope 3

What are Scope 3 emissions?

Scope 3 emissions encompass the indirect emissions produced by a company's value chain, including both upstream and downstream activities. These emissions result from sources not owned or controlled by the company but are involved in operations, such as suppliers, customers, and the use of sold products.

Scope 3 emissions account for at least 75% of a supply chain's emissions, therefore companies either not reporting or inaccurately reporting Scope 3 emissions lead to a distorted view of their overall carbon footprint.

Unlike Scope 1 and Scope 2, which encompass direct emissions and indirect energy-related emissions, respectively, Scope 3 emissions encapsulate the entire value chain – from upstream suppliers to downstream customers.



Source: CDP

Scope 3 emissions accounting can be complex and time consuming

Step 1
Determine relevant Scope 3 categories and establish Scope 3 boundary

→

Step 2
Determine calculation methodology

→

Step 3
Collect data and calculate emissions

Overview and scopes of emissions across a value chain

Scope 1
Emissions from operations that are **owned or controlled** by the reporting company.

Scope 2
Emissions from the generation of **purchased or acquired** electricity, steam, heating, or cooling consumed by the reporting company.

Scope 3
All indirect emissions (not included in scope 2) that occur **in the value chain** of the reporting company, including both upstream and downstream emissions.

Upstream Scope 3 Emissions

- Purchased goods and services
- Capital goods
- Fuel-and energy-related activities (not in Scope 1 or Scope 2)
- Upstream transportation and distribution
- Waste generated in operations
- Business travel
- Employee commuting
- Upstream leased assets

Downstream Scope 3 Emissions

- Downstream transportation and distribution
- Process of sold products
- Use of sold products
- End-of-life treatment of sold products
- Downstream leased assets
- Franchises
- Investments

Environmental legislation: a focus on Scope 3

Challenges around tracking Scope 3 emissions

The interconnected nature of supply chain relationships and diverse data sources involved make it difficult to obtain clear and accurate emissions data. Challenges with collecting Scope 3 carbon emission data include:

Data availability
Dependency on suppliers' disclosures for emissions tracking can create challenges for full visibility over Scope 3 emissions.

Data quality
Disclosed and non-verified data may vary greatly in consistency, accuracy and completeness.

Resource intensive
Tracking Scope 3 emissions requires personnel time, technical capabilities and financial investments.

Scope 3 solutions

Tracking Scope 3 emissions requires a strategic and systematic approach. Organisations can begin this process by:

Identifying their Scope 3 categories

Organisations must segment their operations into relevant categories and identify in which areas Scope 3 emissions are prevalent, such as purchased goods and services or transportation and distribution.

Leveraging technology

Carbon data collection and Scope 3 tracking will require both rigorous onsite assessments and implementing tools and technologies to streamline data collection, analysis, and reporting.

Engaging stakeholders

Cutting Scope 3 emissions goes beyond the individual entity level. Businesses must collaborate with suppliers, customers, and other key stakeholders to gather data and assess the impact of value chain activities, as well as ensure alignment on targets is understood and enforced.

Establishing baselines and science-backed targets

Establish baseline measurements for Scope 3 emissions to track progress over time. This enables organisations to set meaningful reduction targets and assess the efficacy of mitigation strategies.

Quantifying and addressing such categories of emissions requires close engagement, cooperation and collaboration across the value chain. Engaging all parties, from internal procurement teams to external suppliers and vendors, is essential to obtain accurate data for initial emissions quantifications.

In a regulatory environment increasingly attuned to the broader ecological footprint of businesses, the need for comprehensive Scope 3 emissions tracking has never been more pressing. By prioritising this component of sustainability in both strategy and accurate data reporting, organisations position themselves as responsible entities of the environment, fostering resilience, credibility, and long-term viability.

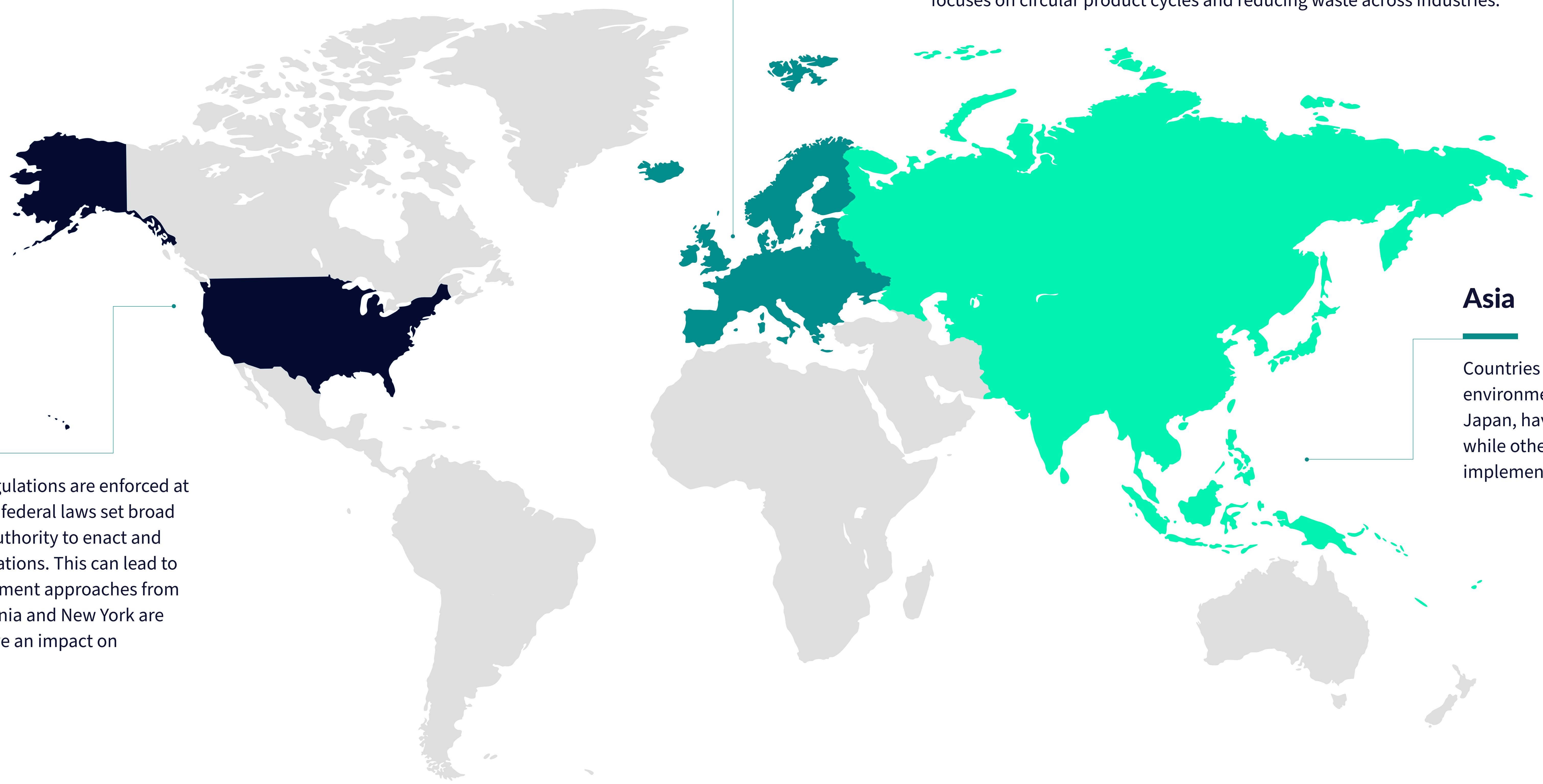
Environmental legislation

Regional approaches to environmental legislation

Environmental due diligence laws vary significantly across regions, and the approaches are influenced by the legal and regulatory frameworks of each jurisdiction.

Europe

The European Union is taking a more harmonised approach to environmental regulations. The EU has implemented directives and regulations that set common standards across member states, which will be outlined in more detail below. The EU has various climate initiatives influencing policies in the region such as the European Green Deal and Circular Economy Action Plan, which focuses on circular product cycles and reducing waste across industries.



United States

In the United States, environmental regulations are enforced at both the federal and state levels. While federal laws set broad standards, individual states have the authority to enact and enforce their own environmental regulations. This can lead to variations in requirements and enforcement approaches from state to state. Certain states like California and New York are spearheading regulations that may have an impact on national-level due diligence.

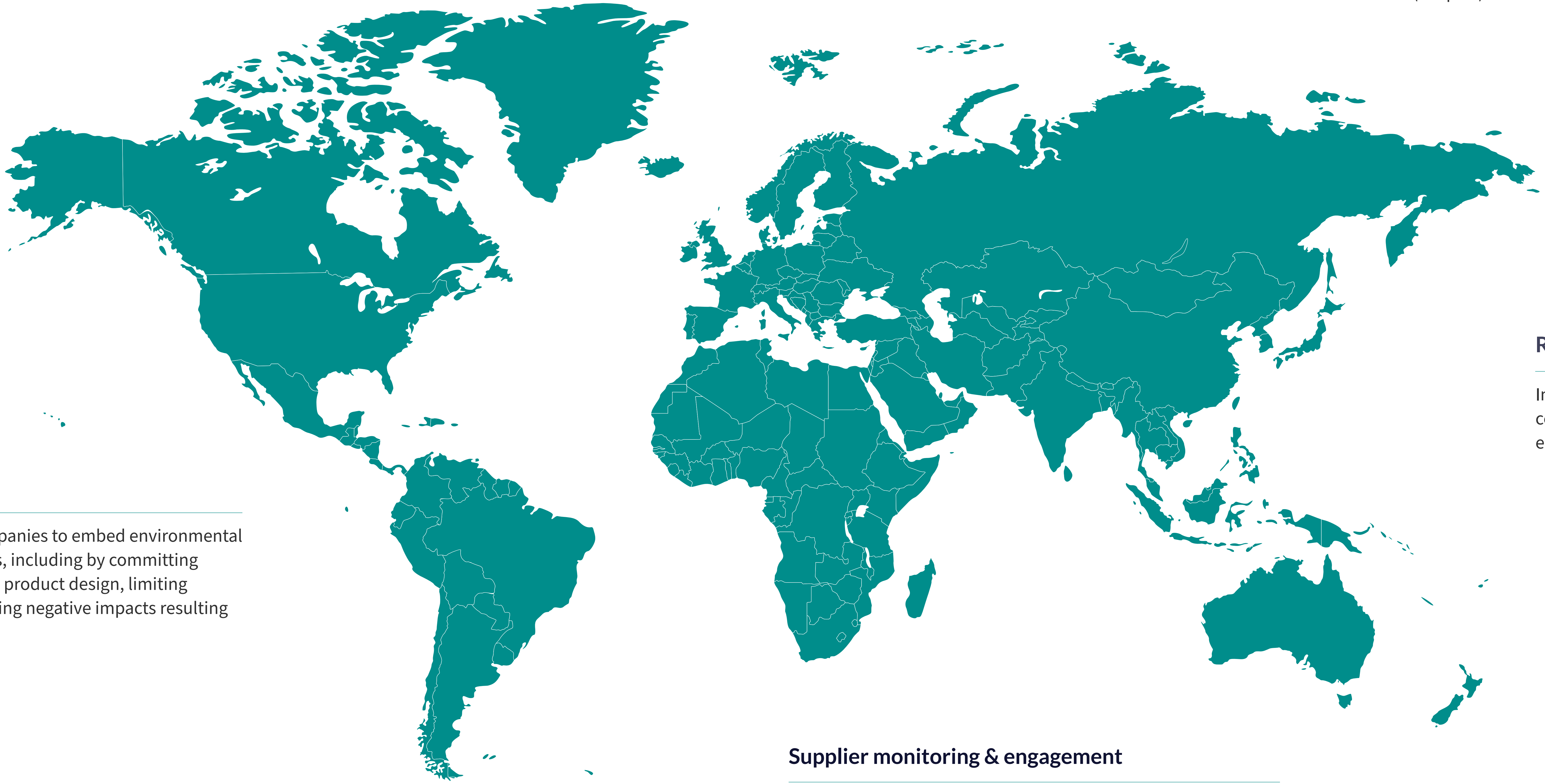
Asia

Countries in Asia have diverse approaches to environmental due diligence. Some countries, like Japan, have stringent environmental regulations, while others may be in the process of developing and implementing comprehensive frameworks.

Environmental legislation

Global trends

Globally, however, we do see commonalities in approaches to regulating environmental impact and Scope 3 emissions in supply chains in each of the five categories of a responsible sourcing programme, as outlined here.



Internal alignment

Boards of Directors are assuming direct oversight of environmental pledges, KPIs, and targets. Companies are required to report on their individual (Scope 1) emissions and waste generation.

Transparency & traceability

Corporates are responsible for providing visibility into and for accounting for Scope 2+ emissions and waste generated by their supply chains.

Reporting requirements

Increasingly, regulations are requiring companies to report publicly on emissions and waste disclosures.

Strategy

New rules are requiring companies to embed environmental planning into their strategies, including by committing to environmentally attentive product design, limiting overproduction, and mitigating negative impacts resulting from business ops.

Supplier monitoring & engagement

Companies are increasingly being asked to monitor and account for the environmental impacts of their upstream suppliers and to work with suppliers to mitigate negative impacts.

Environmental legislation

Key environmental due diligence regulations and mandatory disclosure requirements

California Senate Bill 253: Climate Corporate Data Accountability Act

Applies to:
US-based partnerships, corporations, limited liability companies, and other entities with operations in California and annual gross revenue of more than $1B USD (around 5,300 companies.)

What it says:
The Act requires companies to report their direct and indirect GHG emissions (Scopes 1, 2, and 3), criteria pollutants, and toxic air contaminants. Companies must have third-party assurance and reporting will be made available to the public on a governmental digital platform. The bill specifies the reporting must be "easily understandable and accessible."

Penalty:
Non-compliance penalties will apply for non-filing, late filing, or other failure to meet the requirements of the bill. Penalties are not specified but may be up to $500,000 USD.

Effective date:
If the bill passes, businesses will have to disclose their 2025 GHG emissions data starting in 2026, with Scope 3 reporting beginning in 2027.[6]

6. California Senate Bill 253: Climate Corporate Data Accountability Act →

Climate Senate Bill 261: Climate-Related Financial Risk Act

Applies to:
US based partnerships, corporations, limited liability companies, and other entities with operations in California and annual gross revenues of more than $500M USD (around 10,000 companies).

What it says:
The Act requires companies to prepare a climate-related financial risk report, in accordance with the recommended framework and disclosures contained in the Final Report of Recommendations of the Task Force on Climate-related Financial Disclosures, disclosing the entity's climate-related financial risk and measures adopted to reduce and adapt to climate-related financial risk. The bill would require the covered entity to make a copy of the report available to the public on its own internet website.

Penalty:
Non-compliance penalties may be up to $50,000 USD.

Effective date:
If the bill passes, businesses must submit the aforementioned report by January 1, 2026 and biennially thereafter.[7]

7. Climate Senate Bill 261: Climate-Related Financial Risk Act →

Environmental legislation

Key environmental due diligence regulations and mandatory disclosure requirements

California's Voluntary Carbon Market Disclosures Act (Assembly Bill 1305)

Applies to:
This act applies to businesses that either 1) operate within California or 2) purchase or use voluntary carbon offsets (VCOs) that makes claims (i) regarding the achievement of net zero emissions, (ii) that the entity, a related entity or a product is "carbon neutral" or (iii) implying the entity, a related entity or a product does not add net carbon dioxide or greenhouse gases to the climate or has made significant reductions to its carbon dioxide or GHG emissions.

What it says:
Entities must disclose "all information" documenting how that claim was determined and how interim progress to the overall goal is being measured, including the science-based targets for emission reductions and methodology for assessing emissions and emission reductions. The business must also disclose whether these claims have been verified by a third party.

If a business also purchases or uses voluntary carbon offsets and makes the above claims, that business must disclose:

a. the name of the business entity selling the offset and the offset registry or program
b. the project identification number, if applicable
c. the project name as listed in the registry or program, if applicable
d. the offset project type, including whether the offsets purchased were derived from a carbon removal, an avoided emission or a combination of both, along with the site location
e. the specific protocol used to estimate emissions reductions or removal benefits
f. whether there is independent third-party verification of company data and claims listed

Penalty:
Civil penalty of not more than $2,500 per day for each day that information is either not available or inaccurate on the company's website and limited to a maximum of $500,000.

Effective date:
Went into effect in October 2023[8]

8. California's Voluntary Carbon Market Disclosures Act (Assembly Bill 1305) →

Environmental legislation

Key environmental due diligence regulations and mandatory disclosure requirements

SEC Disclosing the Use of Conflict Minerals Rule

Applies to:
The final rule applies to a company that uses minerals including tantalum, tin, gold or tungsten if (1) the company files reports with the SEC under the Exchange Act or (2) the minerals are "necessary to the functionality or production" of a product manufactured or contracted to be manufactured by the company.

What it says:
As per the rule, a company that uses any of the designated minerals is required to conduct a reasonable 'country of origin' inquiry that must be performed in good faith and be reasonably designed to determine whether any of its minerals originated in the covered countries or are from scrap or recycled sources. Companies must disclose their determination regarding the origin of conflict minerals on Form SD, along with a description of the inquiry conducted and its results. If minerals are suspected to be from conflict-affected regions and not from recycled sources, due diligence is required, with a Conflict Minerals Report filed alongside Form SD and made available on the company's website.

Effective date:
Went into effect in 2012.[9]

9. *SEC Disclosing the Use of Conflict Minerals Rule →*

Proposed New York State Bills

New York SB 7705
Requires reporting and verification of Scopes 1, 2 and 3 greenhouse gas emissions by a business with total annual revenues in excess of one billion dollars ($1,000,000,000) that does business in New York; requires regulations and disclosures.[10]

New York SB 5437
Requires certain corporations authorised to operate in the state and subject to the supervision of the department of financial services that had annual gross revenues of at least five hundred million dollars ($500,000,000) in the prior calendar year to annually prepare a climate-related financial risk report for submission to the secretary of state and to make such report available to the public.[11]

New York SB 4746
Requires fashion sellers to be accountable to standardised environmental and social due diligence policies; establishes a fashion remediation fund for the purpose of implementing one or more environmental benefit projects or labour remediation projects that directly and verifiably benefit the workers and communities directly impacted, to the extent practicable, at the location the injury has occurred.[12]

New York SB 897
Requires businesses with revenue over $1 billion to annually report their emissions to the Dept. of Environmental Conservation for purposes of an emissions registry. Includes emissions that directly produced by the business, its subsidiaries, and supply chain (referred to as "Scope 1", "Scope 2", and "Scope 3" emissions in the bill). Requires reporting entities' emissions to be independently verified. Requires emissions registry to be published on DEC's website.[13]

10. New York SB 7705 → *11. New York SB 5437 →* *12. New York SB 4746 →* *13. New York SB 897 →*

Environmental legislation

Key environmental due diligence regulations and mandatory disclosure requirements

EU Carbon Border Adjustment Mechanism (CBAM)

Applies to:
Importers to the EU of defined goods whose production is carbon intensive and most at risk of carbon leakage (cement, iron, steel, aluminium, fertilisers, electricity, hydrogen).

What it says:
Requires importers of defined energy-intensive goods to pay a levy to their imports corresponding to the price of emissions allowances under the EU Emissions Trading System (ETS).

Penalty:
During the transitional period, penalties of between EUR 10 and EUR 50 per non-reported tonne of embedded emissions apply. EUR 100 for each ton of carbon dioxide equivalent not surrendered.

Effective date:
The CBAM entered into application in Oct 2023 in its "transitional phase", with the first transitional reporting period for importers ending 31 January 2024. The regulation will then expand in scope and be fully implemented in 2026.[14]

EU Deforestation Regulation (EUDR)

Applies to:
Any operator or trader, irrespective of size and industry, who places relevant commodities or products, as defined by the regulation, on the EU market, or exports from it.

What it says:
The proposal sets mandatory due diligence rules for companies which want to place certain commodities on the EU market with the aim of ensuring that only deforestation-free and legal products are allowed on the EU market. The regulation targets seven key commodities: coffee, cocoa, cattle, palm oil, soy, rubber and wood, as well as derived products including leather, oil cakes and chocolate. It will be illegal to sell or export any of the relevant in scope commodities and products if they've been produced on deforested land or in non-compliance with local legislation.

Penalty:
Those found in violation of the regulation can face fines of up to 4% EU-wide turnover, the confiscation of relevant commodities and products as well as the confiscation of revenues, the suspension or prohibition of relevant economic activities, or the exclusion from public procurement processes.

Effective date:
Entered into force in June 2023, bans on commodities that do not comply with the EUDR will be effective from 31 December 2024 (or 30 June 2025 for small and medium-sized enterprises).[15]

14. EU Carbon Border Adjustment Mechanism (CBAM) →

15. EU Deforestation Regulation (EUDR) →

Environmental legislation

Key environmental due diligence regulations and mandatory disclosure requirements

EU Taxonomy Regulation

Applies to:
EU public sector entities, financial institutions, and companies that are subject to the Non-Financial Reporting Directive (NFRD) and Corporate Sustainability Reporting Directive (CSRD)..

What it says:
Requires companies to assess taxonomy of their economic activities (under the EU's six environmental objectives).Companies are then obliged to disclose their share of taxonomy-eligible and -aligned activities via turnover, CapEx and OpEx KPIs.

Penalty:
Non-compliance may result in fines, legal action, or exclusion from certain markets.

Effective date:
Went into effect in 2022[16]

New Zealand Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act

Applies to:
Large financial institutions such as registered banks, credit unions, and building societies with total assets of more than $1 billion.

What it says:
Requires all eligible market participants to conduct Climate-related Disclosures. Entities are required to report against the three Aotearoa New Zealand Climate Standards (NZ CS1, NZ CS2 and NZ CS3) which are based on the TCFD framework.

Penalty:
Individuals found in non-compliance may face up to five years imprisonment and/or a fine of up to $500,000. Entities found in non-compliance face fines of up to $2.5 million.[17]

16. EU Taxonomy Regulation →

17. New Zealand Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act →

Environmental legislation

Key environmental due diligence regulations and mandatory disclosure requirements

EU Environmental Crime Directive

Applies to:
Natural or legal persons committing defined environmental offences in the EU. However, member states are able to choose to extend their jurisdiction to offences that have been committed outside their territory.

What it says:
The directive includes a comprehensive list of environmental offences. Compared to 2008 Environmental Crime Directive (which this new Directive is replacing), new offence categories have been introduced such as:

- Placing on the market or exporting relevant commodities and products in breach of the EUDR
- Unlawful ship recycling and water extraction
- Serious breaches of EU chemicals and mercury legislation

Penalty:
The Directive establishes a system of minimum-maximum imprisonment penalties and, for legal persons, introduces two alternative fining methods based on fixed amounts between €24 and €40 million and the total annual worldwide turnover of the legal person concerned. Penalties may further include temporary or permanent disqualification from the practice of business activities, the obligation to pay compensation for the damage of the environment or the placing under judicial supervision.[18]

Effective date:
Entered into force in May 2024. Member states will now have two years to transpose the Directive.

18. EU Environmental Crime Directive →

Human rights legislation

1930
Tariff Act (US)

2010
California Supply Chain Transparency Act
Dodd-Frank Wall Street Reform and Consumer Protection Act (United States)

2015
Modern Slavery Act (UK)

2016
Dutch Child Labour Act

2017
Corporate Duty of Vigilance Law (France)

2019
Modern Slavery Act (Australia)

2021
Norway Transparency Act
Supply Chain Due Diligence Act (Germany)

2022
Swiss Ordinance on Due Diligence Obligations and Transparency

2024
EU CSDDD

Supply chain due diligence regulations have evolved as various countries and regions implement measures to address issues such as human rights abuses, environmental impact, and ethical business practices in global supply chains. Historically, legal frameworks displayed a limited scope by focusing only on either social or environmental impacts within businesses, rather than adopting a comprehensive ESG approach. We are beginning to see a shift in this framework, as laws in the EU signal a broader incorporation of ESG issues into these mandatory requirements.

Key contextual highlights in this section:

- Shortcomings of current responsible sourcing programmes
- Regulations that shifted the due diligence narrative
- Key human rights due diligence regulations around the world
- Programme solutions to stay compliant and reduce human rights risks

Human rights legislation

Shortcomings of current responsible sourcing programmes

As coverage and scope increase in new laws, the level of visibility achieved under traditional compliance programmes is no longer sufficient to identify risk and to prove that sufficient traceability systems are in place. New regulations around forced labour and active enforcement are setting a new, higher standard for due diligence.

Traditional social compliance audit programmes provide only basic visibility and insight into supplier risks. Additionally, the traditional programme has very limited visibility upstream to Tiers 2, 3, and beyond; and Tier 2 and beyond are often not subject to the same level of due diligence as Tier 1 suppliers. Companies are now faced with a due diligence gap that they will need to close quickly.

The emerging due diligence gap relates to inadequate:

- Base visibility through the entire supply chain (e.g., Tier 1, 2, 3 and beyond).
- Insight into the management systems and documentation infrastructure of suppliers to 1) avoid seized shipments and 2) get seized shipments released as quickly as possible.
- Data around forced labour or migrant workers in base social audits.
- Recognition that social standards are being driven by investor requirements.
- Availability of specialty audits to dig deeper when required.
- Understanding of new sustainability reporting requirements likely to be included in future legislation.

Organisations must focus their energy on strong governance frameworks and high-quality data. Most businesses currently struggle with a lack of structure, expertise, accountability, design, tools and weak metrics or monitoring.

Regulations that shifted the due diligence narrative

Recent forced labour laws and due diligence regulations enforced in the United States and Europe compelled companies to think differently about supply chain mapping, segmentation, transparency, and traceability as consequences for inadequate compliance began to threaten supply chain, operational, and financial stability. Previously, these aspects of responsible sourcing programmes were considered "nice-to-haves." Today, however, these practices are non-negotiable and must be implemented in a strategic manner.

More recently, the implementation of Germany's Supply Chain Due Diligence Act in 2023 and the EU's proposed Corporate Sustainability Due Diligence Directive (CSDDD) spearheaded change in the region and for the regulatory landscape as the laws got more specific around requiring businesses to show how they are assessing and mitigating risks in their supply chains. Meanwhile, the implementation of the Uyghur Forced Labour Prevention Act (UFLPA) and issuance of Withhold Release Orders (WROs) in the United States signaled a shift toward more tangible consequences in the form of detained or seized shipments.

Recent developments in Asia, particularly the recent enactment of ESG disclosure requirements in China, herald a new chapter in the region's approach to corporate responsibility. As Asia begins to align more closely with its Western counterparts in regulatory frameworks, the impact may prompt a re-evaluation of sourcing strategies, reversing the trend of nearshoring away from China and creating a regional shift that may again attract more investors to the region.

The complexity of global supply chains requires companies to develop a broad-based prioritisation framework that allows a reasonable understanding of supplier operations at all tiers, while also facilitating 'deep-dive' visibility into high-risk areas. Rapid shifts in regulation are leading to a gap between practices and expectations, as well as best business practices. Below we outline the details of the current laws impacting supply chains and their due diligence processes, followed by what we advise for businesses to stay compliant, no matter the region they are operating in.

Organisations need to actively and consciously source and procure products and services for their operations in an ethical, sustainable and socially conscious way. This means that an organisation must implement and stress-test the necessary processes to mitigate and respond to ESG-related challenges in its supply chain and to promote positive impact on people and the environment. Companies must look at the different ESG areas across its operations (e.g. labour standards, health and safety, environmental impact), to understand the social and environmental risks within these areas and take steps to limit these risks.

Successfully managing ESG risks means having a framework that aligns with an individual organisation's risk appetite, vision and level of commitment. There must be a level of customisation to meet the specific risk needs of a unique supplier base. Below are the various due diligence laws throughout the globe, followed by the ways businesses can adjust their programme to meet and exceed these regulatory requirements.

Human rights legislation

Human rights due diligence laws by region - Europe

Belgian Vigilance Proposal

Applies to:
All companies, including small and medium enterprises (SMEs), that are active in Belgium, and throughout their entire value chains.

What it says:
Companies must establish a risk map of the entire value chain of the company, a description of the value chain, procedures for regular evaluation, and appropriate actions to mitigate the risks or prevent serious harm with respect to human rights, labour rights and the environment.

Penalty:
Companies found not in compliance may be subject to sanctions, fines from EUR 250,000 to EUR 1,000,000, and prison sentences ranging from one month to one year. Victims impacted by a company's malpractice may also be owed compensation.

Proposed:
Proposed in 2021[19]

Key requirements →

GHG emissions tracking | Supply chain mapping | Third party assurance | Adverse media reporting
Xinjiang/WRO mapping | External reporting | Supplier/risk monitoring | Supplier engagement | Supplier training
Remediation plans | Product mapping | ESG risk analysis | Supplier assessments | Supplier corrective action plan

EU Conflict Minerals Regulation

Applies to:
The regulation applies to EU-based importers of tin, tantalum, tungsten and gold, whether these are in the form of mineral ores, concentrates or processed metals.

What it says:
Requires EU companies in the supply chain to ensure they import respective minerals and metals from responsible and conflictfree sources only by carrying out due diligence, based on the OECD's Due Diligence Guidance.

Penalty:
If a company is found not in compliance it will be given a deadline to remediate the violation.

Effective date:
Effective since January 2021[20]

Key requirements →

GHG emissions tracking | Supply chain mapping | Third party assurance | Adverse media reporting
Xinjiang/WRO mapping | External reporting | Supplier/risk monitoring | Supplier engagement | Supplier training
Remediation plans | Product mapping | ESG risk analysis | Supplier assessments | Supplier corrective action plan

19. Belgian Vigilance Proposal →

20. EU Conflict Minerals Regulation →

Human rights legislation

Human rights due diligence laws by region - Europe

EU Corporate Sustainability Due Diligence Directive (CSDDD)

Applies to:

- EU companies with more than 1000 employees and a net worldwide turnover of more than EUR 450 million. Parent companies of a group that reach these thresholds are also in scope.
- Non-EU companies with a net turnover in the EU of more than EUR 450 million. Parent companies of a group that reach the threshold are also in scope.
- EU companies that have franchising or licensing agreements with a return of more than EUR 22.5 million in royalties and a net worldwide turnover of more than EUR 80 million.
- Non-EU companies that have franchising or licensing agreements with a return of more than EUR 22.5 million in royalties and a net turnover in the EU of more than EUR 80 million. The CSDDD obligations will be apply to the above in a phased approach beginning in 2027.

What it says:

The agreement says companies must implement due diligence strategies to mitigate human rights violations and negative environmental impacts from their operations. Companies of a certain size will also have to adopt a plan to ensure that their business strategy is compatible with limiting global warming to 1.5°C, in line with the Paris Agreement.

Penalty:

Companies found in violation will be subject to sanctions, including fines and compliance orders, and victims impacted by malpractices will be owed compensation.

Effective date:

The CSDDD text was adopted in May 2024. The law will enter into force 20 days after its publication in the Official Journal of the European Union. Member States will then be required to transpose the CSDDD into their national laws within two years.[21]

Key requirements →

GHG emissions tracking | Supply chain mapping | Third party assurance | Adverse media reporting

Xinjiang/WRO mapping | External reporting | Supplier/risk monitoring | Supplier engagement | Supplier training

Remediation plans | Product mapping | ESG risk analysis | Supplier assessments | Supplier corrective action plan

21. *EU Corporate Sustainability Due Diligence Directive (CSDDD) →*

Human rights legislation

Human rights due diligence laws by region - Europe

EU Forced Labour Ban

Applies to:
Covers all products, namely those made in the EU for domestic consumption and exports, and imported goods, without targeting specific companies or industries.

What it says:
The ban prohibits all products suspected of being made with forced labour on the EU market, irrespective of source and industry.

Penalty:
If products are found to be produced with forced labour, authorities will order the withdrawal of the products already placed on the market and prohibit placing the products on the market. Companies will be required to dispose of the goods.

Proposed:
The text was adopted by Parliament in April 2024. The text now has to get a final formal approval from the EU Council. It will then be published in the Official Journal. EU countries will have to start applying it in three years. [22]

Key requirements →

GHG emissions tracking | Supply chain mapping | Third party assurance | Adverse media reporting | Xinjiang/WRO mapping | External reporting | Supplier/risk monitoring | Supplier engagement | Supplier training | Remediation plans | Product mapping | ESG risk analysis | Supplier assessments | Supplier corrective action plan

22. EU Forced Labour Ban →

France Duty of Vigilance Law

Applies to:
Companies that have at least 5,000 employees in France or 10,000 worldwide, either directly or in their subsidiaries.

What it says:
Companies must have a due diligence plan in place that safeguards human rights and environmental impact from its supply chain operations.

Penalty:
Companies in violation are subject to sanctions, in the possibility of service of formal notice that may result in the issuance of a commercial court order and the imposition of a daily fine.

Effective date:
Effective since 2017 [23]

Key requirements →

GHG emissions tracking | Supply chain mapping | Third party assurance | Adverse media reporting | Xinjiang/WRO mapping | External reporting | Supplier/risk monitoring | Supplier engagement | Supplier training | Remediation plans | Product mapping | ESG risk analysis | Supplier assessments | Supplier corrective action plan

23. France Duty of Vigilance Law →

Human rights legislation

Human rights due diligence laws by region - Europe

Germany Supply Chain Due Diligence Act

Applies to:
Companies with more than 3,000 employees based in Germany or German-registered branches of international companies from 2023. From 2024, it also applies to companies with more than 1,000 employees based in Germany or German-registered branches of foreign companies.

What it says:
The Supply Chain Due Diligence Act requires companies to establish a risk management system to identify, prevent, or minimise the risks of human rights violations and environmental damage in their supply chains. Companies must publish an annual report outlining their due diligence efforts. The legislation also extends due diligence obligations to indirect suppliers, ensuring that risks are addressed throughout the supply chain.

Penalty:
Violations of the Act may result in fines of up to €8million or up to 2% of annual global turnover. The fines system based on turnover applies only to enterprises with an annual turnover of more than €400million.

Effective date:
Effective since Jan. 2023[24]

Key requirements →

GHG emissions tracking | Supply chain mapping | Third party assurance | Adverse media reporting | Xinjiang/WRO mapping | External reporting | Supplier/risk monitoring | Supplier engagement | Supplier training | Remediation plans | Product mapping | ESG risk analysis | Supplier assessments | Supplier corrective action plan

Netherlands Child Labour Due Diligence Law

Applies to:
Any company established in the Netherlands that provides goods or services to Dutch sell or supply end users.

What it says:
Companies in the Netherlands must have due diligence measures in place to prove their products were not produced with child labour and publish annual reports on their due diligence policies and measures.

Penalty:
Those found in violation may face fines of up to 10% net turnover or criminalisation.

Proposed:
Proposed in 2022[25]

Key requirements →

GHG emissions tracking | Supply chain mapping | Third party assurance | Adverse media reporting | Xinjiang/WRO mapping | External reporting | Supplier/risk monitoring | Supplier engagement | Supplier training | Remediation plans | Product mapping | ESG risk analysis | Supplier assessments | Supplier corrective action plan

24. Germany Supply Chain Due Diligence Act →

25. Netherlands Child Labour Due Diligence Law →

Human rights legislation

Human rights due diligence laws by region - Europe

Netherlands Responsible and Sustainable International Business Act

Applies to:
Any Dutch or other EU entity that engages in activities outside the Netherlands; or is a non-EU entity engaged in activities or marketing products in the Netherlands; and it is a large entity under the EU Accounting Directive, i.e., it meets at least two of the following quantitative thresholds for the applicable fiscal year: Balance sheet of at least €20 million; Net turnover of at least €40 million; and An average of 250 employees during the year.

What it says:
Entities with known activities that have adverse human rights or environmental impact would be required to take all reasonable measures to prevent the impacts or mitigate or reverse them to the extent possible and, where necessary, enable remediation.

Penalty:
Those found not in compliance could face civil action or fines of up to 10% of an entity's net turnover.

Proposed:
Proposed in 2022 [26]

Key requirements →

GHG emissions tracking | Supply chain mapping | Third party assurance | Adverse media reporting | Xinjiang/WRO mapping | External reporting | Supplier/risk monitoring | Supplier engagement | Supplier training | Remediation plans | Product mapping | ESG risk analysis | Supplier assessments | Supplier corrective action plan

26. Netherlands Responsible and Sustainable International Business Act →

Norway Transparency Act

Applies to:
Larger enterprises that are resident in Norway and that offer goods or services in or outside Norway and larger foreign enterprises that offer goods or services in Norway, and that are liable to tax to Norway pursuant to internal Norwegian legislation (Sections 2 and 3).

What it says:
Companies must investigate whether there are any actual, or risks of, adverse impacts on human rights or decent working conditions in their own operations, their supply chain and other business relationships. Companies must report their assessments publicly and take steps to remediate the findings. Companies must also establish a channel to receive due diligence information requests and must respond to requests within a certain time frame.

Penalty:
Companies in violation may face sanctions or fines.

Effective date:
Effective since 2022 (Companies must publish first reports by June 2023) [27]

Key requirements →

GHG emissions tracking | Supply chain mapping | Third party assurance | Adverse media reporting | Xinjiang/WRO mapping | External reporting | Supplier/risk monitoring | Supplier engagement | Supplier training | Remediation plans | Product mapping | ESG risk analysis | Supplier assessments | Supplier corrective action plan

27. Norway Transparency Act →

Human rights legislation

Human rights due diligence laws by region - Europe

Spain Due Diligence Law

Applies to:
Spanish companies and international companies operating in Spain must impose due diligence strategies to address and mitigate any risks relating to human rights or environmental violations within their supply chains.

Penalty:
Companies found in violation may face sanctions.

Proposed:
Proposed in 2022/Needs approval before taking effect [28]

Key requirements →

GHG emissions tracking | Supply chain mapping | Third party assurance | Adverse media reporting | Xinjiang/WRO mapping | External reporting | Supplier/risk monitoring | Supplier engagement | Supplier training | Remediation plans | Product mapping | ESG risk analysis | Supplier assessments | Supplier corrective action plan

Swiss Ordinance on Due Diligence Obligations and Transparency

Applies to:
Any company with at least 500 full-time employees and total assets of at least CHF 30 million (USD 31 million) or revenues of CHF 40 (USD 41.5 million) million per year.

What it says:
The Code of Obligations requires companies to provide annual reporting on their supply chain activities relating to environmental issues, social issues, personnel issues, respect for human rights and combating corruption. Companies with risks in these areas must implement management systems and supply chain policies to address them, particularly related to conflicts minerals and child labour.

Penalty:
Those in violation of these obligations face potential fines of up to CHF 100,000.

Effective date:
Effective since 2022; reporting obligations apply as of financial year 2023 [29]

Key requirements →

GHG emissions tracking | Supply chain mapping | Third party assurance | Adverse media reporting | Xinjiang/WRO mapping | External reporting | Supplier/risk monitoring | Supplier engagement | Supplier training | Remediation plans | Product mapping | ESG risk analysis | Supplier assessments | Supplier corrective action plan

28. Spain Due Diligence Law →

29. Swiss Ordinance on Due Diligence Obligations and Transparency →

Human rights legislation

Human rights due diligence laws by region - Europe

UK Modern Slavery Act

Applies to:
Companies with turnover of over £36mn + some or all of business in UK.

What it says:
Companies must issue modern slavery statement annually to report steps taken to mitigate risks of modern slavery in their supply chain.

Penalty:
Companies may face court hearings for injunctions.

Effective date:
Effective since 2015 [30]

Key requirements →

GHG emissions tracking | Supply chain mapping | Third party assurance | Adverse media reporting
Xinjiang/WRO mapping | External reporting | Supplier/risk monitoring | Supplier engagement | Supplier training
Remediation plans | Product mapping | ESG risk analysis | Supplier assessments | Supplier corrective action plan

30. UK Modern Slavery Act →

Human rights legislation

Human rights due diligence laws by region - Unites States

California Transparency in Supply Chains Act

Applies to:
Retail sellers or manufacturers doing business in California with annual worldwide gross receipts in excess of $100,000,000.

What it says:
Companies must disclose the extent of their efforts in five areas: verification, audits, certification, internal accountability, and training, specifically as it relates to human trafficking and modern slavery. Companies must publish their modern slavery statement on their website.

Penalty:
While there is no specified financial penalties, the Attorney General can choose to file a civil action for injunctive relief in case of violation.

Effective date:
Effective since 2012 [31]

Key requirements →

GHG emissions tracking | Supply chain mapping | Third party assurance | Adverse media reporting | Xinjiang/WRO mapping | **External reporting** | **Supplier/risk monitoring** | Supplier engagement | Supplier training | Remediation plans | Product mapping | ESG risk analysis | Supplier assessments | Supplier corrective action plan

31. California Transparency in Supply Chains Act →

California Garment Worker Protection Act

Applies to:
It is now illegal for garment workers to be paid piece rate. Garment workers must be paid an hourly rate no less than the minimum wage. The law also makes all parties contracting for the performance of garment contracting responsible for the proper payment of garment workers regardless of the layers of contracting.

Penalty:
Those not in compliance must pay workers back in full any stolen wages and will be subject to civil penalties.

Effective date:
Effective since January 2021 [32]

Key requirements →

GHG emissions tracking | Supply chain mapping | Third party assurance | Adverse media reporting | Xinjiang/WRO mapping | External reporting | **Supplier/risk monitoring** | **Supplier engagement** | **Supplier training** | **Remediation plans** | Product mapping | ESG risk analysis | **Supplier assessments** | **Supplier corrective action plan**

32. California Garment Worker Protection Act →

Human rights legislation

Human rights due diligence laws by region - Unites States

New York State Fashion Sustainability and Social Accountability Act

Applies to:
Fashion retail sellers and fashion manufacturers doing business in the state and having annual worldwide gross receipts that exceed one hundred million dollars.

What it says:
Requires fashion retail sellers and manufacturers to disclose environmental and social due diligence policies and impacts from its supply chains.

Penalty:
Companies found not in compliance face fines of up to 2% of annual revenues.

Proposed:
Proposed in 2022 [33]

Key requirements →

GHG emissions tracking | Supply chain mapping | Third party assurance | Adverse media reporting | Xinjiang/WRO mapping | External reporting | Supplier/risk monitoring | Supplier engagement | Supplier training | Remediation plans | Product mapping | ESG risk analysis | Supplier assessments | Supplier corrective action plan

US Fashioning Accountability and Building Real Institutional Change Act (FABRIC Act)

Applies to:
Fashion brands and retailers as well as American manufacturers and suppliers to the garment industry.

What it says:
The act intends to restructure pay rates and provide minimum wage as a floor with productivity incentives on top and to impose penalties for workplace violations as well as establish record-keeping measures like a nationwide garment industry registry.

Penalty:
Those found not in compliance face fines of up to $50 million.

Proposed:
Proposed in 2022 (Not expected to be in effect for at least a few years) [34]

Key requirements →

GHG emissions tracking | Supply chain mapping | Third party assurance | Adverse media reporting | Xinjiang/WRO mapping | External reporting | Supplier/risk monitoring | Supplier engagement | Supplier training | Remediation plans | Product mapping | ESG risk analysis | Supplier assessments | Supplier corrective action plan

33. New York State Fashion Sustainability and Social Accountability Act →

34. US Fashioning Accountability and Building Real Institutional Change Act (FABRIC Act) →

Human rights legislation

Human rights due diligence laws by region - Unites States

US Slave-Free Business Certification Act

Applies to:
The act will require certain businesses to disclose in-depth reporting the use of forced labour in their direct supply chain and require more rigorous audit processes.

Penalty:
Companies in violation may face fines of up to $100 million.

Proposed:
Proposed in 2022[35]

Key requirements →

GHG emissions tracking | Supply chain mapping | Xinjiang/WRO mapping | External reporting | Supplier/risk monitoring | Remediation plans | Product mapping | ESG risk analysis | Third party assurance | Adverse media reporting | Supplier assessments | Supplier engagement | Supplier training | Supplier corrective action plan

Withhold Release Orders (WROs) and Findings; 1930 Tariff Act Amendment

Applies to:
All companies that import into the United States.

What it says:
United States Customs and Border Protection (CBP) issues Withhold Release Orders (WROs) or Findings on products imported into the US that were allegedly produced wholly or in part with forced labour, from any part of the world or in connection with any entity outside the specific jurisdiction of the UFLPA or the Countering America's Adversaries Through Sanctions Act (CAATSA).

Penalty:
CBP will detain imported goods if it determines that "reasonable suspicion" exists that the products were produced with forced labour; the importer may challenge the WRO to overturn the detention and release the goods into the US, re-export the goods away from the US, or allow the goods to be destroyed. CBP will seize imported goods (publishing the seizure on the CBP website36) if it obtains clear and convincing evidence of forced labour; this is called a forced labour Finding. The importer may challenge a Finding (as above) or the goods will be destroyed; seized goods may not be re-exported.

Effective date:
CBP (formerly the US Customs Service) obtained the authority to seize goods pursuant to forced labour since the implementation of the 1930 Tariff Act. The earliest form of a WRO or Finding appears to have been implemented against Mexico in 1953. However, CBP's ability and willingness to issue WROs and Findings increased significantly with the 2016 implementation of the US Trade Facilitation and Trade Enforcement Act.

Key requirements →

GHG emissions tracking | Supply chain mapping | Third party assurance | Adverse media reporting | Remediation plans | Product mapping | Xinjiang/WRO mapping | External reporting | Supplier/risk monitoring | Supplier engagement | Supplier training | ESG risk analysis | Supplier assessments | Supplier corrective action plan

35. US Slave-Free Business Certification Act →

36. Withhold Release Orders (WROs) and Findings; 1930 Tariff Act Amendment →

Human rights legislation

Human rights due diligence laws by region - Unites States

US Trade Facilitation and Trade Enforcement Act

Applies to:
Any company believed to be importing goods made using prison, forced, or indentured labour.

What it says:
While the act does not require due diligence or a compliance plan, it requires companies to take preventative measures to ensure mitigation is possible in the event of a violation. The most significant element of the Act is the repeal of the "Consumptive Demand" exception of the 1930 Tariff Act which allowed the importation of goods made with forced labour if US demand was deemed necessary and supply insufficient without allowing the importation of goods made through forced labour.

Penalty:
Non-compliance can lead to goods being held by CBP and might not be allowed into the country. Shipments may be detained and/or destroyed.

Effective date:
Effective since 2016[37]

Key requirements →

GHG emissions tracking | Supply chain mapping | Third party assurance | Adverse media reporting | Xinjiang/WRO mapping | External reporting | Supplier/risk monitoring | Supplier engagement | Supplier training | Remediation plans | Product mapping | ESG risk analysis | Supplier assessments | Supplier corrective action plan

37. US Trade Facilitation and Trade Enforcement Act →

Countering America's Adversaries Through Sanctions Act (CAATSA)

Applies to:
All companies that import into the United States.

What it says:
While CAATSA is a diverse US Law that targets the activities of Russia, Iran, and the Democratic People's Republic of Korea (DPRK), its forced labour import prohibition only targets goods made in the DPRK or by North Korean nationals. CAATSA relies on a core operating presumption ("the rebuttable presumption") that goods mined, produced, or manufactured wholly or in part with labour provided by North Korean nationals were made with forced labour and as such are prohibited from importation into the US.

Penalty:
CBP will detain imported goods based on the determination that the CAATSA rebuttable presumption applies to the products' supply chain. The importer may re-export the detained goods away from the US, allow CBP to destroy the detained goods, or challenge the CAATSA detention by either rebutting the forced labour presumption or successfully arguing that the CAATSA does not apply to the products' supply chain. If the challenge is successful, the goods will be released into US commerce.

Effective date:
Effective since 2017[38]

Key requirements →

GHG emissions tracking | Supply chain mapping | Third party assurance | Adverse media reporting | Xinjiang/WRO mapping | External reporting | Supplier/risk monitoring | Supplier engagement | Supplier training | Remediation plans | Product mapping | ESG risk analysis | Supplier assessments | Supplier corrective action plan

38. Countering America's Adversaries Through Sanctions Act (CAATSA) →

Human rights legislation

Human rights due diligence laws by region - Unites States

Uyghur Forced Labour Prevention Act (UFLPA)

Applies to:
All companies that import into the United States.

What it says:
US Law prohibiting the importation of goods manufactured wholly or in part with forced labour in the People's Republic of China, especially from the Xinjiang Uyghur Autonomous Region (Xinjiang). The UFLPA relies on a core operating presumption ("the rebuttable presumption") that goods mined, produced, or manufactured wholly or in part in Xinjiang or in connection with an entity on the UFLPA Entity List were made with forced labour and as such are prohibited from importation into the US.

Penalty:
CBP will detain imported goods based on the determination that the UFLPA rebuttable presumption applies to the products' supply chain. The importer may re-export the detained goods away from the US, allow CBP to destroy the detained goods, or challenge the UFLPA detention by either rebutting the forced labour presumption or successfully arguing that the UFLPA does not apply to the products' supply chain. If the challenge is successful, the goods will be released into US commerce.

Effective date:
Effective since June 2022[39]

Key requirements →

GHG emissions tracking | Supply chain mapping | Third party assurance | Adverse media reporting
Xinjiang/WRO mapping | External reporting | Supplier/risk monitoring | Supplier engagement | Supplier training
Remediation plans | Product mapping | ESG risk analysis | Supplier assessments | Supplier corrective action plan

US Federal Acquisition Regulation (FAR) Rule on Human Trafficking

Applies to:
Any entity that enters into a contractual agreement with the US government, either directly or as a subcontractor, is subject to the requirements of the FAR Rule on Human Trafficking.

What it says:
The FAR Rule requires federal contractors and subcontractors to implement measures to combat human trafficking and forced labour in their supply chains and prohibits contractors, subcontractors, and their employees from engaging in any form of human trafficking, including but not limited to forced labour, child labour, and sex trafficking, during the performance of federal contracts.

Penalty:
Those in violation face contract termination, suspension or debarment from future federal contracting opportunities, and potential civil or criminal penalties.

Effective date:
Effective since 2015[40]

Key requirements →

GHG emissions tracking | Supply chain mapping | Third party assurance | Adverse media reporting
Xinjiang/WRO mapping | External reporting | Supplier/risk monitoring | Supplier engagement | Supplier training
Remediation plans | Product mapping | ESG risk analysis | Supplier assessments | Supplier corrective action plan

39. Uyghur Forced Labour Prevention Act (UFLPA) →

40. US Federal Acquisition Regulation (FAR) Rule on Human Trafficking →

Human rights legislation

Human rights due diligence laws by region - Unites States

US Transaction and Sourcing Knowledge Act (TASK)

Applies to:
The Act would require the U.S. Securities and Exchange Commission (SEC) to mandate reporting by publicly traded companies of any sourcing and due diligence activities involving supply chains of products imported into the US that are directly linked to products utilising forced labour from the Xinjiang Uyghur Autonomous Region of China.

What it says:
Publicly traded companies must report on (1)Their sourcing and due diligence activities involving supply chains of products imported into the United States that are directly linked to products utilising forced labour from the XUAR. (2) Transactions with companies that have been (i) placed on the Entity List by the Department of Commerce or (ii) designated by the Department of the Treasury as Chinese Military-Industrial Complex Companies, (3) If the company has facilities in China, (i) whether there is a Chinese Communist Party committee in the operations of the company and (ii) a summary of the actions and corporate decisions in which the committee may have participated. This disclosure would be required annually.

Proposed:
Proposed in 2023[41]

Key requirements →

GHG emissions tracking | Supply chain mapping | Third party assurance | Adverse media reporting
Xinjiang/WRO mapping | External reporting | Supplier/risk monitoring | Supplier engagement | Supplier training
Remediation plans | Product mapping | ESG risk analysis | Supplier assessments | Supplier corrective action plan

41. US Transaction and Sourcing Knowledge Act (TASK) →

Proposed New York State Legislations

New York AB 3506
Establishes the Supply Chain Transparency Assistance Program to encourage the shifting of the state's economy toward more ethical and sustainable supply chains.[42]

New York SB 4442
Establishes the "New York state transparency in supply chains act" which requires businesses to fully disclose efforts being taken to eliminate human trafficking within the supply chain process and provide those disclosures to consumers.[43]

Critical Material TRACE Act
Establishes a Department of Energy (DOE) programme to support voluntary digital identifiers for advanced energy technologies and requires the DOE to support or develop digital battery identifiers, that include data on information such as the origins of battery materials and any associated human rights, labor, and environmental concerns.

42. New York AB 3506 →   43. New York SB 4442 →

Human rights legislation

Human rights due diligence laws by region - North America (outside of the US)

Canadian Fighting Against Forced Labour and Child Labour in Supply Chains Act

Applies to:
Government institutions producing, purchasing or distributing goods in Canada or elsewhere; and entities producing goods in Canada or elsewhere or in importing goods produced outside Canada.

What it says:
The act will require entities to report on the measures taken to prevent and reduce the risk that forced labour or child labour is used by them or in their supply chains. The act will also prohibit the importation of goods manufactured or produced, in whole or in part, by forced labour or child labour.

Penalty:
Those found not in compliance face fines of up to $250,000.

Effective date:
The law came into force January 1, 2024. The first report was due on May 31, 2024.[44]

Key requirements →

GHG emissions tracking | Supply chain mapping | Third party assurance | Adverse media reporting | Xinjiang/WRO mapping | External reporting | Supplier/risk monitoring | Supplier engagement | Supplier training | Remediation plans | Product mapping | ESG risk analysis | Supplier assessments | Supplier corrective action plan

Canadian Xinjiang Manufactured Goods Importation Prohibition Act

Applies to:
All goods that import into Canada from Xinjiang.

What it says:
The importation of goods manufactured or produced wholly or in part in the Xinjiang Uyghur Autonomous Region of the People's Republic of China is prohibited.

Proposed:
Still in proposal stages, effective date has not yet been announced[45]

Key requirements →

GHG emissions tracking | Supply chain mapping | Third party assurance | Adverse media reporting | Xinjiang/WRO mapping | External reporting | Supplier/risk monitoring | Supplier engagement | Supplier training | Remediation plans | Product mapping | ESG risk analysis | Supplier assessments | Supplier corrective action plan

244. Canadian Fighting Against Forced Labour and Child Labour in Supply Chains Act →

45. Canadian Xinjiang Manufactured Goods Importation Prohibition Act →

Human rights legislation

Human rights due diligence laws by region - North America (outside of the US)

Mexico Forced Labour Ban

Applies to:
The ban will allow the government to detain and block imports into the country suspected to be produced with forced labour. If goods are determined to be produced with forced labour, the government will post the findings or "resolutions" on their website. Companies will need to have documentation and proof that imports into the country are not tied to any form of forced labour to avoid detainments or import bans.

Effective date:
Effective since May 2023[46]

Key requirements →

GHG emissions tracking | Supply chain mapping | Third party assurance | Adverse media reporting | Xinjiang/WRO mapping | External reporting | Supplier/risk monitoring | Supplier engagement | Supplier training | Remediation plans | Product mapping | ESG risk analysis | Supplier assessments | Supplier corrective action plan

Brazil: ISSB's IFRS Sustainability Disclosure Standards integration

Applies to:
Brazilian companies listed on the stock exchange and investment funds companies.

What it says:
Requires companies to disclose information on their environmental, social and governance (ESG) impacts, including greenhouse gas emissions, water use, waste management, climate risk management, human rights, labour relations and corporate governance.

Penalty:
Sanctions range from penalty fees to administrative arrest.

Effective date:
Mandatory compliance with the resolution will begin on 1 January 2026, with the possibility of voluntary adoption starting in 2024.

Key requirements →

GHG emissions tracking | Supply chain mapping | Third party assurance | Adverse media reporting | Xinjiang/WRO mapping | External reporting | Supplier/risk monitoring | Supplier engagement | Supplier training | Remediation plans | Product mapping | ESG risk analysis | Supplier assessments | Supplier corrective action plan

46. *Mexico Forced Labour Ban →*

Human rights legislation

Human rights due diligence laws by region - South America

Brazil's "Dirty List"

Applies to:
Brazil publishes a list of all employers and/or their middlemen who exploit people through slave labour in Brazil.

Penalty:
Companies on that list are blocked from receiving state loans and have restrictions placed on sales, and private banks use the list to gauge credit risk.

Effective date:
Effective since 2004 / Updated in 2020[47]

Key requirements →

GHG emissions tracking | Supply chain mapping | Third party assurance | Adverse media reporting | Xinjiang/WRO mapping | External reporting | Supplier/risk monitoring | Supplier engagement | Supplier training | Remediation plans | Product mapping | ESG risk analysis | Supplier assessments | Supplier corrective action plan

47. Brazil's "Dirty List" →

Human rights due diligence laws by region - Asia

South Korea Proposed Act on Human Rights and Environmental Protection for Sustainable Management of Companies

Applies to:
The regulation would apply to South Korean companies with 500 or more employees, or with revenue equal to or greater than 200 billion KRW in the previous financial year.

What it says:
Companies must establish and operate a human rights and environmental due diligence implementation system, report it to the board of directors, implement measures against human rights and environmental risks identified. Companies must also report publicly their findings and measures taken.

Penalty:
Those found in violation of the law may be subject to corrective orders, fines of up to 50,000,000 KRW, or may be required to reimburse victims impacted by the entity's human rights or environmental violations.

Proposed:
The proposal is still in the beginning approval stages, and an effective date has not yet been announced.[50]

Key requirements →

GHG emissions tracking | Supply chain mapping | Third party assurance | Adverse media reporting | Xinjiang/WRO mapping | External reporting | Supplier/risk monitoring | Supplier engagement | Supplier training | Remediation plans | Product mapping | ESG risk analysis | Supplier assessments | Supplier corrective action plan

50. South Korea Proposed Act on Human Rights and Environmental Protection for Sustainable Management of Companies →

Human rights legislation

Human rights due diligence laws by region - Austrailia/New Zealand

Australia Modern Slavery Act

Applies to:
Entities based/operating in Australia with annual consolidated revenue of more than $100 million.

What it says:
Companies must report annually the risks of modern slavery in their operations and supply chains and how they are addressing the risks.

Penalty:
Explanation for failure to comply & remedial actions may be required. Failing to reply to such request may lead to publishing of identity.

Effective date:
Effective since Jan 2019[48]

Key requirements →

GHG emissions tracking | Supply chain mapping | Third party assurance | Adverse media reporting | Xinjiang/WRO mapping | External reporting | Supplier/risk monitoring | Supplier engagement | Supplier training | Remediation plans | Product mapping | ESG risk analysis | Supplier assessments | Supplier corrective action plan

48. Australia Modern Slavery Act →

New Zealand Modern Slavery Act

Applies to:
Medium ($20 million) and "large" ($50 million) entities.

What it says:
Entities would be required to identify and/or take action to address (1) modern slavery in their domestic and international operations and supply chains and (2) worker exploitation in their domestic operations and supply chains.

Penalty:
Those found not in compliance can face imprisonment, fines, seizing of assets or deportation, depending on the violation.

Proposed:
Proposed in 2022 / in proposal stages[49]

Key requirements →

GHG emissions tracking | Supply chain mapping | Third party assurance | Adverse media reporting | Xinjiang/WRO mapping | External reporting | Supplier/risk monitoring | Supplier engagement | Supplier training | Remediation plans | Product mapping | ESG risk analysis | Supplier assessments | Supplier corrective action plan

49. New Zealand Modern Slavery Act →

Resolving the compliance gap and enhancing traceability

What is the key takeaway from the onslaught of new laws? The rate of regulatory evolution worldwide is rapid. Adhering to the requirements throughout this report and the regulations still to come requires a new level of rigor and proactivity in addressing risks while implementing robust due diligence strategies.

Governing bodies are now emphasising the 'how' in legal frameworks: it's not enough to just identify the risks, businesses must demonstrate what is being done to mitigate them. Businesses must illustrate the efficacy of their programme and procedures in place. Below are the foundational elements to building a resilient responsible sourcing programme that will empower businesses to maintain preparedness for identifying, monitoring, and mitigating their ESG risks and impacts.

Key contextual highlights in this section:

Building a responsible sourcing programme to comply with requirements

- Expanding visibility
- Segmenting your supply chain
- Enhancing near real-time monitoring
- Improving capacity building

Resolving the compliance gap and enhancing traceability

Building your responsible sourcing programme to comply with requirements

ESG risks are unevenly distributed throughout supply chains. The first step to improving your responsible sourcing programme and ensuring regulatory compliance is extending visibility and developing a deeper understanding of how end-to-end operations are shaping areas of high risk.

Example of LRQA due diligence framework

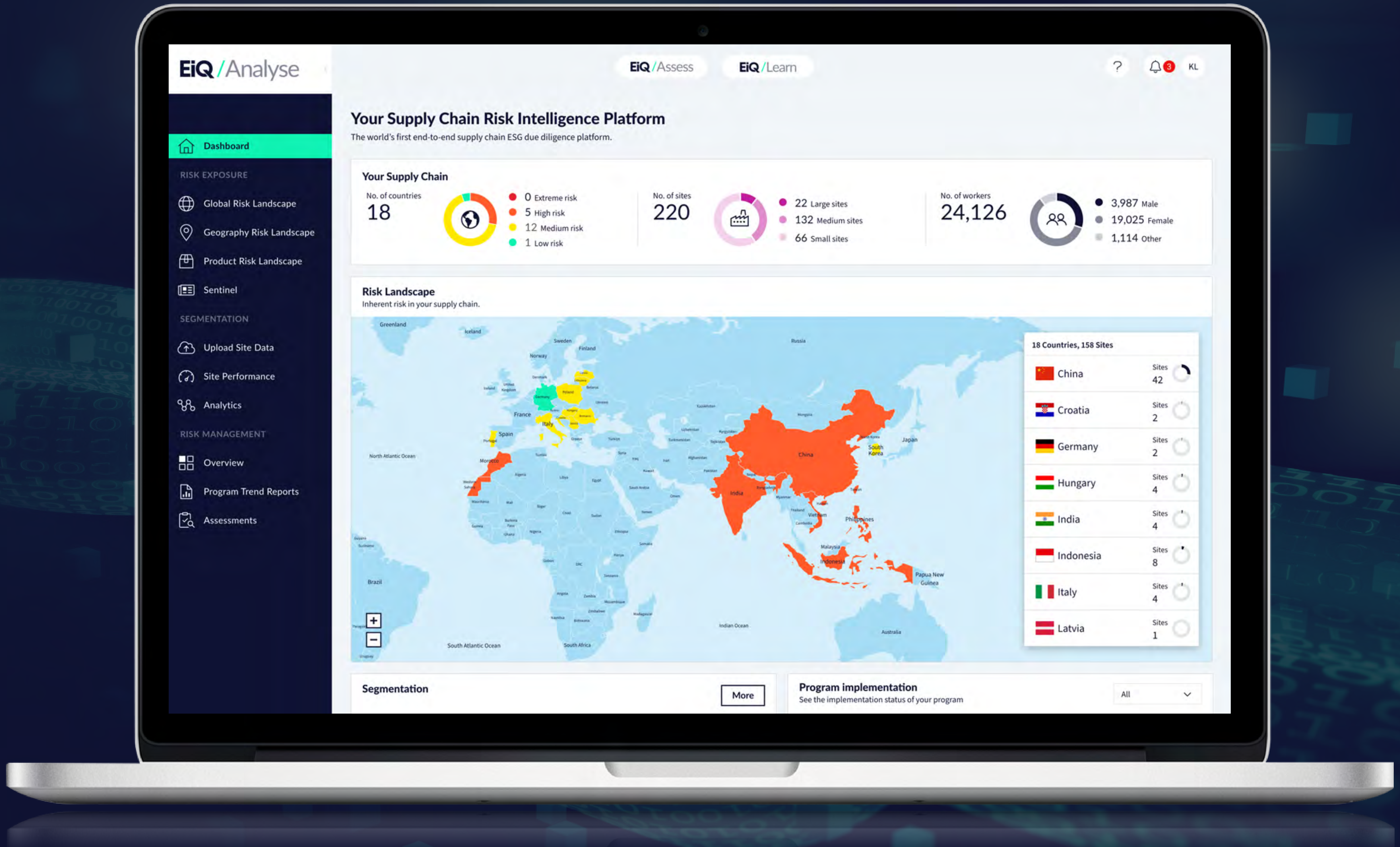
Resolving the compliance gap and enhancing traceability

Expanding visibility

As you begin to better understand the regulatory requirements applicable to your specific organisation, you can then conduct a deeper diagnostic of the various risks throughout your value chain and better allocate resources to areas in which you are most exposed to risk.

A top priority when enhancing visibility is prioritising data management. Accessible, standardised data will be key in gaining a more holistic view of your supplier base, their assessment statuses & performances, and their inherent risk exposure - which will support a more efficient segmentation and risk mapping process.

EiQ



An example of a supply chain overview using LRQA's due diligence platform EiQ →

Resolving the compliance gap and enhancing traceability

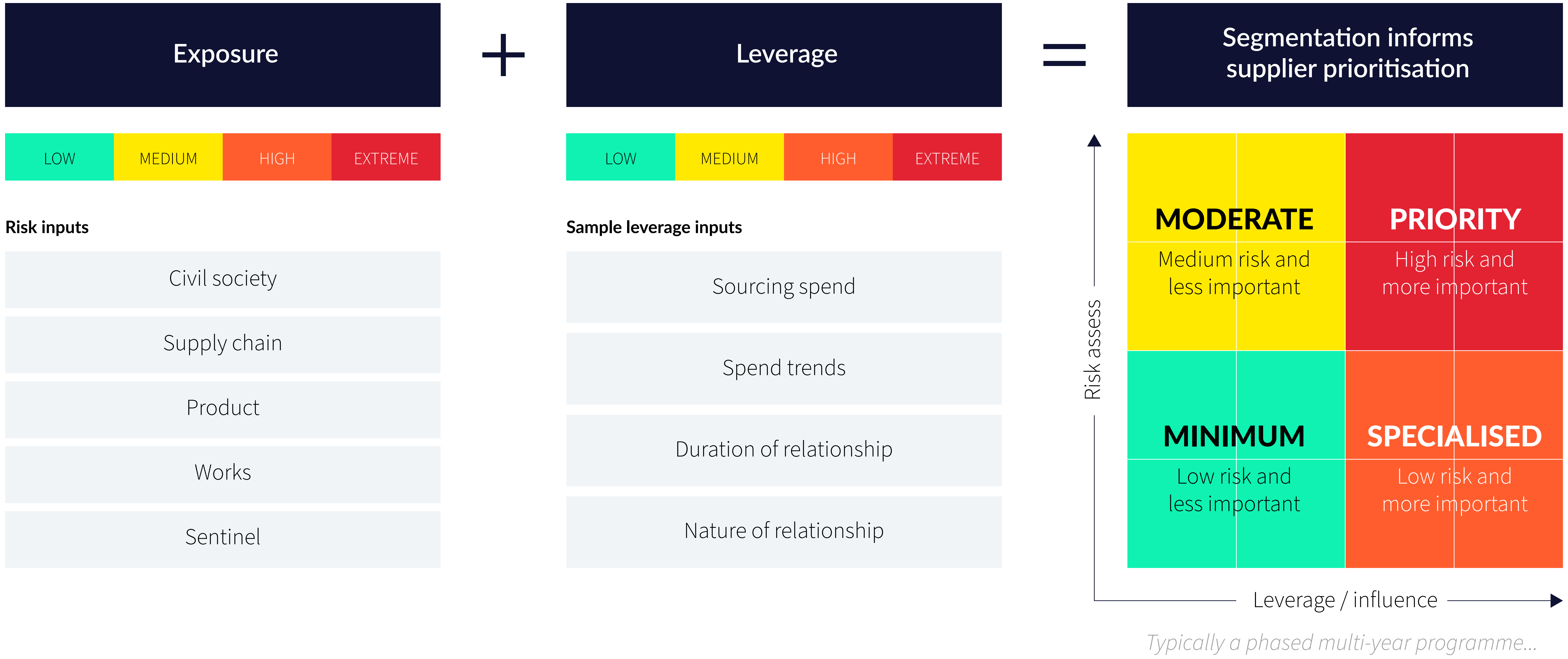
Segmenting your supply chain

Once this visibility is expanded and businesses have a clear overview of their supplier base and their assessment performances, the next step in enhancing risk data management will be segmenting the supplier base to allow for risk prioritisation.

Segment suppliers to identify areas of focus and design

LRQA's segmentation approach combines inherent sourcing risks + business leverage insights to determine which segments of the supply chain provide the greatest opportunity to manage business risk and drive impact.

- Each supplier is assigned a risk and leverage rating based on key data inputs from both internal and external data sources. These ratings determine the supplier 'category' or segment for prioritised action.
- Understanding influence relative to risk is the key to strategic programme design, resource prioritisation, and effective implementation.



Resolving the compliance gap and enhancing traceability

Enhancing near real-time monitoring

Annual onsite supplier audits are necessary but insufficient. A beyond audit strategy is required to increase real-time site monitoring and allow for a more granular view into risks otherwise missed from once-a-year assessments. Adverse media scanning resolves this gap, scouring various media sources for ESG incidents related to suppliers. Machine learning services like LRQA's Sentinel tool pick up articles related to sanctions, health & safety incidents, forced labour investigations and other ESG-related happenings from local media, government sites, search engine sources, and social media outlets.

How is Sentinel different from other adverse media screening tools?

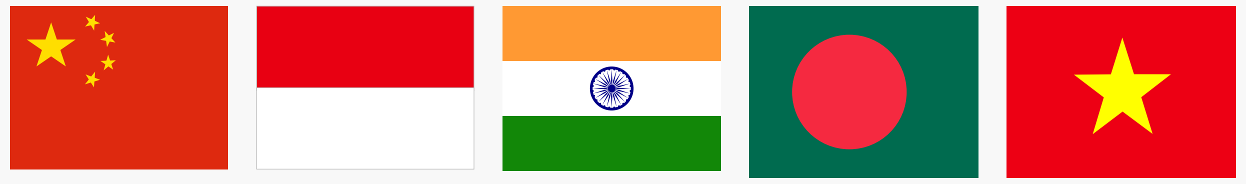
Key sourcing countries

Many of the current adverse media screening tools have good coverage for developed countries, and large or public companies, but limited coverage for supply chain partners in key sourcing countries in Asia, South America and Africa. LRQA Sentinel focuses on supply chain partners in key sourcing hubs. For instance...

56%+

of the LRQA Sentinel hits are related to suppliers in Asia.

Top 5 countries are :



China Indonesia India Bangladesh Vietnam

Industry expertise

LRQA leverages the industry expertise and on the ground experiences to identify local sources of data. There are...

18+ sources

using a variety of data including:

- Hotlines run by local governments in China and Vietnam (e.g., Dongguan hotline platform)
- Grievance mechanism run by industry groups (e.g., the RMG Sustainability Council)
- Compliance databases managed by governments or international organisations (e.g., ECHO)

Resolving the compliance gap and enhancing traceability

Improving capacity building

Supply chain capacity building encompasses how organisations empower their own employees or their supply chain partners to improve working conditions and enhance productivity, sustainability, and company culture. This benefits the entire value chain- from supporting worker retention and satisfaction, to overall operational efficacy.

Supplier engagement and capacity building can take shape in many forms, but a key component is through supplier training programmes. We encourage supply chain managers to "know their supplier," as preventing future risks involves aligning your supplier with the values and commitments to your organisation. Supplier training is an efficient way to promote overall site improvement and to support your due diligence efforts.

Empowering supply chain partners to achieve compliance

Empowerment plays a crucial role in supporting regulatory compliance within organisations. By empowering supply chain partners, businesses can foster stronger partnerships built on accountability and shared responsibility for compliance. Through clear communication and collaboration, suppliers and vendors can gain a deeper understanding of regulatory requirements and expectations, enabling them to align their practices accordingly. One-sided relationships between brands and supply chain partners are not effective in adhering to new-era requirements. A proactive, collaboartive approach not only strengthens the overall supply chain but also mitigates compliance risks by ensuring that supply chain partners uphold regulatory standards throughout their operations.

Tailoring your approach

Each business will require a level of customisation in their due diligence approach based on specific risks and requirements.

Key activities toward regulatory compliance			
Baseline	**Bronze**	**Silver**	**Gold**
• Assess risk exposure (e.g., via EiQ and Sentinel scans) • Conduct a current state assessment of existing policies and processes related to forced labour / child labour	• Train / educate employees and suppliers to be prepared for the upcoming changes • Develop and strengthen policies and processes to prevent, mitigate and remediate forced or child labour	• Implement risk-based system in specific industries, commodities, and geographies • Track and monitor forced labour and child labour with a robust reporting framework	• Rapid crisis response management • Develop a remediation pilot at selected sites to address areas of concern • Design trainings, CAPs, and other remediation tools for rightsholders
4-6 weeks	**2-4 months**	**2-6 months**	**6-12 months**

LRQA supports clients by developing business-centric, actionable programmes to ensure compliance, such as the framework above tailored to a forced labour regulation. The foundational elements outlined will establish the skeletal framework to building an effective responsible sourcing programme.

Preparing for the future

By 2027, we estimate a third of global consumer markets will be subject to ESG regulatory oversight.

As we prepare for these future requirements and ongoing shifts in regional regulatory trends, a clear standard for effective due diligence has been set. We have established the growing imperative for businesses to proactively adapt their supply chain strategies to meet evolving regulatory demands while upholding their commitment to sustainability and ethical sourcing. ESG due diligence procedures have been tested over the past two decades since the onset of social audits and codified through legislative frameworks. With this new benchmark in place, businesses must prioritise their human and environmental impact and no longer turn a blind eye to the risks present throughout their end-to-end operations. This is the norm that companies should continue to work towards.

In light of these ongoing shifts, leveraging data platforms, analytics, proactive risk management, and traceability measures is no longer merely advantageous but essential for businesses striving to stay ahead. By embracing innovation and diligence today, companies can navigate the uncertainties of tomorrow's regulatory environment with confidence and integrity.

Focus on what matters

About LRQA:

LRQA is the leading glodal assurance partner, bringing together decades of unrivalled expertise in assessment, advisory, inspection and cybersecurity services - underpinned by data-driven insights - to help our clients solve their biggest business challenges.

Operating in more than 150 countries with a team of more than 5,000 people, LRQA's award-winning compliance, supply chain, cybersecurity and ESG specialists help more than 60,000 clients across almost every sector to anticipate, mitigate and manage risk wherever they operate.

In everything we do, we are committed to shaping a better future for our people, our clients, our communities and our planet.

Get in touch

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