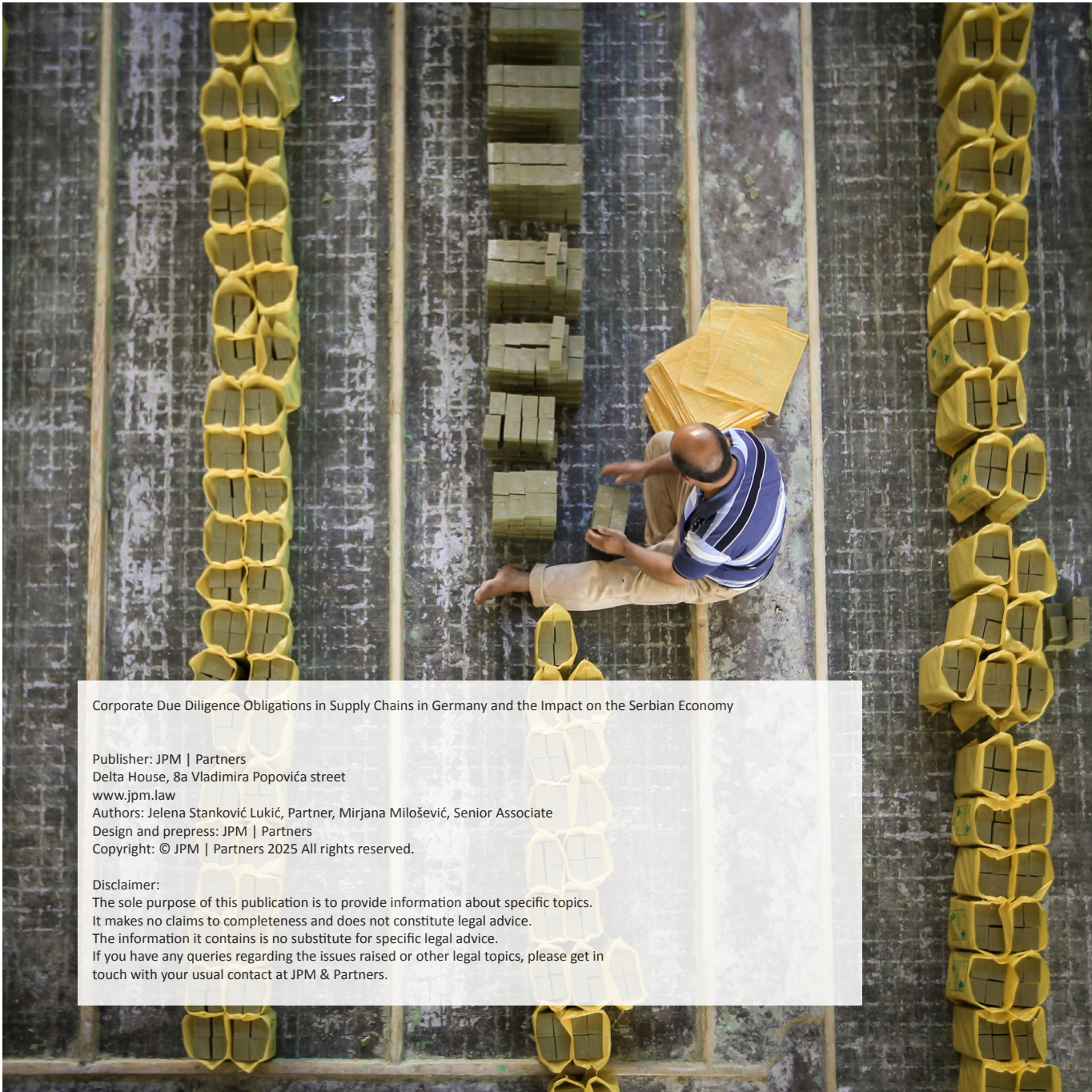




**Corporate Due Diligence Obligations in Supply Chains in Germany
and the Impact on the Serbian Economy**

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Authors: Jelena Stanković Lukić, Partner, Mirjana Milošević, Senior Associate

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The German Law on the Corporate Due Diligence Obligations for the Prevent of Human Rights Violations in Supply Chains introduces for the first time the obligation for German companies to comply with certain procedures and rules, implement due diligence obligations and appropriate measures, in supply chains, with the aim of preventing human rights violations and damages to the environment.

The mentioned German Law does not have a direct impact on companies in Serbia, so the sanctions prescribed by that Law cannot be enforced in Serbia, however, there is a certain influence on Serbian companies that will need to comply with, for reasons of further cooperation with German companies.

Leaving the voluntary concept of Corporate Social Responsibility in Germany, with the adoption of the Law on Corporate Due Diligence Obligations for the Prevention of Human Rights Violations in Supply Chains (the Law - in German: *Gesetz über die unternehmerischen Sorgfaltspflichten zur Vermeidung von Menschenrechtsverletzungen in Lieferketten - LkSG*), for the first time, the companies in Germany are formally legally obliged to comply with the defined due diligence obligations in the supply chains (starting from the extraction of raw materials to the delivery to the end customers) in the fields of human rights and environmental protection.

The Law is based on international guidelines and principles such as the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, the human rights conventions of the International Labor Organization, and three specific environmental conventions (Minamata Convention, Stockholm Convention, and the Basel Convention). It entered into force on January 1, 2023.

It was then applied to German companies with at least 3,000 employees, while starting from January 1, 2024, it also applies to companies based in Germany with at least 1,000 employees, regardless of their legal form.

Under the supply chain, the Law includes all products and services of a company, and the chain consists of all the steps, both in the country and abroad, that are necessary for the production of products and the provision of services, starting from the extraction of raw materials, until the delivery of the same to the end customer, and includes:

- the company's actions in the field of its own business (any activity undertaken by the company in order to achieve the business goal, i.e., any activity aimed at the production and sale of products and the provision of services, regardless of whether it is carried out in a place in the country or abroad. In affiliated companies, the parent company's own business also includes a group company if the parent company exercises a decisive influence on the group company),
- actions of the direct supplier (partner from the supply agreement or the provision of services, whose supplies are necessary for the production of the company's products or for the provision and use of appropriate services), and
- actions of an indirect supplier (any company that is not a direct supplier and whose supplies are necessary for the production of the company's products, or for the provision and use of appropriate services).

In accordance with the Law, companies are obliged to, within their supply chains, appropriately carry out due diligence obligations in the areas of human rights and environmental protection, with the aim of preventing risks in these areas, reducing damage to the environment, or ending violations of human rights or environmental protection rights.

Due Diligence obligations include:

1. establishing a risk management system (obligation to establish an appropriate and effective risk management system, with the aim of complying with the due diligence obligations, which should be grounded in all relevant business processes through appropriate measures);
2. determining internal competence in the company (by appointment of a human rights officer);
3. performing regular risk analyses (risk analysis measures in order to determine the risk of human rights violations and environmental risks regularly in the area of own business for direct suppliers, and in the case of indirect suppliers when there is a specific reason for this);
4. issuing policy statement (related to strategy for human rights, for example by the adoption of a Code of Conduct);
5. establishment of adequate prevention measures in the field of own business towards direct suppliers;
6. taking remedial measures (if the company discovers that a violation of human rights or environment-related obligation has already occurred or is imminent in the area of its own operations or at a direct supplier, it must take appropriate remedial measures, without delay, in order to prevent this violation, end or minimise the extent of this violation);

7. establishing a complaints procedure (obligation to establish internal complaint procedure at the level of the company);
8. implementing due diligence obligations with regard to risks of indirect suppliers (obligation of establishing a complaints procedure and adjusted risk management system);
9. documenting (the fulfillment of the duty of care is continuously documented internally in the company, and the documentation is kept within the stipulated period) and reporting (the company is obliged once a year to compile a report on the fulfillment of its due diligence for the past business year and to publish it publicly on its website within the stipulated period).

Violation of the obligations from the Law does not give rise to any liability under civil law, towards victims of violations of human rights and environmental protection, but for non-compliance, the Law stipulates fines for companies and restrictive measures in public procurement.

The mentioned German Law does not have a direct impact on companies in Serbia, it does not establish a direct obligation, thus the sanctions prescribed by that Law cannot be enforced in Serbia.

It should be mentioned that all the conventions on which the German Law is based have been ratified in Serbia and are directly applied in Serbia, but there are no due diligence obligations or procedures for Serbian companies as prescribed by the German Law.

However, German companies to which this Law applies are also obliged by that Law to carry out their due diligence procedures in Serbia, provided that they have their own representative office or branch, or if it is a subsidiary company over which the German company has a decisive influence, and which Serbian entities are suppliers to German company.

Likewise, towards the Serbian company that is a contractual partner, i.e., the direct supplier of those German companies, while the due diligence obligations will be applied to those that are indirect suppliers when there is a specific reason in terms of the Law. Finally, Serbian companies that do business with companies in Germany, in order to further cooperate, will have to harmonize their operations with the obligations stipulated by the Law for the aforementioned German companies.

While with the global growth of industry, technology, and economy, in the race for profit and personal enrichment, there is at the same time an increasing risk of violation of human and environmental rights, we want to believe that by the introduction of such due diligence obligations in the corporate world, the awareness is spreading of its own responsibility and of necessity to adjust the business to the aim of prevention of human rights violation and environmental damages.

Authors



Jelena Stanković Lukić

Partner

E: jelena.stankovic@jpm.law



Mirjana Milošević

Senior Associate

E: mirjana.milosevic@jpm.law

JPM | PARTNERS

8a Vladimira Popovića,

Delta House

11070 Belgrade, Serbia

T: +381/11/207-6850

E: office@jpm.law

www.jpm.law