

Act on Due Diligence in Supply Chains

External training document for
business partners

May 2023



Cover letter

As Europe's largest automobile club, ADAC has an impact on its environment in many ways: economically, ecologically and socially.

We are aware of the responsibility that arises from this and act on the basis of strict values and principles.

For this reason, as well as the enactment of the Act on Due Diligence in Supply Chains as of January 2023, ADAC provides the following training materials for suppliers, which address and illustrate the relevant contents of the Supply Chain Act.



What are the goals of the training?

This training is designed to ensure that...

- ...the **content** of the German Supply Chain Act is familiar to all relevant suppliers
- ...the suppliers are sensibilized and informed about the **risks & topics** of the SCA¹
- ...the suppliers are aware of **how** and to **whom violations** have to be **reported** and **communicated**

1) SCA = Supply Chain Act



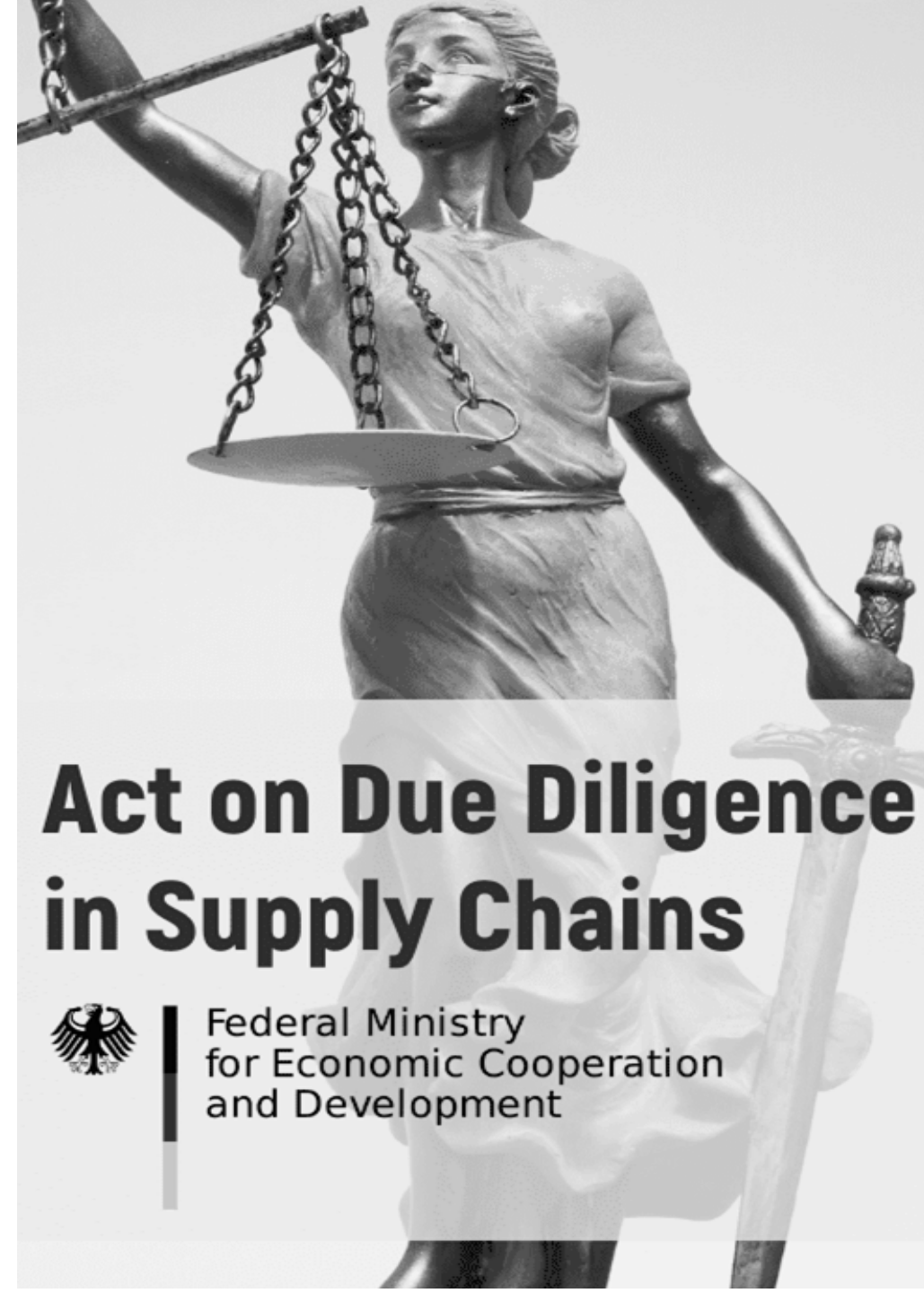
What is the SCA?

Act on Due Diligence in Supply Chains

Law on corporate due diligence to prevent human rights violations in supply chains

The Act on Due Diligence in Supply Chains, also known as the Supply Chain Act, is designed to strengthen international human rights by establishing standards for responsible supply chain management among certain companies¹.

1) Source: Federal Ministry of Labor and Social Affairs



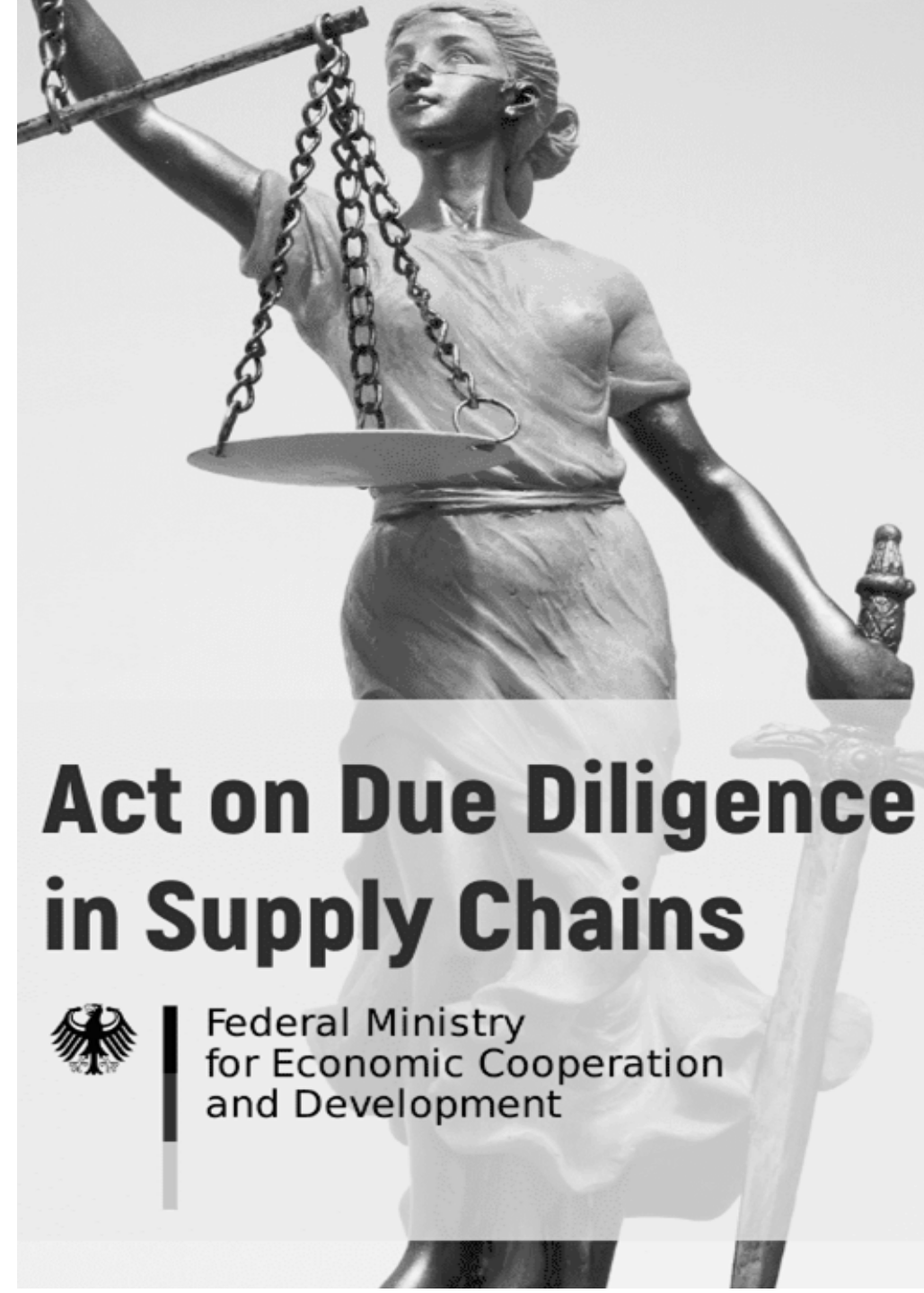
1. Supply Chain Act

What is the scope of the SCA?

- **From January 1, 2023:** New Supply Chain Act to prevent human rights violations in global value chains
- Establishing a **legal framework** to protect the **environment and human rights including children**
- Mandatory for companies with **more than 3,000 employees**
- **From 2024:** Mandatory for companies with **more than 1,000 employees**

What are the possible consequences?

- **Fines and penalties** of up to **2% of turnover**
- **People affected** by human rights violations are also entitled to bring **civil actions** in front of **German courts** via NGOs/trade unions
- **Multi-year exclusion** from **public tenders**
- **Damage to public image** with **negative consequences** for **sales and reputation**



Act on Due Diligence in Supply Chains



Federal Ministry
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Which risks are considered in the SCA?



Human rights risks:

- *Child Labor Risks*
- *Forced labor risks*
- *Work condition risks*
- *Freedom of association risks*
- *Discrimination risks*
- *Environmental risks affecting human rights*
- *Property rights risks*
- *Risks related to the use of security forces*
- *Other human rights risks*



Environmental risks:

- *Risks associated with mercury*
- *Risks associated with chemicals*
- *Risks associated with waste*



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2. Risk types



§2 (2) SCA:

"A human rights risk within the meaning of this Act is a condition in which, on the basis of factual circumstances, there is a sufficient probability that a violation of one of the following prohibitions is imminent"

[which will be explained in the following section]



What are child labor risks?

The prohibition of employment of a child under the age...:

- ...at which **compulsory education** ends according the law of the place of employment
- ...of **15 years of age**

The prohibition of the worst forms of child labor under the age of 18:

- All forms of **slavery** or all **similar practices**
- The use, procuring, or offering of a child ...
 - ...for **prostitution**, for the production of **pornography** or for pornographic performances
 - ...for unlawful activities, including, but not limited to, the production and trafficking of **drugs**
- Work that is likely to be harmful to the **health, safety** or **morals** of children



What are forced labor risks?

The prohibition of employment of persons in forced labor:

- Work or service...
 - ... that is required of a person under threat of **punishment**
 - ... for which he or she has **not volunteered**
 - ... resulting from **bonded labour** or **human trafficking**
- All forms of **slavery** or all other forms of domination or oppression through **economic** or **sexual exploitation** and **humiliation**



What are work condition risks?

The prohibition of disregarding the occupational health and safety obligations applicable under the law of the place of employment:

- **Insufficient safety standards** in the provision and maintenance of the workplace, workstation and work equipment
- **Absence** of appropriate, **protective measures** against the exposure of chemical, physical and biological substances
- **Lack** of measures to prevent **excessive physical** and **mental fatigue** due to unsuitable organization of working hours
- **Inadequate training** and **instruction** of employees



What are freedom of coalition risks?

The prohibition of disregarding the freedom of association, according to with....:

- ...employees are free to **form** or **join trade unions**
 - ...the formation, joining, and membership of a **union** is not used as a reason for unjustified **discrimination** or **retaliation**
 - ...**trade unions** are can operate freely in accordance with the applicable law of the place of employment
- This includes the **right to strike** and the **right to collective bargaining**



What are discrimination risks?

The prohibition of unequal treatment in employment:

- Unequal treatment based on:
 - **National and ethnic origin**
 - **Social origin**
 - **Health status, disabilities**
 - **Sexual orientation**
 - **Age, gender**
 - **Political opinion, religion, belief**
- Includes, in particular, the **payment of unequal pay** for work of **equal value**
- Withholding of a **fair wage**
 - At least the **minimum wage** established by applicable law
 - Otherwise measured according to the **law** of the **place of employment**



What are environmental risks that affect human rights?

The prohibition of causing harmful soil change, water pollution, air pollution, harmful noise emissions or excessive water consumption:

- Significantly **impairing** the **natural basis** for the preservation and production of **food**
- Denying access to **safe** and **clean drinking water**
- Impede and destroy access to **sanitary facilities**
- Harm the **health** of a person



What are property rights risks?

The prohibition of unlawful eviction and unlawful taking of land, forests and waters...:

- ...in the course of **acquisition, construction** or other use
- ...the use of which **secures** the **livelihood** of a person



What are risks of using private or public security forces?

Hiring or using private or public security guards to protect the company's business, the company shall strictly control that the following standards are met:

- The prohibition of **torture** and **cruel, inhuman or degrading treatment**
- **Damage in life or limb**
- The freedom of **association**



What are other human rights risks?

The prohibition of an act or omission in violation of a duty that goes beyond the human rights risks already described...

- ...which is directly capable of **impairing** a **protected legal position** in a particularly serious manner
- ...the **unlawfulness** of which is obvious upon a reasonable assessment of all **relevant** circumstances.



2. Risk types



§2 (3) SGA:

"For purposes of this Act, an environmental-related risk is a condition that, based on factual circumstances, is reasonably likely to result in a violation of any of the following prohibitions"

[which will be explained in the following section]



What are risks associated with mercury?

A violation of one of the following prohibitions exists with reasonable probability based on factual circumstances:

- Prohibition on the **manufacture** of mercury-added products
- Prohibition of the **use** of mercury and mercury compounds in the manufacturing process
- Prohibition of the **treatment** of mercury **waste** contrary to the applicable regulations

What are risks associated with chemicals?

A violation of one of the following prohibitions exists with reasonable probability based on factual circumstances:

Prohibition of **use** and **production** of Stockholm Convention **chemicals**



What are risks associated with waste?

A violation of any of the following prohibitions is reasonably likely based on factual circumstances:

- Prohibition of **non-environmental handling, collection, storage, and disposal** of **wastes** applicable in the applicable jurisdiction
- Prohibition of export of hazardous wastes¹
 - To a party¹ that has prohibited the import of such hazardous and other wastes
 - To an importing country that has not given its written consent to the particular importation
 - To a non-contracting party¹
 - To an importing state if such hazardous is not managed in an environmentally sound manner in that state or elsewhere
- Prohibition of **importation of hazardous wastes** and other wastes from a non-party¹ to the Convention

1) cf. Baseler Übereinkommen



3. Additional training materials

Where can I find additional information?



Everything you need to know about supply chains and the Supply Chain Act (SCA) from the Federal Ministry for Economic Cooperation and Development

Source: *Federal Ministry for Economic Cooperation and Development*

Video



Rules for complying with the SCA

Source: *Federal Ministry of Labor and Social Affairs*

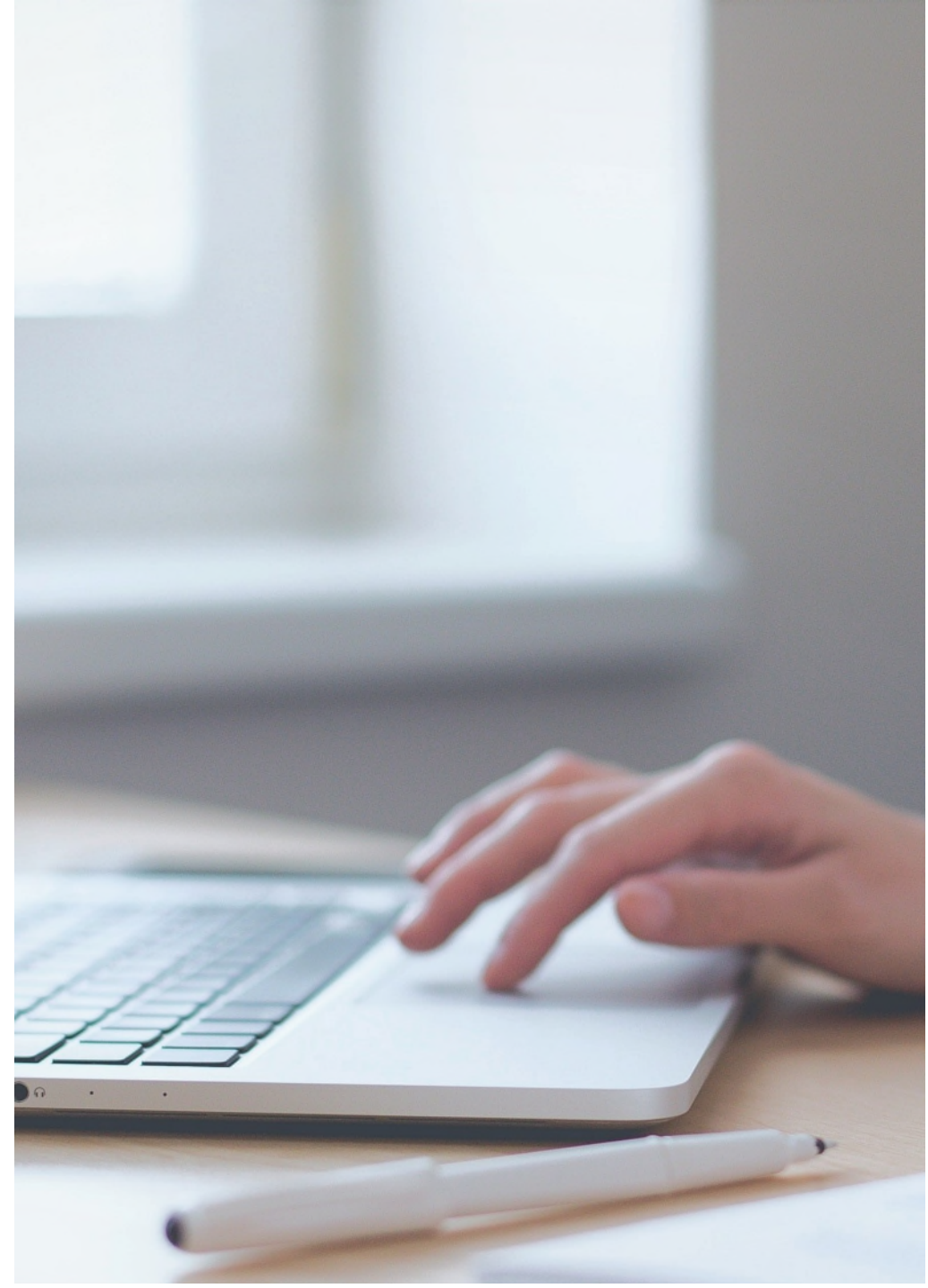
Video



Information & backgrounds about the SCA

Source: *Federal Ministry for Economic Cooperation and Development*

Webseite



What we expect from our business partners

For ADAC, social responsibility and compliance with ecological aspects are among the basic principles of action. Therefore, principles such as human rights, labor standards, environmental protection and anti-corruption are upheld and promoted. Compliance with these principles is also demanded from our business partners.

For this reason, a Code of Conduct for Business Partners has been published, which sets the principles and standards for business relations between ADAC and its business partners.

By signing this Code of Conduct, ADAC's business partners undertake to comply responsibly with the standards and regulations listed. In addition, they undertake to clearly communicate the Code of Conduct to internal and external employees, suppliers, subcontractors and other contracted companies and to ensure that all necessary measures to comply with the Code of Conduct are properly implemented and promoted.



Who can you contact if you have information about risks associated with the SCA?

We always act responsibly and in accordance with the SCA. However, violations may occur along the supply chain.

To document these violations in accordance with the law, we have established a whistleblower system which gives those affected and whistleblowers the opportunity to report grievances anonymously. This complaints procedure is not restricted to our business area but also covers suppliers and upstream suppliers. Information is treated confidentially. If the identity of the whistleblower is known, it will be kept secret on request.

Whistleblowers play a key role in preserving social values and the rule of law and thus also contribute to the success of our company. This also implies that ADAC will not penalize or discriminate against whistleblowers in any way. We assure whistleblowers that we will not take any steps to identify the whistleblower in the event of an anonymous report. An exception to this is misuse. Denunciations of any kind will not be tolerated.



Do you have any additional questions regarding the SCA and its implementation?

For any further questions regarding the contents presented or the activities/measures undertaken to comply with the SCA, please contact your contact person at the respective procurement department.

