

Managing Supply Chains from a Legal Perspective

15.09.2025

This is the second article of the collaborative legal series between AHK and Schlüter Graf Legal Consultants LLC, featured in this Quarterly Newsletter. This initiative brings together AHK's commitment to supporting German and international businesses in Pakistan with Schlüter Graf's legal expertise. The series will explore key legal and regulatory topics relevant to doing business in Pakistan, including foreign investment and trade, supply chain operations, business set-up and structuring, employment and labour matters, and dispute resolution. This series aims to equip businesses with the legal knowledge needed to navigate the complexities of operating, investing, and growing in Pakistan with clarity and confidence.

I. Introduction

In recent years, the regulation of global supply chains has shifted from voluntary corporate responsibility to binding statutory obligations. Germany was among the first European jurisdictions to legislate comprehensively, adopting the **Supply Chain Due Diligence Act (Lieferkettensorgfaltspflichtengesetz, "LkSG")**, in force since 1 January 2023. More recently, the European Union has adopted the **Corporate Sustainability Due Diligence Directive (CSDDD / Directive)**, which entered into force in July 2024 and will gradually apply between 2027 and 2029.

These developments are highly relevant for German enterprises sourcing / operating from Pakistan and for Pakistani suppliers exporting to Germany. German companies are already restructuring supplier contracts, reporting to authorities, and conducting audits under LkSG. With the CSDDD, requirements will broaden to include climate obligations and civil

liability. For Pakistani businesses, compliance with local labour and environmental laws will no longer suffice; market access increasingly depends on demonstrating adherence to European due diligence standards.

This article provides a legal and strategic overview of the LkSG in practice, the forthcoming CSDDD, their implications for Pakistani suppliers, and the measures both German and Pakistani companies should consider in anticipation of stricter enforcement.

II. The German Supply Chain Due Diligence Act in Practice

The LkSG, approved by the Bundestag on 11 June 2021, implements the **UN Guiding Principles on Business and Human Rights (2011)**. Since 2023, it has applied to companies with at least 3,000 employees; since January 2024, to those with 1,000 or more employees (§ 1 LkSG). It covers companies of any legal form with their central administration, principal place of business, or registered office in Germany,

as well as domestic branches of foreign companies.

Under § 2 LkSG, the “supply chain” extends from raw material extraction abroad to delivery to end customers in Germany. Obligations apply not only to a company’s own operations but also to its direct suppliers and, in specific circumstances, to indirect suppliers. Importantly, subsidiaries abroad fall within the “own business area” if the German parent exercises decisive influence (§ 2(6)). Also, in the case of affiliated companies (“verbundene Unternehmen”), number of employees of all affiliated companies in Germany count. Thus, a German company with operations in Pakistan must ensure that its Pakistani entities implement the same due diligence systems as those in Germany.

The law requires companies to establish risk management (§ 4), appoint a human rights officer (§ 4(3)), conduct annual risk analyses (§ 5), adopt a policy statement (§ 6), implement preventive and remedial measures (§§ 6–7), and maintain a complaints procedure (§ 8). Companies must also report annually to the **Federal Office for Economic Affairs and Export Control (BAFA)**, which monitors compliance.

BAFA uses its powers to audit, request corrective action, and impose fines of up to €8 million or 2% of worldwide turnover (§ 24). It may also exclude companies from public procurement for up to three years. In practice, this has led German companies to tighten their supply chain management. Purchasing agreements now routinely require suppliers—including those in Pakistan—to provide documentation on wages, working hours, and occupational safety records.

Recent regulatory adjustments have reduced certain reporting obligations, with the German government easing bureaucratic burdens in anticipation of EU

harmonisation. However, the core obligations remain unchanged: German companies must still identify, prevent, and address human rights and environmental risks. For Pakistani suppliers, this means that while German buyers may no longer require as much paperwork, they will continue to insist on substantive compliance to protect themselves against BAFA enforcement.

III. The EU Corporate Sustainability Due Diligence Directive: Broader Obligations Ahead

The CSDDD, which entered into force on 25 July 2024, builds on national initiatives such as the LkSG but expands both the scope and the depth of obligations. Member States must transpose it into national law by 26 July 2026. Application will be staggered:

- From 2027: companies with more than 5,000 employees and €1.5 billion turnover;
- From 2028: companies with more than 3,000 employees and €900 million turnover;
- From 2029: companies with more than 1,000 employees and €450 million turnover.

Non-EU companies meeting these thresholds in EU turnover are also covered.

Beyond human rights and labour protections, the Directive imposes climate obligations: companies must adopt transition plans consistent with the Paris Agreement. It also introduces civil liability, enabling victims to seek damages where harm results from a company’s failure to comply with due diligence obligations. While the exact implementation will depend on national transposition, these provisions mark a significant shift from administrative enforcement under LkSG to potential court actions under CSDDD.

German companies are already preparing by extending their LkSG compliance structures. For instance, risk management systems are being upgraded to include carbon footprint assessments, and supplier codes of conduct are being amended to incorporate climate goals. This anticipatory approach reflects the reality that compliance cannot be built overnight. By 2027, European authorities will expect companies to have functioning systems in place.

For Pakistani suppliers, the Directive means that expectations will rise steadily even before national transpositions. A Pakistani textile exporter may soon be required not only to prove freedom from child labor but also to disclose water usage and emissions data. Those who take steps now—introducing environmental reporting, grievance mechanisms, and independent audits—will be best positioned to retain access to European markets.

IV. Practical and Legal Implications for Pakistani Suppliers

For Pakistani companies, the interaction of local law and European obligations presents both risks and opportunities. The Constitution of Islamic Republic of Pakistan, 1973 guarantees fundamental rights, including prohibitions on slavery and forced labour (Article 10) and rights to assembly and association (Articles 16–17). Legislation such as the Factories Act 1934 and provincial Occupational Safety and Health Acts sets further standards. On paper, these provisions align with European requirements. In practice, however, enforcement is often inconsistent, creating reputational and contractual risks for European buyers.

German companies therefore insist on contractual safeguards that often go beyond local law. These may include warranties of compliance, audit rights, and

indemnities. Failure to meet these standards may lead not only to termination but also to reputational harm in the European market. Moreover, subsidiaries of German companies in Pakistan are directly covered by LkSG (§ 2(6)), meaning that non-compliance may trigger liability at the group level.

For example, a Pakistani supplier providing automotive components under a German contract may be required to demonstrate compliance with occupational safety rules. If inspections reveal violations—such as inadequate protective equipment—BAFA may sanction the German parent, which in turn may sever the supplier relationship or seek damages. Similarly, under the CSDDD, a German buyer's failure to address environmental risks in a Pakistani dyeing facility could result in civil liability, incentivising the buyer to end non-compliant partnerships.

The implication is clear – Pakistani suppliers cannot rely solely on domestic compliance. They must document, implement, and prove adherence to higher European standards. While this may initially increase compliance costs, it ultimately strengthens competitiveness, as compliant suppliers will become preferred partners for European buyers facing strict regulatory scrutiny.

V. Future-Proofing for EU Directive Phases

The staggered implementation of the CSDDD provides a window for preparation. Until 2026, companies have the opportunity to establish systems that will withstand scrutiny once the Directive becomes binding.

Pakistani companies should begin by mapping their supply chains, identifying risks of child labour, forced labour, or environmental harm. Establishing a compliance officer and introducing a written code of conduct signals seriousness. Grievance mechanisms

should be accessible to workers, and supply chain documentation should be digitised to facilitate audits.

Equally critical is engagement with German buyers. Suppliers should proactively ask what information will be required for future compliance. A proactive dialogue—rather than waiting for demands—creates trust and may secure long-term contracts. Contracts should also be negotiated carefully, ensuring that obligations are realistic and phased, with costs and responsibilities shared fairly.

By 2027, when the Directive first applies, German companies will have limited patience for unprepared suppliers. Those who have invested early will not only retain access but also enjoy a competitive advantage in the EU market.

VI. Conclusion: Legal Preparation as Strategic Advantage

The evolution of supply chain regulation—from the German LkSG to the EU CSDDD—marks a decisive shift in how companies must conduct cross-border business. For German enterprises, these laws require systemic due diligence, extending across global operations and supply partners. For Pakistani suppliers, they present both a challenge and an opportunity: adapt to higher standards or risk exclusion.

In practical terms, the following steps deserve immediate attention:

- If you are a direct supplier of a German company, get in contact with them soon to coordinate requirements. Compliance procedures will be required.
- If you are a foreign subsidiary of a German company subject to the law, you must implement all due diligence requirements in your own

company. Coordinate with your parent company in time: a compliance system must be set up or extended to comply with the LkSG.

- Implement a system to check your own direct suppliers and bind them to the human rights standards required.
- Check industry sector-specific initiatives and recommendations on how to implement the requirements.
- Restructure or renegotiate your contracts with local suppliers to ensure they meet the minimal standard requirements.

Compliance is no longer merely a legal safeguard; it is a condition of market access. German companies must balance enforcement with support, and Pakistani exporters must view due diligence as an investment in long-term competitiveness.

Schlüter Graf can assist both German and Pakistani entities in this process: conducting compliance gap analyses, structuring contracts, establishing due diligence systems, ultimately preparing for CSDDD transposition. By acting now, companies can transform compliance into a strategic advantage, securing resilient and sustainable supply chains in an increasingly regulated global market.

About AHK

AHKs stand side by side with the German business community—at more than 150 locations in over 90 countries worldwide. Their teams are deeply embedded in local markets and serve as trusted partners for companies on matters related to market entry and expansion, legal frameworks, and cultural context.

About AHK UAE

The German-Emirati Chamber of Industry and Commerce (AHK UAE) officially represents the interests of German business in the United Arab Emirates. In addition, AHK UAE coordinates activities in Iraq, Qatar, Kuwait, Oman, and Pakistan. As a membership-based organization, AHK UAE offers a strong local network, supports German companies in entering regional markets, and promotes bilateral exchange through a variety of events, delegations, and tailored services.

Pakistan at AHK UAE

Activities related to Pakistan at AHK UAE are led by Florian Walther, Pakistan Representative.

About Schlüter Graf

Schlüter Graf is a law firm with a track record of over 30 years in the Middle East as a leading corporate & commercial boutique firm. We maintain an extensive network of offices and co-operations across the region, allowing us to cover Germany, all jurisdictions of the Middle East (including the United Arab Emirates, the Kingdom of Saudi Arabia, Oman, Bahrain, Qatar, Kuwait, Egypt, Lebanon, Iraq, Iran) as well as emerging markets, in particular Ethiopia and Pakistan.

From straightforward legal advice and representation to complex multi-jurisdictional corporate and commercial matters, at Schlüter Graf, we have the team, the passion, and the experience to look at the law from every angle and we work hard to make the law work for you.

The dedicated Pakistan team at Schlüter Graf can gladly assist you across all legal, regulatory, and structuring matters—from market entry to ongoing compliance, as well as disputes. For any Pakistan related queries please reach out to Mr. Usama Munir, Head of Pakistan Practice at Schlüter Graf.

SCHLÜTER GRAF Legal Consultants LLC

A7 Building, Offices 304-306, Dubai Digital Park, P.O. Box 29337
Dubai / United Arab Emirates

Tel: +971 / 4 / 431 3060

Fax: +971 / 4 / 431 3050

Usama Munir, Head of Pakistan Practice (usama.munir@schlueter-graf.com)