

Summary Report

The Supply-Chain Due Diligence Legislations of the European Markets and Their Impacts on Vietnam's Exports

- 1 In recent years, several developed economies - particularly in Europe - have introduced new legal provisions aimed at monitoring and preventing risks of human rights and/or environmental violations within the supply chains of large corporations. Collectively known as "supply-chain due diligence", these legal provisions impose *obligations on businesses to identify, prevent, mitigate, and take responsibility for actual or potential adverse impacts on human rights, the environment, etc. arising from their operations and throughout their supply chains.*
- 2 *Germany's Act on Corporate Due Diligence Obligations in Supply Chains (SCDDA, effective as of January 1 2023), and the EU Directive on Corporate Sustainability Due Diligence (CSDDD, effective as of July 25 2024 and applicable to businesses from July 25 2027) are two representative legal instruments in Europe, currently regarded as the most comprehensive and far-reaching legal frameworks on supply chain due diligence globally.*
- 3 *Regarding the scope, although applicable only to large companies operating in the EU or Germany (as defined by specific thresholds on turnover and number of employees), both the CSDDD and SCDDA adopt a broad due-diligence scope, covering not only the operations of the regulated companies and their subsidiaries but also the activities of all other entities participating in or having direct or indirect business relations within their supply chains (collectively referred to as "suppliers" or "business partners").*
- 4 Given the broad definition of "supplier/business partner" under the CSDDD and SCDDA, Vietnamese businesses that directly or indirectly participate in the supply chains of EU/German partners subject to these instruments will also be affected and bear corresponding due diligence responsibilities. The EU Directive imposes substantially similar due diligence participation obligations on all suppliers, regardless of whether they are direct or indirect suppliers. The German law, by contrast, focuses primarily on direct suppliers and extends to indirect ones only when serious risks or violations are identified. Under both instruments, affected suppliers include entities operating at any position or stage of a covered EU/German company's supply chain.

- 5 In practice, most Vietnamese suppliers participating in the supply chains of EU/German partners operate as upstream suppliers, providing raw or semi-processed inputs, manufacturing, processing, transport, or logistics services for exports to those markets. In addition, a smaller proportion of suppliers operates at the downstream end of the supply chain, including entities in Vietnam providing services to deliver EU/German goods or services to buyers in Vietnam (such as importers, logistics providers, or distributors, etc.)
- 6 *Regarding the due diligence process*, although differing in specific procedural details, both the EU CSDDD and the German SCDDA establish a mandatory due diligence process for covered EU/German companies with the core steps including: (i) Establishing policies and plans on supply-chain due diligence; (ii) Conducting regular risk assessments for violations of due-diligence standards; (iii) Taking necessary measures to prevent, mitigate, address, or remedy identified risks or violations based on assessment results; and (iv) Reporting and publicly disclosing their due-diligence implementation.
- 7 *Regarding due diligence standards*, both the EU CSDDD and the German SCDDA are limited to risks/adverse impacts on human rights (especially labor rights, such as child labour, forced labour, discrimination in recruitment or remuneration, and obstruction of collective bargaining, etc.) and environmental issues that directly affect human beings (such as hazardous chemicals or unsafe living and working conditions, etc.), all of which are exhaustively listed and referenced to specific international conventions. At present, neither instrument extends its coverage to other aspects recommended by OECD (such as anti-corruption and bribery, consumer rights, fair competition, biodiversity, or climate change, etc.).
- 8 *Regarding supplier responsibilities*, although differing in details, both the EU CSDDD and the German SCDDA oblige covered EU/German companies to: (i) include their suppliers' operations within the scope of their due-diligence plan; and (ii) based on prescribed conditions, take necessary measures to prevent or address risks arising from supplier activities (which may include suspension, termination, or non-renewal of contracts with suppliers committing serious violations, and factoring human-rights and environmental criteria into direct supplier selection, etc.).
- 9 Accordingly, Vietnamese businesses participating in supply chains of EU/German companies covered by the CSDDD or SCDDA are responsible for: (i) complying with human-rights and environmental standards prescribed in these instruments and in any Codes of Conduct for Suppliers adopted by their EU/German partners, where applicable; and (ii) cooperating with their partners in the due diligence process concerning their own operations (such as providing information and cooperating in the implementation of corrective measures requested by their partners, etc.). Non-cooperation or violations of these responsibilities may not immediately disrupt the export of related goods or services to the European markets. However, in the longer term, such non-compliance could result in significant commercial risks for suppliers, as major partners may decline to maintain existing transactions, refuse to expand current ones, or refrain from engaging into new ones.

- 10 On the one hand, compliance with these responsibilities may not pose too big challenges for most Vietnamese suppliers, because: (i) Vietnam's current legal standards on labour and the environment are largely aligned with the due diligence standards under the CSDDD and SCDDA following its conclusion of new-generation FTAs; (ii) many suppliers are already familiar with Codes of Conduct adopted by their multi-national partners; and (iii) the cost of cooperating in supply chain due diligence implementation is relatively moderate. On the other hand, Vietnamese suppliers may still face difficulties, particularly where due diligence standards are interpreted broadly or where some certain outsourced production stages might be alleged to involve violations, etc. While the direct compliance costs may be limited, these obligations could nonetheless burden businesses, especially during the current internationally challenging business context.
- 11 Textiles and footwear are among Vietnam's key export sectors to European markets (accounting for an average of 20.8% of Vietnam's total annual exports to the EU during the 2015-2024 period, according to the General Statistics Office). Meanwhile, given the large number of actors involved, the intensive use of low-skilled labour (a significant proportion of female workers), and the working conditions that sometimes are prone to pollution or involve hazardous chemicals and environmental impacts, the textile and footwear industries in general are likely to be closely scrutinised under the enforcement of supply chain due diligence legislation in European markets. Despite many favorable conditions in implementing supply chain due diligence responsibilities, businesses in the Vietnamese textile and footwear supply chains may still face certain risks if allegations arise - particularly in areas highly subject to severe European monitoring, such as minimum wage, child labour, or migrant workers, etc.
- 12 The EU remains an important export market for Vietnam (accounting for 15.3% of Vietnam's total exports to the world during 2015-2024, according to the General Statistics Office). It also represents a highly promising market under the EU-Vietnam Free Trade Agreement (EVFTA) and a strategically significant destination amid ongoing U.S. tariff tensions. In this context, it is essential that Vietnamese suppliers understand and comply with supply chain due diligence requirements in order to maintain sustainable exports to European markets. Moreover, other potential export destinations - such as the United Kingdom, Australia, and Canada - are also in the process of developing similar due diligence frameworks. Vietnam therefore needs to be well prepared for the implementation of supply chain due diligence requirements in these export markets, beginning with the European ones.
- 13 A rapid survey conducted by VCCI in July-August 2025 revealed that most entities in Vietnam had never heard of supply chain due diligence regulations. Even with the EU CSDDD - the most widely recognised instrument - 48% of respondents reported having never heard of it, while 46.7% had heard of it but lacked in-depth understanding. Although most respondents correctly identified due diligence aspects (human rights and environment), their limited knowledge regarding the specific nature and requirements of the CSDDD and SCDDA led to exaggerated concerns about their potential impact on Vietnam's exports to the Europe, both currently and in the future. Accordingly, there is a need, on the one hand, to enhance dissemination of information on European due diligence regulations to relevant stakeholders in Vietnam - including businesses, associations, government authorities, consulting organisations, and training institutions, etc. On the other hand, these stakeholders should proactively build awareness and understanding, in order to prepare appropriately for compliance—neither underestimating nor overreacting to the challenges posed by supply chain due diligence.

- 14 Vietnamese businesses engaged in export-oriented supply chains - particularly those linked to major EU/German companies subject to due diligence legislation - should take appropriate measures to safeguard their long-term export interests. First and foremost, they are to ensure strict compliance with Vietnam's labour and environmental laws, promptly identify and prevent any risks or potential violations, and maintain adequate documentation and evidence of such efforts. Next, they should actively build awareness and allocate necessary resources to cooperate effectively in their partners' due diligence processes when required. Finally, Vietnamese businesses should maintain open communication and constructive cooperation with their partners in the execution of due diligence measures as requested.
- 15 From the perspective of business associations and related organisations, efforts in providing information and capacity-building to businesses/members on this issue are strongly called for. This may be achieved through broad-based communication channels - particularly official websites - as well as through targeted, accurate, and practical training and outreach tailored to specific business groups. Government authorities should identify and alert businesses to labour and environmental risks in a timely manner (e.g., during inspection or supervision processes, etc.). At the same time, these authorities are expected to coordinate and support businesses in necessary activities - such as compliance verifying or certifying upon request - thereby give them a hand in maintaining and sustainably developing these key export markets.