

Position Paper on the EU Supply Chain Law

On the occasion of the digital EWS Live on April 2, 2024

General Assessment of the EU Supply Chain Law

- The final compromise proposal for the EU Supply Chain Law, passed by the EU member states on March 15, 2024, continues to present companies with huge - almost insurmountable - challenges: The EU Supply Chain Law affects a wide variety of company areas and requires - in order to comply with the law - a high level of innovative, collaborative and interdisciplinary solutions in terms of data volume, responsibilities, business processes and reporting.
- It is not just large companies that are affected by the existing national and planned European supply chain legislation, as often claimed. Even small and micro companies are affected by this regulation as (in)direct suppliers.
- Acting in accordance with the law as an affected company will often involve disproportionately high costs. Large companies and corporations may still be able to compensate this expense or outsource the relevant tasks. However, medium-sized and small companies generally do not have such capacities and opportunities for internalization.
- The implementation of the Supply Chain Law requires personnel with specific know-how. However, the available resources on the labor market are currently limited, thereby increasing the pressure on companies. Either one has to buy this service, this knowledge externally, or one has to train existing staff specifically, or one has to hire additional staff, if it is available on the market at all.
- The existing legal and regulatory requirements already represent a significant burden for companies and endanger their economic performance in an international comparison.
- Without a paradigm shift in the EU, further European tightening of regulations and thus additional costs are to be expected. However, some of these have already been decided (Green Deal, Green Finance, EU taxonomy, CSRD, etc.). The legitimate question therefore arises as to whether further additional burdens on these companies, and thus on the national and European economies, are still proportionate?
- Many regulations nationally and at EU level target the same things. The EU would therefore have to review all regulations so that there are no cumulative burdens or, in the worst case, contradictory regulations (e.g. regarding deadlines). For example, the EU Supply Chain Law in its current version goes well beyond the national German legislation (LkSG) in some points, but at the same time remains behind the German law in its scope of application until probably 2029. The use of AI could be helpful here to uncover conflicts and eliminate them.
- It is more than doubtful whether the noble and legitimate goals in the areas of environment, social affairs and climate can even be achieved? Does a pure ban on child labor really lead to an improvement in the affected third countries? The main cause of exploitative child labor is, for example, poverty. Will the Supply Chain Law solve this multi-rooted cause? No, because without the creation of income alternatives in reality the EU Supply Chain Law only reduces the existing sources of income and therefore leads to even greater impoverishment in these countries. So, before the EU thinks that it can change something positively globally through the Supply Chain Law, it would be essential to ensure income alternatives, reasonable working conditions for parents, and social

education opportunities as part of global solutions – of course always in dialogue and with the participation of the respective local economic actors. Otherwise, the situation will not be improved, the problems will be shifted and possibly even be made worse.

- Higher burdens and a deterioration in economic living conditions for everyone, without any discernible benefit, are neither a solution for European companies nor for consumers in the EU or for people in third countries. In particular, it must be prevented that European players are in the end simply replaced by other “players” with lower standards who then boot out our companies in Europe with their products.
- It is more than regrettable that there appears to be no public discussion about alternative ways to achieve the goals (incentives and local support).
- A comprehensive legal impact assessment of the EU Supply Chain Law would actually have to take all risks and impacts into account, and the EU Supply Chain Law would not come about as is. In this context, it is more than surprising that politics pays so little attention to the expected negative effects of the Supply Chain Law.
- On April 24, 2024, the EU Parliament is scheduled to vote on the EU Supply Chain Law. But there is no rush for the EU to force this decision now. On the contrary, a stop would mean that everything could be weighed again on the basis of the negotiation results so far and, in particular, coordinated with third countries. The Supply Chain Law and its implementation would be designed in a goal- and result-oriented manner, without time pressure and without ideological constraints, but only with a view to actually improving the situation in third countries and at minimal cost.

Conclusion

Sustainability and careful use of finite resources, protecting the environment, combating climate change and assuming social responsibility are important and noble goals, for the EU and worldwide. At the same time, only an economically strong Europe can set global standards and thus bring about global improvements. These two things cannot be separated from each other. This means that we must continuously work towards the ethical and sustainable standards that we want for all people, but at the same time must not damage our own economic capabilities. Inflating bureaucracy will have the opposite effect. In this context, an intergenerationally fair policy through sustainable public finances, such as the efficient use of tax money, should also be mentioned. Moreover, before introducing EU-wide regulations, it should be checked which national regulations already exist and whether they may contradict each other.

The use and deployment of public resources by the EU or the nation states to achieve defined goals or purposes must always result in maximum benefit at minimum costs. An inseparable part of the efficient use of public funds is the monitoring of success, i.e. answering the questions: Are the goals achieved? Are the resources used for this purpose used efficiently? Are there alternatives that achieve the same goals but result in lower costs? Are the costs caused by the measures/requirements/laws proportionate? Are the set deadlines sufficient or are they too strict? To ensure that negative impacts are minimized, a comprehensive legal impact assessment should always be carried out.

When it comes to EU objectives that are formulated in the interests of third parties, for example the fight against child labor or the protection of species, it is essential that the third countries concerned are heard and included in the decision-making process.

Looking at the **EU Supply Chain Law (CSDDD)** under these aspects, then the following can be stated:

- Currently only some EU countries have national supply chain legislation (e.g. the Netherlands, France and Germany). This leads to **different regulatory burdens** of companies based in Europe. **In this context a uniform Europe-wide CSDDD legislation would be welcome.**
- The **EU Supply Chain Law (CSDDD)** is **hasty and premature**. The law is apparently intended to be “pushed through” before the European elections.
 - ➔ **The confirmation of the CSDDD by the European Parliament on April 24, 2024 must be prevented.**
- The goal should be the **renegotiation of the CSDDD** in the new legislative period, **in order to make the CSDDD more practical and to avoid unnecessary hardship or tightening**. Examples include hardships such as the proposed civil liability, the expansion of the requirements for downstream sections of the supply chain (sales) and the tightening of the requirements for indirect suppliers.
- The **affected third countries** should be heard and included in decision-making in order to avoid possible negative effects in the affected third countries.
- **Problems should first be solved on site** before legislation follows (incentives, use of quality seals, development work).

Dr Richard BEYER
Director
European Institute for Public Finance (EIPF)

Dr Ingo FRIEDRICH
President
European Economic Senate (EES)

Dipl.-Kfm. Michael JÄGER
President
Taxpayers Association of Europe (TAE)

Dipl.-Kfm. Rolf VON HOHENHAU
President
Taxpayers Association in Bavaria e.V.

Dipl. Vw. (Univ.) Gregor HÄMMERLE
Auditor

Inquiries

Taxpayers Association of Europe (TAE)
European Economic Senate (EES)

Munich Office

Michael Jaeger
Nymphenburger Str. 118
D-80636 Munich
Tel.: +49 89 126 00 820

Brussels Office

Dr. Horst Heitz
Rue d'Arlon 46
B-1000 Brussels
Tel.: +32 2 588 1520

E-Mail: info@taxpayers-europe.org or info@eu-wirtschaftssenat.eu