



# To the point!

Cross-Asset- and Strategy-Research

## Germany pulls plug on EU supply chain law

Moritz Kraemer -- Chief Economist

LBBWResearch@LBBW.de

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There are good reasons for the unfortunate last-minute withdrawal

Last Friday, the EU Council had planned to wrap up an EU law to prevent supply chain abuses. It is intended to penalize EU companies for human and environmental rights abuses along their global supply chains. Germany had already implemented corresponding national legislation. The Lieferkettensorgfaltspflichtengesetz (something like “supply chain duty-of-care act” – that’s the real name!) has been in force since this year for companies with more than 1,000 employees. The EU regulations would have gone beyond the requirements of the German law.

The vote on the Brussels legislative proposal, which had previously been agreed, was called off last week. This was because Germany wanted to abstain. Within the ruling coalition, the negative stance of Germany’s liberal Free Democrats (FDP) tipped the scales. FDP is the third party in the German coalition government. Seeing Germany sitting on the fence caused other EU members to waver, too. Negotiations are now underway, once again. It is up in the air when the law will be voted on. One regrettable consequence of the last-minute withdrawal is that Germany’s reputation as a reliable partner in Europe has been tarnished. Especially because Germany had already pulled the record just in time last year when deciding on the combustion engines phase-out by 2035.

**The law would create a mountain of red tape, ...**

It goes without saying that the overwhelming majority in business and society agree with the laudable intentions of the law. Of course, nobody wants to tolerate child or forced labor – no matter where in the world. But the end does not always justify the

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Disagreement within Germany’s coalition sunk the EU supply chain law

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means. The law would be another regulatory monster with excessive reporting obligations that would overburden small and medium-sized companies in particular. In my numerous conversations with businesspeople, they are already complaining vehemently about the German supply chain rules, which for many are almost impossible to cope with. Excessive bureaucracy is now the biggest obstacle to investment in the SME sector (see figure). The ambitious EU project would just add to that burden.

### ... without getting much closer to the objectives

The EU draft bill not only demands titanic abilities from companies to provide the required data. Or of civil servants to meaningfully process the received wall of information. The bill also overestimates Europe's role in the world. Many foreign suppliers are likely to scratch their heads, pondering whether they can or want to comply with the data collection frenzy. Many maybe more inclined to explore alternative markets that do not impose such obligations on them. This would make it more difficult for Europe's economy to diversify its supply chains – which is urgently required. The EU's competitiveness could be compromised without any significant gains in human rights being achieved or environmental harm being prevented.

### Using fear of reputational damage as an incentive

As luck would have it, on the very day the planned vote on the EU law did not take place, it became evident how the objectives could also be achieved: German chemical giant BASF declared that it would be withdrawing from investments in the Chinese province of Xinjiang. In doing so, it is bowing to years of accusations that local partners have committed human rights violations against the Uyghur minority. The fear of being pilloried by the public should prompt companies to act proactively. A toothless Brussels-style bureaucracy monster most likely would not.

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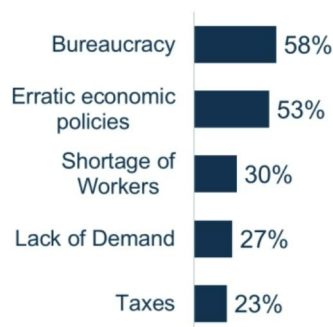
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### Top-5 Deterrents to investment for family businesses (2024)



Source: [Familienunternehmer.eu](https://familienunternehmer.eu), LBBW Research  
Up to three factors possible.

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Naming and shaming can do the trick – without forms!

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