

Conference Report

Dresden Forum for International Politics 2023

sef:

Delivering the goods – Securing global supply chains despite multiple crises

Ingo Nordmann

What do the blockage of the Suez Canal by the Ever Given, the coronavirus pandemic and Russia's invasion of Ukraine have in common? These very different events have all managed to highlight the vulnerability of global supply chains. At the Dresden Forum for International Politics 2023, experts from politics, business, academia and civil society discussed what this means for Saxony, Germany and other regions of the world. The discussion focused particularly on identifying the opportunities for governments and companies, as key actors, to promote the sustainability and resilience of global supply chains.

Sebastian Gemkow MdL, Minister of Science of the Free State of Saxony, welcomed the participants to Dresden and emphasised the importance of international economic and development cooperation for the Free State. Viola Klein, Deputy Chairperson of the Development and Peace Foundation, added in her welcome address that the current crises in supply chains were felt both locally in Saxony, as well as in various regions around the world. She therefore welcomed the commitment of all conference participants to address these issues.

War, COVID, the climate and geopolitical tensions – challenges in global supply chains

In his keynote, Dr Tilman Altenburg, Head of the Transformation of Economic and Social Systems Research Programme at the German Institute of Development and Sustainability (IDOS), explained that today, 70% of trade is conducted through global value chains. Increasingly, supply chains have been “going East” for the past decade: if we look at the G2000 manufacturing companies, 79% of primary products were sourced from industrialised countries in 2013. In 2020, the figure was just 59%, with 40% being produced in Asia.

Dr Altenburg identified the increasing tensions between China and the US as a key challenge in international supply chains. This geopolitical conflict is leading to ever more nationalism and protection-



sef: Executive Director Dr Marcus Kaplan opens the Dresden Forum 2023

ism as countries are engaged in a no-holds-barred struggle to secure access to resources (e.g. minerals) and control of key infrastructure. Examples are China's Belt and Road Initiative ("New Silk Road") and friend-shoring by Western nations; this refers to their increasing tendency to shift production to politically like-minded countries.

The COVID-19 pandemic, of course, is a further challenge; it caused temporary disruptions of many supply chains, especially due to strict lockdowns in China. On top of that, there is now Russia's war of aggression against Ukraine, which is wrecking supply chains and driving up prices. Above all, the war is causing shortages of commodities such as gas, oil and aluminium (mainly from Russia) and grains, sunflower oil and ore (mainly from Ukraine), driving a huge worldwide increase in inflation. Dr Altenburg also mentioned the unequal speed of national actions against global warming and differing levels of ambition in decarbonisation targets as further challenges. Companies may view stringent environmental standards and climate targets as an incentive to shift production to other countries.

In conclusion, Dr Altenburg explained that during the manufacturing process, most products criss-cross national borders, but only a fraction of the profit remains with the producers. Most value-added comes from research and development, design, logistics and marketing, not production. Furthermore, buyer companies generally have several suppliers to choose from, whereas producers cannot find alternative customers so easily. As a result, wealthy countries and powerful corporations, mainly from the Global North, can set standards which low-income countries and smaller firms then have to comply with.

Between responsibility and profitability – Germany's Supply Chain Act and its impacts

Torsten Safarik, President of Germany's Federal Office for Economic Affairs and Export Control, began by highlighting the benefits of globalisation, which creates prosperity not only for the Global North but worldwide. According to a study by the World Bank, the share of the world's population living in extreme poverty has fallen from 44% in 1980 to 8.5% in 2020. However, globalisation also has its downside in the form of human rights abuses, climate change impacts and environmental damage, mainly in the Global South. This imbalance creates a special responsibility for the Global North, which benefits most from the current conditions of world trade.

This is the reason why Germany's Act on Corporate Due Diligence in Supply Chains is so important.

The Act, which entered into force on 1 January 2023, establishes a legal basis for sustainability and justice in supply chains for the first time. Complementary legislation is now required at the European level in order to create comparable conditions – a level playing field – internationally. Guus Houttuin, Chair of the OECD Multi-Stakeholder Steering Group on Responsible Minerals, pointed out that the draft of a European Corporate Sustainability Due Diligence Directive (CSDDD) is already



Keynote by Dr Tilman Altenburg

available. He further emphasised the necessity of so-called "accompanying measures", such as the European Partnership for Responsible Minerals (EPRM). He suggested that Germany could participate more intensively in such public-private partnerships.

The current crises have shown that many companies had not acted with sufficient foresight, Torsten Safarik continued. For example, they had failed to ensure that they had a sufficiently diverse supplier base; this is now a major disadvantage as many suppliers from Russia have fallen away due to the economic sanctions. Tobias Runte from the Chamber of Commerce and Industry (IHK) in Dresden added that forward-thinking companies that began to address sustainability issues early on are now ahead of the game and have a competitive advantage.

Generally speaking, implementing the provisions of the new Supply Chain Act is often easier for major corporations, Tobias Runte continued. They usually have dedicated departments to deal with legal issues or corporate social responsibility (CSR), and these departments were already working on establishing sustainability in supply chains before

the adoption of the law. Major corporations are also more adept at capitalising on the benefits of many free trade agreements compared with small and medium-sized enterprises (SMEs). The Chamber is therefore providing support for this latter group through its regional networks, with a particular focus on the upcoming transition processes.

Maren Leifker, Economy and Human Rights Officer at Bread for the World and a member of the Steering Committee on the Supply Chain Act Initiative, emphasised that the global trade system was beset



Panel 1: Torsten Safarik, Tobias Runte, Guus Houttuin, Maren Leifker and Dr Marcus Kaplan (l.t.r.)

with multiple problems even before the pandemic and the war in Ukraine. These crises have made existing injustices far more visible. This is why the Supply Chain Act is so urgently needed. It requires companies to finally implement appropriate purchasing and procurement strategies that give more consideration to producer countries' interests. The scope for price dumping, excessively tight delivery deadlines and last-minute cancellations, which are highly damaging to producers, has finally been curtailed.

At the same time, Maren Leifker criticised the “staged due diligence” approach embedded in the Supply Chain Act, which means that companies can often evade responsibility for working conditions in upstream supply chains beyond their own direct suppliers. However, this is where most of the environmental harm and human rights abuses occur, e.g. in the manufacturing of materials, resource processing and agriculture. As a result, many disadvantaged groups will not be reached by the Act. Furthermore, civil liability is not properly regulated in the Act, making it difficult, if not impossible, for affected persons to claim compensation. Maren

Leifker is hoping for improvements at European level on both points.

The relationship between purchasers and producers – a view from Bangladesh

Als Chairperson of the Mohammadi Group and former President of the Bangladesh Garment Manufacturers and Exporters Association (BGMEA), Dr Rubana Huq is one of the most influential figures in Bangladesh's textile industry. She described Germany's Supply Chain Act as a significant step, but emphasised the importance of practical action as well as legislation. A general, inclusive and global discussion about the Act's implementation is urgently required. Stakeholders in producer countries must be involved in implementation at every stage and the entire process must be transparent. Otherwise, she said, companies will undoubtedly find loopholes that enable them to circumvent the rules.

Rubana Huq identified overcapacity as a major problem for the Bangladeshi industry. When orders decrease, suppliers are drawn into a race to the bottom on prices, which can have dramatic effects. For example, during the pandemic, companies from the Global North exploited their powerful position in the market in order to secure the terms and conditions which best served their interests. Many orders were initially cancelled at short notice. After the first peak of the pandemic, many purchasers then offered dumping prices, which producers were unable to refuse due to the difficult economic situation.

This destroyed much of the trust between Western brands and producers in Bangladesh. So rather than focusing on checking producers' working conditions, any legislation adopted in the Global North should ensure that Western buyers pay fair prices which provide producers with a decent income. One option is standardisation of prices above a specified minimum level, although this currently conflicts with World Trade Organization (WTO) rules.

In this way, the Global North can make a more substantial contribution to ensuring decent living standards in the Global South than can be achieved through ambitious Western legislation whose implementation is impossible to verify adequately at a distance. Simultaneously, major steps towards eco- and worker-friendly production in Bangladesh have already been taken, e.g. in relation to protection from dismissal and workers' rights. However, this must be pursued at the producer countries' own pace in line with local conditions, according to Dr Huq.

Sustainability as a competitive advantage: a level playing field for companies

Anke Oppermann, Head of Directorate “Decent work worldwide; food and nutrition security” at the German Federal Ministry for Economic Cooperation and Development (BMZ), confirmed that action is needed to build trust between purchasers and producers. Only then will it be possible to reconcile resilience and sustainability in supply chains with global justice. To that end, Anke Oppermann recommended a smart mix of binding commitments such as the Supply Chain Act and voluntary initiatives by companies, flanked by development policy measures.

Companies that are oriented towards sustainability are already at a competitive advantage and are

more successful in the long term, Anke Oppermann continued. Sustainability thus offers major opportunities for businesses, and work needs to be done to ensure that this message is received across the board. To that end, a level playing field – in other words, fair competition conditions – must be created so that companies which have already made this commitment (the majority, according to the BMZ) are not disadvantaged, while the rest are incentivised to join them in advocating resolutely for the switch to sustainable production and working conditions.

One company which has engaged in sustainable business practices for many years is Café Chavalo eG, a coffee-importing cooperative in Leipzig. Founder Jens Klein explained that some of the coffee producers in Nicaragua are direct shareholders in his company; this creates a high level of transparency and facilitates genuine communication on

Evening reception with Minister-President Michael Kretschmer

After the conference, Saxony’s State Chancellery hosted an evening reception in the foyer of Stadtmuseum Dresden. In his speech, Minister-President Michael Kretschmer underlined the great importance of development cooperation for the Free State of Saxony and highlighted the many diverse forms of civil society engagement here. The second speaker, Doreen Nyanjura, Deputy Lord Mayor of Uganda’s capital Kampala, described the major challenges currently facing Uganda. Besides food shortages and price hikes, she particularly mentioned regular human rights violations in her country. She emphasised the key role of international cooperation in resolving these problems. The third speaker, Oliver Krauß MdL, Chairperson of the Development and Peace Foundation (sef:) and Member of the State Parliament in North Rhine-Westphalia, Germany, underlined that in view of the current multiple crises, the conference had taken place at an extremely appropriate time. Sustainability and resilience in global supply chains must be brought together, he added, if they are to function in the long term.



equal terms. Sustainability is embedded in the company's DNA but this is a disadvantage in a market without a level playing field.

Currently, his company is still a rarity in the coffee market and has to charge higher prices than its competitors. Ideally, however, this production model should become the norm. For that, a stronger political steer is required, beyond the framework of the new Supply Chain Act. Specifically, Jens Klein called for the introduction of a quality label for fair working conditions, similar to the Bio-Siegel for organic products. However, the new label should not be based solely around private initiatives but should be awarded by a neutral body in order to safeguard comparability and dependability.

A single market for the continent – the opportunities created by the African Free Trade Area

Stephen Karingi, Director of the Regional Integration and Trade Division at the United Nations Economic Commission for Africa (UNECA), opened the final session by explaining that Africa is impacted by the war in Ukraine in multiple ways. African



Panellists and organising team: Maren Leifker, Dr Christian Scheper, Artemisa Ljarja, Doreen Nyanjura, Dr Marcus Kaplan, Samuel Makokha, Jens Klein, Ingo Nordmann and Guus Houttuin (l.t.r.)

countries import large quantities of fuel and food, such as wheat into North Africa. Some countries are also heavily reliant on fertilisers, which are mainly

produced in Russia. The current price rises also create potential for political unrest as they threaten the livelihoods of large numbers of people.

As possible countermeasures, Stephen Karingi mentioned the promotion of intra-African trade and the establishment of regional supply chains, particularly for food production. A significant step on the path towards this goal is the African Continental Free Trade Area (AfCFTA), which was agreed in 2019 and covers 54 African Union member states. By harmonising trade rules and standards, it establishes a single market for the entire continent.

This offers numerous opportunities for regional supply chains such as battery production for electric vehicles. This industry requires large quantities of raw materials, which are sourced mainly from Central Africa. If these resources were no longer exported en masse but were processed within the AfCFTA, the countries of origin would finally benefit from most of the value-added.

As neighbouring continents, Africa and Europe should establish long-term partnerships on this basis: Europe could continue to be supplied with raw materials or intermediate products from Africa, while Africa requires European investment for technological and economic development. According to Stephen Karingi, this offers the prospect of a win-win situation in establishing sustainable and equitable supply chains.

“Pay your workers!” – Workers’ rights during crises

Samuel Makokha, a board member of Voices for Labour, a trade union organisation in Uganda, welcomed the opportunities afforded by the AfCFTA, but underlined the importance of workers' rights for the project's success. These rights must be protected, not only for ethical reasons or as a favour to workers, but because this is in companies' own interests. Businesses that treat their workers fairly are demonstrably more successful in the long term and have also coped better with the coronavirus crisis.

Also in connection with the pandemic, Artemisa Ljarja, Urgent Appeal Coordinator for Clean Clothes Campaign Germany, reported on large-scale violations of workers' rights in the garment industry, including mass dismissals, wage theft and illegal dismantling of trade unions in many countries. Women, particularly mothers of small children, have been particularly affected. The garment industry is shifting the main burden of the crisis to its workers. In order to address this situation,

Clean Clothes Campaign has launched the Pay Your Workers initiative (#payyourworkers) in order to demand fair wages and social security, particularly during crises.

Dr Christian Scheper, a Senior Researcher at the Institute for Development and Peace, University of Duisburg-Essen, confirmed that workers are in a particularly vulnerable situation in the current global crises. Supply chains are “conflict zones” between workers and employers due to the lack of functional relations between them in many countries. The founding of trade unions is often prohibited and much of the labour market is organised informally. This prevents workers from making their voices heard.

Economic structures benefit the Global North – a legacy of history

Many economic structures in Africa are rooted in history, as Samuel Makokha explained at the end of the session. In the 1990s, for example, the World Bank and International Monetary Fund (IMF) advised many African governments to embark on a rapid process of market liberalisation. Private capital flowed freely into these markets, but societies were often unprepared for this influx. It created structures which have enabled corporations, mainly from the Global North, to exploit raw materials and human labour for their own benefit. The effects of these power inequalities are still being felt today.

This view was endorsed by Doreen Nyanjura, Deputy Lord Mayor of Kampala in Uganda, in her political outlook. Food shortages and famines such as the one currently affecting East Africa are caused not only by disruptions to the supply chains but also by the way in which the global trade system was structured before the current crises. Major corporations and wealthy countries – as Dr Altenburg had

explained in his keynote – exert a disproportionate amount of influence and producer countries often have no option but to accede to their terms.

A major problem, according to Doreen Nyanjura, is Africa’s heavy reliance on food imports. Instead of growing food, Africa produces many goods that can be sold for a profit in the Global North, such as



Doreen Nyanjura from Kampala presents guest gifts to Minister President Michael Kretschmer

coffee, cotton, tea and tobacco (2C2T). “We produce what we don’t consume and consume what we don’t produce,” she said. The disadvantages of this business model have become only too clear as a result of the coronavirus crisis and the Ukraine war. In order to overcome them, long-term changes in the global economic system are required. Sustainable and resilient supply chains have a key role to play here, as the Dresden Forum 2023 made clear.



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