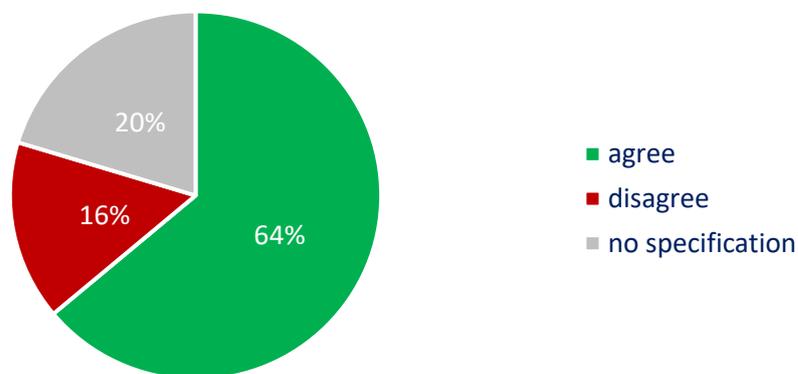


## Sustainability is becoming increasingly important for German companies abroad, but many issues remain unresolved

It is no longer possible to imagine the global economy without considering sustainability issues. In a survey among member companies of the German Chambers of Commerce Abroad (AHK), two-thirds of all companies surveyed stated that they deal with sustainability issues even if they themselves are not (yet) affected by any particular aspect of regulation.

**Statement 1: We are following the global discussion on these issues, even though we are not yet feeling any practical effects.**



### The German Law on Due Diligence in Supply Chains

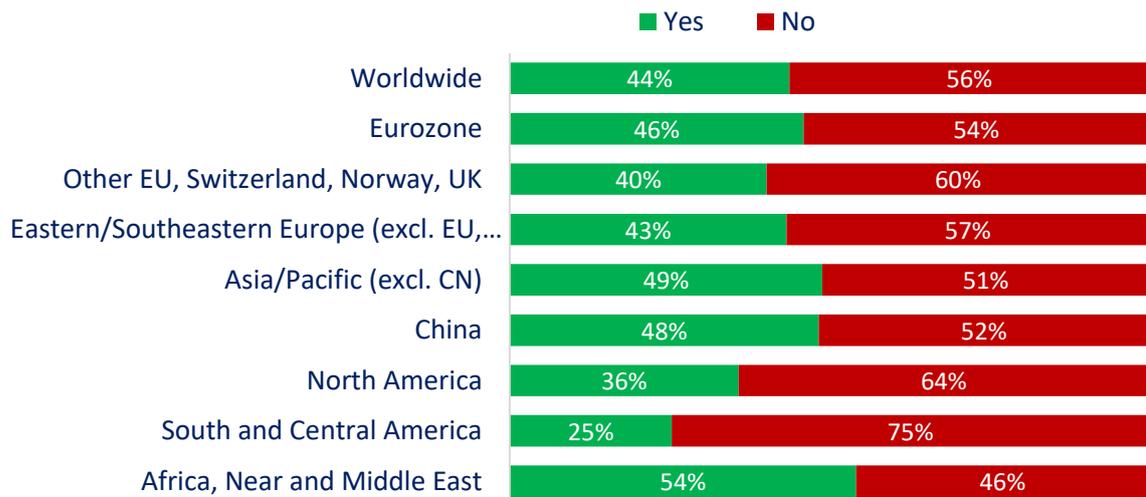
Sustainability is a wide field, ranging from the protection of the environment and the climate to the observance of human rights. The new Law on Due Diligence in Supply Chains (LkSG), for example, aims to ensure that larger German companies take care of their suppliers' compliance with certain social and environmental standards from 2023 onwards by anchoring corresponding obligations in their supplier contracts.

Globally, 44 per cent of companies in question are preparing to comply with the due diligence requirements they will be required to meet by their German costumers in the future. This is remarkable considering that the law for the vast majority of German companies will not 'take effect' until 2024.

The share of companies that are already dealing with the requirements of the German LkSG is particularly large in the Africa and Near and Middle East region (54 percent). But also in China, 48 percent of the companies are dealing with the implementation of the requirements of the German LkSG. The Delegations and Chambers of Commerce of German Business in China (AHK China) have already drafted a Code of Conduct, which can be part of supplier contracts with Chinese companies in the future.

Nevertheless, it is currently not easy for companies to get ready for the implementation of the LkSG. This is especially the case for companies abroad that act as direct suppliers to German industry. Such companies, which are often members of AHKs, will in future not only have to meet and to demonstrate high human rights and environmental standards in their own operations, they will also have to keep an eye on their own suppliers and their suppliers' suppliers, who are often not even based in the same country or continent as they are.

### Statement 2: We are preparing for the implementation of the German Law on Due Diligence in Supply Chains

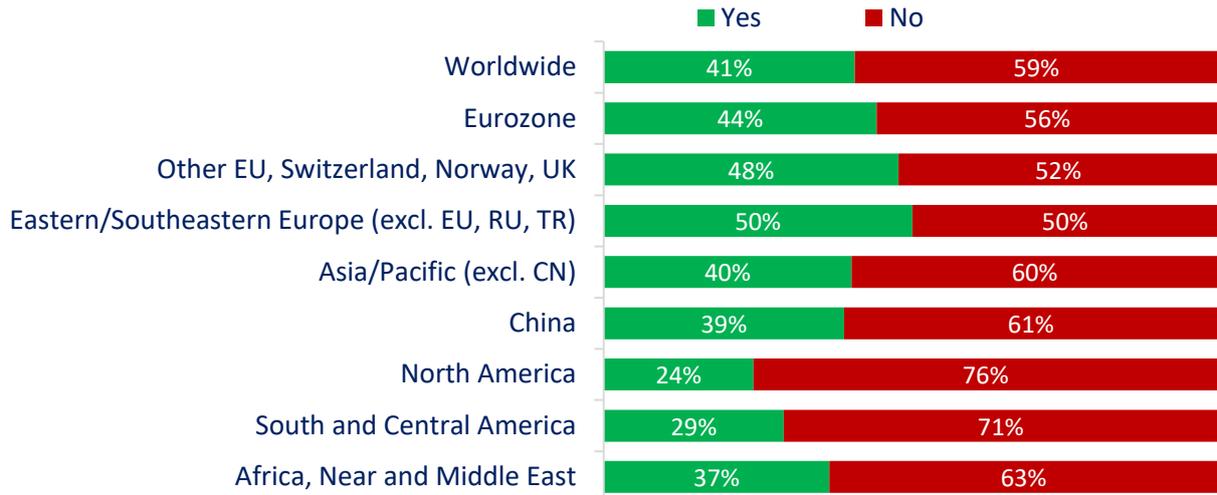


### The EU's Carbon Border Adjustment Mechanism (CBAM)

It is not only the LkSG that introduces new reporting obligations. Under the planned Carbon Border Adjustment Mechanism (CBAM), companies would have to disclose how much CO<sub>2</sub> is emitted when their products are produced outside the EU. The EU's aim is to absorb the cost advantage that arises when goods are produced in countries with less stringent climate legislation.

There is currently no clear understanding of how CBAM is supposed to work. Not even the scope of application has been defined. There is also still hope for the establishment of a so-called 'climate club', which should include not only the EU but also the USA, ideally also China and as many other states as possible. The members of the climate club would agree on a common CO<sub>2</sub> pricing and a uniform CBAM. Given that the topic is still in the discussion phase, it is remarkable that four out of ten companies abroad are already dealing with it.

### Statement 3: We deal with the expected Carbon Border Adjustment Mechanism (CBAM - CO<sub>2</sub> border adjustment mechanism) of the EU.

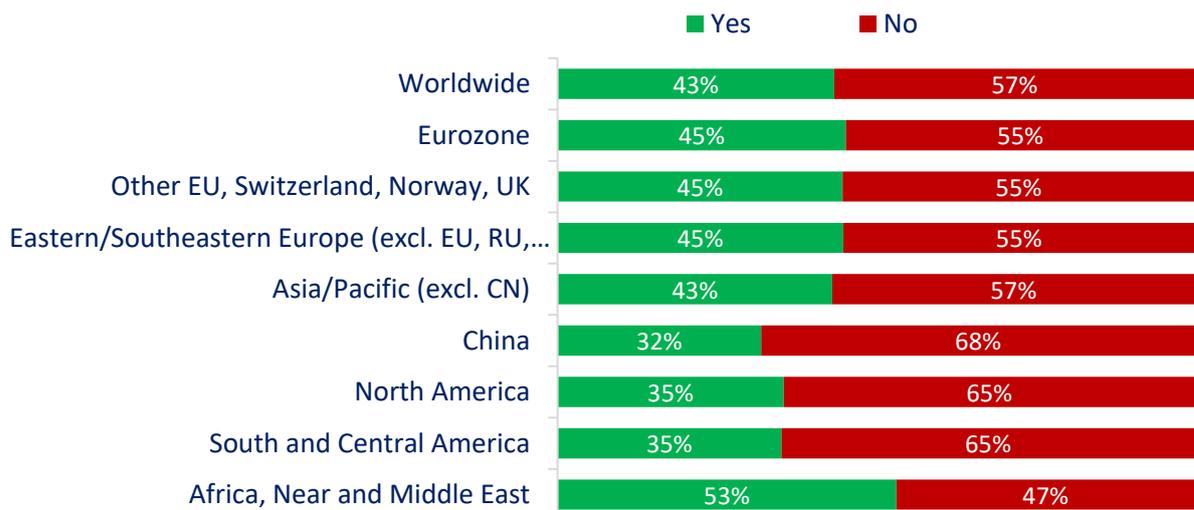


### The European Emissions Trading Scheme

Part of European climate policy is also the **trade in emission certificates**, the prices of which have risen considerably this year and have thus become a significant cost factor for the industry. 45 percent of AHK member companies based within the EU see themselves affected by this.

The aim of CO2 pricing is to encourage companies to switch to lower-emission technologies. It is particularly interesting that even in distant regions between 24 percent (North America) and 40 percent (Asia/Pacific) of companies see themselves as affected by EU emissions trading.

#### Statement 4: We are directly or indirectly affected by EU emissions trading.



### Sustainable corporate financing

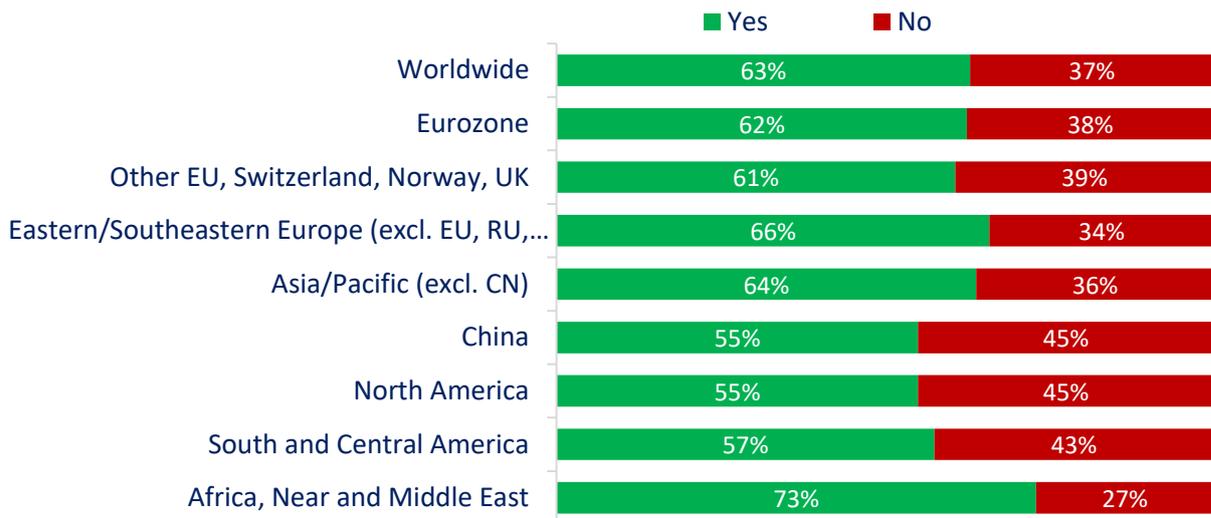
Meanwhile, the topic of **applying sustainability criteria to the financing of companies** by the financial sector (sustainable finance) is also becoming increasingly important. In the EU, the topic of

sustainable finance is primarily associated with the so-called taxonomy, which classifies all conceivable economic activities according to sustainability criteria.

By the end of 2021, almost two-thirds of companies worldwide saw themselves challenged by the issue. This is all the more remarkable given that the broader public only became aware of the taxonomy at the beginning of January 2022 through the discussion on whether nuclear energy and natural gas should be classified as green. This very discussion overshadowed the fact that sustainable finance is likely to put corporate financing in Europe on a new basis. In the future, besides the market opportunities of a product, other criteria will play an increasingly decisive role in financing decisions, namely those related to environmental and climate protection as well as to other sustainability issues.

The fact that outside Europe so many companies associated with Germany are addressing the issue is striking. Apparently, they expect to be affected by the new system themselves very soon - be it indirectly through the financing of a German parent company, or directly by the idea catching on in other parts of the world.

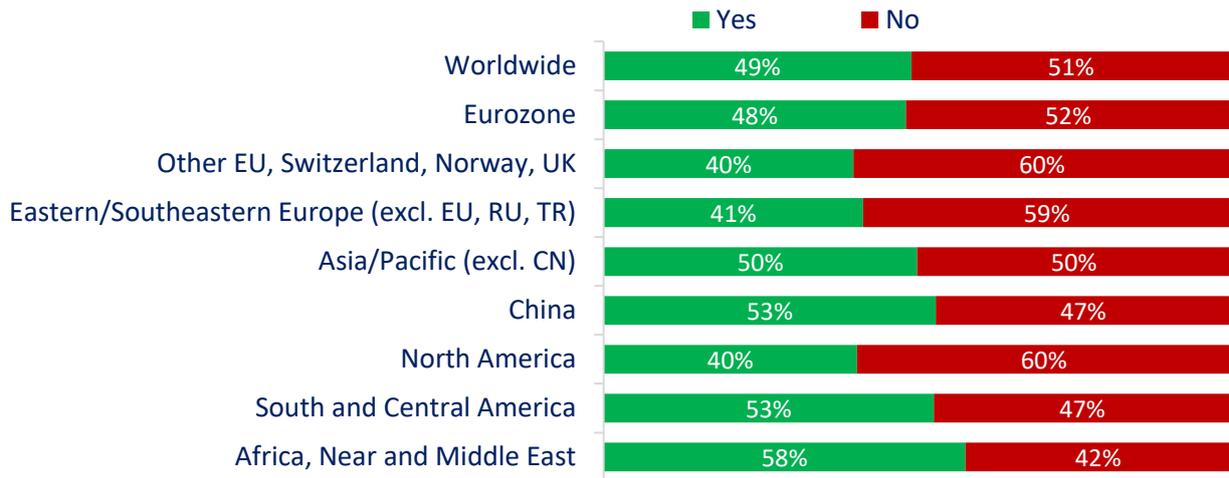
**Statement 5: The issue of sustainable corporate financing is gaining in importance for us.**



**Sustainability legislation in the host country**

In the discussion about the 'export' of sustainability issues via German or European regulatory frameworks, such as CBAM or the LkSG, it is rarely addressed that European companies in third countries are first of all subject to the legislation of the host country, which leads to a double bureaucratic burden.

**Statement 6: Local environmental or climate protection legislation requires considerable efforts from us.**

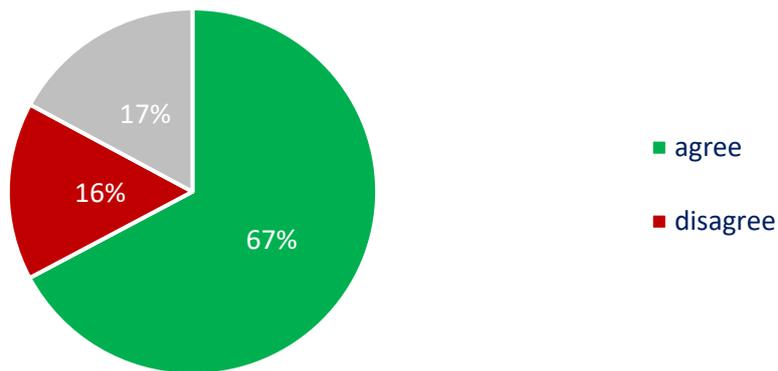


Compliance with local sustainability legislation seems to be a key issue everywhere, interestingly most in the Africa, Near and Middle East region.

### Company's own sustainability goals 'on top'

How deeply sustainability issues have already penetrated the consciousness of those doing business is shown not least by the fact that two-thirds of the companies surveyed abroad have set their **own sustainability goals** in addition to the rules set by the EU, Germany and the host country, and they are working to implement them.

### Statement 7: Our company has set its own sustainability goals, which we are working to implement.



All in all, the results of the survey show how much the topic of sustainability has moved into the focus of entrepreneurial action all over the world, at least among the companies cooperating with Germany that are organised in the German Chambers of Commerce Abroad.

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### Stand

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