

# EVENT REPORT

Konrad-Adenauer-Stiftung e.V.

MULTINATIONAL  
DEVELOPMENT POLICY  
DIALOGUE

JOHANNES HÜGEL  
NINA HOTOP  
February 2018

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## Sustainability and Climate Responsibility in Global Value Chains

On February 1, 2018 the Multinational Development Policy Dialogue of the Konrad-Adenauer-Stiftung (MNED) in Brussels, in cooperation with the German Economic Institute (IW) and the Regional Project Energy Security and Climate Change (RECAP) of the Konrad-Adenauer-Stiftung in Hong Kong, organized the international workshop “Sustainability and Climate Responsibility in Global Value Chains”. The workshop facilitated a dialogue between representatives of various European institutions, multinational cooperations and non-governmental organisations on current practices and future opportunities to integrate sustainability and climate re-



sponsibility into global production chains better. After valuable opening remarks by **Sabina Wölkner**, Programme Director, Multinational Development Policy Dialogue, Konrad-Adenauer-Stiftung, Brussels, **Dr Peter Hefe**, Director, Regional Project Energy Security and Climate Change, Konrad-Adenauer-Stiftung, Hong Kong SAR/PR China and

**Dr Hubertus Bardt**, Managing Director, German Economic Institute (IW), Cologne, the first panel, chaired by **Dr Adriana Neligan**, Senior Economist, German Economic Institute (IW), introduced the audience to the status quo of the international regulatory framework for international trade and related expectations from the EU. It addressed the issue of enhancing the international regulatory framework in order to better adapt global value chains sustainably. Primarily, it covered the question of what we can expect from the EU in this regard. **Dr Pierre Gröning**, Director Advocacy of amfori (former FTA), examined the necessity of a coherent legislation. Even though the EU used to be the forerunner on sustainability policies, this is no longer the case. Asian states are also moving towards more sustainable policy solutions. Thus, he recommended the EU to construct a clear definition of sustainability and to find the right balance between ambition and realism. Moreover, Dr Gröning demanded more effective policy interventions, so that the different regional business partners could work with a common understanding of sustainability. However, he also acknowledged the threat that the term “sustainability” may be used for protectionist purposes and hence be misused. Finally, he proposed that the EU needed to adapt its expectations towards the overall drive in direction of sustainable policies. This has become necessary, as

implementing sustainability into supply chains is a long term engagement and no immediate turnover is possible.

The issue of sustainability in global trade and industries was further elaborated by **Iuliu Winkler**, former Minister of Trade of Romania and Member of the European Parliament and Vice Chair of the Committee on International Trade. He considered transparency to be key to effective



trade policy. In allusion to the annual World Economic Forum meeting in Davos, he repeated that a “shared future in a fractured world” needs to be created and this can only be done by strengthening transparency. This will ultimately lead to the extension of partnerships. Thus, a collaborative approach to trade policies is vital. The EU needs to become less coercive and more cooperative. Winkler concluded by saying that the European Union needs to foster industry and stakeholder engagement within the process of policy reformation towards sustainability. An example of which can be seen in the European Public Private Partnership for sustainable sourcing of minerals proposed by the Dutch government, which strongly inclines the EU-governments, companies and civil society to collaborate. Linking back to his central idea of transparency, he claimed that to achieve private engagement in such agreements, workers need to be informed about their job’s dependency on global trade requirements. Secondly, he alluded to the balance between open and free trade and protectionism. In this context, Winkler argued that sanctions would only be ineffective and instead ex-

isting provisions needed to be strengthened. Those stipulations could however only be enforced multilaterally.

**According to Madelaine Tuininga**, Head of the Unit on Trade and Sustainable Development, DG TRADE of the European Commission, climate change has become an important issue in international politics. Nonetheless, international organizations such as the World Trade Organization (WTO) still struggle to enforce sustainability on their agenda. Climate change is a very sensitive topic that is often sidelined. Mrs Tuininga further underlined the importance of the existing *multilateral* system instead of bilateral sustainability standards. Tuininga cautioned against over-burdening trade negotiations with other policy concerns but acknowledged that there is a need for consistency in international negotiations across policy areas. In reference to the relation between protectionism and sustainability she assumed that the connection is no longer an issue. Building trust and mutual responsibility is the key to avoid protectionism. European policies on sustainability can only be effective sufficiently and equally implemented in all member states.

**Rashmi Jose**, Senior Programme Officer for Investment and Regulatory Systems at the International Centre for Trade and Sustainable Development (ICTSD) in Geneva concluded the first panel by examining that RTAs are increasingly integrating ambitious environmental provisions that go beyond the expectations set through the WTO. She noted however that most of these provisions are “best-endeavor”, and therefore are ultimately non-enforceable through a dispute mechanism. This creates a perception that trade and environmental concerns are not on an equal footing; and the provisions that are ultimately included in these agreements are on the basis of the lowest common denominator. Nonetheless, the best-endeavor approach may be the most feasible solu-

tion, given that sanctions based approach would reduce the willingness of partners to actually participate in the negotiations of such agreements out of fear they may not be able to actually achieve the established requirements. Ms. Jose noted that environmental-related concerns are also increasingly integrated into international investment agreements. There is a change in investment treaty language that goes beyond prioritizing investor protection, toward ensuring that the state's right to regulate for legitimate objectives is safeguarded.

In the following Q&A session concerns were raised that a focus on environment and sustainability may lead to disguised, "green" protectionism. European standards should not lead to exportation of low standards, i.e. outsourcing of production stages to countries with lower standards. Thus, the EU should take a leadership role towards setting realistic legislative targets for sustainability. It became clear that a multilateral approach is needed to render policies effective. However, those policy adjustments need time.

The second panel, chaired by Sandra Parthie, German Economic Institute (IW), focused on the business perspective on corporate sustainability standards and related experiences, good practices and challenges. **Olaf Schulze**, Energy Manager of the METRO AG in Düsseldorf, Germany and **Dr Gerrit Schneider**, Head of Corporate Responsibility Strategy of EVONIK gave insights into their respective company strategies. Both reflected upon their experiences in implementing sustainable policies into their corporate framework.

**Olaf Schulze** explained METRO AG's self-set high targets: it wants to achieve 50% reduction in CO2 emissions until 2030. 20% of this has already been achieved over the past years. He outlined that METRO's sustainability policies

rest on 4 pillars: (a) Energy training, which focusses on awareness raising for the importance of running a sustainable business. (b) Investment in energy-efficient technologies in particular as retail needs to be sustainably energized, (c) Use of renewable energies and (d) Exit from F-Gases in refrigeration, which is why METRO employs e.g. daylight use methods in countries such as Pakistan that often have to deal with power cuts. In order to expand Metro's sustainability policies in all its retail locations, it provides training to workers in e.g. India and Pakistan on sustainable retail options and the use of energy efficient technologies. Mr Schulze argued that "we have to think for tomorrow and the day after tomorrow!"

**Dr Gerrit Schneider** presented the sustainability strategy of EVO-NIK and the foundation history of the initiative "Together for Sustainability" of the chemical industry to the audience.



Mr Schneider highlighted that more than 90% of Evonik's group sales have been analyzed in accordance to their contribution to sustainability. As of today 50% of EVONIK's sales contribute to resource-efficient applications in customer value chains. He put forward that in order to ensure sustainability in the supply chains, a supplying company needs to be analyzed – e.g. via an assessment or audit - in detail. To foster this EVONIK set up the "Together for Sustainability (TfS) Initiative" with 5 other founding members. The idea of the TfS initiative is to assess or audit a supplier once and make the assessment or audit reports accessible to other members of the TfS initiative. As of today, the initiative contains 19 multinational companies of the chemical industry. The goal of this initiative is to facilitate supplier and customers sustainability inter-

action and to improve the sustainability performance of global suppliers.

Several interventions from attending business representatives underlined the wish for uniform standards to be set by global politics. However, this should be done by including the private sector in order to ensure private engagement and the establishment of realistic goals. Therefore, the EU should set standards that are realistic on a global scale and possibly even internationally transferable. Moreover, a long-term assessment of Global Value Chains needs to be conducted to ensure sustainable practices amongst all production stages. It is indispensable to set up standards collectively and multilaterally. Finally, as sustainability is a global topic, the discussion is not to end here in Europe, but needs to be held all over the globe.