



# Code of Conduct for Sustainable Supply Chains in China: A Template

German Chamber of Commerce in China  
(effective from June 2021)

## Introductory Notes

The German Chamber of Commerce in China promotes and **accompanies German companies in doing business in China according to the principle of the Honorable Merchant**. The concept of the Honorable Merchant describes the historically grown model for responsible participants in business life in Germany. It stands for a pronounced sense of responsibility for one's own company, for society and for the environment that goes beyond one's own business to the entire supply chain. Following this principle, the Chamber provides a template for a "Code of Conduct for Sustainable Supply Chains in China" (in the following: the "Code") for German companies in China.

The **German business community in China** is committed to the principle of sustainable supply chains and **takes its social and environmental corporate responsibility very seriously**. German Companies in China ensure non-discrimination, freedom of association and collective bargaining. They exclusively employ voluntary staff and reject child labor. To ensure the commitment of all stakeholders of the supply chain to act in a responsible way and to adhere to these values is an **integral part of German businesses' China strategy**.

This Code provides a **practical tool** for German companies in China: The **German Chamber's template (EN/CN)** serves as a basis for a Code of Conduct that can be adapted to particular industries and business fields. For companies whose headquarters have a Code of Conduct which applies globally, this Code can be used in addition to the global Code of Conduct. It can also be easily adapted for usage in other regions.

Furthermore, the text of this template considers the **specific requirements** of the *Supply Chain Due Diligence Act*, adopted by the German Parliament on 11 June 2021. This new law will implement central provisions of the *UN Guiding Principles on Business and Human Rights* and the *National Action Plan for Business and Human Rights*. It will place legal obligations on companies in Germany to ensure that social and environmental standards are observed on all levels of the supply chain. It will initially cover companies with more than 3,000 employees starting in 2023, and from 2024 on will be expanded to companies with more than 1,000 employees.

In addition, a **practical guide** with the main preparatory measures for the *Supply Chain Due Diligence Act* is offered in the following.

## What do companies need to do?

- Build up a **risk management system** which defines adequate measures for all significant business processes (Supply Chain Due Diligence Act §4)
- Determine an **internal responsible person**; the management needs to seek information on the work of this person at least once a year (Supply Chain Due Diligence Act §4)
- Do **regular risk analyses** regarding risks in the own company or at direct suppliers, whenever there are significant changes but at least once a year (Supply Chain Due Diligence Act §5)
- Have a **policy statement** on the company's sustainability strategy, adopted by the management (Supply Chain Due Diligence Act §6)
- Take **preventive measures** in the own company and at the contractual partners, including implementing the sustainability strategy and risk-based control strategies, adequate sourcing strategies and conducting trainings, as well as ensuring that partners ensure this within their supply chains; check the effectiveness of the measures whenever there are significant changes but at least once a year (Supply Chain Due Diligence Act §6)
- Undertake **remedial measures** in the own company and at direct suppliers, but also at indirect suppliers as soon as there is substantial knowledge about social or environmental issues (Supply Chain Due Diligence Act §7)
- Do **due diligence** at indirect suppliers as soon as there is substantial knowledge about social or environmental issues (Supply Chain Due Diligence Act §9)
- Put **complaints' procedures** in place where risks in the supply chain can be reported by everyone with knowledge on them; check the effectiveness of the procedures whenever there are significant changes but at least once a year (Supply Chain Due Diligence Act §8)
- Do regular **documentation and reporting**; keep all related documents for 7 years; publish an annual report on your website 4 month after the end of the fiscal year (Supply Chain Due Diligence Act §10)

The German Chamber strongly recommends to make this Code **applicable to a companies' China operations (incl. joint venture partners) as well as all stakeholders of the entire china-based value chain** (upstream and downstream) and also explicitly include it in any contractual relationship.

### About the Code

This Code is from German companies for German companies. It aims to provide German companies, and in particular small and medium-sized companies that do not yet have a dedicated compliance management system, with a practical tool that serves as a basis for a China-specific Code of Conduct. The Code also signals that German business is proactively addressing the issue of supply chains in China through its representative body, the German Chamber of Commerce. Some German Chamber's member companies participated from the very beginning in drafting this Code, then all members and the boards of the Chamber had been given the opportunity to comment on the draft.

Your German Chamber of Commerce in China

