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Together to the next level

# CRIF INDUSTRY WATCH

A monthly edition on Data, Risk and Economic Insights

## INSIDE THIS ISSUE



# Analysis and Studies

## CRIF Germany Study: Insolvency Risk Increase in Gastronomy Companies


**15,069 restaurants, pubs, snack bars and cafés in Germany are currently (as of 17 November 2023) at risk of insolvency**

Due to various crises, a reduced VAT rate of seven percent currently applies to food in the catering industry - but only until the end of this year. Food in restaurants is to be taxed at 19% again from the beginning of 2024. This could lead to more insolvencies in the catering industry. According to an analysis by information service provider CRIF, 15,069 restaurants, pubs, snack bars and cafés in Germany are currently (as of 17 November 2023) at risk of insolvency. This corresponds to 12.6% of the businesses analysed. In January 2020 - before the coronavirus pandemic - the number of catering businesses at risk of insolvency was 12,662 or 10.7%.

**Regional differences**

A look at the regional figures shows that the risk of insolvency is highest for companies in the catering sector in Berlin. There, 16.5% or 1,369 of catering businesses are considered at risk of insolvency. This is followed by Bremen (16.2 % of restaurateurs at risk of insolvency; 144), North Rhine-Westphalia (14.6 %; 3,199), Saxony-Anhalt (14 %; 560) and Hamburg (13.3 %; 412). The lowest risk of insolvency is currently faced by companies in the catering sector in Bavaria (10.5 %; 1,956) and Rhinal and Palatinate (10.5 %; 693) as well as in Mecklenburg-Western Pomerania (10.6 %; 331).

**In January 2022, the average creditworthiness index of all catering companies was 3.02. By August 2023, it had improved to 2.80 and continued its positive trend in November 2023 with a value of 2.79**

Even after the end of the coronavirus pandemic, the catering industry is still facing numerous problems. These include rising inflation, higher energy and labour costs and the growing trend of working from home. This is leading to fewer opportunities for lunch breaks and fewer visits to restaurants or cafés. The increase in VAT will further exacerbate the situation, especially for catering businesses that are already struggling financially," explains CRIF Germany Managing Director Dr Frank Schlein.

Since the beginning of 2022, the creditworthiness index has steadily improved as a meaningful measure of financial stability in the catering industry. In January 2022, the average creditworthiness index of all catering companies was 3.02. By August 2023, it had improved to 2.80 and continued its positive trend in November 2023 with a value of 2.79. This continuous improvement reflects the general upward trend in financial stability across the entire industry.

There is a clear dichotomy in the catering industry. Companies that are in a stable financial situation have further strengthened their resilience. On the other hand, catering businesses that were already struggling with problems are increasingly facing the risk of insolvency."

## On average, there was an increase of 6 % in the number of catering establishments at risk of insolvency compared to August 2023

On average, there was an increase of 6 % in the number of catering establishments at risk of insolvency compared to August 2023. The most significant increase of 11.4 % was recorded in Mecklenburg-Western Pomerania, followed by Baden-Württemberg and Thuringia with an increase of 9.6 %. In contrast, the increase in Bremen was lower at 2.1 % and in Schleswig-Holstein at 2.6 %. CRIF is currently forecasting 1,600 insolvencies in the food service industry in 2023, 36.5 % more than in 2022. "Insolvencies in the food service industry will continue to rise in the coming year," says Dr Schlein.

### About the analysis

For the analysis, CRIF analysed information on the financial situation of almost 120,000 catering companies, which provides information on their solvency. This includes information in balance sheets, profit and loss accounts, employee and turnover figures and payment histories. Negative court features such as dunning procedures, debt collection monitoring or general entries in the debtor register were also included. Insolvencies and companies that have already disappeared from the market are not included in the current 15,069 companies at risk of insolvency.

# Import and Export Snapshot

## Comparison Japan/United States: a look at the market

**In August 2023, Japan exported ¥1.62T and imported ¥968B from the United States, resulting in a positive trade balance of ¥650B**

In 2021, Japan exported $128 billion to United States. The chief products that Japan exported to United States are Cars ($32.9B), Motor vehicles; parts and accessories ($7.51B), and Large Construction Vehicles ($4.25B).


During the last 26 years the exports of Japan to United States have escalated at an annualized rate of 0.26%, from $120 billion in 1995 to $128 billion in 2021.

In 2009, Japan exported services to United States worth $72.8B, with Services not allocated ($35.5B),

Other business services ($16.9B), and Royalties and license fees ($8.5B) being the largest in terms of value.

### United States-Japan

In 2021, United States exported $71.8B to Japan. The main products that United States exported to Japan were Petroleum Gas ($8.76B), Packaged Medicaments ($3.14B), and Corn ($3.11B). During the last 26 years the exports of United States to Japan have increased at an annualized rate of 0.28%, from $66.7B in 1995 to $71.8B in 2021.

What's more in 2017, United States exported services to Japan worth $47.1B, with Other business services ($9.67B), Travel ($9.01B), and Transportation ($8.01B) being the largest in terms of value.

### Comparison

In 2021, Japan ranked 1 in the Economic Complexity Index (ECI 2.06), and 4 in total exports ($731B). That same year, United States ranked 10 in the Economic Complexity Index (ECI 1.46), and 2 in total exports ($1.63T).

### About latest trends

In August 2023, Japan exported ¥1.62T and imported ¥968B from United States, outcoming in a positive trade balance of ¥650B.

Between August 2022 and August 2023 the exports of Japan have increased by ¥78.8B (5.12%) from ¥1.54T to ¥1.62T, while imports decreased by ¥-100B (-9.4%) from ¥1.07T to ¥968B.

### Trade

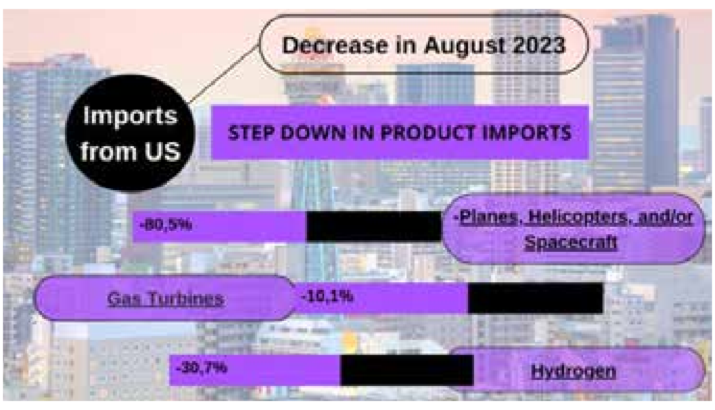
In August 2023, the top exports of Japan to United States were Cars (¥272B), Commodities not elsewhere specified (¥58.6B), Motor vehicles; parts and accessories (8701... (¥56.9B), Machines and apparatus of a kind... (¥50.8B), and Large Construction Vehicles (¥41.7B).

In August 2023 the top imports of Japan from United States were Petroleum Gas (¥114B), Vaccines, blood, antisera, toxins and cultures (¥44.4B), Integrated Circuits (¥29.5B), Gas Turbines (¥28.1B), and Corn (¥26.5B).

In August 2023 the exports of Japan were mainly from Aichi (¥484B), Chiba (¥191B), Kanagawa (¥163B), Tokyo (¥145B), and Osaka (¥141B), while imports destinations were mainly Chiba (¥370B), Tokyo (¥129B), Osaka (¥78.2B), Aichi (¥74B), and Kanagawa (¥71.4B).

### Growth


In August 2023, the increase in Japan's year-by-year exports to United States was illustrated mostly by an increase in product exports in Machines and apparatus of a kind...(46%), Large Construction Vehicles (49.3%), and Vaccines, blood, antisera, toxins and cultures (84.2%).




Even so, in August 2023, the decrease in Japan's year-by-year imports from United States was made clear primarily by a step-down in product imports in Planes, Helicopters, and/or Spacecraft ( -80.5%), Gas Turbines (-10.1%), and Hydrogen (-30.7%).

# Product Analysis

## Doing Business with the Paper Industry in Europe

**The paper industry is at the forefront of developing innovative products alongside more traditional products. It is a pioneer in making the EU low-carbon bio-economy an industrial reality**

The pulp and paper industry comprises companies that use wood as raw material and produce pulp, paper, paperboard, and other cellulose-based products.

The pulp and paper manufacturing sector is energy and raw materials intensive, with high capital costs and long investment cycles. The industry has an excellent track record in resource efficiency and innovation. Thanks to its knowledge of wood fibre, the pulp and paper industry is at the forefront of developing innovative products alongside more traditional products. It is a pioneer in making the EU low-carbon bioeconomy an industrial reality.

**Paper industry is important for the following reasons:**

**Environment** – thanks to improved process efficiency, the industry has become more energy self-sufficient and less CO2-intensive by generating more than half of its primary energy from biomass.

**Recycling** – voluntary industry-led initiatives in addition to legislative measures, have resulted in a paper recycling rate exceeding 70% in Europe. Raw materials used in the production and converting of paper and board come from sustainable sources.
Innovation - the high level of expertise and continuous research and innovation allow these industries to exploit new business models, develop novel products and technologies, and progress toward a low-carbon bioeconomy.

**The EU environmental, energy, and transport policies have a major influence on the future of the sector. A good regulatory framework is essential to supporting sustainable growth, investor certainty, and a level playing field.**

**Main challenges are:**

**Lower consumption -** graphic paper consumption in Europe continues to decrease due to digitalisation. This is counter-balanced by growth in packaging and hygiene papers however. The creation novel bio-based products creates vast opportunities for the sector.

**Trade barriers -** the sector is increasing its share of exports outside the EU but tariff barriers and protectionist subsidies for rival goods create an uneven playing field. Taxes and export duties imposed by non-EU countries on wood exports raise concerns. For example, fibre raw material represents the highest share of production costs, and so its availability at affordable prices is crucial for the sector.

**Raw material supply -** the demand for domestic EU wood supplies by end-users such as bioenergy firms is rising. Increasing the mobilisation of wood in a sustainable way and developing new, innovative ways to further optimise the added value from raw materials through the cascading use of wood, would help to match wood supply and demand.

**Recycling -** the paper recycling rate in Europe is very close to its maximum. Improvements in separate collection systems and innovation in sorting and recycling technology can further increase the quality and availability of secondary raw materials. The supply may also be challenged by the increasing amount of recovered paper exports to non-EU countries.

**Energy prices -** rising energy prices in Europe, combined with increasing gas prices compared to North America, place the sector at a global competitive disadvantage.

The EU environmental, energy, and transport policies have a major influence on the future of the sector. A good regulatory framework is essential to supporting sustainable growth, investor certainty, and a level playing field.

**Main opportunities are:**

**Resource efficiency -** continuous technological improvements can further reduce environmental impacts and optimise the use of resources such as raw materials, water, and energy. New processes can offer innovative ways to develop new products and applications based on cellulose fibre that generate more added value. Breakthrough technologies, such as those reducing heat use in paper production through reduced water consumption, are needed to achieve the sector's objectives for the 2050 Roadmap towards a low-carbon bio-economy. These objective include an 80% $CO_2$ reduction and 50% value growth by 2050.

**The EU pulp and paper sector is taking advantage of the opportunities offered by the bioeconomy. New business concepts will allow it to use the entire potential of wood and wood fibre to produce products and novel materials.**

**Bioeconomy -** the EU pulp and paper sector is taking advantage of the opportunities offered by the bioeconomy. New business concepts will allow it to use the entire potential of wood and wood fibre to produce products and novel materials for the textile, cosmetics, food, and pharmaceutical industries; bio-based fuels and chemicals; and traditional wood-based products.

## Focus on CEPI

The European association representing the paper industry (Cepi) is a non-profit making organisation. Cepi is headed by Director General Jori Ringman with a staff of 21 employees, based in Brussels. It has four standing committees, which take long term strategic perspectives on the issues affecting the industry. These are the Environment and Safety, Climate Change and Energy, Forest and Recycling committees under which a number of ad-hoc issue groups operate. The Association Directors' Group (ADG) is the senior advisory group to the Director General of Cepi and is composed of Director Generals of National Associations.

Cepi is managed by a 33-person Board, and is composed of representatives of National Associations and Chief Executive Officers (CEOs). It approves Cepi's policies, strategies and objectives as well as its business plan and budget as proposed by the Steering Committee. The Steering Committee is composed of two members from the ADG and four Board members, and is a formal link between committees and the Board, driving policy areas. Cepi's Director General ensures compliance of Cepi actions with Board decisions and consistency of policy between the committees.

### Mission and Vision

To secure pulp and paper industries competitiveness towards EU policy makers To represent the paper industry with EU institutions and Brussels based stakeholders To improve the image and visibility of the paper industry and other related industries To be the example of how competitiveness and sustainability can go hand in hand

### Countries

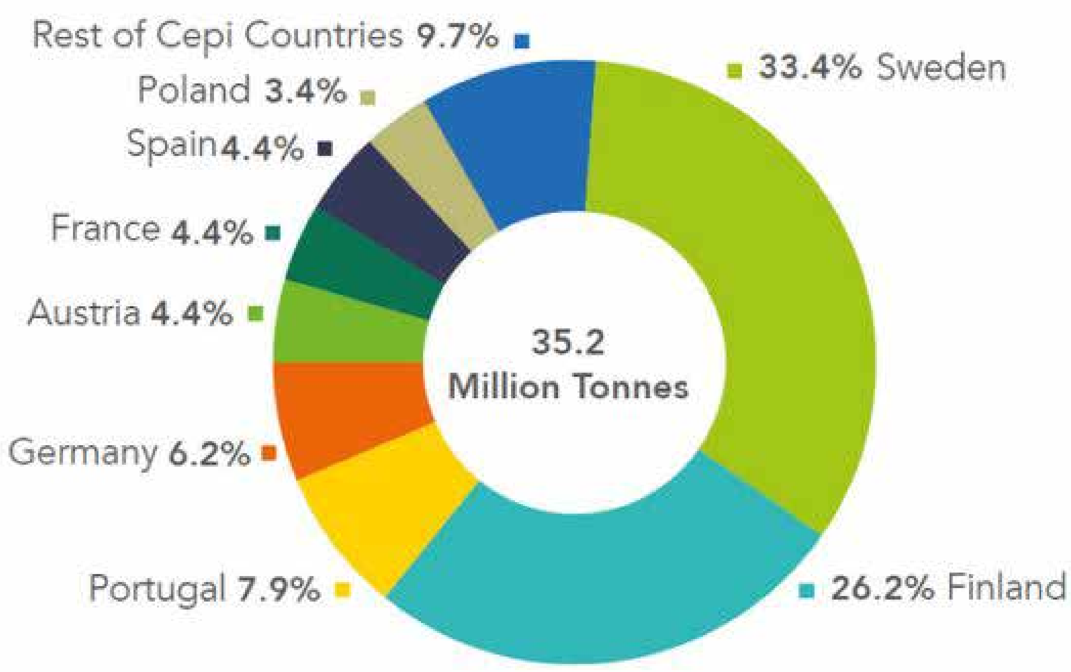
Austria, Belgium, Czech Republic, France, Finland, Germany, Hungary, Italy, The Netherlands, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Romania, United Kingdom

**The pulp and paper industry provides 180 000 jobs in Europe directly. It has a turnover of 115 billion euros and adds 25 billion euros to the EU GDP.**

# Facts and Figures

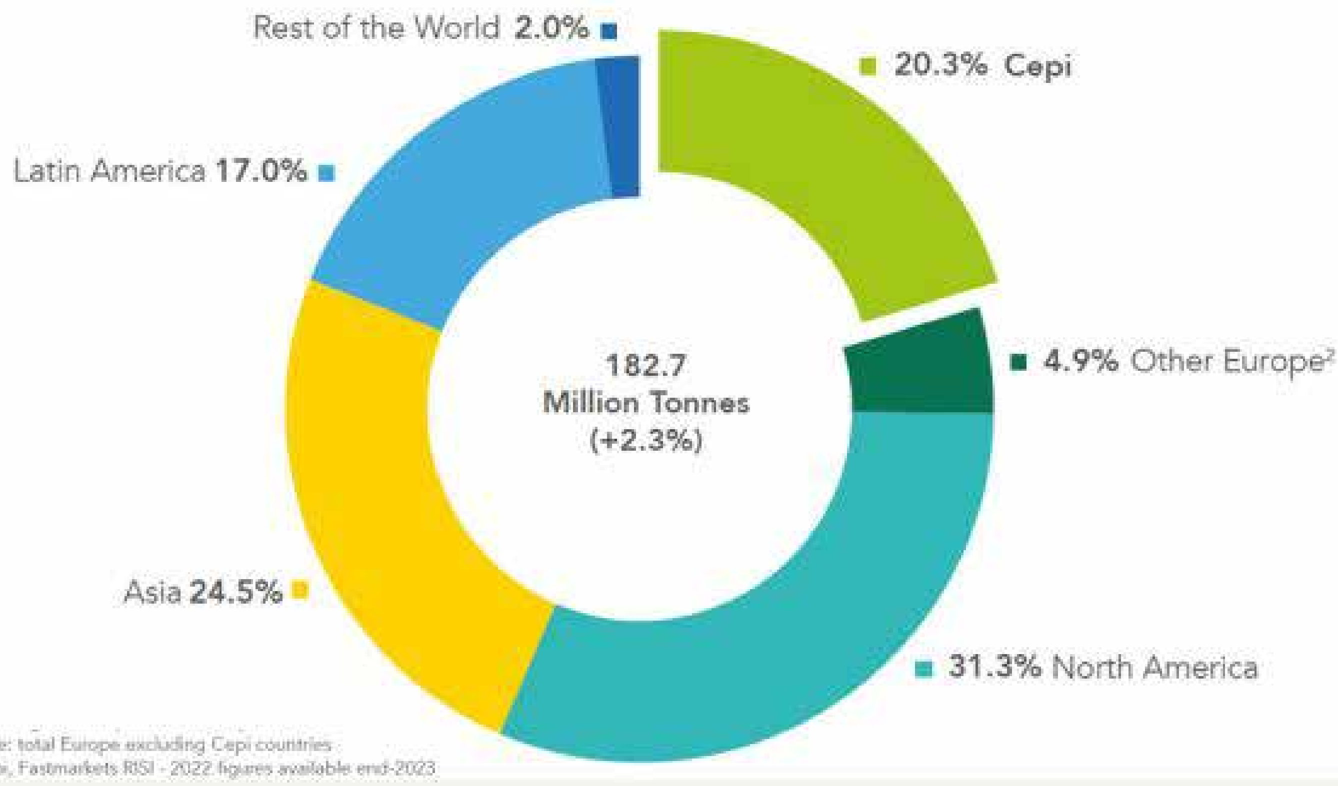
The pulp and paper industry provides 180 000 jobs in Europe directly. It has a turnover of 115 billion euros and adds 25 billion euros to the EU GDP. It is strong in export markets, with an export rate of 21% of its paper and board production.

## Total Pulp[1] Production by Country in 2022



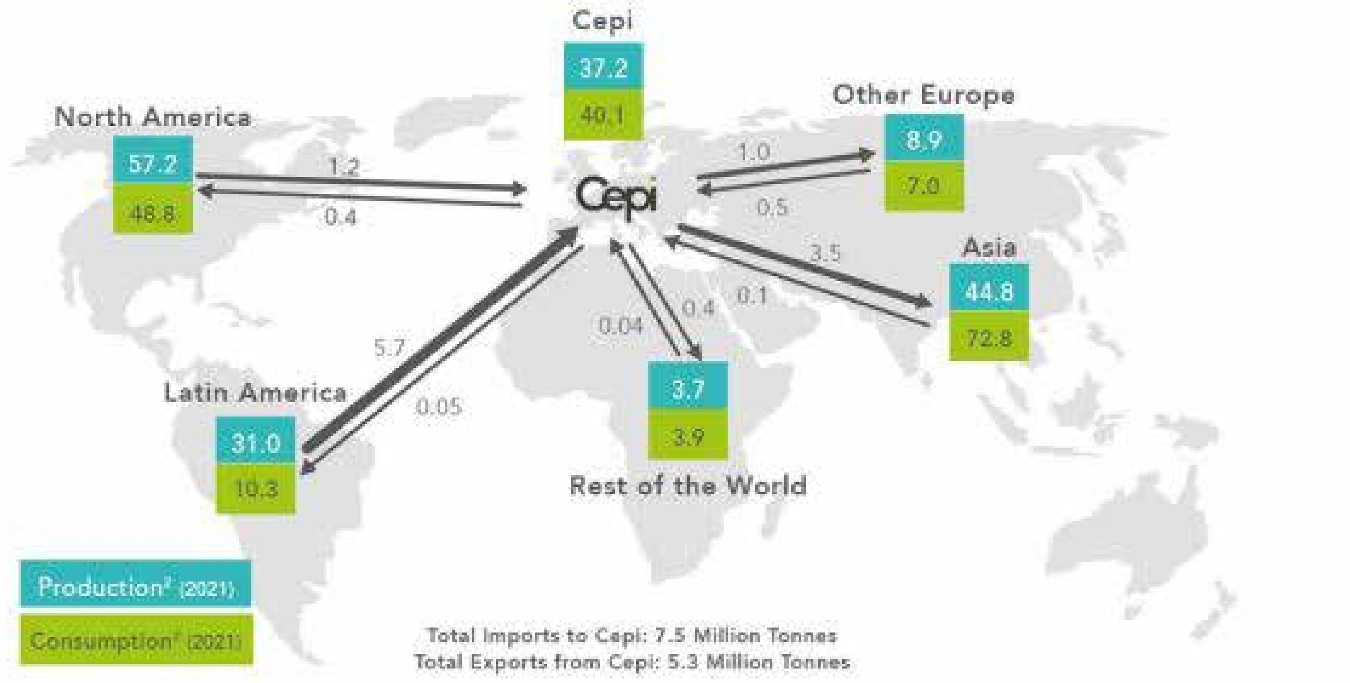

[1] Total Pulp = Market Pulp + Integrated Pulp
[2] Other Pulp: see defintion page 30

## World Total Pulp[1] Production by Region in 2021[3]



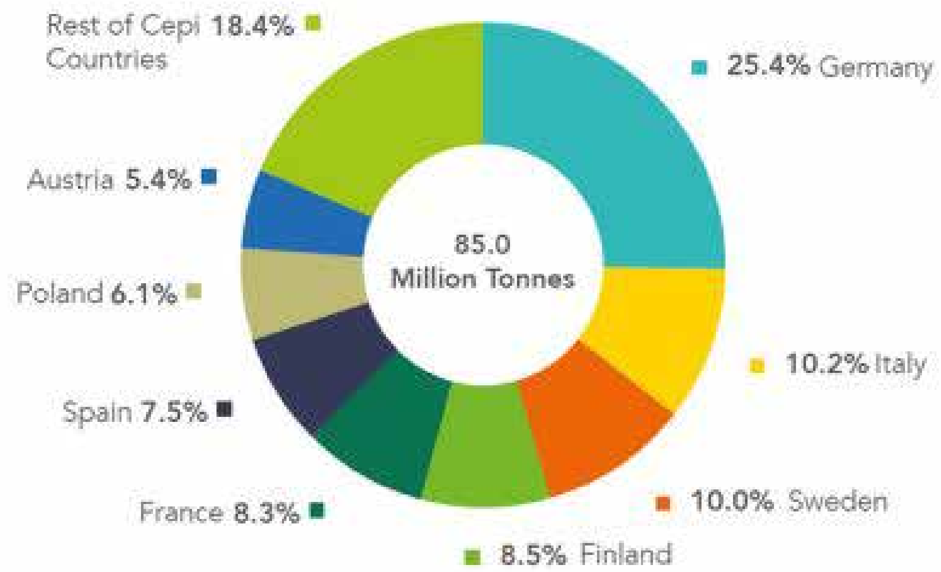

[2] Other Europe: total Europe excluding Cepi countries
[3] Sources: Cepi, Fastmarkets RISI - 2022 figures available end-2023

## Trade Flows of Market Pulp in 2022 (Million Tonnes)



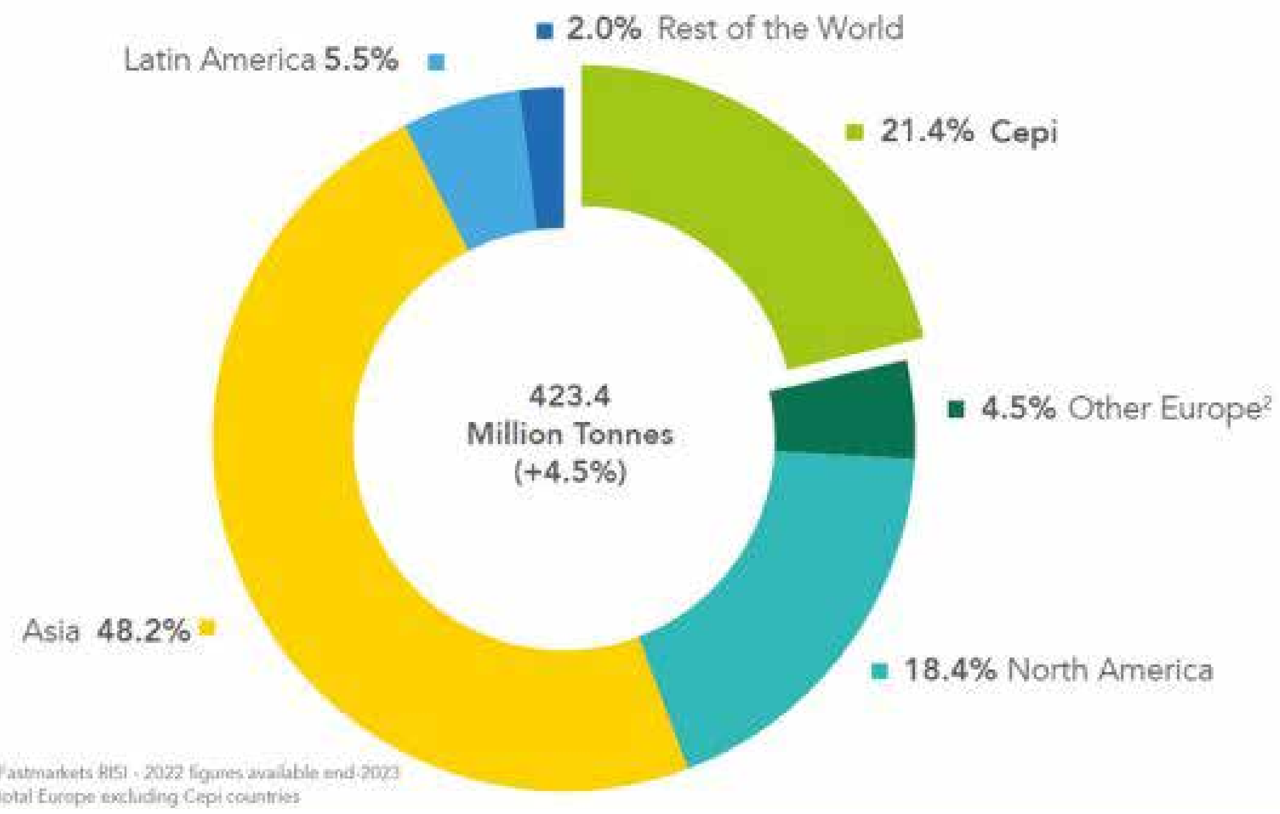

[1] Other Europe: total Europe excluding Cepi countries
[2] Production and consumption of total pulp (market and integrated)
Sources: Cepi, Fastmarkets RISI - 2022 figures available end-2023

## Paper and Board Production by Country in 2022



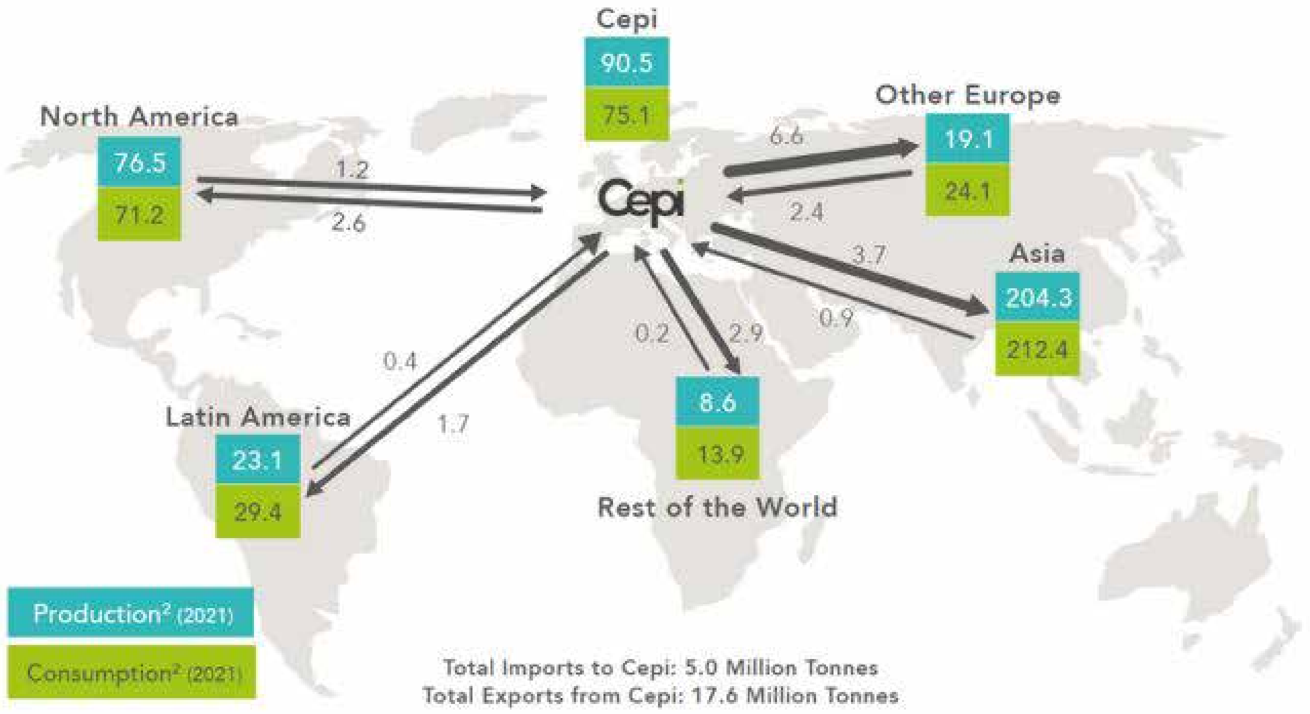

[1]Speciality paper and board can be defined as paper or board that require properties (physical, optical, electrical, chemical and/or other special considerations) that are different from the norm for the market sector and application being served.
Based on AWA (Alexander Watson Associates) and Cepi estimates.

## Paper and Board Production by Region in 2021[1]




[1] Sources: Cepi, Fastmarkets RISI - 2022 figures available end-2023
[2] Other Europe: total Europe excluding Cepi countries

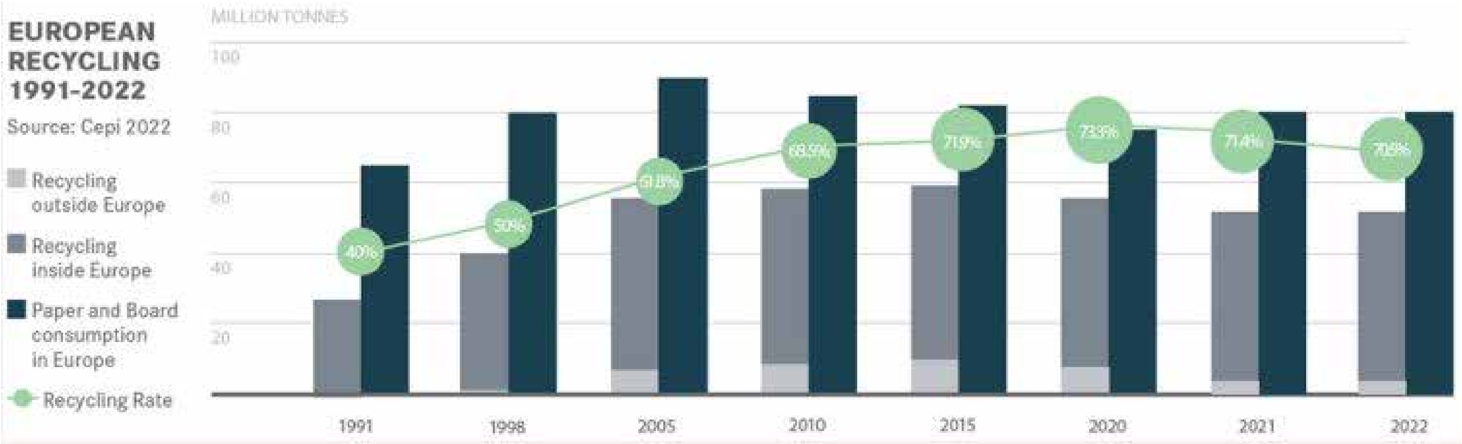
## Trade Flows of Paper and Board in 2022 (Million Tonnes)



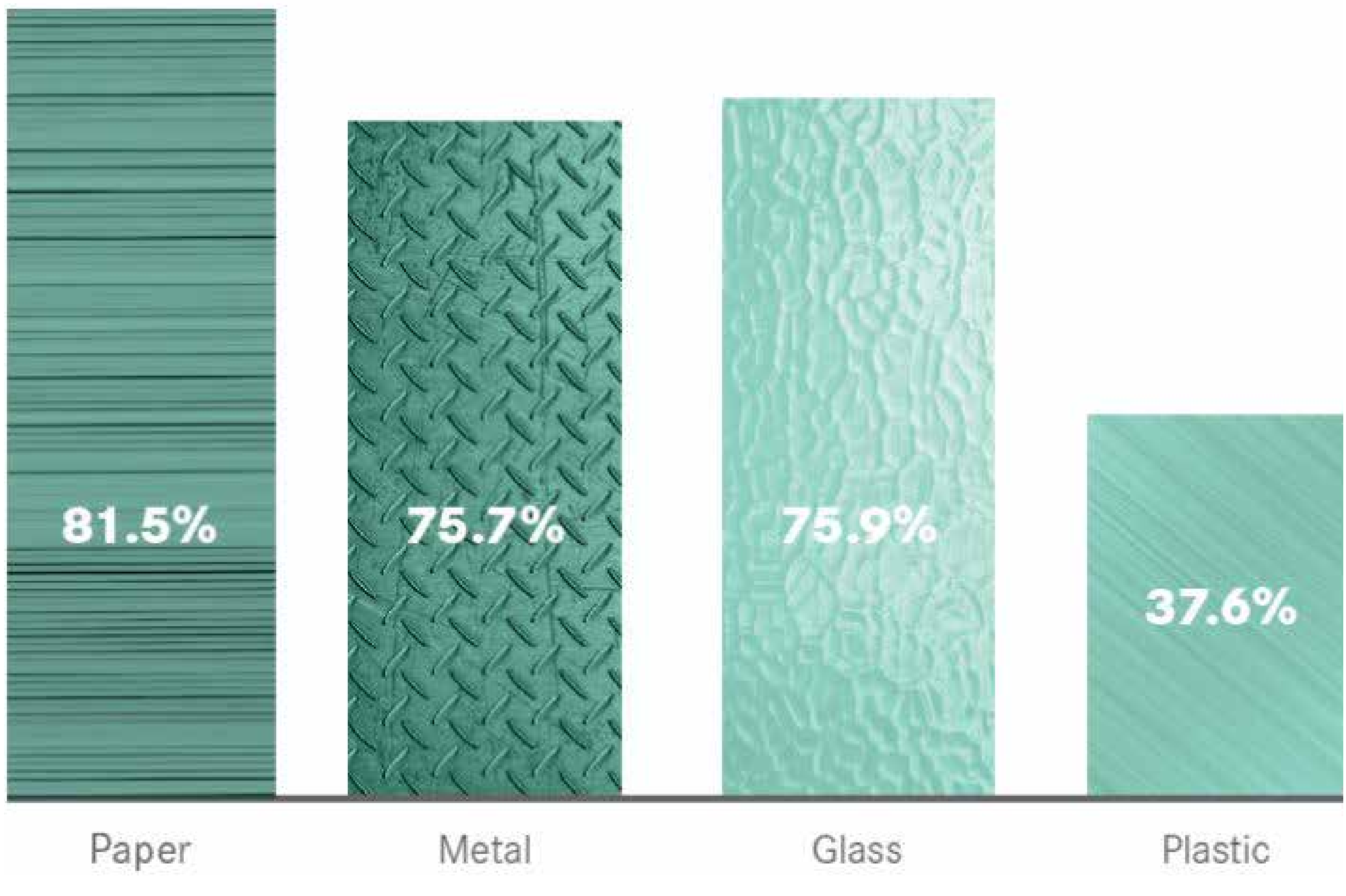

[1] Other Europe: total Europe excluding Cepi countries
[2] Source: Cepi, Fastmarkets RISI - 2022 figures available end-2023

**The signatories of the European Declaration on Paper Recycling declared their commitment to reach a 76% paper recycling rate by 2030.**


Since 2000, the European paper value chain has been committed to the two-fold aim of improving recycling and increasing efforts to remove obstacles hampering paper recycling in Europe. In 2021, the signatories of the European Declaration on Paper Recycling declared their commitment to reach a 76% paper recycling rate by 2030. The new European Declaration on Paper Recycling 2021-2030 was published on 29 June 2022







# Article of the month

## Sustainability framework: how to define a strategy for SMEs

### Why sustainability is important for SMEs

In today's world, sustainability has emerged as a crucial factor for businesses, irrespective of their size, including small and medium-sized enterprises (SMEs). As SMEs are considered the backbone of the economy, it is essential for SMEs to establish a sustainability framework that ensures profitable and responsible operations.

### The Corporate Sustainability Reporting Directive (CSRD)

An example of the extension of these obligations is the Corporate Sustainability Reporting Directive (CSRD), a regulatory framework introduced by European lawmakers in 2021 to replace the previous European Non-Financial Reporting Directive (NFRD). Its main objective is to accelerate the transition towards a more sustainable economy and combat greenwashing practices.

The CSRD expands the reporting obligations to 50,000 companies in Europe and requires businesses with a minimum of 250 employees to disclose non-financial information starting from 2023. Additionally, it proposes to extend reporting requirements to listed small and medium-sized enterprises (SMEs), excluding microenterprises, in a phased approach until 2027.

Compliance with the CSRD focuses on governance and measurement, requiring companies to establish internal accountability structures and track key performance indicators (KPIs) to assess progress towards sustainability goals.

The Corporate Sustainability Report, as required by the CSRD, includes elements such as business model description, sustainability policies, negative impact mitigation, risk management, and relevant KPIs. Accurate identification and tracking of sustainability KPIs are crucial for both measuring performance and meeting reporting obligations.

### The Corporate Sustainability Due Diligence Directive (CSDDD)

The Corporate Sustainability Due Diligence Directive (CSDDD) was introduced by the Commission in February 2022. Its purpose is to prompt businesses to adopt a sustainable and responsible corporate behaviour, incorporating human rights and environmental considerations into companies' operations and governance.

The directive mandates that companies, including those in their subsidiaries and value chains, must identify, prevent, mitigate, and account for negative human rights and environmental impacts. The directive applies to EU limited liability companies with substantial size and economic power, as well as other limited liability companies in defined high-impact sectors and non-EU companies operating in the EU.

While the obligations do not directly extend to SMEs, they may be indirectly affected if they are part of the supply chain of an organization falling under the directive. To comply with the due diligence duty, companies must integrate due diligence into policies, identify and address potential impacts, establish a complaints procedure, monitor the effectiveness of measures, and publicly communicate their due diligence efforts. The directive also introduces directors' duties to oversee the implementation of due diligence and integrate it into the corporate strategy.

### The EU Taxonomy regulation

The EU Taxonomy regulation is a significant component of the EU's sustainable finance framework, serving as a crucial market transparency tool. It was introduced to provide companies and investors with a common language for identifying "sustainable" activities and investments that align with the EU's 2030 climate goals.

The regulation aims to redirect capital flows towards sustainable investments, manage financial risks related to climate change and environmental degradation, and promote transparency and long-term vision in financial and economic activities. These criteria used by the Commission to classify "sustainable activities and products" include substantial contribution to environmental objectives, avoidance of significant harm to environmental goals, compliance with minimum safeguards, and adherence to technical screening criteria set by the European Commission.

While the regulation primarily affects financial market participants and advisers, it provides a framework for businesses, including SMEs, to assess and align their activities with sustainable objectives. By following the steps outlined in the regulation, businesses can make a substantial contribution or avoid significant harm to environmental objectives.

## The Carbon Border Adjustment Mechanism (C.B.A.M)

The Carbon Border Adjustment Mechanism (C.B.A.M) is a tool introduced by the European Union as part of its efforts to accelerate sustainable transition and promote responsible business behaviour.

It aims to address carbon emission relocation and is a key element of the EU's "Fit for 55%" agenda. The C.B.A.M aligns the carbon price of domestic products with imports to prevent the undermining of EU climate policies by countries with lower environmental standards or higher carbon intensity imports.

This mechanism, which is WTO-compatible, encourages global industries to adopt greener and more sustainable technologies. It applies to companies from October 1st, 2023. During this initial period (transitional phase) it covers imports of cement, iron and steel, aluminum, fertilizers, electricity, and hydrogen.

In this phase, EU importers of these goods are required to report import volumes and embedded greenhouse gas emissions without any financial adjustments. The transitional phase allows for flexibility in reporting. However, from 2026 onwards importers will need to purchase and surrender "C.B.A.M certificates" for the emissions embedded in the imported goods.

The C.B.A.M will undergo a review during the transitional phase to refine its methodology and assess the possibility of expanding its scope to other goods produced in the ETS sectors. While the C.B.A.M primarily affects importers, it also creates obligations for businesses, including SMEs, involved in the production and trade of covered goods.

## SME strategy definition and framework setting

Although the task of defining a sustainability strategy may seem daunting for SMEs, it is not impossible.
By taking a few simple steps, SMEs can create a sustainability framework that aligns with their business objectives and complies with international standards. An important contribution to the development of sustainability in the SME environment was made by the UN Global Compact with the creation of the MAJU Framework.

The toolkit is conceived as an easy step-by-step guide to help SMEs approach sustainability in ways that are more comfortable to them, helping with the basic knowledge to get you started.

## Company's impact assessment

The initial step in developing a sustainability strategy involves assessing the environmental and societal impact of the company. This includes the examination of energy and water usage, waste generation, and carbon emissions.

It is also important to evaluate the effects of the products or services on the environment and society, such as their use of natural resources or the working conditions of the workers involved in their production.
In order to understand the possible sources of the impact of a company, it is possible to undergo different self-assessment processes. An example of simplification of the global ESG frameworks, which has been adapted to serve SME purposes, is the CDP framework for climate disclosure made for SME. Another example of self-assessment is offered by Synesgy. The assessment process is conducted using a qualitative-quantitative questionnaire, which upon completion, provides a summary assessment of the ESG performance based on the information provided.

The methodology employed by Synesgy is based on various international sustainability standards, which include the Global Reporting Initiative, UN Global Compact, Carbon Disclosure Project and EU Taxonomy guidelines.

## Targets definition and goal setting

Once an organization has assessed its current impact, goals and targets can be set for improving sustainability performance. Specific, measurable and achievable goals should be established, which align with the organization's business objectives and consider any relevant regulations or industry standards.

Targets such as reducing energy usage by a certain amount within the next year or increasing the amount of recycled content in products can be set to track progress and demonstrate the organization's commitment to sustainability to stakeholders.

## Action plan development

To achieve sustainability goals, an action plan must be developed to outline steps to improve sustainability performance. The plan must include specific actions, timelines and responsible parties for each target or goal.

For instance, reducing energy usage goal can be achieved by conducting an energy audit to identify areas where energy consumption can be reduced, upgrading to more energy-efficient equipment or lighting, implementing employee training programs to encourage energy-saving behaviours and installing renewable energy systems, such as solar panels or wind turbines.

## Plan implementation and performance monitoring

After developing an action plan, implementation becomes necessary. Adjustments may be required in the operations, purchasing decisions, or supply chain.

It is also important to communicate sustainability goals and progress to stakeholders, including employees and customers, to gain support for sustainability efforts.

Monitoring and reporting on sustainability performance are crucial to keep track of progress and identify areas for improvement. Regular reviews of sustainability metrics, such as energy usage or waste generation, should be conducted and progress toward goals and targets should be reported. This information may provide opportunities for further improvement or necessary adjustments to the action plan.

## Stakeholders engagement

Engaging with stakeholders is crucial for the success of a SME's sustainability strategy. This includes employees, customers, suppliers, and other members of the SME community.

SMEs should communicate their sustainability goals and progress to these stakeholders and seek their feedback and input. Engaging with stakeholders can also help companies to identify new opportunities for sustainability improvements.

# About CRIF India

CRIF India is one of India's leading provider of Credit Information, Business Information, Analytics, Scoring, Credit Management and Decisions Solutions.

CRIF's Business Information Report, commonly known as the BIR Report, is a new way of thinking about data and information and how they are linked to each other. Available in 230 countries and territories, CRIF'S Business Information Report contains up to date information collected from various data sources. The report helps in determining a company's profitability, financial trends, and risk. It also provides an in-depth profile of a company, including financial information, legal cases, history of business, Ownership details, operational information, and details on related firms and special events that occurred in the past involving company management. It's an industry standard for evaluating both new and existing credit relationships, especially medium-to-high risk accounts. Additionally, it supports a company's other efforts, like marketing and purchasing.

# CRIF India's Business Information Offerings

## How is CRIF different?

**We brought in new Sets of Data Points, First in the Industry at a TAT less than 48hrs.**

**Global Data Environment**
200 million companies across 230 countries,
2 Million directors on these companies,
400+ data points covered

**Unmatched expertise in analysis**
Our vast experience gives us an eye for better assessment of information

**Count on our TAT**
Quality in expertise translates into efficiency in outcome

**Quality checks**
We've set processes to ensure reliable information is coming your way

**Customized solutions for:** Customer I Suppliers I Trade / Supply Chain solutions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