



Supply Chain Resilience Bulletin in the context of Russian military aggression against Ukraine *November 2022*

*Supply Chain Task Force – Directorate General for Internal Market, Industry, Entrepreneurship and SMEs
(DG GROW)*

Supply Chains: Impact on Industrial Ecosystems

TOURISM

- Timid return of some other long-haul travelers
- Outlook for the winter season negatively affected by inflated prices for trips and imminent recession in key source markets



Agri-Food

- The European Agricultural Machinery Association (CEMA) latest barometer (October 2022) confirms a recent stabilization of the business climate, although price increases and bottlenecks on the supplier side continue to challenge the industry

ENERGY INTENSIVE INDUSTRIES

- After 70% of ammonia capacity was offline in September due to negative margins, several facilities have restarted. Over ½ of operational capacity is on-stream as of early-November
- See larger import volumes of polyethylene terephthalate (PET) resin, polystyrene (PS) and expandable polystyrene (EPS)
- Increased imports of caustic soda from US, CN and ROK have compensated the reduced imports from RU and also covered more than ½ of the domestic production shortfall

HORIZONTAL ISSUES

HIGH ENERGY COSTS

- High energy costs remains the biggest impact over all industrial ecosystems.
- High energy prices force companies to search for solutions such as transferring the production work to countries with lower energy prices.

Divestment from Russia

In total from **1385** international companies assessed **595** were European companies. No major changes but trend remains same – companies scaling back from Russia.



French Danone will shed control of its food business in Russia that could lead to write-off up to €1 billion

Following exit from Russia, Finnish company Nokia Tyres, plan to establish new € 650 million factory in Romania

Slovak Matador Holding, automotive supplier exit from Russia

From the chosen industry sectors the visible trend is that EU companies on average have continued to scale back activities from RU.

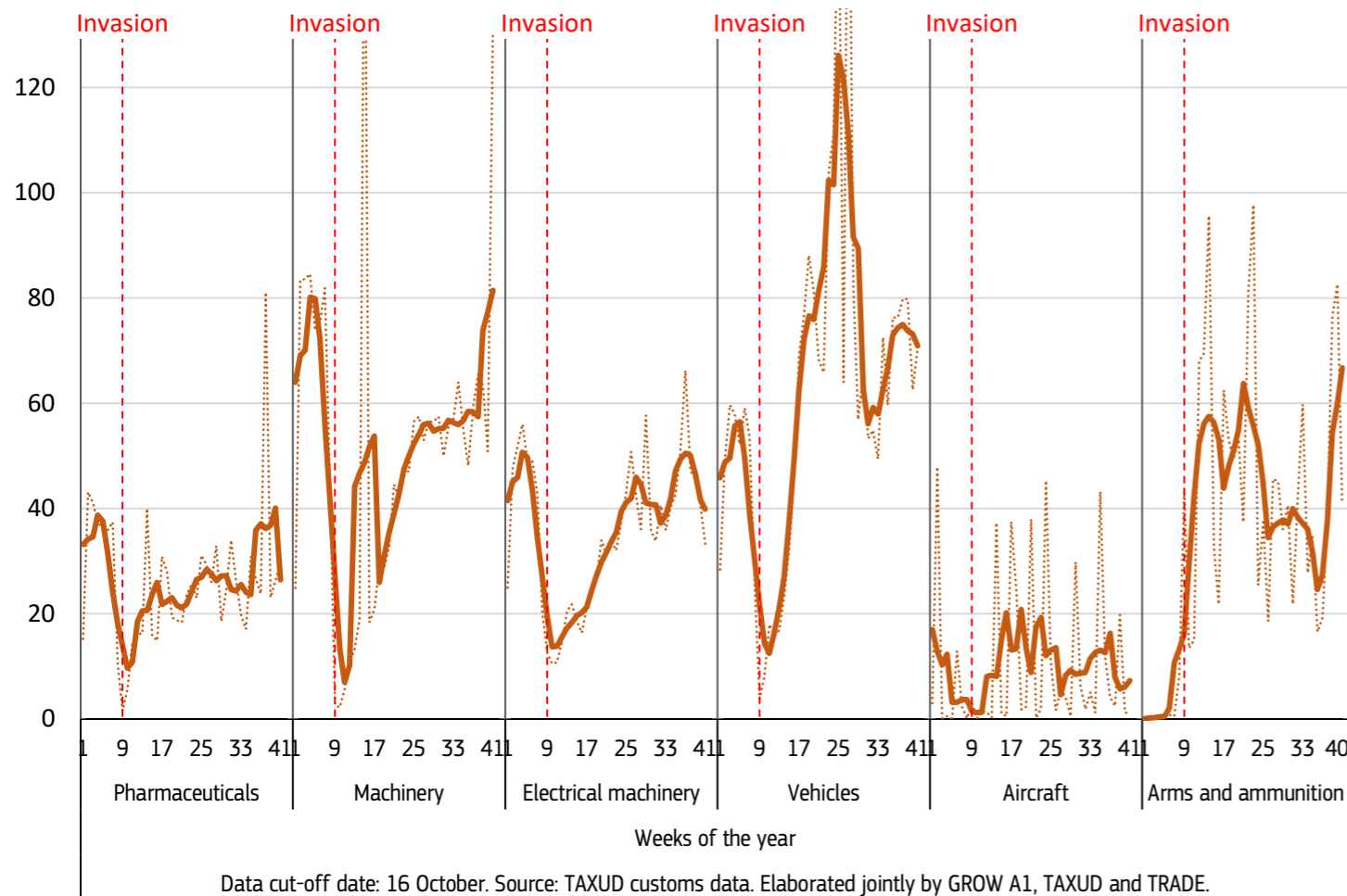
European Union	A	B	C	D	F	TOT
Consumer Discretionary	21 (+1)	61	13	11 (+1)	30 (-2)	136
Consumer Staples	20 (+2)	25	3 (-1)	15	18 (-1)	81
Financials	11	15	10	5	2	43
Industrials	32	54 (-1)	19 (+2)	26	32 (-1)	163
Information Technology	13	17	7	2	3	42
Materials	11 (+2)	12	8 (-1)	9	9 (-1)	49
Utilities	3	1	5	1	1	11
Grand Total	111	185	65	69	95	525



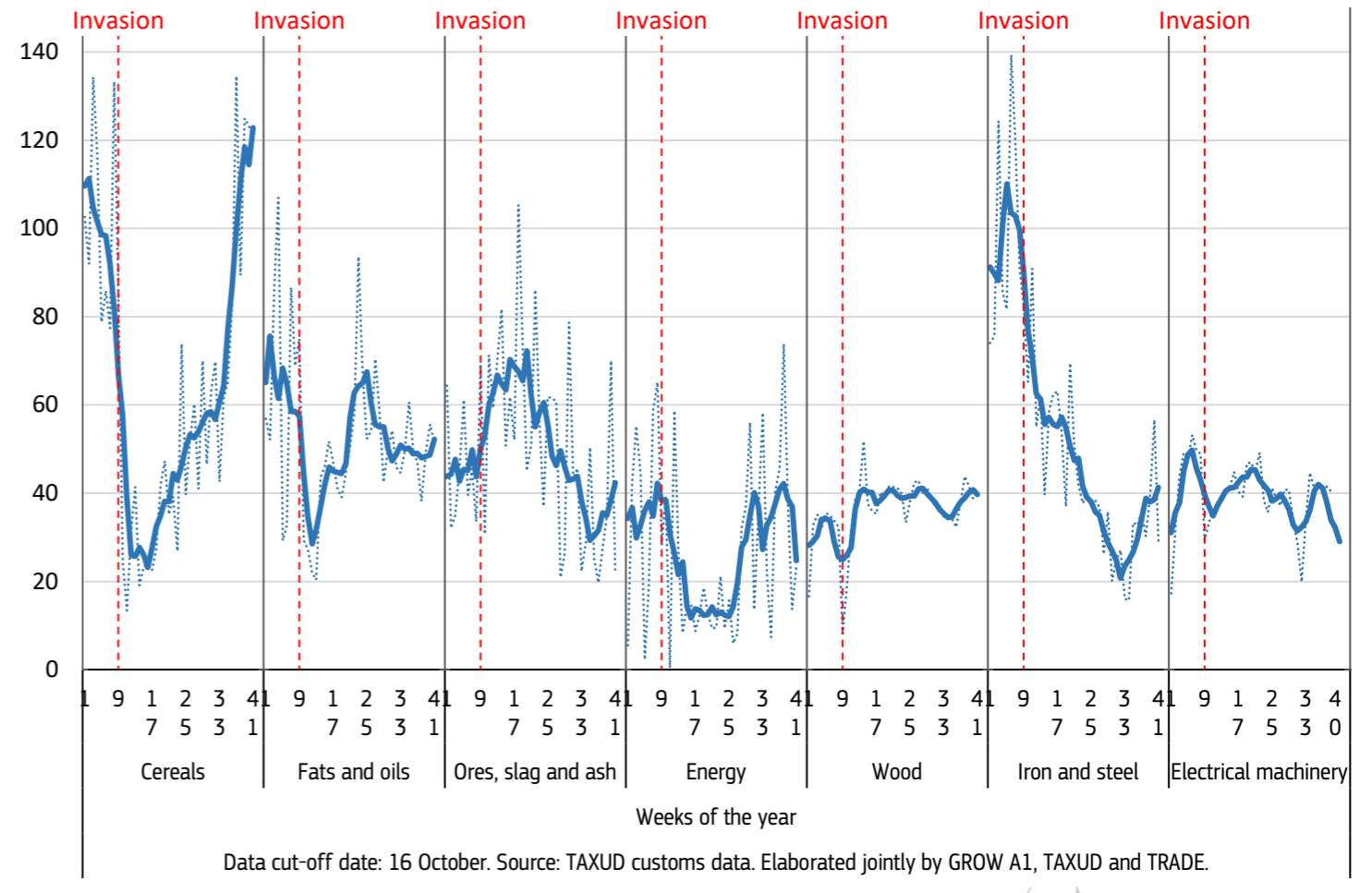
Overall trade trends with Ukraine (as of 16/10/2022)

- **Exports of vehicles, aircrafts and weapons** in recent weeks account for around 1/5 of overall exports
- **Imports** from UA have remained stable at low levels for key products, but recently a significant increase can be observed on **cereal** imports (20% of total weekly imports value in last weeks).

Most important Chapters of export to Ukraine (€M)



Most important Chapters of Import from Ukraine (€M)



Industry Stakeholder meeting on 8th package of sanctions (11/10/2022)

Horizontal Issues

- Diversification of markets is key for all.
- Guidance is needed on the Engineering, legal and IT services definitions of the 8th sanctions package.



Fertilisers

- Early spring still imports from Russia but since then moving away from Russian market.
- Imports from Turkmenistan, Oman, Africa increased sharply.
- Close to safeguard territory to uphold industry in Europe.



Chemicals

- Although sanction carefully balance, sector needs thinking outside the sanctions package.
- Previously exporting sector now importing from China, USA and Russia. European production replaced by importing.



Food and Drink

- Increases in productions costs because of energy and packaging costs.
- Interconnectedness to fertilisers.
- Urgent need for diversification of markets incl. Mercosur, Asean, Brazil and Nigeria.



Pharmaceuticals

- Continues to serve patients in Russia.
- Main risks related to material availability, high cost of energy and transport.



Steel

- Sector paralysed by high energy prices.
- Provisional closures could become permanent.



Rubber

- Securing the upstream value chains and materials and replacing Russian imports are key.
- Diversification of markets is key.

Ongoing activities: European Cluster Conference

European Cluster Conference in Prague 26-27 October

The conference in Prague had 500 participants onsite and 200 online, as well as matchmaking of 200 participants with 500 meetings.

Key messages:

- **Clusters are frontrunners not followers: lead green transition, accelerate digital transition, build resilience**
- Clusters are established and trusted **facilitators of change** supporting companies in transition (diversification of inputs, new markets, regulatory adjustments, funding access, reskilling-upskilling)
- Clusters reconnect value chains actors and **help supply chain resilience**.
- Clusters **support cross-sectoral innovation** by linking industrial ecosystems together
- Clusters are **liaising with ministries/regional authorities to better align** with EU, national and regional policy objectives.
- Clusters are **implementing #REPowerEU** by helping in energy efficiency and carbon reduction.
- Clusters and EEN have been invited to encourage their SMEs to donate or take part in call for tenders for generators and winterization items (ECHO).



Future events: Clusters Talks

16 November 2022
Transition Pathway
for Construction

30 November 2022
Transition Pathway
for Agri-Food

14 December 2022 UA
Outcomes of the
Expert Group on
Clusters: National
cluster policies and
networks



DG GROW Relevant Actions

Section I looks at DG GROW actions taken to support integration of Ukraine in the Single Market. Section II covers other relevant actions in light of the consequences of unprovoked Russian military aggression against Ukraine in energy policy and critical raw materials.

I. Integrating Ukraine into the Single Market

Single Market Programme

The Single Market Programme (SMP) is an EU funding programme aimed at strengthening key objectives of the single market including funding for SMEs. On 2 September 2022, the European Commission and Ukraine started negotiations on the association agreement to join the SMP.

Agreement on Conformity Assessment and Acceptance of Industrial Products

EU and Ukraine are negotiating **Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA agreement)**. The agreement would allow for trade between the EU and Ukraine in goods in these sectors to take place in same conditions as those applying between the Member States of the Union.

II. Other relevant actions

- **The Critical Raw Materials Act** will notably aim to identify policy actions necessary for developing strategic projects to strengthen the EU supply chains while maintaining a sustainable level playing field. public consultation was launched on **30 September until 25 November**.
- On 11 October 2022, the Commission announced a new **Solar Photovoltaic Industry Alliance**, with the aim of scaling up manufacturing technologies of innovative solar photovoltaic products and components. This will contribute to accelerating the deployment of solar power across the EU and improving the resilience of the EU's energy system. **Call for membership of the Alliance will be launched in November**.
- On 9 November 2022 the Commission presented a **Communication on ensuring availability and affordability of fertilisers** with actions to maintain a sustainable EU fertilisers production and reduce dependencies, as well as actions to support vulnerable countries and improving global food security.

