



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

January 2023

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

Supply Chains: Impact on Industrial Ecosystems updates

CONSTRUCTION

- Many construction products experienced a **sharp increase in prices** in the first half of 2022, **after which they stabilized**.
- Despite the strong increase in construction products, **output prices for buildings are rising at a slower pace**.
- Despite disruptions in the supply chains of construction products and rising energy prices, **the output index of the construction industry is holding up very well**
- The construction **confidence indicator is holding up relatively well**. It showed a downward trend in the first half of 2022, but remained very stable in the second half of the year.

AGI-FOOD

- **The import of sodium chloride (salt) products from Belarus decreased in Q3-22, but is currently starting to rise**. The significant drop is mainly due to seasonality and to many buyers refusing to buy Belarusian products. However, imports are starting to increase again due to the increasing price difference between salt products produced in the EU and products produced in Belarus.

ELECTRONICS-DIGITAL

- Companies in the **technology industries are citing supply and labour shortages as the main constraints on production**. The proportion of companies reporting a shortage of materials has decreased recently, but this proportion is still unusually high.
- Companies also indicate that the **skilled labour shortage** that was briefly mitigated by the Covid crisis is now fully manifesting itself again.



HIGH ENERGY COSTS

- High energy costs have impact over all industrial ecosystems. However, although production costs remain high, especially for energy-intensive industries, recently there has been a stabilisation of gas prices.

DIFFICULTIES TO DIVEST FROM RUSSIA

- President Putin approved a list of companies (energy and banking primarily) for which any transactions with their shares are prohibited. The recently introduced deadline of 30 September for disinvestment might be too short, as authorisations from the Russian government are needed.

MOBILITY

- Supply shortages, particularly semiconductors, continue to **disrupt global manufacturing activities in the automotive sector**, together with the interruption of natural gas supplies from Russia.
- According to latest S&P Global Mobility forecast, potential **production losses from Europe-based car manufacturing plants could reach more than 1 million vehicles per quarter for 2023**.
- To mitigate the losses, car makers are looking for **technical alternatives, increasing energy efficiency, and vehicle production to more favourable zones**.

9th package of sanctions

The Council approved the 9th package of sanctions on 16 December 2022.

New export restrictions:

- Sensitive dual-use and advanced technologies:
 - drone engines,
 - camouflage gear,
 - additional chemical/biological equipment,
 - riot control agents and
 - additional electronic components.
 - Most severe export control restrictions extended to 168 additional Russian entities (total number of entities 410).
- Additional industrial goods and technology:
- toy/hobby drones,
 - complex generator devices,
 - laptop computers and computing components,
 - printed circuits,
 - radio navigational systems,
 - radio remote control apparatus,
 - aircraft engines and parts of engines,
 - cameras and lenses.

Previously agreed full EU import ban on Russian seaborne crude oil, and of the global oil price cap applying from 5 December.

Other:

- Transaction bans for three new Russian banks including full transaction ban on the Russian Regional Development Bank.
- Four additional media channels sanctioned.
- Almost 200 additional individuals and entities added to the list of person subject to freezing of assets.

New business services that cannot be provided to Russia:

- Market research and public opinion polling services
- Technical testing and analysis services
- Advertising services.

Investments in Russia:

- In addition to the existing investment ban in the Russian energy sector, new EU investments to Russian mining prohibited (exception to some critical raw materials)

Selected updates from bordering Member States



Finland

- **Finland's first floating terminal for LNG arrived** at the port of Inkoo. Finland has leased the ship for 10 years from a US company. Liquid gas brought in by tankers is to be re-vaporised into gas form, and then fed into the Finnish network for distribution to replace fossil gas that was previously imported from Russia (as of September, Finland was still importing Russian gas)



Estonia

- The **number of Ukrainian refugees reaching Estonia has begun to fall** – from 8,000 in October to under 3,500 in December. Looking at December 2022, more Ukrainians left Estonia than arrived.
- The total **production of industrial enterprises fell by 12.2 percent** at constant prices on year to November 2021, state agency Statistics Estonia says. The **biggest fall (22.4 percent) was seen in the manufacture of wooden items**, which contributes a fifth of total manufacturing production.
- **The construction of the biggest wind farm in the Baltics is starting.** The work on the new 38-turbine wind farm is planned to be completed by 2024.



Latvia

- On 11 January, the newly established Ministry of Energy and Climate announced that the **estimated cost of the proposed Skulte LNG terminal increased by EUR 28 million** owing to **increased construction costs**.



Poland






- **Poland declares it is ready to stop buying Russian oil entirely if EU sanctions are widened to include pipeline supplies**, after one of Poland's biggest energy groups declared that it will reduce to about 10% the share of Russian oil in the feedstock for its refineries thanks to alternative suppliers.
- The Polish government has adopted a **PLN 5 billion (EUR 1.07 billion) programme of subsidies** for sectors that consume excessive amounts of energy to protect them from soaring energy prices.



Slovakia

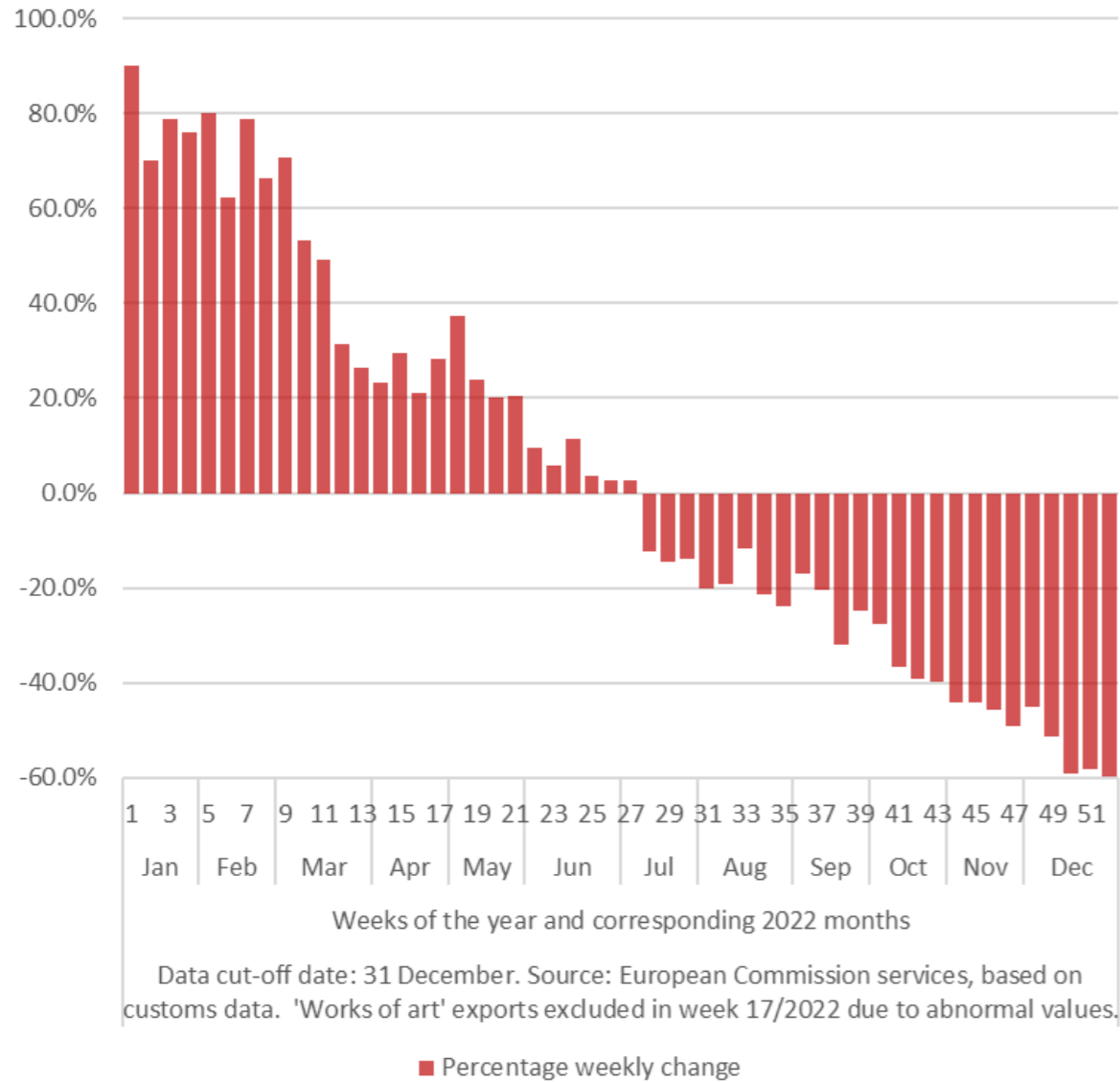
- According to a recent survey from the NGO Globsec, **Slovaks are more concerned about inflation than about war**, and their fear of rising prices is above average even in an international comparison. 52% of Slovaks have a negative opinion of people fleeing the war in Ukraine.
- **The only aluminium plant in Slovakia closes after 70 years** due to high energy prices.

Selected updates from other relevant Member States

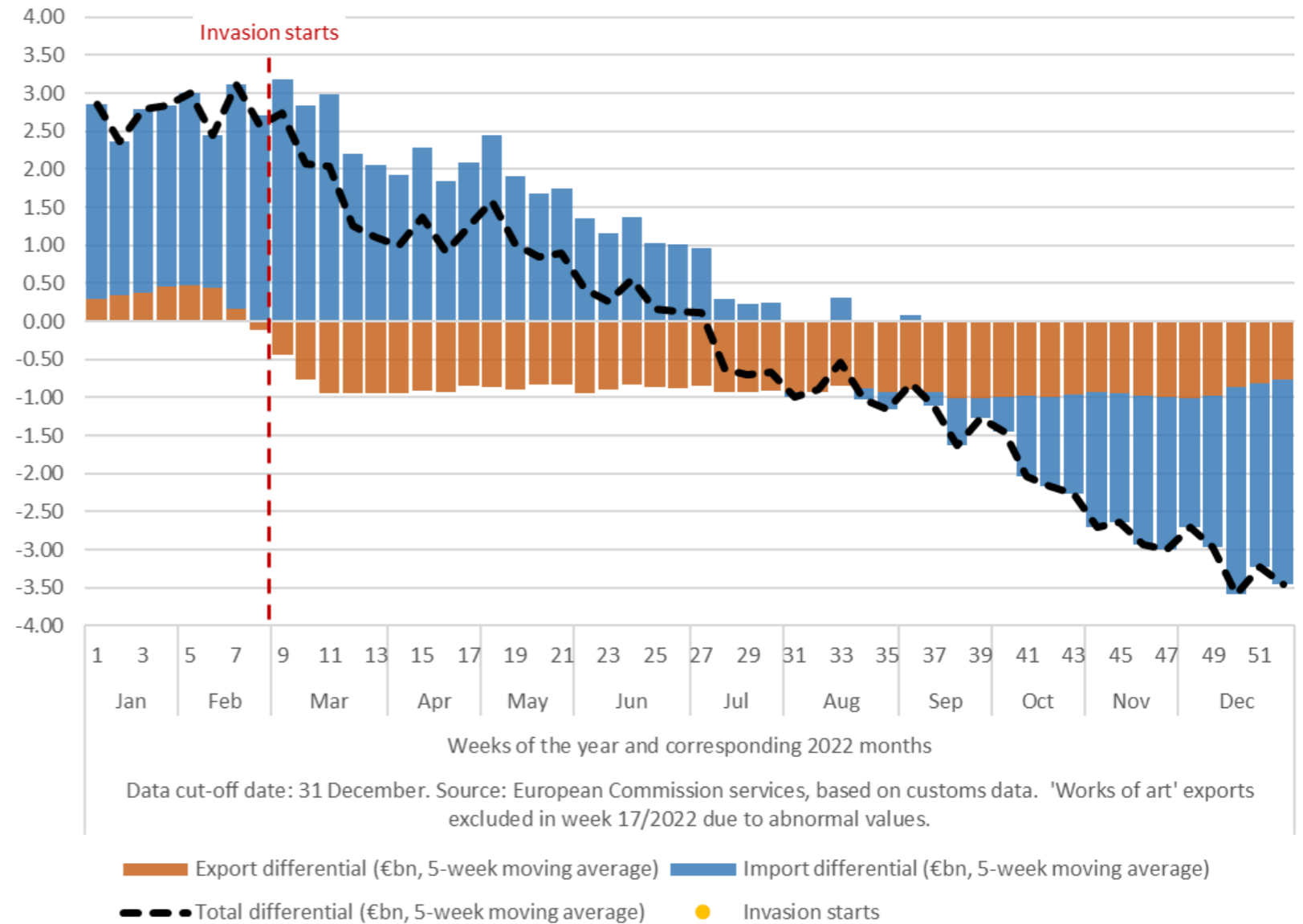
 <p><i>Germany</i></p>	<ul style="list-style-type: none"> • Norway and Germany agreed to establish a “Strategic Partnership on Climate Renewable Energy and Green Industry”. Results of a feasibility study for one of Europe’s first hydrogen pipelines are expected to be released in spring 2023. 		
 <p><i>France</i></p>	<ul style="list-style-type: none"> • In December, the French, Spanish and Portuguese heads of State and governments launched the project « H2Med » or « BarMar ». From 2030, the maritime pipeline will transport hydrogen from Barcelona to Marseille (and therefore from the Iberic peninsula to Northern Europe through France). In a Joint Declaration on 23/01, France agreed that the pipeline will be extended to Germany. 		
 <p><i>Czech Republic</i></p>	<ul style="list-style-type: none"> • The Ministry of Industry and Trade (MPO), in cooperation with the Embassy of Ukraine, launched an initiative to help with the restoration of Ukrainian energy facilities. Meetings with sectoral focus (mining, engineering, water management, construction, decontamination and others) are planned so that the ministry can prepare projects for Czech business in which they will be able to participate in the phase of post-war reconstruction of Ukraine. • Social benefits for Ukrainian refugees cost CZK 21bn (EUR 0.9bn) so far, compared to the original estimate of CZK 50bn (EUR 2bn) • The Czech Republic plans to take out an RRP loan of up to CZK 150bn (EUR 6.3bn) to fund the energy pivot away from Russia. 		
 <p><i>Austria</i></p>	<ul style="list-style-type: none"> • Austria has announced that it will extend the ordinance for the temporary protection of refugees from Ukraine until March 2024. The country has allowed more than 90,000 people displaced from the war in Ukraine to stay and register in the country. 		
 <p><i>Sweden</i></p>	<ul style="list-style-type: none"> • A finding of an estimated 1m tons of rare earths in Kiruna was announced by Ebba Busch, the Minister for energy, business and industry during the Commission’s official EU presidency visit. She qualified the find as an opportunity for the green transition. The announcement was welcomed both as an industrial opportunity and as an environmental threat. 		

Total trade with Russia *(as of 31/12/2022)*

EU trade with Russia, 2022-2021 differential, % and €bn



EU total trade with Russia, 2022-2021 differential (€bn, 5-week moving average)

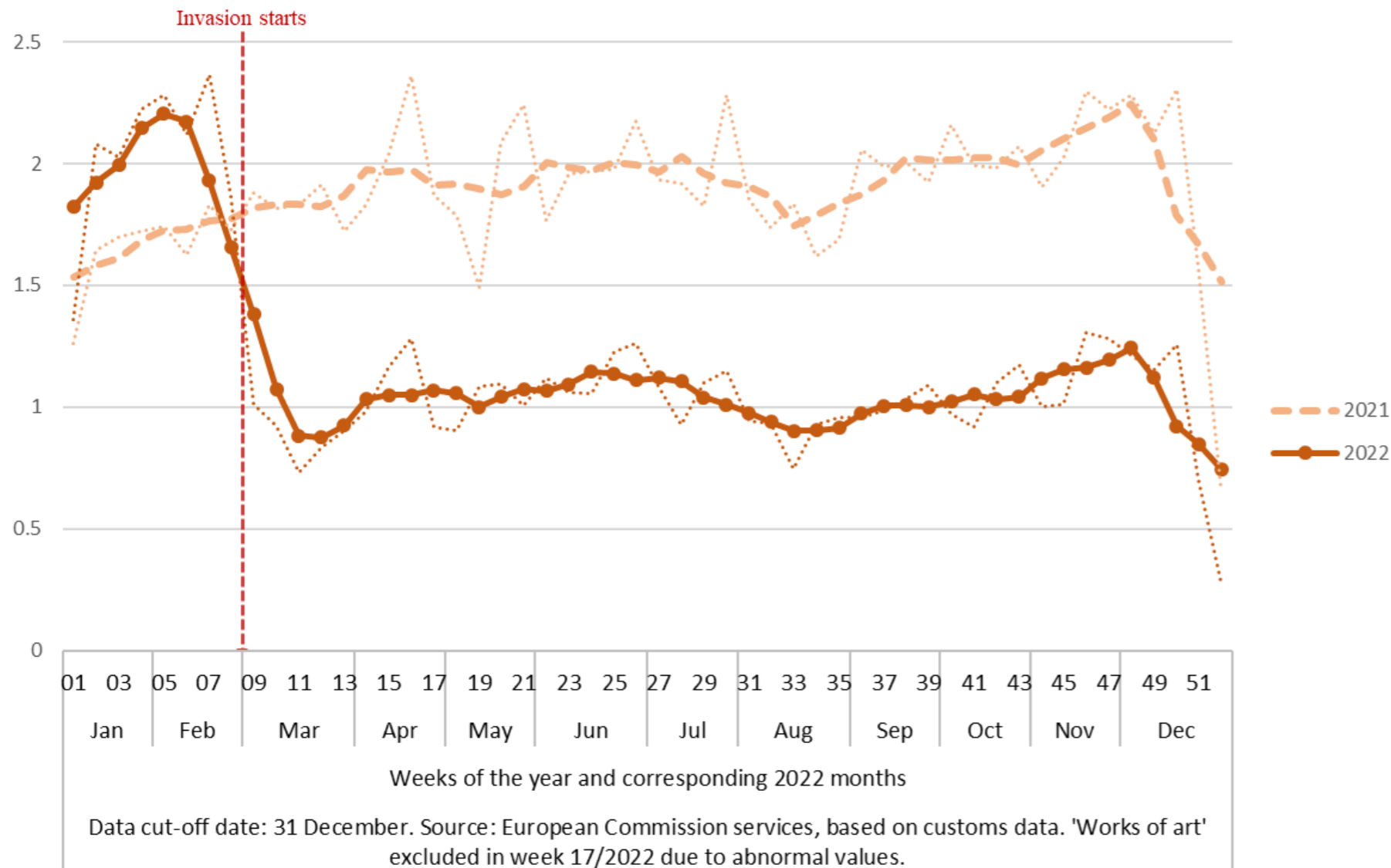


In terms of total trade between the EU and Russia, between the invasion and the end of 2022 it was €25,3bn below the same period in 2021 (a reduction of 11,4% in value, notwithstanding the higher prices of fossil fuels experiences over the year). In the last week of 2022, total trade was at 60% below the level of the same week of 2021.



EU exports to Russia *(as of 31/12/2022)*

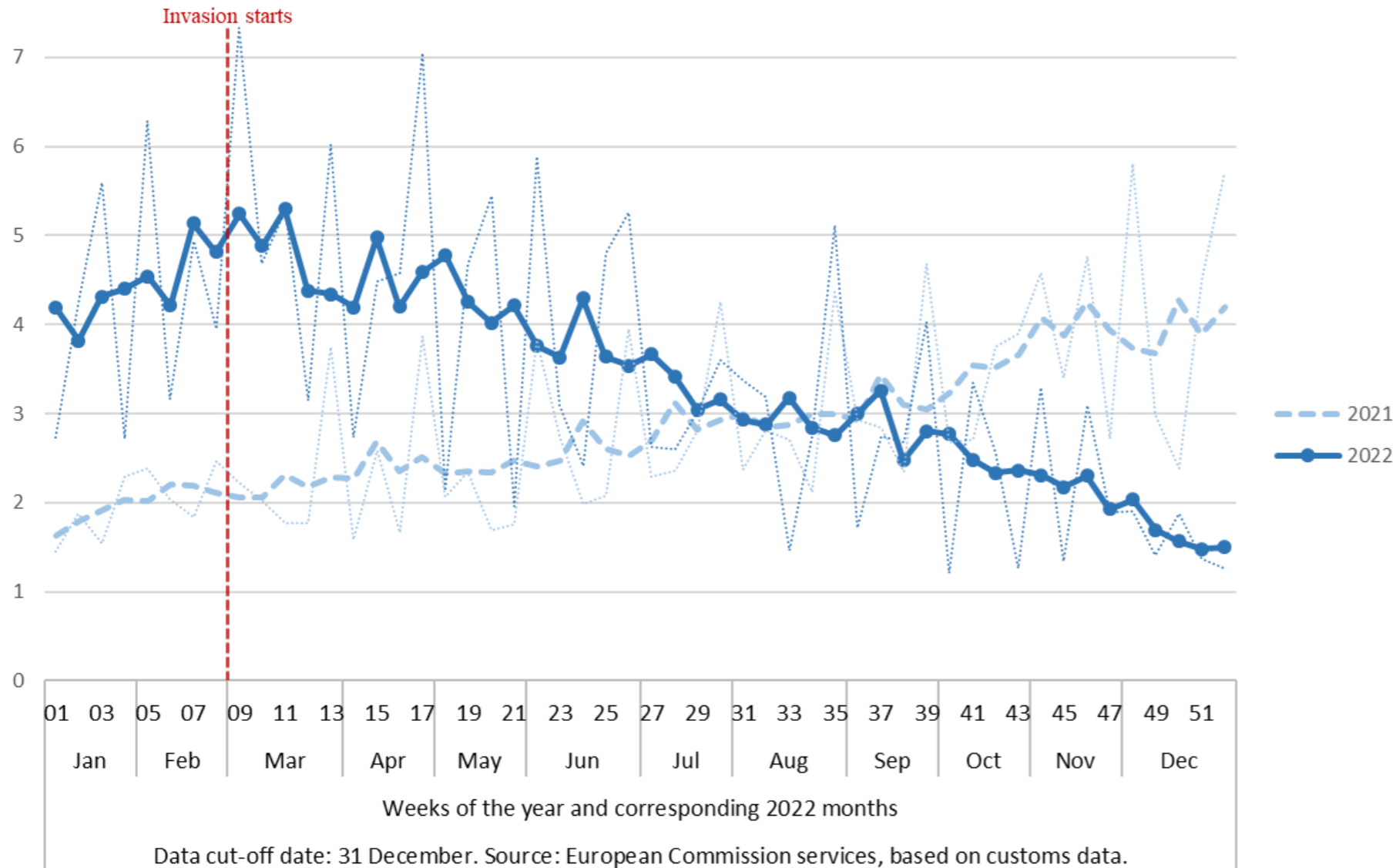
EU export to Russia (€bn, 5-week moving average)



- After a sudden decrease after the introduction of sanctions (week 8), export in goods to RU stabilized at 50% of the level of the same weeks in 2021;
- Overall, since the invasion Russian imports from the EU in 2022 are 45.6% below 2021 levels.

EU imports from Russia *(as of 31/12/2022)*

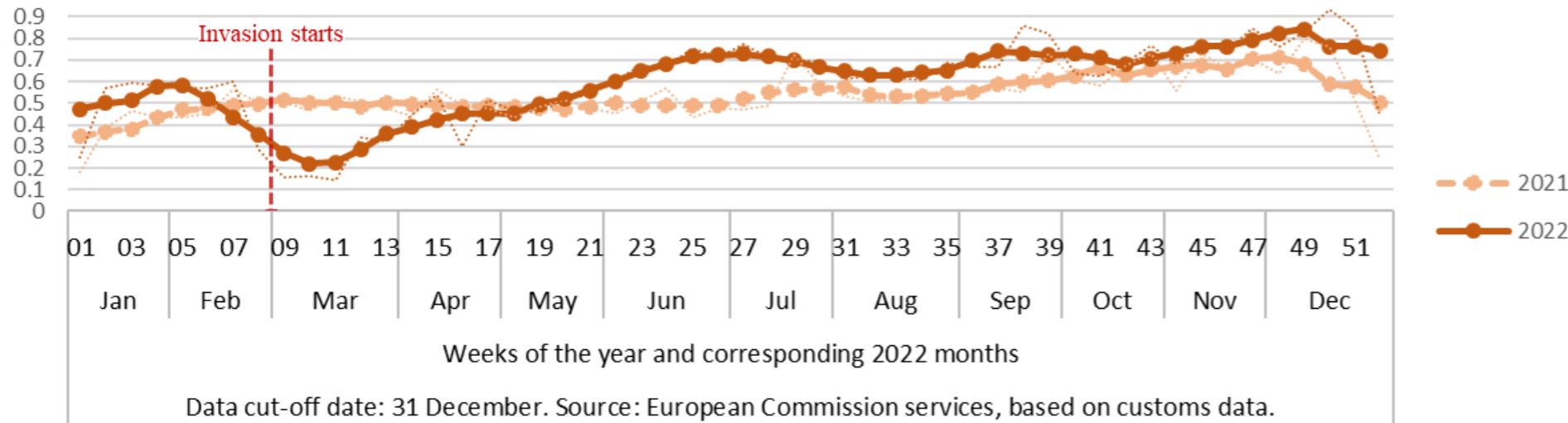
EU import from Russia (€bn, 5-week moving average)



- Imports from RU have been gradually decreasing since the invasion and they are now significantly below 2021 levels (41% less in the latest fortnight);
- However, since the invasion EU, imports from Russia in 2022 are 33,8% above 2021 levels.

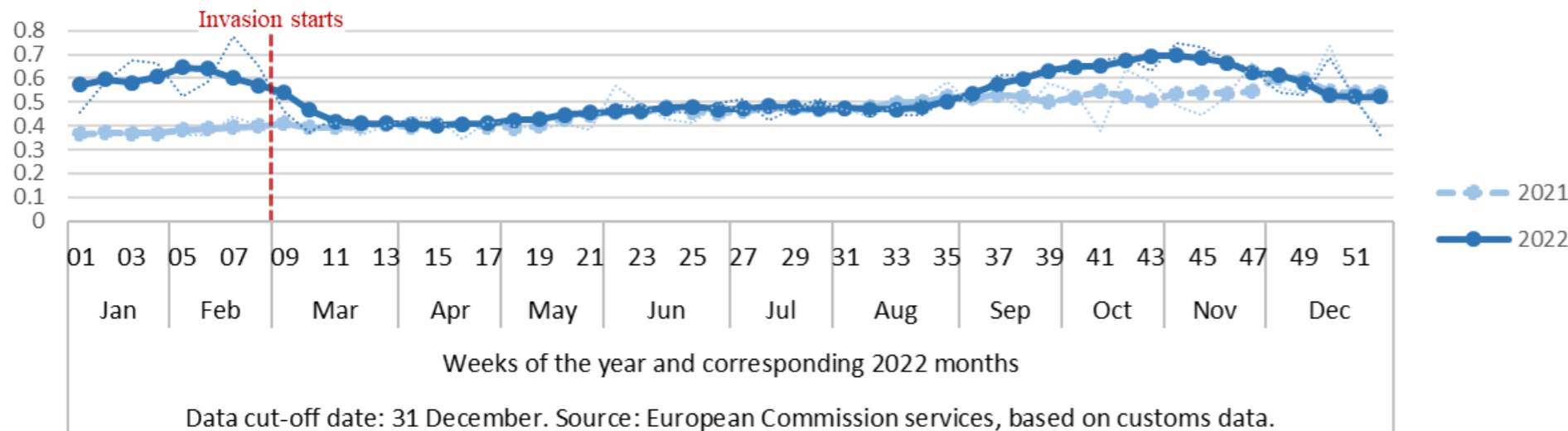
Overall trade trends with Ukraine *(as of 31/12/2022)*

Export to Ukraine (€bn, 5-week moving average)



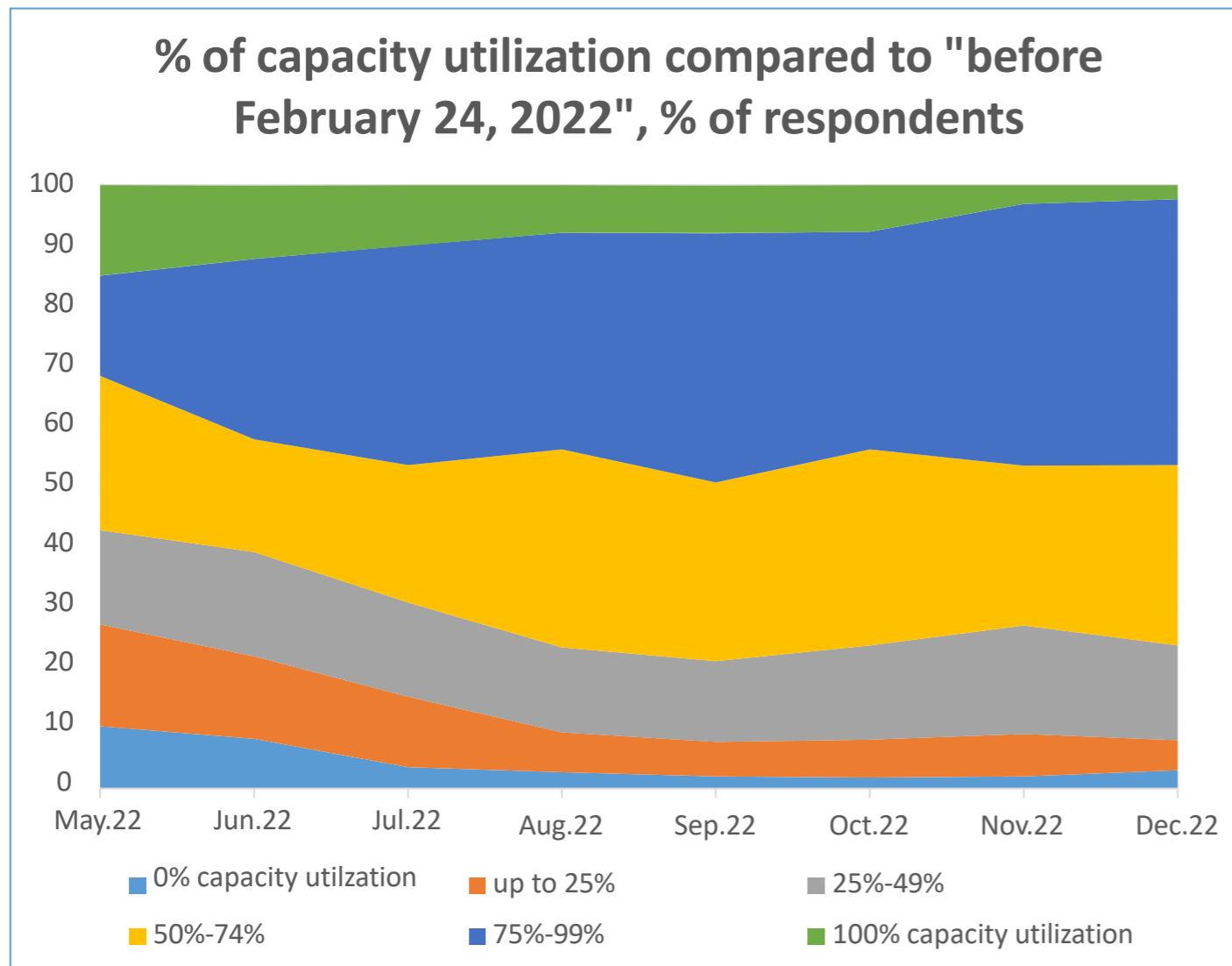
- Exports in goods to UA bounced back in the course of the year, after a sudden fall following the Russian invasion (week 8). They are now stable;
- Imports from Ukraine remain close to 2021 levels, below the levels of the first weeks of 2022.

Import from Ukraine (€bn, 5-week moving average)



IER survey on economic situation in Ukraine

Data collected on December 13-26, 2022
551 enterprises of all sizes from 21 regions of Ukraine



Positive:

- In December, **businesses remained resilient** to the Russian attacks on critical infrastructure, and the **situation stabilized**
- **Only 3%** of surveyed enterprises **do not operate** (2% in November) and **only 5%** of enterprises operate **at less than 25% of capacity** (7% in November).
- The share of enterprises **operating almost at full capacity (75%-99%) remained** on the same level (44% in December vs 43% in November)

Negative:

- % of enterprises operating at full capacity (100% and more) remained at 3% (also 3% in November)

Source: Institute for Economic Research and Policy Consulting. New Monthly Enterprises Survey #8, 2022