



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

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

Supply Chains: Impact on Industrial Ecosystems

TOURISM

- Outlook for the winter season is negative affected by inflated prices for trips, concerns about disposable income and mediocre consumer experience during the summer.

CONSTRUCTION

- Strong effects of higher energy prices are almost immediate through higher prices for products and transport of goods to construction sites.
- Increased reports about capacity reduction in these upstream supply chains



Agri-Food

- Reports from European nitrogen fertilisers producers on specific disruptions of Russian supply

HORIZONTAL ISSUES

HIGH ENERGY COSTS

- High energy costs remains the biggest impact over all industrial ecosystems. Energy intensive industries are faced with significant increase in their production costs making them non-profitable or operating at loss, thus forcing to either temporarily or permanently shut down production.

8th package of sanctions

The Council approved the 8th package of sanctions on 6 October 2022.

New export restrictions:

- coal including coking coal
- specific electronic components
- technical items used in aviation sector
- certain chemicals

Oil price cap*:

- Crude oil will take effect after 5 December 2022
- Refined Petroleum products will take effect after 5 February 2023, after a further decision by the Council

* This includes the prohibition of maritime transport services for crude oil and petroleum products.

New import restrictions

(worth EUR 7 bn)

- Russian finished and semi-finished steel products (*transition period for some semi-finished*)
- Machinery and appliances
- Plastics
- Vehicles
- Textiles and footwear
- Leather
- Ceramics
- Certain chemical products
- Non-gold jewelry

State-owned enterprises:

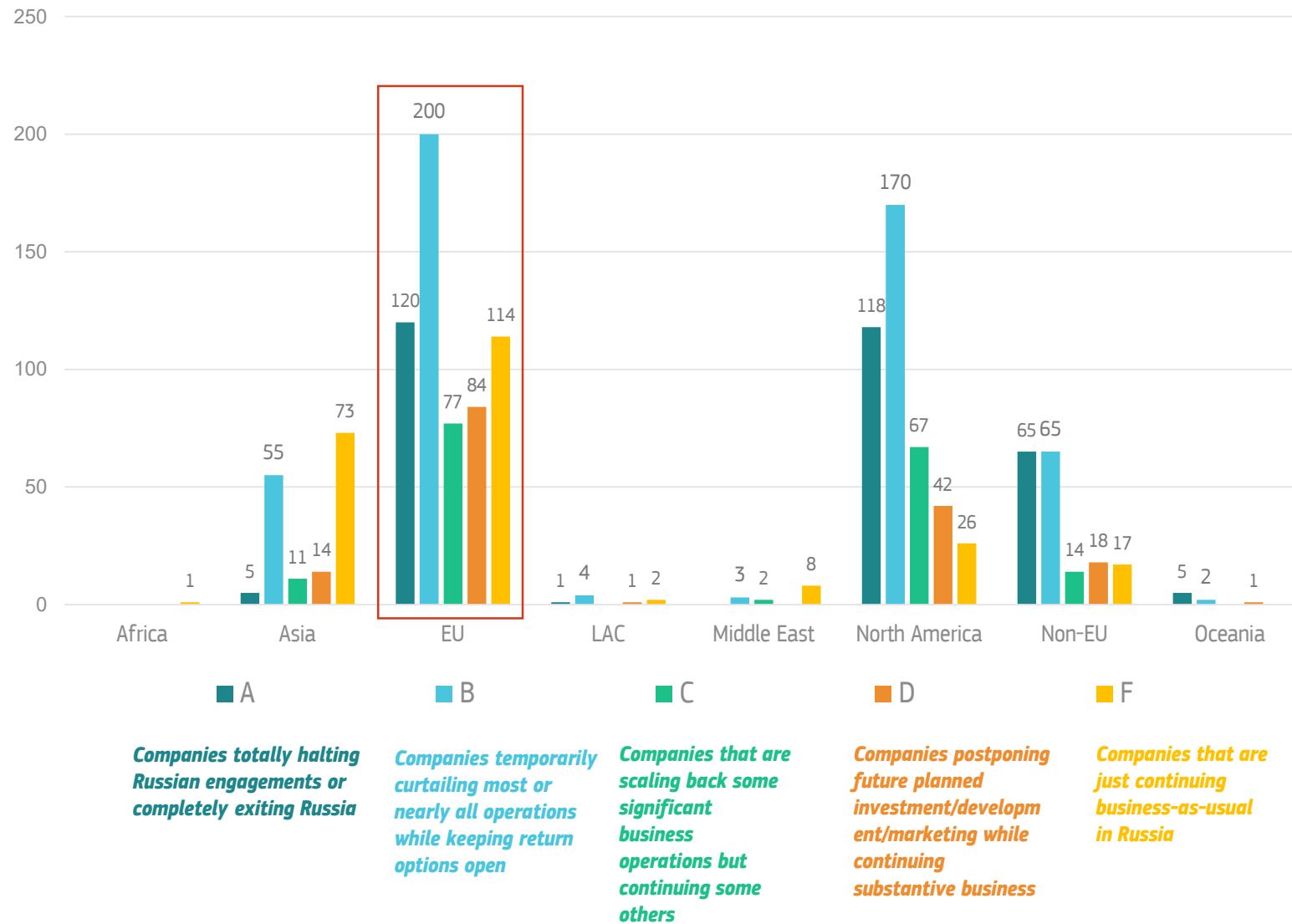
- EU nationals banned from holding posts in governing bodies and certain state-owned enterprises
- Bans for all transactions with the RU maritime register

Services that cannot be provided to Russian government or legal persons established in Russia:

- IT Consultancy
- Legal advisory
- Architecture
- Engineering Services

Divestment from Russia

In total from **1385** international companies assessed **595** were European companies.



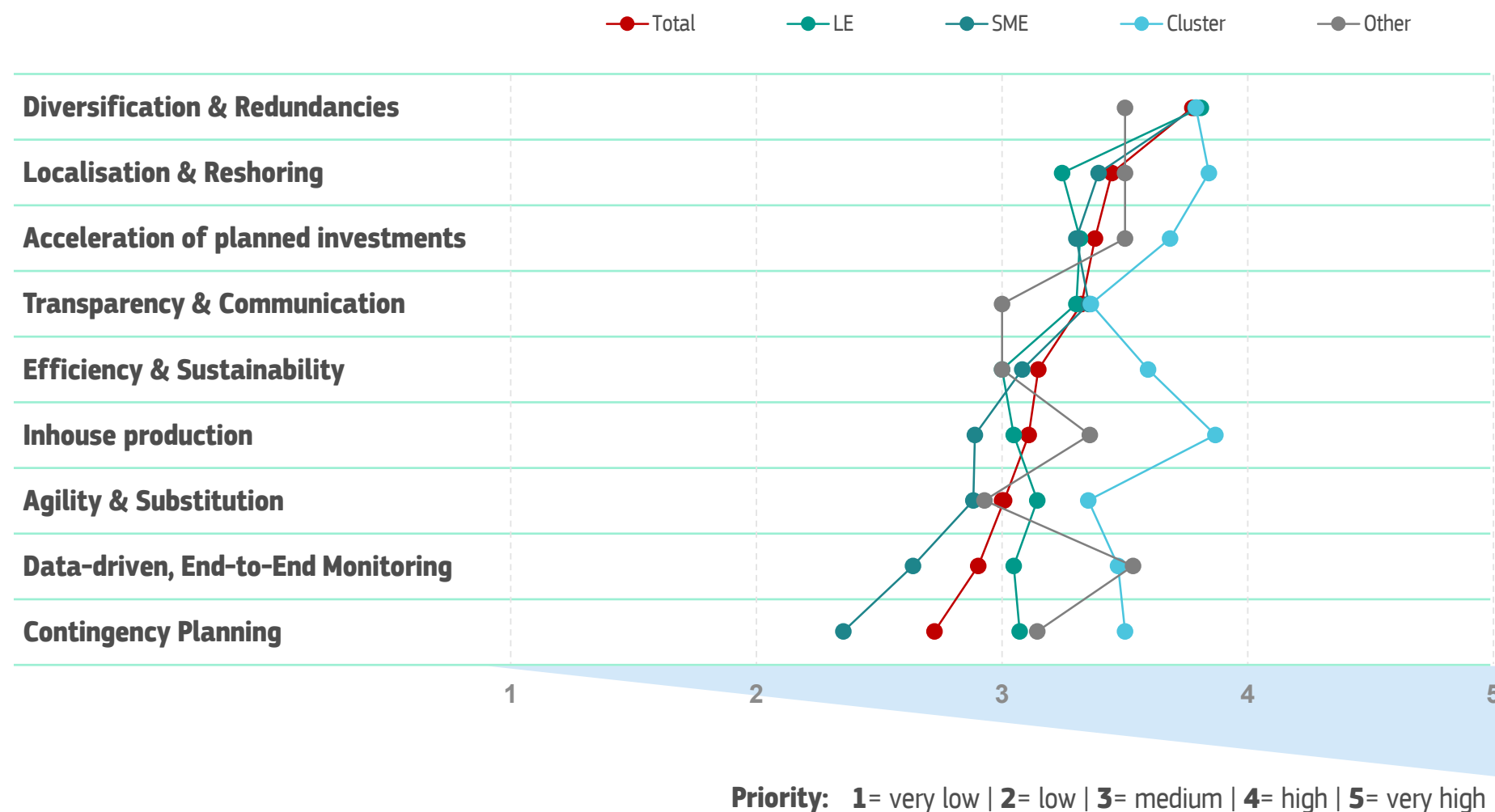
From the chosen industry sectors the visible trend is that there are more companies from the EU on average which totally halt or temporarily cease operations in Russia than those who postpone future investment while continuing business or continue business as usual.

Continent - European Union	A	B	C	D	F	TOT
Consumer Discretionary	20	61	13	10	32	136
Consumer Staples	18	25	4	15	19	81
Financials	11	15	10	5	2	43
Industrials	32	55	17	26	33	163
Information Technology	13	17	7	2	3	42
Materials	9	12	9	9	10	49
Utilities	3	1	5	1	1	11
Grand Total	106	186	65	68	100	525

Survey responses from the European Cluster Collaboration Platform for improving supply chains resilience in the near term

This survey was run by the European Cluster Collaboration Platform (ECCP), the results are based on an online survey which ran from May-September 2022 and reached the audience of over 250 organisations and companies, including universities, Research & Technology Organisations and Associations.

Which measures are key for your organization/your member organizations to improve the supply chain resilience?



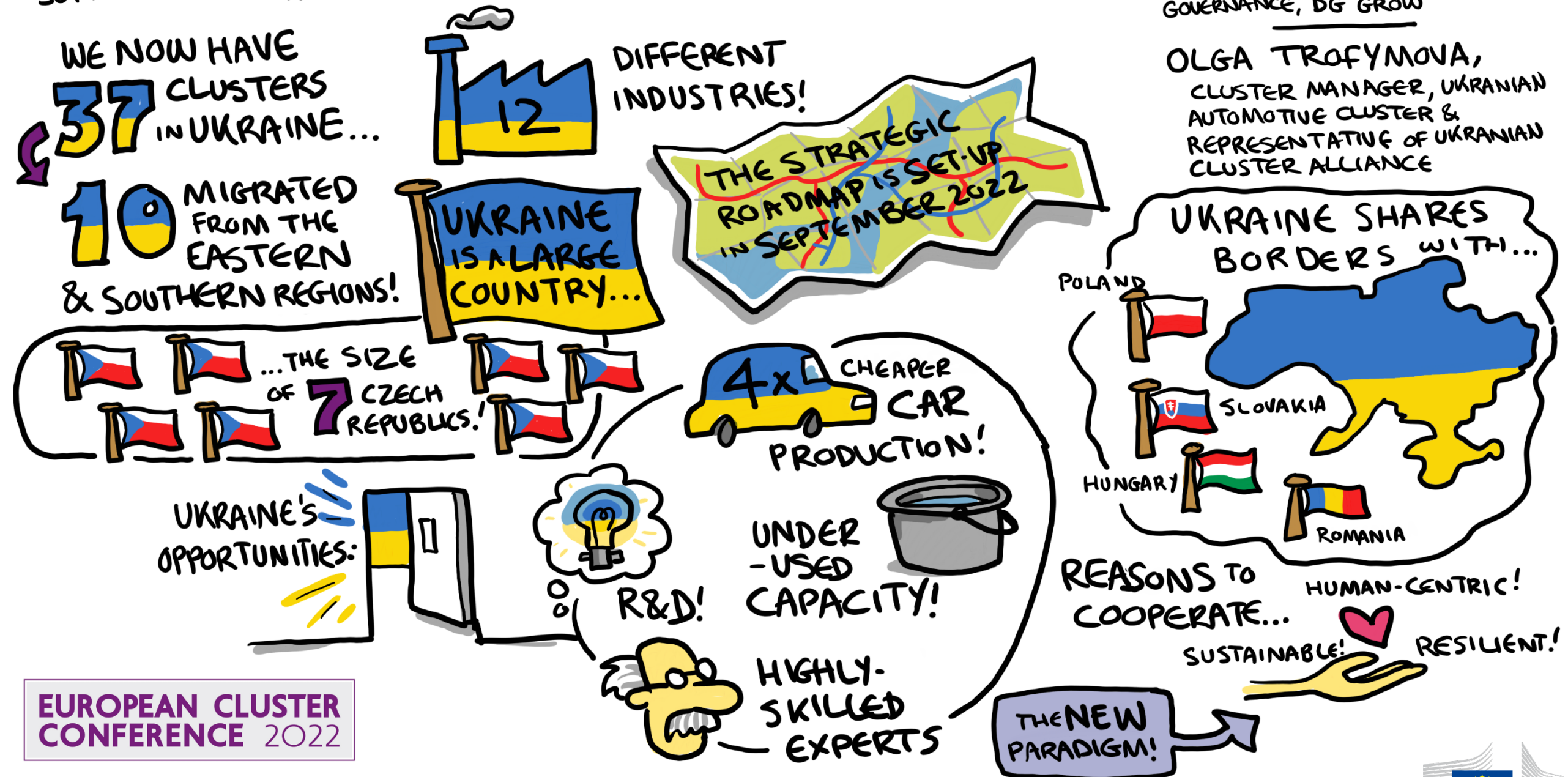
- **Clusters** overall prioritise more (especially regionalising the supplier base, Efficiency & Sustainability and Agility & Substitution)
- **SMEs** overall prioritise less, but especially Diversification & Redundancies seen as key
- **LEs** overall prioritise most measures less compared to clusters

European Cluster Conference 2022: Breakout session on strengthening EU Supply Chains & supporting Ukraine

BREAKOUT SESSION 4: STRENGTHENING EU SUPPLY CHAINS & SUPPORTING UKRAINE THROUGH EU BUSINESS & INDUSTRIAL NETWORKS

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EUROPEAN CLUSTER CONFERENCE 2022

Mitigating the impact of sanctions on SMEs

According to the SME Envoy Network's September 2022 report, SMEs are faced with **liquidity issues, problems of implementation of sanctions and problems of entering new third country markets.**

Cascading consequences throughout the value chains – such as higher costs and longer waiting times for inputs – **are disproportionately harmful** for SMEs in comparison with larger enterprises:

- **SMEs often lack the resources and global reach** to seek out alternative suppliers and diversify their inputs;
- Larger companies may have larger stockpiles;
- SMEs have **less bargaining power** and risk bearing a large part of the burden of higher input prices, which are often passed on to them by larger companies throughout value chains;
- **Suppliers may decide to prioritize deliveries to large companies** over SME customers or even renege on contracts with SMEs citing force majeure.

President Ursula von der Leyen in her State of the Union Speech 2022 announced several actions focused on mitigating the impact on SMEs, namely creation of an SME Relief Package and the revision of Late Payment Directive



Intensifying **trade promotion activities** in order to support SMEs to find new export markets as well as to diversify their supply chains



Removing remaining barriers in the Single Market and stepping up efforts to implement the EU better regulation agenda



Providing **guidance on sanctions for SMEs** at both EU and national level (e.g. creation of one-stop-shops for sanctions-related questions in each Member State)



Further developing the EU analytical approach to dependencies and **providing strategic foresight and early warnings** on adverse developments for SMEs



Addressing skills mismatches and ensuring upskilling, with a particular focus on the skills needed for digital and green transition



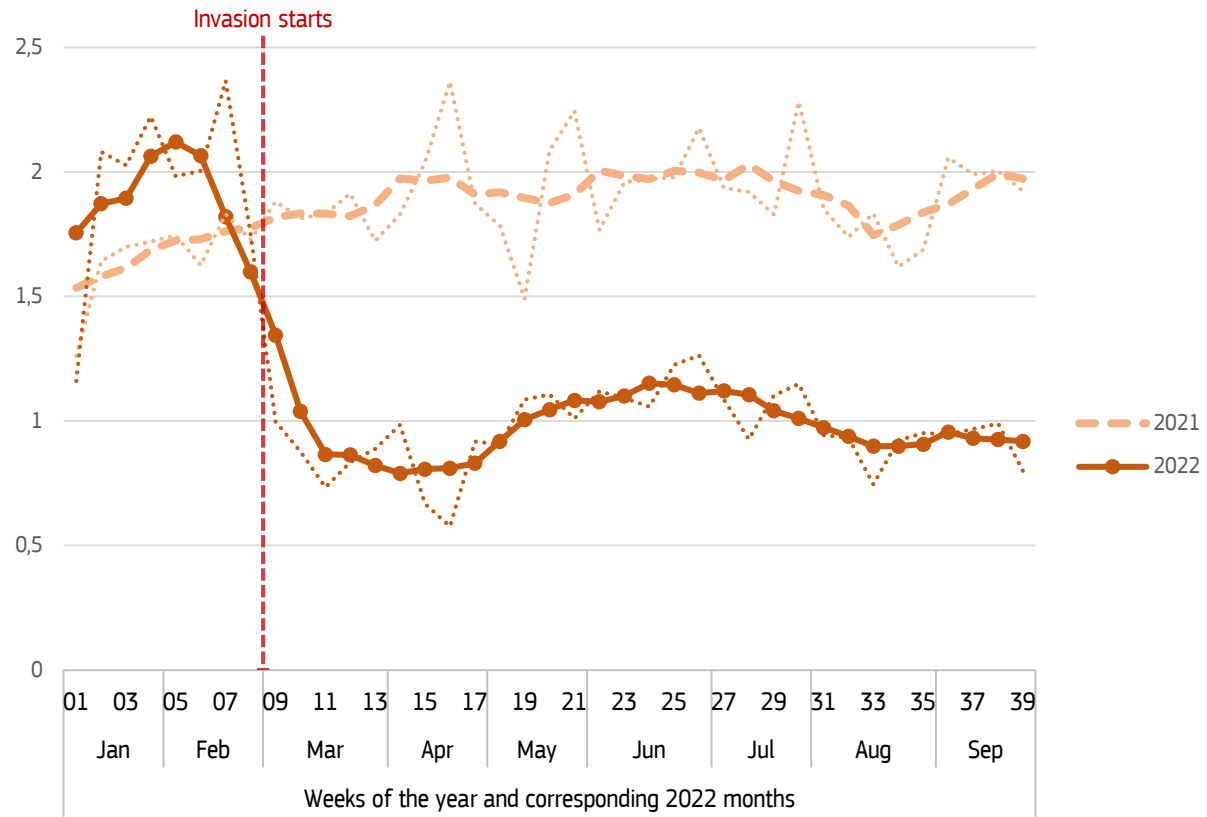
Addressing **liquidity and payment issues** for SMEs

From the SME Envoy Report on Impact of sanctions (September 2022) the national Envoys had presented suggestions to mitigate the impact of sanctions

EU trade with Russia (as of 02/10/2022)

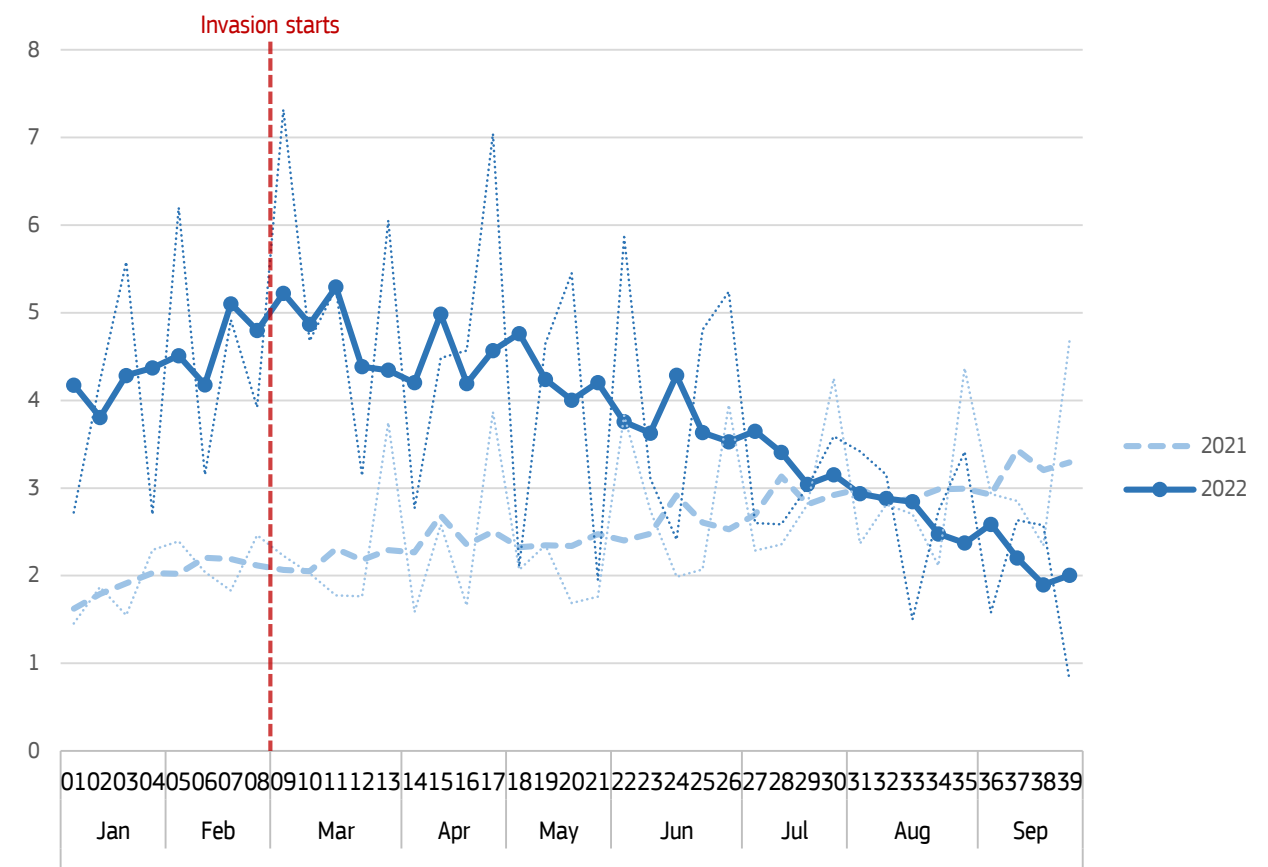
- After a sudden decrease after the introduction of sanctions (week 8), export in goods to RU stabilized at 50% of the level of the same weeks in 2021.
- Imports from RU in the past weeks have been gradually decreasing below 2021 levels, notwithstanding higher energy import prices.

EU export to Russia (€bn, 5-week moving average, excluding works of art)



Data cut-off date: 2 October. Source: GROW A1 Chief Economist team based on TAXUD customs data. 'Works of art' excluded due to outliers.

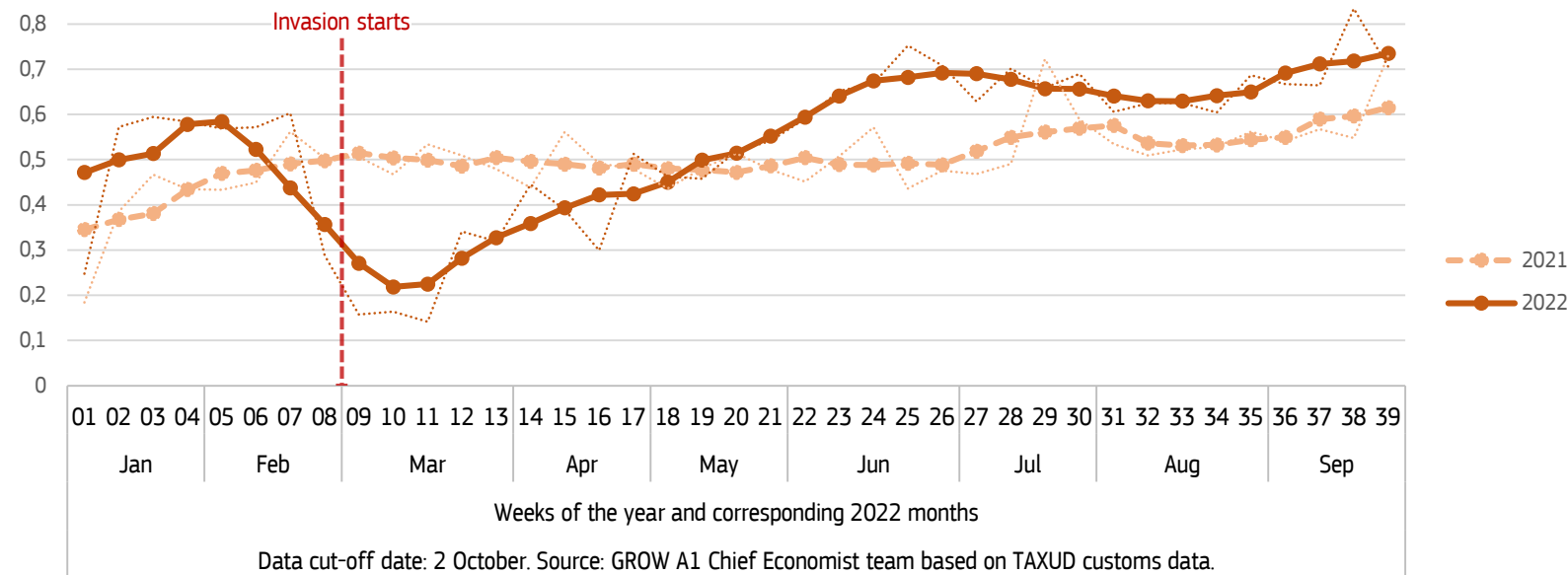
EU import from Russia (€bn, 5-week moving average)



Data cut-off date: 2 October. Source: GROW A1 Chief Economist team based on TAXUD customs data.

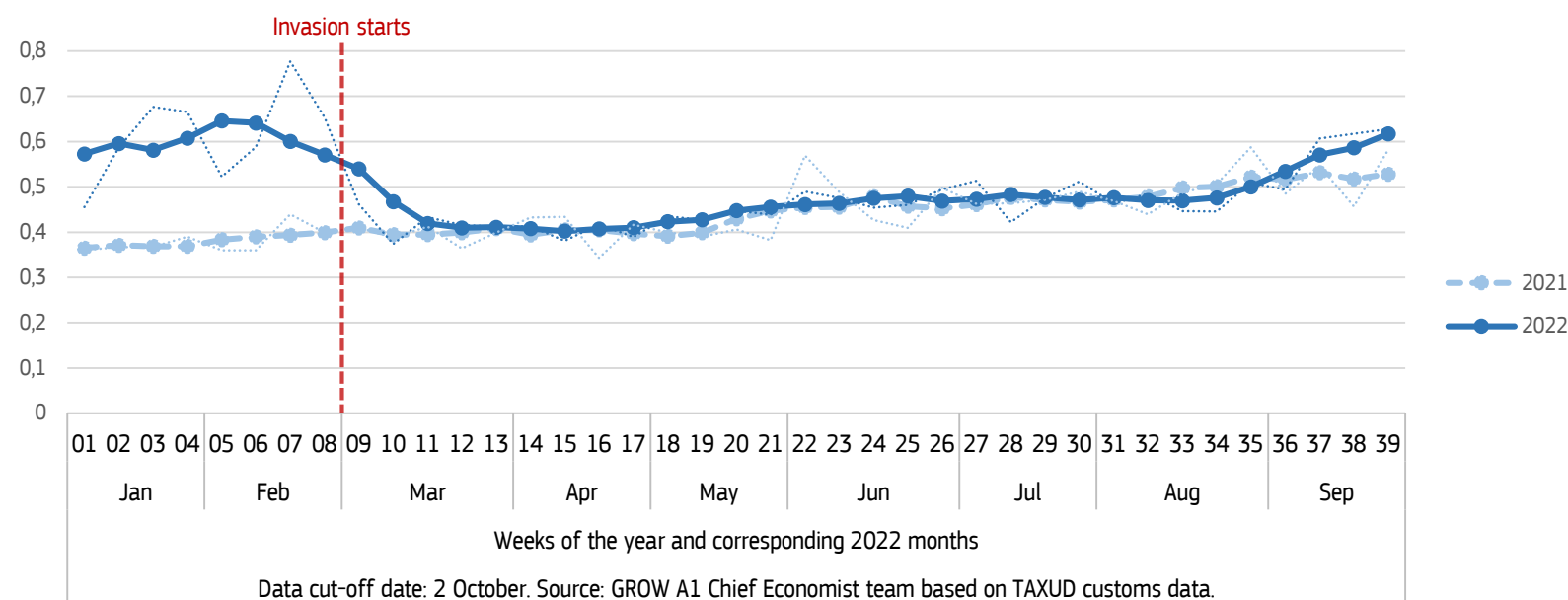
Overall trade trends with Ukraine *(as of 02/10/2022)*

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



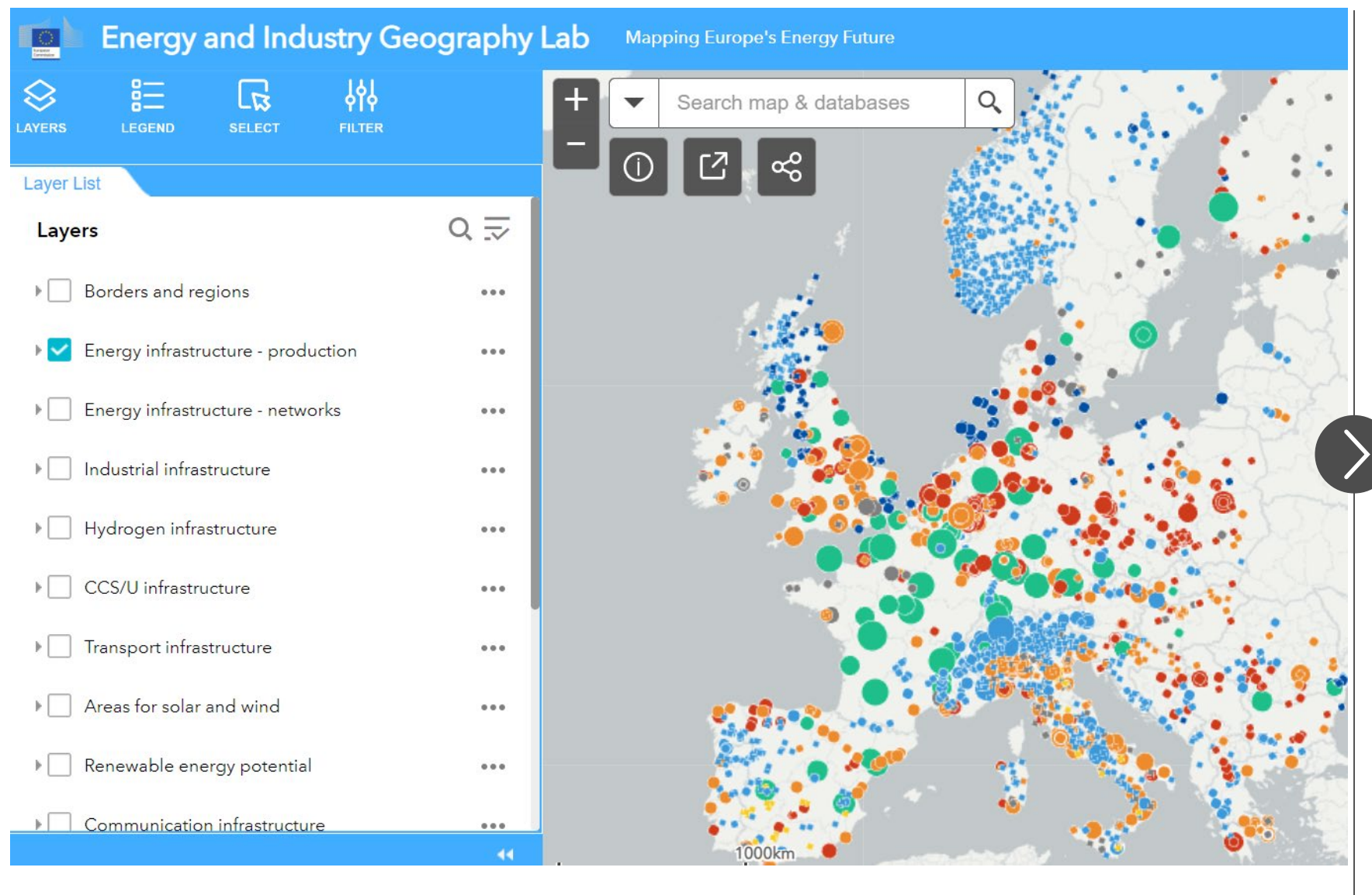
- Exports in goods to UA bounced back in the course of the year, after a sudden fall following the Russian invasion (week 8). They are now stable;

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



- Imports from Ukraine remain close to 2021 levels, below the levels of the first weeks of 2022.

Energy and Industry Geography Lab



- The Commission published RePowerEU plan on 18 May 2022 which aims to rapidly reduce dependence on **Russian** fossil fuels and fast forward the **green transition**.
- The Energy and Industry Geography Lab, developed at the Joint Research Centre (JRC), in collaboration with DG GROW, provides an attractive visual representation of **geographical data related to energy, industry and infrastructure**.
- The Energy and Industry Geography Lab **enables analyses and assessments that support Europe's transition to climate neutrality**.

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**.
- The European Commission on **15 July** approved €5.4bn of state aid to **a first hydrogen Important Projects of Common European Interest (IPCEI)** consisting of 41 largescale hydrogen projects from 15 Member States. The IPCEI focuses on the development and production of hydrogen technologies required for the entire value chain from hydrogen production to transmission and usage, namely:
 - electrolyzers and their components;
 - fuel cells and their components;
 - technologies for hydrogen storage/transportation/distribution;
 - technologies for hydrogen usage.
- On **21 September** the European Commission announced that 35 clean hydrogen projects from 13 Member States have been given approval to receive €5.2 billion in public support for the **second hydrogen first hydrogen Important Projects of Common European Interest (IPCEI)**. The projects, featuring 29 different companies including several SMEs and start-ups, are expected to generated an additional €7 billion in private investments.

