



Supply Chain Resilience Bulletin

July 2022

Supply Chain Task Force – DG GROW

Analysis of supply chains disruptions related to the Russian aggression of Ukraine

Supply Chains: General Impact on Industrial Ecosystems

HORIZONTAL IMPACT ON ALL ECOSYSTEMS

CONSTRUCTION

- Lack of plywood and steel
- Price spikes lead to project postponements
- Shortage of workforce from Ukraine
- Loss of RU export market for furniture industry

MACHINERY

- New and continued supply shortages (e.g., steel, chips) and skyrocketing prices
- Loss of significant EU export market for agricultural machinery
- Export bans and sanctions dual-use goods

AGRI-FOOD

- Loss of export market RU for products like wine and chocolate
- Lack of inputs from UA and RU, especially wheat
- Fertilisers price increase
- Animal feed deficit

TOURISM

- Loss of EU trade surplus with RU
- Higher prices for transport
- Partial recovery in the last months, but countries neighbouring Ukraine facing more problems



ENERGY-INTENSIVE INDUSTRIES

- Lack of metallurgic raw materials
- Steel prices are reaching record levels
- Lack of inputs from RU for the chemicals industry
- Loss of RU export market of Speciality Chemicals

LOGISTICS

- Closure of Ukrainian ports
- Closure of airspace
- Shortage of truck drivers
- Uncertainty on customs clearance
- Insurance companies unwilling to provide insurance
- Uncertainty of payments and risk of legal issues for shipping companies

ELECTRONICS

- Lack of noble gases input
- Production of semiconductors affected
- Alternative sourcing is limited
- Russia prohibited export of electrical equipment to EU

MOBILITY

- Loss of RU export market for vehicles
- Lack of carbon black and synthetic rubber for tyres
- Disruptions of vehicle production
- Lack of software as production was largely outsourced to Ukraine

Supply Chains: updates on specific issues from last weeks

TOURISM

- Asymmetrical shock with stalled recovery of MS neighbouring Ukraine, while Mediterranean MS are close or above 2019 level for the summer season. COVID impact on travel intent much diminished but outlook for winter season negatively affected by inflated prices for trips, concerns about disposable income and mediocre consumer experience during the summer (airports, hospitality ...)

AGRI-FOOD

- A shortage of molasses is expected as imports from Russia, a major supplier of molasses, to the European Union will cease. Russia exported 250 000 tons of sugar beet molasses to the EU in 2020. Molasses are high value co-products generated.
- Many agri-food exporters experienced a significant market loss. Industries ask to speed up the implementation and ratification of FTAs, especially with Mercosur, and to increase the work on eliminating technical barriers to trade with China, Canada and Brazil, in order to have access to new markets.

PHARMA

- Essential medical technology continues to be supplied to Russia. However, the industry noted that there is a need to improve the alignment between EU & USA sanctions. Producers of medical devices raised concerns regarding the interpretation of intra-corporate services.
- Many affiliates of EU companies in RU have a complex structure: their shareholding can be different from the exporting company. There is a need to clarify the notion of intra-corporate services

MACHINERY

- Transshipment companies in Ukraine, Poland, Hungary and Romania inform that there is not enough availability of grain loaders. However, more details are needed to act effectively. DG GROW is considering organizing a matchmaking event with EU grain loaders manufacturers.



AUTOMOTIVE

- Car production in western Ukraine has resumed and the problem of the lack of wire harnesses for European producers is also being solved.
- Cars manufacturers have stopped their operations in RU for the last months but they have kept their investments and continue paying local workers. They fear the external management legislation and possible new Russian measures.

HORIZONTAL ISSUES

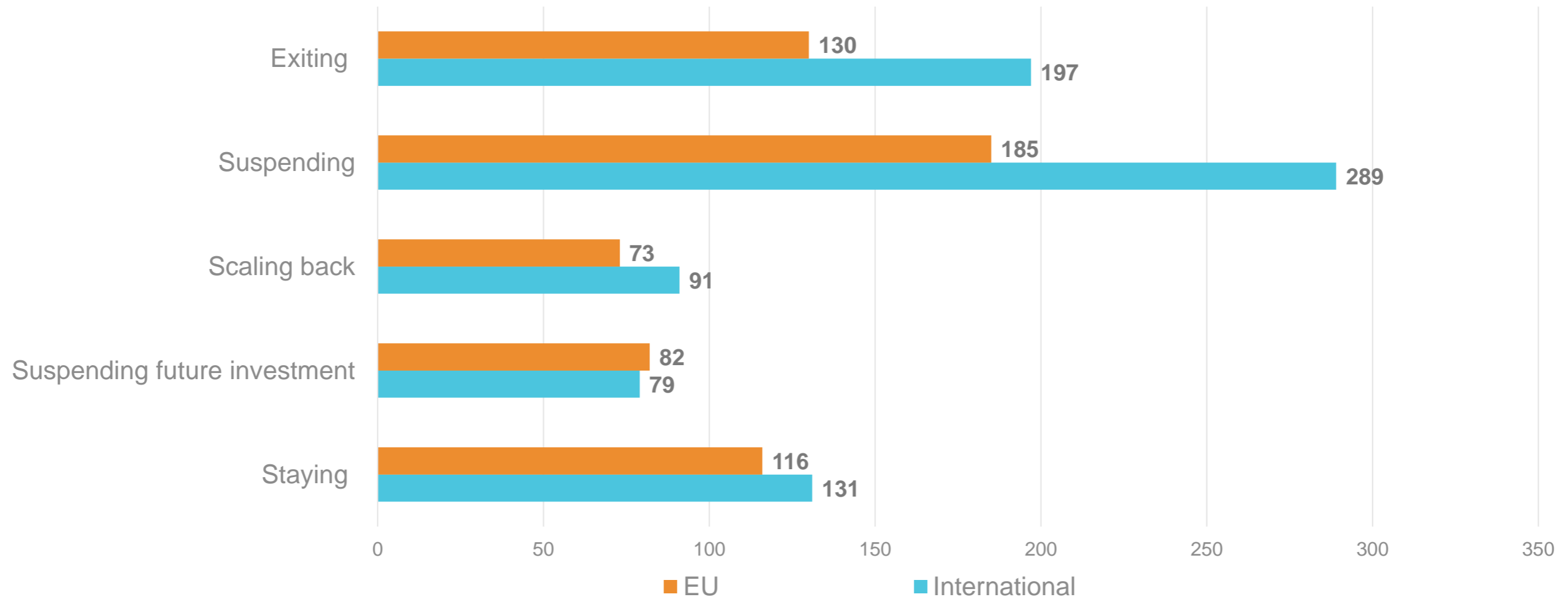
RESTART IN UKRAINE

- Many European companies that already had operations in Ukraine are trying to resume industrial activity in the country. However this is quite challenging because of transport and logistic challenges and availability of raw materials and inputs. Many of these inputs need to be procured outside Ukraine and transported to the country. Apart from the logistic and transport challenges, companies are reporting the lack of willingness from insurance companies to cover the risk.

EXIT FROM RUSSIA

- Some companies want to disengage from their joint ventures or sell their assets in Russia, but to do this they have to engage in some cases with Russian entities that are under sanctions. Moreover, some companies although stopping their operations in Russia continue to pay local works as they considered this as a moral duty. However lately this is becoming increasingly difficult as many financial institutions are refusing to finance any transaction that involves Russia even if legitimate.

Main international companies in Russia














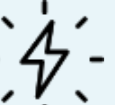
In total from **1373** international companies assessed, **586** were European companies.

Source: Yale School of Management (update 21 June 2022). Assessed by Yale School of Management experts, dataset compiled by using both public sources such as government regulatory filings, tax documents, company statements, financial analyst reports, Bloomberg, FactSet, MSCI, S&P Capital IQ, Thomson Reuters and business media from 166 countries; as well as non-public sources, including a global wiki-style network of 250+ company insiders, whistleblowers and executive contacts.

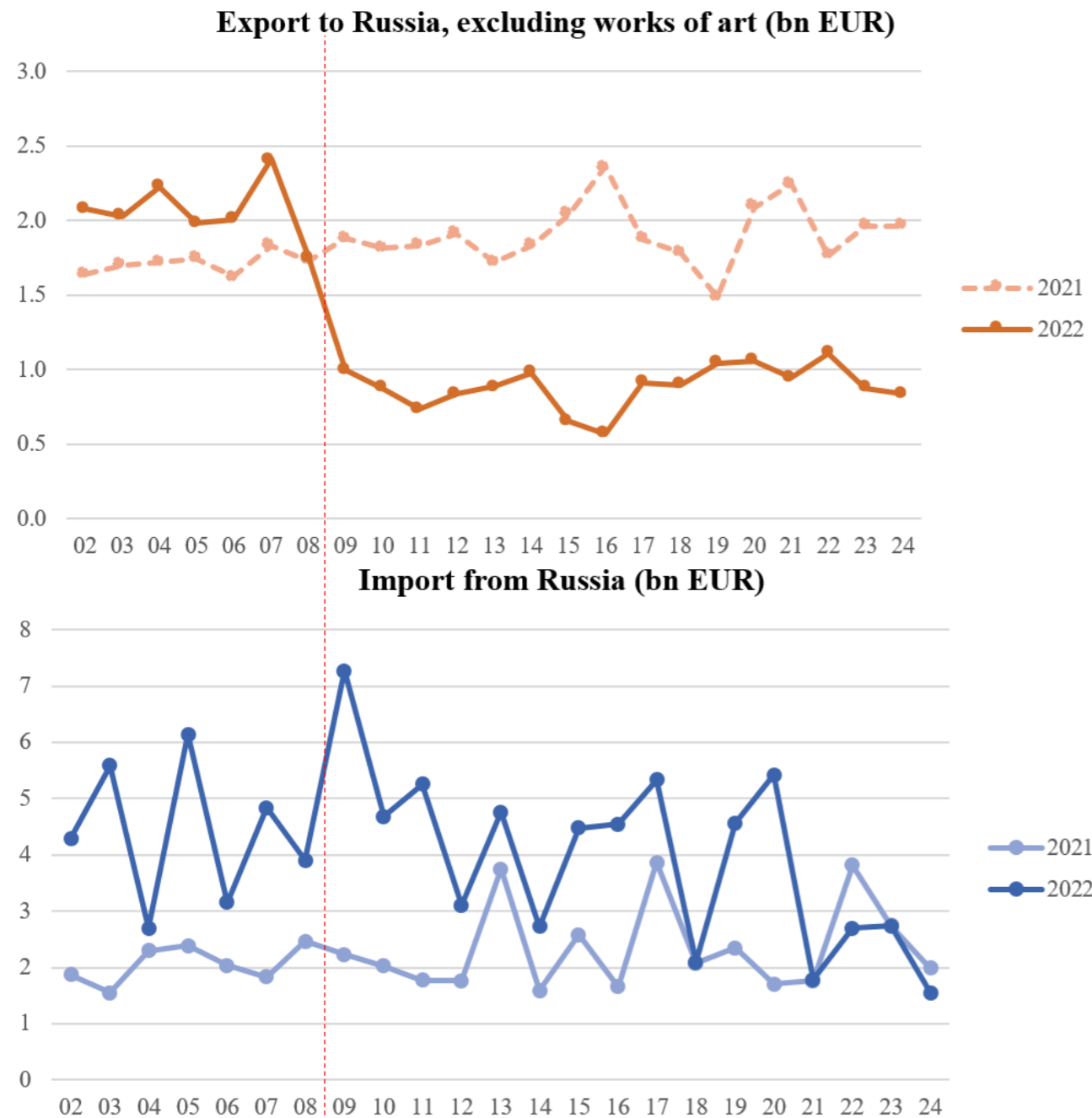


Update on Member States' mitigating measures

Source: Member states' press releases

	<p>Energy-Renewables</p> 	<p>16 June: New Green Transition Fund to help businesses move away from fossil fuels which comprise:</p> <ul style="list-style-type: none"> -The Climate Planning Fund for Business, which will give businesses funding to come up with a personalised plan to identify how best to remove reliance on fossil fuels in their business -The Enterprise Emissions Reduction Investment Fund, which will give manufacturing businesses funding to invest in carbon neutral heating processes, smart metering and energy monitoring, and research and development 	<ul style="list-style-type: none"> • Climate Planning Fund for Business: A €1,800 grant to develop a plan and up to €50,000 matched funding to go towards specific capacity building within an enterprise are among the grants available • Enterprise Emissions Reduction Investment Fund: Up to €1 million is available for businesses to upgrade their processes.
	<p>Energy</p> 	<p>24 June: The government approved an amendment to the Energy Act that will allow the declaration of the so-called prevention of a state of emergency in the heating industry.</p>	<ul style="list-style-type: none"> • The amendment will allow, for example, to keep some coal-fired heating plants in operation for a short period of time, whose activities would otherwise have to be limited next year due to compliance with emission limits
	<p>Business support</p> 	<p>14 June: new support programme for entrepreneurs → EUR 39 million. The maximum loan amount available to merchants will be up to 3 million euros</p>	<ul style="list-style-type: none"> • The loans will be available to all categories of economic operators (small, small, medium-sized, large economic operators) and will also apply to economic operators in the agriculture, fisheries and aquaculture sectors.
	<p>Energy</p> 	<p>8 July: the German government has passed a series of energy laws as a response to the crisis, e.g. regulating the mobilization of reserve coal power plants, a levy scheme to redistribute the burden of energy cost rises more equally among end consumers, and increased government powers to financially stabilize energy importers/traders and utilities.</p>	<ul style="list-style-type: none"> • The energy package adopted by the Federal Council comprises five legislative amendments relating to the expansion of renewable energies and the associated accelerations in grid expansion. In addition to the 5 laws on the expansion of renewables, there are two other major amendments that serve to strengthen pension provision
	<p>Public Procurement</p> 	<p>30 June: Ministry of Development and Technology proposed an amendment to the public procurement law to reduce the problem of the lack of appropriate indexation clauses in contracts. The inclusion of indexation clauses in the concluded contracts will reduce disputes between the parties to the contracts against the background of valorisation of contractors' remuneration.</p>	<ul style="list-style-type: none"> • The change will consist in extending the catalogue of contracts covered by the obligation to introduce an indexation clause to include contracts for supplies and contracts for construction works and services concluded for a period longer than 6 months (currently it is 12 months).
 <p>5 Source DG GRÖW</p>	<p>Energy</p> 	<p>04 July: The Netherlands tightened its Energy Saving Obligation to oblige companies and institutions with an energy consumption of 50,000 kWh of electricity or 25,000 m3 natural gas to take all possible energy-saving measures with a payback period of five years or less.</p>	<ul style="list-style-type: none"> • For the enforcement of the energy saving obligation, it is important that there is sufficient capacity in environmental services. Since 2019, € 19.5 million has been made available. For the period 2022-2026, € 56 million will be made available for strengthening environmental services.

Overall trade trends with Russia (as of 04 July 2022)

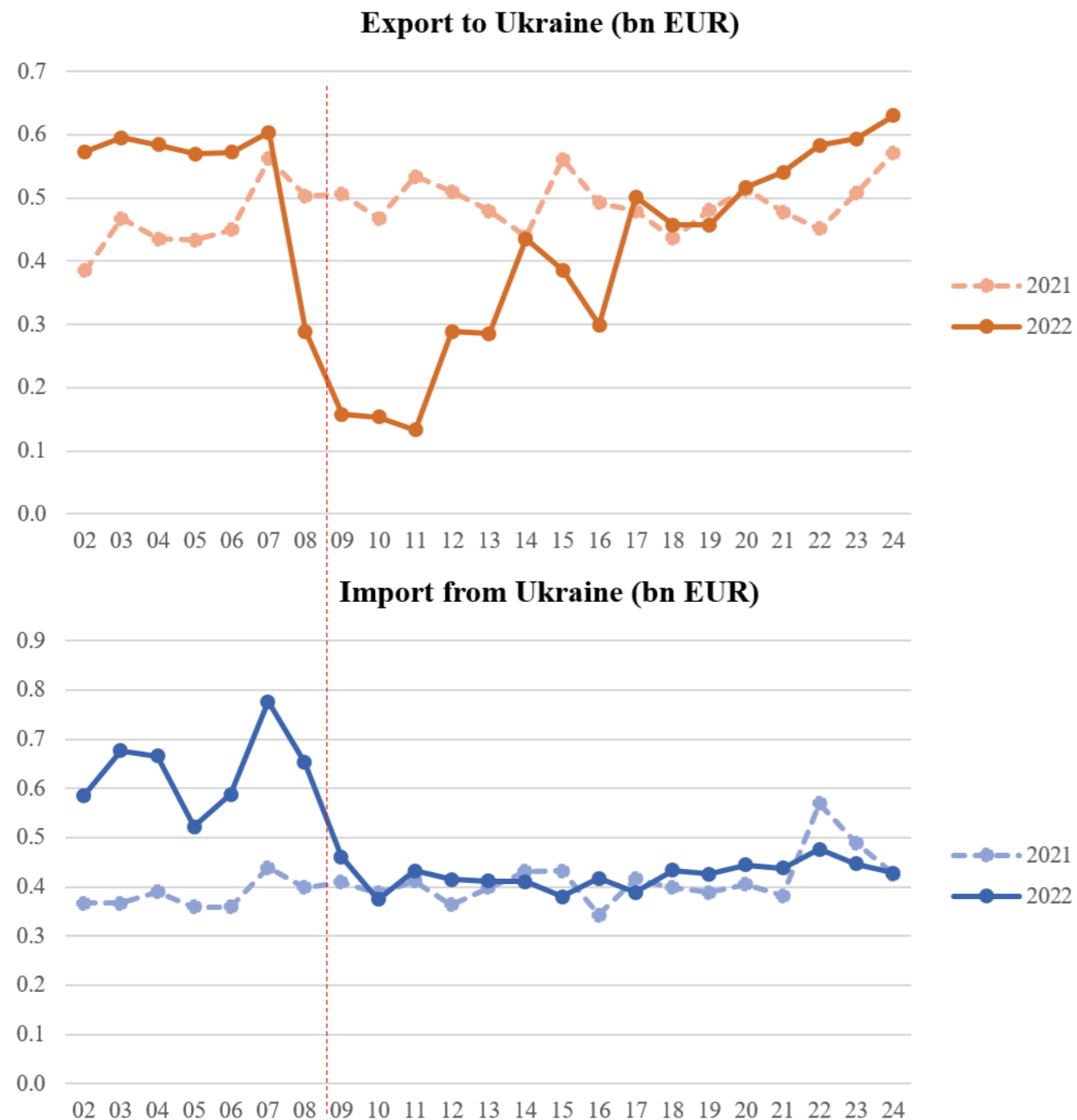


- After a sudden decrease after the introduction of sanctions (week 8), export in goods to RU stabilized;

- Imports from RU in the past weeks have been **gradually converging to 2021 levels**, notwithstanding higher import prices.

Source: TAXUD customs data. Cutoff date: 19 June

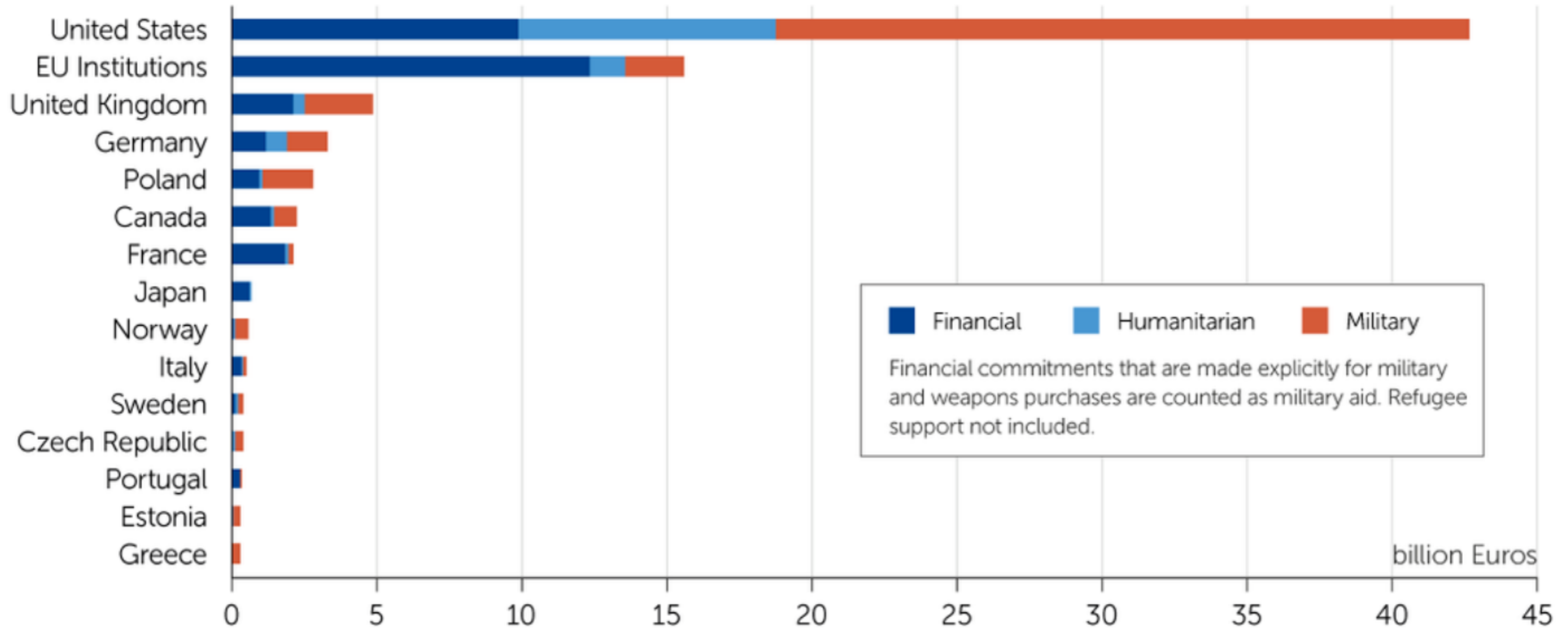
Overall trade trends with Ukraine (as of 04 July 2022)



- Exports in goods to UA are bouncing back in recent weeks, after a sudden fall following the Russian invasion;
- Imports from Ukraine remain close to 2021 levels, below the levels of the first weeks of 2022.

Government support to Ukraine

(Type of assistance, € billion – from 24 January to 7 June)



Source: Kiel Institute for the World Economy – Ukraine support tracker