



DISRUPTIONS IN SUPPLY CHAINS

BUSINESS VIEWS





1. DISRUPTIONS IN GLOBAL SUPPLY CHAINS - MAIN CHALLENGES

During the summer/early Autumn 2021, BusinessEurope run a survey among its members to identify risks and challenges European businesses face in the context of global supply chains. Many of the risks and challenges identified in the questionnaire are related to COVID-19 and the response to the pandemic but others were already present before or have been reinforced by the crisis.

► MAIN RISKS/CHALLENGES IDENTIFIED BY COMPANIES

Mostly as result of COVID-19 and related actions

- Shortages in raw materials, and the consequent increase in price, is a significant concern for many sectors in Europe, from steel to paper and from pharmaceuticals to engineering.
- Shortage of electronic components due to high demand for household electronic goods.
- Delays at border crossings as well as increased transportation costs, namely due to limited storage capacity in vessels and containers.
- Mobility of personnel remains an important challenge for many companies. Important operations, for instance maintenance and initial set-up of operations depend on in-person contacts.
- Cost increase that, depending on sectors, could have more temporary or long-term impact.
- Inflation and stagflation trends.
- Lack of preparedness for the unexpected disruptions and lockdowns at the company level, especially SMEs.

Reinforced by COVID-19

- Stronger role of the state in the economy leading to increased protectionism, including for instance national content requirements in financial stimulus packages in third countries.
- Increased securitisation of trade policy with further use of export restrictions and export controls.
- More legislation that favours data localisation and restrictions to cross-border data flows.
- Lack of harmonised standards with more countries favouring national to international standards.
- Adoption of legislation to ensure compliance with sustainability standards and due diligence requirements in Global Value Chains.





2. COMPANIES ARE TAKING MEASURES TO MITIGATE THE IMPACT

To safeguard their competitiveness and the ability to serve the markets companies are already taking measures to mitigate the impact of the disruptions. Some of these measures might be temporary but others might significantly change companies' business models. These are some examples:

- Building resilience for future crises by optimising risk mitigation factors in supply chains, including the adoption of strategies to diversify suppliers, increase safety stocks and improve lead times.
- Increase transparency, better planning and forecasting along supply chains.
- Trying to mitigate transport bottlenecks and rising costs by using alternative routes and options, such as smaller vessels, different ports, multiple modes of transport.
- Reviewing activities and needs in terms of personnel, services that can be performed in person or virtually.
- Review supply chain footprint, local vs global.

3. ACTION NEEDED FROM POLICY MAKERS

However, companies alone cannot mitigate or absorb the impact of all the existing and expected disruptions in global supply chains. Certain areas are independent from companies and require public action. In this context, we would favour a comprehensive approach, where instruments from relevant EU policies, e.g. trade, industrial, are used in a coherent manner and in line with objectives of the EU's open strategic autonomy.

► OUR PROPOSALS:

- Eliminate all export restrictions that were introduced due to COVID-19.
- Avoid travel restrictions and coordinate health and safety conditions for international travellers.
- Promote the uptake of digital tools in customs procedures including documentation and controls.
- Reduce costs for companies – especially SMEs – whenever possible, for instance by not considering transport costs (which are extremely high) when calculating customs duties and by improving the use of trade preferences (for instance through trade agreements) in general.
- Promote regulatory cooperation and the use of international standards especially in highly regulated sectors and in new technology areas and, where possible, seek harmonisation, for instance through mutual recognition agreements (MRAs).
- Coordinate approaches with like-minded partners, especially the USA, in the area of sanctions and export controls.
- Address problems in access to third countries' procurement market, a long-standing problem for European companies that is becoming more acute with this crisis. This is making the case for having the International Procurement Instrument in place even more compelling.





- The European Commission should call on Member States to introduce adequate price revision clauses/compensation mechanisms in public procurement legislation, in order to tackle the negative impact that price increases in raw materials are causing in on-going contracts and may cause in future ones. This should be in line with clearly defined criteria including, for instance, when the price increase exceeds a certain threshold.
- Initiatives in the area of sustainability and due diligence should lead to a level playing field, with clear definitions and workable requirements for companies. In the context of complex regional and global supply chains, it is also important that the EU accelerates efforts vis-à-vis our trading partners to increase cooperation at multilateral level and avoid situations where European companies are caught between conflicting jurisdictions. This is also critical to achieve a balance between sustainability and due diligence objectives on the one hand, and security of supply on the other hand.
- Fast-track and simplification of procedures and measures particularly in the area of customs and cross-border trade, during crisis situations.
- Regarding dependencies and shortages in the supply of critical inputs, the EU should consider market and economic realities and implement a multidisciplinary approach that includes:
 - Improving access to alternative sources of supply, especially in cases where we depend on a single or few suppliers, is critical. The EU should use trade policy and trade agreements to reduce dependencies and costs and increase availabilities.
 - Engaging closely with the EU's suppliers to ensure the countries in question guarantee access to EU economic operators, e.g. magnesium from China.
 - Creating the conditions and incentives to support strategic stockpiling, investments and production in Europe especially for inputs considered to be strategic from a security, economic and technological point of view. It is important to examine the operating environment in the EU as a whole: for example, what actions are necessary in order to begin production in Europe and to ensure EU's competitiveness. This exercise should be done at European level, considering existing and future needs, in close cooperation with business and other like-minded partners to prevent overcapacities.

BusinessEurope work on identifying and suggesting inputs/products that would qualify as strategic will continue.

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