

27 October 2026

BUSINESSEUROPE REPLY TO THE CALL FOR EVIDENCE ON DIVERSIFYEU – PRELIMINARY VIEWS

Key messages

BusinessEurope supports reducing excessive strategic dependencies, but the DiversifyEU package should be targeted, evidence-based and built to enable diversification before it restricts trade.

1. **Gap analysis:** The Commission should set out which needs the existing instruments (the Critical Raw Materials Act, the European Chips Act, the Net-Zero Industry Act and the proposed Industrial Accelerator Act) do not cover. Any new legislation should be limited to those needs.
2. **Scope:** The initiative should address specific products and inputs rather than whole sectors. Selection should rest on objective criteria: concentration of supply, criticality, difficulty of substitution and the risk that the dependency is used as leverage to obtain concessions.
3. **Supporting diversification:** Companies diversify more readily when alternatives are available and affordable. The EU's trade agreements provide a good basis for companies. However, we note that other EU initiatives and legislation could have a negative impact on diversification limiting the choices of suppliers and increase the administrative burden on companies. The initiative should therefore give weight to trade agreements and partnerships, investment, demand aggregation and the faster development of European supply capacity, including through faster permitting.
4. **Trade measures:** If trade policy measures are considered, they should not intervene directly in the sourcing decisions of firms and not create new bureaucracy. Any measures must remain exceptional, be subject to clear conditions and limited in scope and time to reduce unwanted consequences. Where no viable alternative exists, such measures raise costs and may distort supply chains without reducing the dependency.
5. **Diversification and localisation:** Diversification should not be equated with localisation or self-sufficiency. Trusted partners and established trading relationships contribute to resilience.
6. **Reporting and confidentiality:** Information requests to companies should be limited to what is necessary. Existing data should be used first, the same information should not be requested more than once, and commercially sensitive supply chain information should be protected.

1. General assessment

BusinessEurope shares the objective of the Call for Evidence. However, the Commission should first establish which gap in the current toolbox DiversifyEU is meant to fill, why and what type of new legislation is needed to fill it.

The Call for Evidence lists four gaps, yet it does not show why existing legislation, economic security tools and sectoral instruments cannot address them. The Commission also considers that a full impact assessment cannot be carried out. While we agree that the current situation calls for urgency, we would like to underline that a new instrument with possible tariff triggers, adopted without thorough impact assessment, risks introducing thresholds or targets that are not based on their actual economic impact. The resulting unintended consequences, such as higher input costs or disrupted supply, could undermine the competitiveness objectives the EU is pursuing through other instruments. In addition, diversification is a complex process that often requires time and significant resources. Sectoral specificities, as well as a company's position in the supply chain, upstream or downstream, also need to be taken into account. Diversification is a complex process that often requires time and the allocation of significant resources. Sectoral specificities as well as the position in supply chains – upstream or downstream – also need to be taken into consideration.

We therefore ask the Commission to:

- publish a clear gap analysis of the existing toolbox before proposing a new instrument;
- make the staff working document robust, with sector- and value-chain-level estimates of costs and benefits, including for downstream users and exporters;
- consult businesses, Member States and trusted partners in a structured way before the proposal is adopted; and
- avoid rushing the legislative proposal at the expense of evidence.

2. Scope and prioritisation

The instrument should cover only specific products and inputs where a dependency is genuinely harmful, not broad sectors or whole countries.

A dependency is not automatically a vulnerability. Importing heavily from one reliable partner, or from a trusted neighbouring country, is not a problem in itself.

We suggest cumulative criteria:

- **Concentration:** a high share of supply from one source.
- **Criticality:** severe harm to European industry if supply were interrupted.
- **Non-substitutability:** no viable alternative at sufficient scale, quality and price.
- **Risk of weaponisation:** the supplier country can or has used the dependency as leverage.

Applied together, these criteria should produce a short, regularly reviewed list, with products moving in and out on objective grounds.



Existing and potential dependencies: Binding measures should address demonstrable, existing dependencies. Potential future dependencies should be addressed through monitoring, risk assessment and enabling measures, unless robust evidence shows a material risk.

3. Enabling diversification

Diversification should remain primarily business-led, with policy making alternatives viable and financeable rather than prescribing sourcing decisions.

Restricting an existing source without a credible alternative raises cost and may lower quality without improving resilience. The package should therefore prioritise the following.

- **An ambitious trade agenda:** Faster negotiation, modernisation and ratification of FTAs and partnerships, including with close neighbours, so that European companies have more competitive sourcing options, not fewer. Sourcing from trusted, non-dominant partners should count as diversification, not as a dependency to be reduced.
- **Investment and risk sharing:** Support for alternative capacity in the EU and in trusted third countries, covering long project lead times and, where justified, differences in operating costs. Tools may include investment guarantees, tax incentives and support for supplier qualification and development.
- **Demand aggregation and long-term purchasing:** Greater visibility of European demand and offtake agreements to give new projects the certainty needed to attract private finance. However, joint purchasing should not be seen as the primary solution to certain supply challenges, such as critical raw materials. Any demand aggregation and/or joint purchasing mechanism should remain voluntary for companies to participate in, to avoid unjustified distortions in the market.
- **Stockpiling, where it makes sense:** Whether to hold stocks should be for companies to decide, with public support available for materials where a disruption would be especially damaging. It complements, and does not replace, investment in resilient supply. Any stockpiling mechanism should be tailored to the material concerned, centrally managed, based on voluntary participation and ensure transparent, market-based remuneration. Stockpiling may help manage short-term disruptions, but it should complement, not replace, investment in resilient supply.
- **A holistic view of resilience:** The EU cannot ask companies to diversify while making it difficult and costly to do business, invest and innovate in Europe. The best way to strengthen EU production of strategic materials and technologies is to create a positive business and regulatory environment that supports investment, reduces administrative burdens and ensures access to competitive energy. High energy and regulatory costs undermine the business case for European production, weakening the very industrial capacity needed to reduce strategic dependencies. Completing the Single Market is essential, as well as ensuring coherent trade, industrial and other policies that are mutually reinforcing and well-coordinated. Equally important is strengthening relations with trusted partners and ensuring that policy decisions do not hurt inadvertently existing

value chains. Logistics, customs efficiency, infrastructure and skilled labour matter as much as sourcing choices.

If many companies leave the same source, they may converge on the same few alternatives. The aim should be to broaden viable sourcing options, not to shift dependence from one country or supplier to another.

4. Trade diversification instrument

DiversifyEU should not become an instrument that directly intervenes in companies' sourcing decisions, for example by requiring them to have more than a given number of suppliers or to buy from a minimum number of countries. Such obligations would create unnecessary red tape and could lead to inefficient sourcing, which may hamper the competitiveness of European business.

Trade measures, including tariffs, should be an exceptional measure of last resort and not the default response to dependencies.

Tariffs cannot by themselves create an alternative source. If no viable alternative exists, they raise input costs for European industry without reducing dependence, and they invite retaliation, including restrictions on critical inputs. Past experience shows that temporary trade measures can be extended in time and scope well beyond their original target. Given the EU's criticism of tariff-based trade policy elsewhere, their use here would also need to be carefully justified.

If the Commission nevertheless proposes a trade instrument, BusinessEurope asks for the following guardrails to be set in the basic regulation.

1. **Prior assessment:** A value-chain analysis of the availability and scalability of alternatives, the time needed for substitution and qualification, the impact on downstream users and exporters, and the risk of retaliation.
2. **Objective triggers:** Transparent, pre-defined conditions and thresholds, linked to the criteria in section 2 (scope and prioritization), with procedural safeguards and maximum legal certainty for economic operators.
3. **No measure without a viable alternative:** Exemptions or derogations should be applied where no technically and commercially viable alternative exists at sufficient scale.
4. **Proportionality and phasing:** The measures should be targeted at the identified dependency, introduced gradually, with realistic transition periods reflecting investment cycles and supplier qualification.
5. **Sunset clause and review:** A fixed review date and automatic expiry will also offer predictability. If necessary, measures should be renewed on the basis of evidence.
6. **Clear scope of obligations:** Clarity from the outset on which products and which operators (manufacturers, importers or others) are covered.
7. **No penalty for legitimate production:** Anti-circumvention provisions should be targeted at demonstrated practices (rerouting, ownership restructuring, tariff reclassification) and should not target manufacturing and investment in trusted third countries.

8. **Compliance with WTO rules and attention to close partners:** Established, well-integrated trade relations with reliable partners should be preserved.
9. **Accompanying support:** Where companies are asked to bear the cost of de-risking, authorities can help mitigate the cost, for example by helping to trace supply chains and qualify alternative suppliers.

Tariffs or TRQs? There is also a discussion on the type of trade measure that could be most effective in the context of facilitating diversification. Quotas or tariff-rate quotas may be considered less harmful than tariffs, as they would limit the costs on European users while containing imports from a given source. Even if country-neutral, quotas could in practice be used only against countries that weaponise dependencies. They could also be designed in a way that allows diversification to take place in an orderly manner, for instance by starting at a generous level and shrink gradually. The same principles that should apply in the case of imposing tariffs should also apply in the case of quotas.

For quotas to be effectively regarded as less harmful, the way the measure is structured is crucial. Steps must be taken to ensure that, in practice, quotas could be applied exclusively against countries that use dependencies as a means of exerting pressure. A differentiated approach to the structure of the measure must ensure that all trustworthy partner countries which are not the target of the trade defence measure are exempted from it.

5. Business realities

Changing a supplier can be a slow and costly process, while in some cases there is no alternative at all. In this respect, requirements for economic operators must be calibrated to facilitate what is desirable, taking into consideration what is feasible.

- **Qualification takes years:** For complex products, qualifying a new supplier involves technical validation, quality audits, regulatory assessment and sometimes customer approval. Companies report lead times of 18 to 36 months for network equipment, while in regulated sectors such as medical technology re-qualification is subject to additional regulatory requirements. Streamlined re-certification procedures for redesigned products should be explored, without compromising safety.
- **Dependencies are often hidden:** Critical dependencies frequently sit several tiers up the supply chain, in mining, refining, processing or specialised components, beyond what a company can see or control. Obligations should reflect what companies can reasonably identify.
- **No alternative may exist:** For some inputs, a viable alternative is not available at any price in the short term. Exemptions and realistic timelines are essential.
- **Alternative supply is more expensive:** Resilient supply chains are not always the lowest-cost option, which affects downstream industries and ultimately consumers, at a time of concern over affordability. While quantifying the cost remains a challenge; we encourage the European Commission to collect evidence at sector level and to pay particular attention to downstream manufacturers, to avoid situations where a more expensive input could weaken European producers.

- **Supply-side barriers in Europe:** Long and sequential permitting, divergent interpretations between authorities, uncertain energy and grid access, and weak long-term price or demand signals hold back European projects.

6. Coherence, reporting and confidentiality

DiversifyEU should add no new reporting layer for economic operators: We understand that a significant amount of data is available, therefore companies should be asked only for what is strictly necessary to deploy the instrument effectively.

- **Coherence:** The package should reinforce, not duplicate, the Critical Raw Materials Act, the Net-Zero Industry Act, the proposed Industrial Accelerator Act and the Tech Sovereignty Package. Existing sector-specific tools should be assessed first, and new thresholds should not be extended horizontally from one sector, such as raw materials or semiconductors, to industrial components and equipment.
- **Use existing data:** Customs, trade and statistical data, including the Commission's Import Barometer, should be exhausted before company-level requests are made.
- **Once-only principle:** Companies should not supply the same or similar information under several EU or national instruments. Public authorities should share and reuse information.
- **Targeted requests:** Company-level information should be requested only for dependencies already identified as potentially critical and should reflect companies' limited visibility of tiers deeper in their supply chain.
- **Confidentiality:** Information on suppliers, volumes, prices, contracts and sourcing strategies is commercially sensitive. There must be legal certainty on who can access it, for what purpose and for how long, and individual company data should not be disclosed where aggregated data is enough. Information held centrally on EU import dependencies would itself be a security risk if accessed by third countries, so strong safeguards need to be in place.
- **Role of business associations:** Associations can aggregate sector information and help identify common vulnerabilities without exposing company-level data.