DIGITALEUROPE

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Event Report: Digital Resilience Roundtable on Supply Chains

On 28 November, the DIGITALEUROPE high-level roundtable on supply chains brought together Secretaries of State from Latvia, Ireland, Poland, Spain, Slovenia and Sweden, C-level industrial executives and senior EU Commission officials to discuss the future of EU resilience in supply chains.

Conclusions and recommendations

Impact of energy prices on Europe's manufacturers

1. Extremely high operating energy costs in Europe continue widening the manufacturing cost gap between the EU and other regions. The energy prices come on top of the EU's costly legislative fragmentation. This requires urgent action at EU level.
2. The competitiveness of Europe-headquartered companies is seriously in danger, and companies headquartered outside Europe which possess critical competences in the global supply chain are refraining from investing in the EU.

Role of business framework conditions for industrial resilience

3. Careful focus is needed to improve the overall business framework conditions for production in Europe. Those conditions mainly include long and burdensome administrative requirements, divergent regulations across Europe as well as legislative obstacles in areas like permitting procedures, talent availability across borders and tax provisions.
4. The EU should drive an active pan-European industrial policy focused on improving business framework conditions for companies, remove administrative burdens and tackle institutional and regulatory fragmentation in the EU.

DIGITALEUROPE
Rue de la Science, 14A, B-1040 Brussels
T.+32 (0) 2 609 53 10 / www.digitaleurope.org / @DIGITALEUROPE
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International cooperation as a driver for resilience

5. Bolstering EU production in strategic areas and expanding global trade relations are not mutually exclusive goals. Chips, digital infrastructure components and raw materials are examples of global-by-nature industries.
6. In terms of trade strategy, the EU should engage with like-minded partners. For example, the EU-US Technology and Trade Council has all the elements to become a blueprint for new models of global governmental engagement.
7. It should continue to develop diverse strategic partnerships with resource-rich countries and lead multilateral action at the WTO level.
8. Global standards play a vital role for industry, and the EU should step up its action in standard-setting bodies, with close cooperation with the private sector.

Impact of energy prices on Europe's manufacturers

Europe needs to urgently do more to diversify energy sources and invest in renewables to dampen exploding energy prices. The latter have increased by **200-300%** in some strategic sectors. EU industrial competitiveness is at serious risk of material damage, as extremely high operating energy costs continue widening the manufacturing cost gap between the EU and other regions. This is particularly concerning since electricity can account for up to **30%** of a facility's total operating costs.[1]

Role of business framework conditions for industrial resilience

Attracting manufacturing investments into the EU requires a holistic focus on all framework conditions. It should cover magnets not only for capital expenditure, but also operating. That urges attention to several variables that can sway investors' decisions on the location of their production plants:

- **Targeted public support:** the EU Chips Act will stimulate targeted state aid incentives for innovative chip-related facilities catering either to small or large technology nodes. These are key to powering various European industrial segments, including defence, healthcare and machinery. For the benefit of the EU as a whole, there is a strong business case to maximise the impact of these funds by channelling them into geographic areas with already robust infrastructure, instead of spreading them too thinly across too many regions. It is also important not to think of these funds as silver bullets for industrial resilience challenges. For example, if ambitious enough, the European Defence Fund can spur the creation of a stronger industrial base in Europe in the defence sector. The EU cannot spend its way to its target of hosting **20%** global chip production target by 2030, not even if the tens of billion euros in promised public funds for this purpose materialise. A successful EU industrial policy must go hand-in-hand with **deeper Single Market integration**.

- **Permitting procedures:** the EU Chips Act can attract investments by fast-tracking permitting processes to build chip facilities. Obtaining environmental permits for chip fabrication plants in the EU can take up to an excessively long period of **12 months**. Similarly, in the raw materials industry, mining and refining projects in the EU face a maze of regulatory hurdles and barriers between Member States in the Single Market, which are holding back their progress. Finland, for instance, has **14** precious rare earth materials but regulations hinder their extraction. Sweden's bedrock holds **more than half** of the substances in the 2020 EU list of Critical Raw materials, but none is mined. The EU Critical Raw Materials Act could lower these barriers.

[1] The White House, Building resilient supply chains, revitalizing American manufacturing, and fostering broad-based growth, 2021

- **Talent availability**: it is a key aspect where Europe cannot afford any longer to do business as usual. When mined in the EU, raw materials are often shipped to third countries to be refined as the EU lacks refining competencies. On chips, there is a compelling case for industry, public sector and educators to collaborate in the design of tailored university programmes for chip-related skills in need. They should also ensure reskilling of existing workers to sustain high chip demand. To this extent, the Spanish government adopted tax incentives for companies hiring highly skilled talents from third countries and facilitated the granting of work permits for workers in industries facing high demand. Here again, the EU needs to do more for a cohesive and harmonised approach to resolve the skills issue.

- **Fragmentation and regulatory burden***:* Europe excels in innovation but struggles with forming competitive and resilient industries on the global stage. This is mainly due to large administrative burdens and regulatory fragmentation. The benefit of new production-enhancing EU measures could be offset by the costs of tighter regulations in the name of resilience. The EU Chips Act, the Data Act and the Single Market Emergency Instrument, for instance, are all geared towards heavy reporting obligations during legally formalised supply chain "crises" or "public emergencies". The EU should avoid clipping European firms' wings through over-regulation as it pursues greater supply chain transparency. Fragmentation problems are exacerbated by the fact that each Member State interprets and implements differently EU regulations. All this comes on top of the existing patchwork of various national provisions in notable areas like taxation and recognition of educational certificates across Europe. It is a fact there is no EU Single Market for mid-sized companies to scale and invest in. The outcome is vulnerable and non-resilient supply chains in Europe.

International cooperation as a driver for resilience

Bolstering EU production in strategic areas and expanding global trade relations are not mutually exclusive goals.

COVID-19 and the illegal war in Ukraine gave us some clear lessons: chips and digital infrastructure play a major role in forming resilient and secure supply chain. There is no such thing as an autonomous EU supply chain for chips or digital infrastructure components.

The EU is a frontrunner in digital infrastructure innovation and has some of the world's leading companies in this space. Yet it still struggles to boost digital infrastructure investments and leverage its clear competitive advantage in its very own market. European players are competitive primarily due to earnings and presence in markets like the US and Asia. Much of

the growth of EU-headquartered companies will come from non-EU markets, which are expected to account for 85% of future global GDP growth[2].

On chips, EU self-sufficiency would require **€ 1 trillion**,[3] equalling **1.5 times** the size of the RRF. In the area of critical raw materials, the EU has not detected any presence of several such materials within its territory.[4] Autonomy would be unrealistic. Rather, there is a strong public policy goal for the EU to diversify trade patterns, continue engagement with like-minded partners and lead multilateral action at the WTO level. Bilateral Free Trade Agreements can advance, too, global cooperation but their success is at times dependent on shifting political appetites in third countries. The EU-US Technology and Trade Council has all the elements to become a blueprint for new models of global governmental engagement. On chips, for example, it offers the opportunity to align on public support measures to keep up with high expected demand and deepen common EU-US understanding of market dynamics.

In raw materials, recent EU strategic partnerships with Namibia and Greenland can point to the way forward for trade diversification. They can also mitigate the EU's overreliance on geographically concentrated regions. The latter account for **90%** of the global production of specific downstream rare earth products and technologies, which are critical for defence applications like guidance and control systems. More can be done, too, on the broad issue of global standards, where the EU should regain its status as a standard-setter in international fora.

Finally, cooperation between the public and private sectors is crucial to ensuring a competing edge for Europe. We should strive to remove any artificial boundaries between these two sectors and work together for the benefit of European citizens and like-minded countries.

[2] European Commission, Trade Policy Review - An Open, Sustainable and Assertive Trade Policy, 2021
[3] Read more here.
[4] Read more here.