EUCLUSTERS TALKS

EUROPEAN CLUSTER COLLABORATION PLATFORM

European Supply Chains and Impact of the war in Ukraine

Summary

30 March 2022

ECCP EU Clusters Talk “European Supply Chains and Impact of Geopolitical Situation”

The European Cluster Collaboration Platform organised this meeting for the European industrial stakeholders due to the current geopolitical situation on 16 March 2022, 8:30 – 9:30 CET. The aim of the session was to give first insights into disruptions in European supply chains that are being reported by clusters, companies, and other organisations, as well as hear from the work of the Task Force for Supply Chains of DG GROW, European Commission, and examples on what is happening in the countries of Romania and Denmark.

Agenda of the meeting

Moderation: Teodora Jilkova, team member of the European Cluster Collaboration Platform

1. Survey Results on Disruptions in EU Supply Chains
   Nina Hoppmann, Project Manager at European Clusters Alliance and team member of European Cluster Collaboration Platform
2. Roundtable
   Maive Rute, Deputy Director General and Head of the Task Force for Supply Chains at Directorate General for Internal Market, Industry, Entrepreneurship and SMEs (DG GROW), European Commission
   Daniel Cosnita, President CLUSTERO
   Susanne Baden Jørgensen, Senior International Manager at Food & Bio Cluster Denmark, Member of the Enterprise Europe Network
3. Which impacts do we experience or expect in our European supply chains?
   Open dialogue with the participants

1. Survey Results on Disruptions in EU Supply Chains

Nina Hoppmann, Project Manager at European Clusters Alliance and team member of European Cluster Collaboration Platform

After the welcome by presenter Teodora Jilkova, Nina Hoppmann presented the preliminary results of the survey “Identification of disrupted supply and value chains”, which is run by the European Cluster Collaboration Platform and the Enterprise Europe Network on behalf of the European Commission. The survey has been open for only 5 working days, so these are results after a first cut-off. The survey will remain open, and the participants were encouraged to answer it and share it in their networks and with their colleagues. Until 15th March, the survey received 318 answers.

For the analysis, a word cloud with keywords was created based on the described disruptions. Raw materials, energy, and transport costs have been named frequently in the descriptions of the disruptions. Further mentions are steel, fuel, delivery delays, sunflower oil, wood, logistics, electronic components, import limitations, gas, aluminium, payment difficulties, labour force, metals, iron, nickel, titanium, animal feeding, and fertilizers.

With regards to the affected stage of the supply chains, the majority (203 answers) indicates “inbound logistics”. “Outbound logistics” (125 answers), “operations” (124 answers), and “procurement” (115 answers) are among the most-named stages. When looking at the criticality of the loss of input and the loss of market, we see that the evaluation of the critically of the loss of input mostly corresponds to the criticality of the loss of market (e.g., “high” loss of input – “high” loss of market). However, there are few entities that don´t experience a significant loss of market even though they have a critical loss of input. These cases need to be further evaluated as they could be a reference for resilient companies. A similar trend is visible when looking at the loss of input and loss of market of disruption that explicitly mention "Russia" or problems with energy.

From the answers received until 15th March, most answers (69) come from medium-sized enterprises, closely followed by 67 answers from large companies, and 66 from small enterprises. Micro enterprises make up 50 answers, and the rest is shared by clusters, organisations, associations, and research entities.

2. Inputs from the speakers

Maive Rute, Deputy Director General and Head of the Task Force for Supply Chains at Directorate General for Internal Market, Industry, Entrepreneurship and SMEs (DG GROW), European Commission

Maive Rute presented the work of the Task Force for Supply Chains, which she is leading in DG GROW, and highlighted where the clusters and businesses can come in to support the work of the Commission.

Part of the work of the Task Force is dedicated to stop the war machine. The existing collaborations with Russia and Belarussia is being cut, e.g., there are no longer Russian or Belarusian entities that have memberships of Enterprise Europe Network or that participate in research programmes. The European Commission has put forward several packages and sanctions, and the Task Force sees what more can be done in the context of the political discussions.

Another task is understanding what is really happening on the grounds in this extraordinary situation. Here, the feedback from the clusters comes in. Currently, there are five vectors that impact supply chains:

1. The sanctions on Russia and Belarus themselves have impacts in Europe, as do the Russian countersanctions.
2. Industries in Ukraine are under war conditions, so they cannot continue working as normal. This affects the manufacturing and agricultural parts of our economy.
3. Logistics has become a major issue. Airlines and maritime business routes have been disrupted, and there are signals from railways and held-up trucks.
4. We see impact on commodity prices and raw materials. European businesses need to find different sources.
5. Many businesses are concerned about their investments in Russia and Belarus. They need to take a business decision on whether to close and retract.

Maive Rute explained that DG GROW works on the Single Market issues. EC wants to keep the Single Market fully functional and rebuild the value chains that are currently suffering. A key mission is to help business find partners in Europe - which is a task for the clusters and EEN. The great occasion to do so will be the onsite workshop: Clusters meet Regions in Vilnius/Lithuania on 26th March followed by the virtual Matchmaking on 27th April.

Another line of work are horizontal issues. This includes making sure that public procurement is fast enough to help Member States accommodate refugees and provide them with food. Also, the unit looks closely into sectors and parts of the value chain that are under pressure, e.g., fertilisers, to make regulatory adjustments and to define actions to help.

A critical issue is the question how to reduce the dependency on Russian gas. The Task Force is looking into this from an industrial angle, e.g., increasing the use of photovoltaic panels and heat pumps, and the rapid deployment of hydrogen. With regards to the major issue of raw materials, which was already on the radar, the Task Force works on how to maintain the access to a list of raw materials, including temporarily wood, steel, and iron.

Closing her statement, she emphasised that the clusters and EEN members could make a big difference in helping Ukraine and could support the refugees entering the labour market as soon as possible. The Commission is working on a rapid measure to help Member States recognise the professional qualifications. Clusters and companies could help finding ways to facilitate the process, including job offers. The cluster-to-cluster work is important to make a difference and to support the EU crisis mechanism which is already in place. Through the clusters, we should create business-to-business and cluster-to-cluster relations where companies could talk to each other and organise logistics, the movements of goods and donations. She called upon the clusters to make good use of and disseminate the new "EU Clusters support Ukraine" forum that was created so that it becomes operational. Furthermore, there is the "Supply Chain Resilient Platform" with a broader scale for everyone in Europe to find new collaborations and partners.

Daniel Cosnita, President CLUSTERO, Romanian national cluster association

Daniel Cosnita spoke about the situation and activities in Romania and the work done by the Romanian Ministry of Economy, which implemented a national Task Force to address supply chain disruptions. Starting his speech, he stated that Romania is facing and will be facing waves of refugees that need to be accommodated, fed, and brought into the labour market – both directly from Ukraine but also through the Republic of Moldova, a small country that cannot face this alone.

Regarding the most effected sectors by disruptions, he highlighted **"Automotive", "Wood & Furniture", "Metal Processing", and "Construction"**. In the automotive sector, both imports and exports are affected. There are missing components, which were mainly produced in Ukraine, and the cut of exports of cars to Ukraine and Russia. In "Wood & Furniture", there are import problems of logs and timber. Also, Russia was a massive export destination for furniture produced in Romania. The increase price of energy is highly notable in metal processing, for which Russia was as well the main exporter. The cost of the scrap metal is increasing significantly. The construction sector experiences disruptions along the entire supply chains as a secondary effect. For example, the price of reinforced concrete has increased by 50% in Romania.

On national level, the industry has communicated requirements; measures that were taken up due to the covid crisis should be prolonged. The government introduced the concept of "Kurzarbeit", where working hours of existing contracts are reduced to avoid the dismissal of staff. Furthermore, they are working on establishing new and direct contacts between energy producers and companies to allow selling at different prices (and not the market price). On European level, the industry requests to loosen the "decarbonisation" requirements, or at least the pace of the decarbonisation.

At the level of the Romanian cluster association, they have an internal exchange and discussion forum for many regional stakeholders – they are supporting the Romanian Ministry of Economy and the clusters to address more humanitarian initiatives. Two health clusters support with free medical assistance and civic initiatives. Daniel Cosnita closed with the remark that this crisis shows the need to better integrate the companies in domestic value chains and the EU Single Market.

Susanne Baden Jørgensen, Senior International Manager at Food & Bio Cluster Denmark

Susanne Baden Jørgensen commented that the current geopolitical situation has accelerated the disruptions in Denmark. Increasing prices and raw material shortages already existed, next to a high inflation of 4.9% and the highest price index on goods (-6.6%) since 1985.

She said that the **disruptions in the energy sectors** are obvious. Companies are relying on Russian gas for their production, and we will still be dependent until 2030. However, the green transition is very high on the agenda in Denmark and in her cluster. There will be more wind power, and they look into eco biomass. Furthermore, everybody is experiencing **the increase in transport costs**. There are **400,000 drivers missing** in Europe.

With regards to the **food sector, she referenced the shortages in ingredients and raw materials**. Together, Russia and Ukraine are the world's third largest exporters of wheat. **The price of flour is increasing**. There are **shortages in wood and wood pallets**, which come from Belarus and are manufactured in Ukraine. Moreover, there is a lot of investment from companies of the agri-food sector that have closed factories and shops, making them lose their investments. In construction, **building material is missing** and municipalities report still-stand and increased prices for renovations and new buildings.

Cybersecurity is becoming an increasingly important topic – you need to have more cybersecurity as the war is not only on the grounds. With regards to military, Denmark will have a referendum on the free conditional amendments of the Maastricht Agreement, so the **budget for production of military equipment will be increased**, leading to more company activity in this area.

On the end user side, people are turning down the heating and investigate **changing to heating pumps**. However, the waiting list is long.

Denmark is investing in projects and initiatives to become more self-sufficient in key areas and to find new technologies, new services, and new products.

Closing her statement, she said that all projects, networks, and agencies in the European Union should work together more closely. To increase the resilience of European Supply Chains, the Enterprise Europe Network is launching the "Supply Chain Resilient Platform". It aims at the international business community and should help them find new partners for collaboration and identify potential suppliers or buyers.

3. Open Dialogue

After the speaker inputs, the floor was opened to questions and comments from the participants. **Carlos Trias, European Economic and Social Committee**, raised the point on **how we to integrate the consumers in the reactions to the disruptions**. He offered to collaborate and connect to the consumer network.

Anke Wiegand, member of the Enterprise Europe Network, highlighted the importance of collaboration between entities like the Enterprise Europe Network and the European Cluster Collaboration Platform. She expressed interest in the results of the survey and asked whether they will be made public, as she would like to transfer feedback back to regional authorities.

Ana Dijan, Croatian Wood Cluster, showed interest in the point of "decarbonisation" requirement made by Daniel Cosnita. She stated that **there won´t be enough wood to meet the requirements** because of the war in Ukraine and the covid crisis. It will remain a challenge for the future.

As a response, Susanne Baden Jørgensen highlighted that we have just seen the tip of the iceberg, and to meet the long-term challenges, the different European initiatives need to come together and to help find new supplier for European companies. We need to speed up with the strategies that have already put in place. Everybody is very ready to change and to think creatively. Daniel Cosnita supported the statement and added **the need of interregional investments and to integrate the companies in the regional supply chains**.

The session closed with the announcement of **the next EU Clusters Talk on 30th March, 8:30 CET** (continuing with the topic of disruptions), with the invitation to continue answering the survey on disruptions in supply and value chains, the call to write in the "EU clusters support Ukraine" forum on the European Cluster Collaboration Platform, the save the date for the Clusters meet Regions and matchmaking event in Lithuania, and the invitation to register on the European Cluster Collaboration Platform.