



The state of the European supply chain: de-localization

Marta Pacheco

Global supply chains have been heavily disrupted with the Covid-19 pandemic, the European Union (EU) recognised its strategic dependence on some foreign inputs even before the pandemic and started to seek ways to increase its autonomy – a quest which has been accelerated by the impact of Covid-19 and later on by the war in Ukraine. A study from Accenture determined that depending on the length and severity of the Ukraine war, the cost of supply chain disruption in the Eurozone across 2022-2023 could amount to €242 billion (2% of GDP) in an ongoing war scenario, or €920 billion (7.7% of GDP) in a protracted war scenario.

Go ASEAN, a shift to replace China's supply chain

This year marks the 45th anniversary of formal relations between the European Union and the ASEAN. Amid rising tensions with Russia and cooling relations

with China, the EU is seeking to increase its influence in the ASEAN region.

At present, the ten ASEAN countries have a gross domestic product of about \$3 trillion and a population of 660 million. These countries have long been enmeshed in the global trading system, and their trade-to-gross domestic product ratios are actually well above the global average. With per capita GDP of US \$4,500, ASEAN's labor costs are much lower than China's.

At the same time, the ASEAN region is a dynamic market with some 660 million consumers and ranks as one of the top eight economies in the world. The countries as a group are the EU's third largest trading partner outside Europe, after the US and China.

For these above reasons, ASEAN has taken on greater significance for Europe in economic, diplomatic and security terms. In 2021, the EU recognised the key role of ASEAN centrality in the EU Strategy for Cooperation in the Indo-Pacific and elevated the EU Mission to ASEAN to a fully-fledged EU Delegation. Josep Borrell, the EU's

high representative for foreign affairs and security policy, said at an August 4 ministerial meeting with ASEAN foreign ministers that the EU is committed to engagement in the region and sees ASEAN as a “strategic partner.” In order to promote cooperation on supply chain resilience and sustainability to further strengthen sustainable trade and investment relations between ASEAN and the EU, the two blocs have adopted a new EU-ASEAN Plan of Action, which sets out a wide range of areas slated for deeper cooperation over the next five years (2023-2027), including pandemic recovery, trade, rules-based and sustainable connectivity, climate change, research, and security. At the same time, ASEAN and the EU, reiterated increased cooperation with the introduction of two new tools: the ASEAN Trade Repository and ASEAN Solution for Investment, Services and Trade, in place to support stronger intra-ASEAN trade and reinforce supply chains.

During the December meeting, the EU and ASEAN are expected to develop and improve supply chains between the two blocs. The pandemic stalled imports of medical products and automobile components for the European bloc, which is expected to offer infrastructure aid and economic cooperation deals for Southeast Asian countries. Trying to secure several suppliers, the EU is likely to encourage Southeast Asia to fulfill a major role in the supply chain for the west, based on the idea of “friend-shoring” among nations with shared values.

Additional efforts are also under way. Currently, the EU has free trade agreements in force with ASEAN members Singapore and Vietnam, while looking to accelerate similar negotiations with Indonesia, the Philippines, Malaysia and Thailand.

Race for critical raw materials

Since 2019, the EU is betting on the European Green Deal (EGD) to transform the bloc into a modern, resource-efficient and competitive economy ensuring net emissions of greenhouse gases by 2050. At its heart are two main pillars — the green and digital transitions.

However, EU officials recognise that the coming transformation under EGD depends on supply chains passing through China, and to this end the EU has started working with U.S and Africa on key raw materials.

Europe is working to wrest control of the supply chain of rare earth magnets from China. Permanent magnets, which typically use NdFeb chemicals, are one of the hidden enablers of modern technology, powering everything from robots to refrigerators to laptop speakers. They also power electric vehicles (EVs) and wind turbine engines, making them central to the energy transition.

Since the first meeting of the Trade and Technology Council in Pittsburgh in September 2021, the Trade and Technology Committee’s Working Group on Secure Supply Chains has been communicating to examine ways to improve transatlantic supply chain resilience and supply security in key sectors. As part of the Working Group’s initial focus on clean energy technologies and critical materials, working group members exchanged views on supply chain mapping, vulnerabilities, and cooperation opportunities for rare-earth magnets.

Currently, the EU, through the Horizon Europe research and innovation programme, provides funding for mining, processing, separation and refining of rare earths and recycling of neodymium magnets. The European Raw Materials Alliance plans to develop a pipeline of investment projects along the rare earths and neodymium magnets value chain. The Alliance has come forward with 14 projects which could meet 20 percent of EU demand in rare earth magnets by 2030, compared to only a few percent today. The Clean Technology Materials Task Force brings together the European Investment Bank and the European Bank for Reconstruction and Development to accelerate investment in critical raw material projects in the investment pipelines.

In order to further strengthen cooperation and coordination policy action, the United States and the European Union has promised by TTC, and other related multilateral initiatives, especially partnerships, increased for the recent rare earths project responsible investment opportu-

nities, redouble the efforts and adjust the focus, continue to address the vulnerability of the rare earth element supply chain and promote normal trade throughout the supply chain.

These enhanced efforts focus on deeper R&D collaborations to unlock and maximize transatlantic mining production and processing capacity; Improving the characteristics and utilization of unconventional resource extraction and processing (e.g., sourcing rare earths from by-products and recovery streams); Develop novel and effective recycling procedures; Support the development and adoption of standards for rare earth magnets and sustainable mining practices; Coordinate domestic initiatives to support trade and investment in the rare earth magnet supply chain. Both sides will prioritize and advance projects of shared strategic interest, leveraging the diplomatic, project development, financing and private sector resources.

Mainland Europe is nearly fully industrialised and geographically has little critical raw materials, now the bloc's focus has shifted from mining locally to the beneficiation of raw materials in other countries for products like electric vehicle battery anodes and cathodes. But as the demand for processing battery minerals rises, the need for cleaner energy and green minerals and metals across Africa is gaining momentum.

In this framework, AfricaMaVal project aims to develop EU-Africa partnership ensuring a responsible sourcing of mineral resources for the European industry, while granting a sustainable local co-development in the best Environmental, Social and Governance (ESG) conditions and leading to a long-term business environment for European and African companies.

The 42-month project, coordinated by the French Geological survey BRGM, will conduct in-depth case studies in 10 countries: the Democratic Republic of Congo, Senegal, Zimbabwe, Mozambique, Gabon, Namibia, Tanzania, Madagascar, Morocco and South Africa. They were selected on the basis of their mining and refining potential and existing close links with several EU countries.

The controversial tool--- Single Market Emergency Instrument (SMEI)

To improve the resilience of supply chains, the Commission adopted a new Single Market Emergency Instrument (SMEI) on September 19, which will become law after negotiations between the two EU legislative bodies —the European Parliament and the European Council. The initiative, which will give greater powers to the EU executive, looks at pushing for export controls, stockpiling and forcing companies to report stock levels of critical supplies during emergencies. Overall, the EU is applying a policy mix that aims to increase domestic capacity, diversify suppliers and support the multilateral rules-based trade environment. In a nutshell, SMEI aims to establish a comprehensive crisis-response architecture, relating to different levels of impacts to the EU single market based on the establishment of an advisory group, contingency planning and a framework for single market vigilance and emergency modes.

“I welcome the European Commission's plans for a new mechanism to make the single market crisis-proof. The single market is the backbone of our economy that keeps Europe together, especially in times of crises. We must develop it further so that everyone benefits from a sustainable, digital and resilient single market,” said the member of the European Parliament (MEP) Anna Cavazzini, chair of the Internal Market and Consumer Protection Committee (IMCO).

However, a group of nine countries, including Belgium, Denmark, the Netherlands and Slovenia, has already warned the Commission not to go too far. The diplomat said that some of those countries are still unhappy with the text, as it doesn't seem to take their concerns into consideration, and pointed to stockpiling measures and extra requirements for companies as key issues. At the same time, industry groups and even trade unions see risks with the way the proposal has been drafted.

(If you are interested in EU supply chain topic, or you have insights and wisdom want to share, please join our Reader Club)