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Input Paper to the Call for Evidence for an Impact Assessment regarding the Diversify EU Package

Main messages

The Technology Industries of Sweden (Teknikföretagen) asserts that the following should be taken into account when designing a framework to reduce critical dependencies and strengthen supply chain resilience:

- A globally competitive European industry is a prerequisite for European economic security, requiring both reliable and cost-efficient sourcing. Measures to reduce critical dependencies and strengthen security of supply should primarily focus on increasing the availability of inputs, enabling industry to optimize supply chains for both resilience and efficiency. By removing barriers and strengthening framework conditions for a competitive industry, Europe can also develop technological leadership and indispensability in value chains to critical technologies, limiting the risk for economic coercion.
- It must be ensured that viable options are available before introducing diversification requirements. Introducing regulatory requirements before sufficient alternative capacity exists could increase the costs and weaken the competitiveness of European industry, without improving resilience. Any such instrument must be targeted, proportionate, and focus on genuine strategic dependencies. A targeted diversification instrument should build on existing risk assessments rather than imposing additional obligations at company level, in order not to exacerbate the already excessive administrative burden facing European industry.
- Public policy should recognize that supply chain resilience creates broader societal benefits. It is therefore unreasonable to expect individual companies to bear the entire security premium, particularly where they compete internationally with companies that continue to source exclusively from lowest-cost suppliers, and it is motivated that the public sector shares some of the cost. To address asymmetric dependencies that can be weaponized for economic coercion, resilience-motivated industrial policy could be justified based on security considerations.



General remarks

The Technology Industries of Sweden supports the overall ambition to accelerate efforts to reduce critical dependencies and strengthen supply chain resilience. Geopolitically motivated, unilateral actions to restrict the flow of critical inputs illustrate that overly concentrated reliance on dominant supplier countries for inputs to sectors of strategic importance can be a vulnerability for European economic security. As such, we acknowledge that targeted measures to enable supply chain diversification for European industry may be warranted and that there can be an alternative cost for inaction. However, we stress that intervening with market dynamics carries a risk of undesired effects and must be pursued with caution.

A globally competitive European industry is a prerequisite for Europe's prosperity and economic security, and the global competitiveness of European industry is contingent on both reliable and cost-efficient sourcing. Therefore, we consider that measures to reduce critical dependencies and strengthen security of supply primarily should focus on increasing the availability of inputs and products (including though new trade opportunities and international partnerships), enabling industry to optimize supply chains based on both resilience and efficiency considerations. By removing barriers and strengthening the framework conditions for European industry to be competitive, Europe can build strengths and capabilities, developing technological leadership and indispensability in segments of value chains to critical technologies. This can also foster mutual and reverse dependencies that reduce the risk for economic coercion.

When considering new measures to strengthen supply chain resilience, policymakers must take into account the complexity of global production networks. European manufacturing industries that develop technologies identified as critical to European economic security¹ have several tiers of suppliers and subcontractors, that become exponentially more complex for each level. Critical dependencies often exist in deeper tiers and sub-supplier networks beyond the control of European companies, on the global market. Therefore, an ambition of strategies to reduce critical dependencies and strengthen supply chain resilience should be to – together with partner countries – achieve a more balanced, well-functioning market by counteracting monopolistic positions that can control or manipulate the market (e.g. for critical minerals²). In such cases, to address asymmetric dependencies that can be leveraged as economic coercion, resilience-motivated industrial policy could be justified based on security considerations.

¹ In accordance with the European Commission Recommendation on critical technology areas for the EU's economic security for further risk assessment with Member States, [here](#).

² For more information, see the Technology Industries of Sweden and the Swedish Security and Defence Industry Association's joint input paper in response to the consultation on a European Critical Raw Materials Center, [here](#).



It should be noted that industry in Europe has experienced several crises and events leading to supply chain disturbances in recent years and companies already work actively with risk assessments and monitoring of critical supply chains to reduce vulnerabilities and strengthen security of supply. To be successful in designing a policy framework that is fit-for-purpose to reduce critical dependencies and strengthen supply chain resilience, close industry consultations will be needed. It will also require strong coordination at both national, EU and global levels, to ensure policy coherence and to develop international partnerships in order to address joint challenges with like-minded countries. Finally, it is essential that comprehensive impact assessments are conducted before introducing new measures.

Comments on instruments and policy options

In the short term, diversification is constrained to market availability and production capacity. Targeted EU measures can help build alternative supply chains and create the scale needed for competitive production within Europe and partner countries. When considering interventions requiring supply chain diversification, it must be ensured that viable options are available before the requirements enter into force. Introducing regulatory requirements before sufficient alternative capacity exists could increase the costs for European manufacturers and weaken the competitiveness in relation to competitors that remain able to source from the lowest-cost suppliers, without improving resilience. In the worst case, it could disrupt supply and thereby also EU production of downstream products. Furthermore, if manufacturing in the EU becomes more costly or complex, companies may increasingly shift production outside Europe and instead serve the EU market through imports, ultimately weakening the very industrial base the instrument seeks to protect. It could also lead to increased purchasing costs for end customers, and place additional financial burden on taxpayers.

Diversification requirements must take into account the actual availability, capacity, quality and cost of alternative suppliers, and be phased in as alternative capacity becomes available. Measures should also distinguish between different stages of the value chain, since the dependency may lie in processing or manufacturing, rather than in access to the underlying raw material. Any such instrument must be targeted, proportionate, and focus on genuine strategic dependencies. We consider critical dependencies to be inputs or components which cannot readily be substituted, where alternative suppliers are limited or difficult to qualify, and where a disruption could prevent delivery of the final product in critical sectors when crises or conflict occur. Notably, such dependencies can be critical even where the affected component represents only a small share of the total product.

In an increasingly politicized global economy, investments in supply chain resilience can become a competitive advantage in case disturbances occur, and the cost of measures to strengthen security of supply can in some ways be compared to a security premium. Albeit diversification decisions are often driven as much by technical feasibility and qualification requirements as by price considerations. In many cases, developing and qualifying alternative suppliers



can take several years. Customer specifications and contractual requirements can prescribe validated production routes, testing procedures, and approved suppliers, which limit the ability to switch suppliers rapidly without extensive requalification efforts. A supplier or sourcing shift is justified when the benefits in terms of reduced geopolitical risk and improved security of supply outweigh the associated costs.

The costs of pursuing broader EU economic security objectives should not fall disproportionately on individual European companies or downstream industries. Businesses may accept a reasonable security premium where alternative suppliers provide tangible benefits such as shorter and more predictable lead times, lower disruption risk, greater flexibility and reduced inventory requirements. The comparison should therefore not be limited to unit price but should consider the total cost of ownership and supply chain risk. In addition, individual companies cannot absorb the cost on their own. There must be a predictable demand and long-term commitments from customers. Resilience needs to be built into contracts and compensated accordingly; otherwise, the cost burden will fall on suppliers. The analysis also needs to consider how the EU should act in case the original supplier/country would drastically and tactically reduce prices for critical materials or components containing such materials, once an alternative supplier would be ready to deliver after the development and investments have been made. The business case needs to be sufficiently certain to attract investments.

A key obstacle for emerging alternative suppliers is that customers are reluctant to commit until prices are competitive, while suppliers cannot achieve competitive prices without sufficient scale and predictable demand. To make diversification commercially viable, businesses require greater certainty regarding future demand and long-term market conditions. For example, mechanisms that aggregate demand, provide volume visibility, or support coordinated market development could help justify investments in alternative supply chains and accelerate supplier qualification efforts. Aggregating demand from multiple European customers could provide producers with the volume certainty required to invest in capacity while reducing the price premium for individual companies.

Public policy should recognize that supply chain resilience creates broader societal benefits. It is therefore unreasonable to expect individual companies to bear the entire security premium, particularly where they compete internationally with companies that continue to source exclusively from lowest-cost suppliers, and it is motivated that the public sector shares some of the cost. Risk-sharing or co-financing could be required to support the qualification of alternative suppliers and materials. Temporary financial support may be considered for highly strategic materials where a clear cost gap prevents alternative capacity from being developed. Such support should, however, be targeted and time limited. It must also be ensured that a level playing field is upheld, as companies are unlikely to be prepared to bear a security premium unless competitors do the same.



Over the longer term, we also see significant potential in circular value chains, including recycling and recovery of critical raw materials already present in Europe. Diversification should not focus only on securing new external suppliers. The EU should also reduce structural dependencies by investing in circular value chains that retain materials and components in Europe through reuse, repair, remanufacturing and high-quality recycling. The cost of inaction is continued exposure to supply disruptions, price volatility and geopolitical pressure, making future resilience both harder and more expensive to achieve.

Trade defense instruments³ may be appropriate when alternative suppliers are undermined by demonstrable dumping, subsidization or non-market overcapacity. However, it is important to note that the aim of trade defense instruments should be to establish a level playing field and not to drive diversification per se. Such instruments should be targeted, proportionate, and carefully assessed against their potential impact on European industry's global competitiveness. Instruments must be applied with a supply chain perspective that takes into account the interests of downstream manufacturing industries, where most of the value added is created. Trade defense instruments may therefore also have to apply to finished goods that contain the targeted components and raw materials.

Extensive reporting requirements risk exacerbating the already excessive administrative burden facing European industry without contributing to greater resilience and must be avoided. A targeted diversification instrument should build on existing risk assessments (such as the European Critical Raw Materials Act), rather than imposing additional obligations at company level.

About us

The Technology Industries of Sweden (Teknikföretagen) represents more than 4,500 member companies that constitute one third of Sweden's exports. Our member companies comprise both major, renowned, global corporations as well as micro, small and medium-sized enterprises. A common denominator is that they are knowledge-intensive and export-oriented companies competing on a global market.

³ Please see position paper from Orgalim, representing the technology industries in Europe, with suggestions on how existing trade defense instruments could be further developed, [here](#).