

JBCE POSITION PAPER ON THE PROPOSAL FOR A ‘DIVERSIFY EU’ INSTRUMENT

INTRODUCTION

JBCE welcomes the opportunity to provide feedback on the European Commission’s call for evidence on the proposed ‘Diversify EU’ instrument. Recognising the importance of this initiative, JBCE calls on the European Commission to develop a practical and effective framework that reflects the realities of global supply chains.

KEY MESSAGES

JBCE believes that the upcoming ‘Diversify EU’ instrument should:

- ❖ Adopt a risk-based, value-chain-wide approach to identify and prioritise critical dependencies, bottlenecks and diversification actions rather than relying on static lists of products or sectors.
- ❖ Recognise the practical barriers to diversification, including technical qualification, certification, commercial viability, investment requirements and the time needed to establish alternative sources at industrial scale.
- ❖ Provide a balanced package of financial and non-financial support, combining public risk-sharing, supplier qualification support, supplier matching, regulatory guidance and strategic information to help companies implement diversification measures.
- ❖ Ensure coherence with existing EU legislation, avoiding duplicative reporting requirements, promoting data interoperability and applying a risk-based and proportionate approach that reflects the practical limits of supply chain visibility.
- ❖ Strengthen trusted public-private and international cooperation, including reciprocal information-sharing mechanisms, early-warning capabilities and collaboration with trusted partners to build resilient and sustainable supply chains.
- ❖ Create structured dialogue with businesses and trusted partners to reflect real supply-chain constraints, identify credible alternative sources and support diversification.

1. Prioritising the identification of critical dependencies and diversification actions

The proper identification of critical dependencies and possible actions to remediate them and diversify supply chains should be one of the priorities of the ‘Diversify EU’ instrument. To do so, the European Commission should avoid establishing an overly broad or static list

of priority products. Prioritisation should instead be based on a transparent and regularly updated assessment of the following factors:

- the potential impact of a supply disruption on businesses, critical infrastructure and society;
- the degree of concentration in particular countries, companies, facilities or transportation routes;
- the availability of technically qualified alternative sources;
- the time required to establish and qualify an alternative source;
- the availability of inventory and alternative production capacity; and
- potential future dependencies arising from rapid demand growth, limited capacity investment or technological change.

Furthermore, the assessment should cover the full value chain. It should include not only raw materials and finished products, but also critical processing steps, specialised manufacturing processes, enabling technologies, production equipment, logistics services, testing and certification capabilities. Indeed, in many cases, the most significant vulnerability may not be a well-known strategic product, but a less visible process or specialised supplier at the sub-tier level. The European Commission should therefore move from a simple list of critical products towards an assessment of critical dependencies and bottlenecks across the value chain.

2. Acknowledging the challenges businesses face in diversifying their supply chains

Diversification should not be viewed simply as a matter of changing suppliers. In many industrial supply chains, ensuring that an alternative source is operational requires technical validation and product testing, quality certification and customer approval, product redesign or changes to specifications, new tooling and production equipment, additional investment in production capacity, and compliance with different regulatory and export control requirements, among other things.

JBCE would like to emphasise that, even where an alternative supplier exists, that supplier may not have sufficient capacity, the required certification or a commercially sustainable business case. In addition, switching to a different Tier 1 supplier may not eliminate the underlying dependency if both the existing and alternative suppliers rely on the same upstream materials, processing facilities or technologies.

Furthermore, technical capability alone does not ensure successful diversification. As such, technical suitability and commercial viability should be assessed separately, including expected volume, price, investment requirements, certification costs and the ability to maintain supply over the long term.

The time required can also be significant. For example, in the automotive sector, depending on the commodity and technical validation and testing requirements, bringing an alternative source into production may take around 36 months in some cases and require significant development resources and costs.

Companies should retain flexibility to choose the most appropriate combination of resilience measures according to the specific risk and supply-chain conditions. These may include diversification, dual sourcing, strategic inventories, technical substitution, supplier development and improved supply-chain visibility. A uniform sourcing requirement would not reflect the different technical and commercial realities across products and value chains.

This instrument should therefore take into account the actual time, cost and operational complexity required to make an alternative source commercially viable on an industrial scale.

In order for the 'Diversify EU' instrument to reflect real supply-chain constraints, identify credible alternative sources and support diversification through international partnerships, the European Commission should ensure regular engagement with companies, sector and cross-sector representatives, including from trusted partners such as Japan.

3. Providing financial and non-financial support for diversification

JBCE believes that the additional cost associated with resilience should not be borne solely by individual companies. Where diversification is necessary for economic security but is not commercially viable under normal market conditions, the EU should combine targeted financial aid with practical non-financial support to address this "resilience premium" and remove implementation barriers.

In addition, JBCE encourages policymakers to prioritise incentives, investment support and the development of alternative capacity in the EU and trusted partners over rigid sourcing mandates that could impose additional costs before viable alternatives are available.

Possible financial measures could include, but are not limited to:

- investment support for alternative production and processing capacity;
- support for supplier qualification, testing, certification and product redesign;
- R&D funding for alternative materials and technologies;
- incentives for strategic stockpiling where inventory is an appropriate risk mitigation measure;
- public guarantees and low-interest financing for diversification projects;
- funding for long-term purchase or offtake arrangements;
- funding for projects in trusted partners that contribute to the resilience of EU supply chains; and
- targeted support for SMEs facing disproportionate investment and compliance costs.

Support should not be limited to upstream extraction or raw materials. It should also cover processing, refining, specialised manufacturing, enabling equipment and other intermediate steps where critical capacity is concentrated.

Japan's economic security framework¹ provides examples of combining business plans for stable supply with grants, long-term financing, guarantees and other risk-sharing measures. It also recognises that, in exceptional cases, normal commercial incentives may be insufficient to maintain strategically important capacity.

However, financial support alone will not resolve all diversification barriers. The European Commission and national authorities should also consider the following practical measures:

- public-private supplier-matching programmes within the EU and with trusted partners, such as Japan, similar to the Raw Materials Mechanism under the Critical Raw Materials Act²,
- technical assistance for qualification, testing and certification;
- access to information on potential alternative suppliers and production capacity;
- guidance on export controls, sanctions, origin requirements and relevant EU regulations;
- support for SMEs in cybersecurity, traceability and supply chain due diligence;
- common methodologies for assessing supply concentration, substitutability and lead times;
- practical guidance on joint procurement and demand aggregation; and
- clear competition law guidance for cooperation undertaken for legitimate economic security purposes.

4. Coherence with and improvement of the existing regulatory framework

In the spirit of simplification, JBCE calls on the European Commission to identify the information already collected under existing EU legislation and policy instruments before introducing new reporting obligations.

Wherever possible, supply chain information collected under existing frameworks should be reused. Companies should not be required to submit the same information repeatedly, in different formats, to different authorities.

¹ Government of Japan, Cabinet Office, Efforts to strengthen the supply chain (System for ensuring stable supply of critical materials) (in Japanese),

https://www.cao.go.jp/keizai_anzen_hosho/suishinhou/supply_chain/supply_chain.html

² Regulation (EU) 2024/1252, <https://eur-lex.europa.eu/eli/reg/2024/1252/oj/eng>

Any new reporting mechanism should use simple and flexible templates and should only be introduced where a demonstrated information gap cannot be addressed through data already collected under existing EU rules.

The 'Diversify EU' instrument should therefore:

- avoid duplication with existing supply chain, sustainability, customs and product-related reporting requirements;
- rely on already existing definitions and interoperable data formats;
- apply a risk-based and proportionate approach rather than imposing the same requirements on all companies and products;
- allow reasonable alternative evidence where detailed sub-tier information cannot be obtained;
- recognise the practical limits of companies' visibility beyond their direct suppliers;
- protect commercially sensitive information, including supplier names, prices, volumes, capacity and customer relationships; and
- take account of legal restrictions on data transfer and disclosure in third countries.

For instance, JBCE's position paper on the Carbon Border Adjustment Mechanism has highlighted the considerable difficulty of collecting detailed data for complex products with multi-tier global supply chains.³ We have also emphasised the need to harmonise methodologies across EU legislation and to avoid duplication of compliance efforts.

Similarly, this approach is reflected in JBCE's position papers on the Corporate Sustainability Due Diligence Directive⁴, the EU Deforestation Regulation and environmental reporting⁵, which called for proportionality, practical feasibility, the reuse of available information and the establishment of safeguards where companies cannot obtain data for reasons beyond their control.

Finally, international alignment should also be considered. The OECD's risk-based approach provides useful principles, including prioritisation, proportionality and consideration of a company's actual involvement and ability to influence its supply chain.⁶

³ JBCE, 'CBAM Scope Extension to Downstream Goods', <https://www.jbce.org/publication/jbce-position-paper-on-the-proposed-cbam-scope-extension-to-downstream-goods/>

⁴ JBCE, 'Feedback on the Draft European Model Clauses for the Corporate Sustainability Due Diligence Directive', <https://www.jbce.org/publication/jbce-feedback-on-the-zero-draft-of-the-european-model-clauses-for-the-corporate-sustainability-due-diligence-directive/>

⁵ JBCE, 'Targeted Exemptions and Clarifications of Product Scope under the EU Deforestation Regulation', <https://www.jbce.org/publication/jbce-position-paper-on-the-targeted-exemptions-and-clarifications-of-product-scope-under-the-eudr/>

⁶ OECD, 'OECD Guidelines for Multinational Enterprises on Responsible Business Conduct', https://www.oecd.org/en/publications/oecd-guidelines-for-multinational-enterprises-on-responsible-business-conduct_81f92357-en.html

5. Enabling reciprocal public-private information sharing

JBCE believes that public-private information sharing should be reciprocal. The 'Diversify EU' instrument should not operate solely as a mechanism through which businesses provide detailed supply chain information to public authorities.

Companies may be able to provide appropriately protected and aggregated information on supply concentration and structural dependencies, practical barriers to alternative sourcing, qualification and investment lead times, emerging regulatory or logistical problems, potential supply disruption signals and difficulties faced by smaller or sub-tier suppliers.

In return, the instrument should provide tangible benefits to companies contributing to these information-sharing efforts, including early-warning analysis of export restrictions, geopolitical developments and logistics disruptions, aggregated assessments of cross-sector dependencies, information on alternative supply capacity and potential partner countries, non-confidential scenario analysis, guidance on available public support, coordinated responses during supply disruptions, and relevant analysis based on customs, trade and industrial capacity data held by public authorities.

The system should include strong confidentiality safeguards, clear limitations on the use of company data and appropriate governance arrangements. Information should be shared on a need-to-know basis, and commercially sensitive information should not be disclosed to competitors or used for unrelated regulatory purposes. From an early-warning perspective, information sharing should connect structural chokepoints with observable developments and possible business impacts. It should support timely decisions such as confirming supplier exposure, reviewing inventories and lead times, identifying alternative sources and escalating issues that require cross-company or public-sector support.

6. Strengthening cooperation with trusted partners

Effective diversification should not be equated with EU-only sourcing. For many critical materials, processing capabilities and specialised components, viable alternative capacity may need to be developed in cooperation with trusted partners.

At the same time, as global production of certain critical materials and components remains concentrated in a limited number of countries, some dependencies are likely to continue for the foreseeable future. The instrument should therefore help companies manage these dependencies pragmatically while alternative capacity is developed, rather than assume that they can be removed in the short term.

The initiative should therefore remain open to:

- investment in trusted partners to develop production and processing capacity and strengthen EU supply chain resilience;
- international division of labour with trusted partners to build alternative supply chains;
- cooperation under trade and economic security partnerships;
- mutual recognition or alignment of relevant standards; and
- the inclusion of suppliers in trusted partners in demand aggregation and support mechanisms, where appropriate.

Any preference mechanism should be based on resilience, reliability, transparency and shared values rather than geographic origin alone. It should also be designed consistently with the EU's international commitments and should not create unjustified disadvantages for companies from trusted partners. JBCE has been a proponent of such an approach since 2025, promoting a 'Made with Common Values' approach⁷ favouring inclusive cooperation with partners sharing common principles rather than a purely geographic approach.

This would also complement the EU's wider approach of combining protection from economic security risks with investment, competitiveness measures and cooperation with trusted partners.

ABOUT JBCE

Founded in 1999, the Japan Business Council in Europe (JBCE) is a leading European organisation representing the interests of over 110 multinational companies of Japanese parentage active in Europe. Our members operate across a wide range of sectors, including information and communication technology, electronics, chemicals, automotive, machinery, wholesale trade, precision instruments, pharmaceuticals, textiles, and glass products.

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EU Transparency Register: [68368571120-55](https://ec.europa.eu/transparency/regexp1/index.cfm?do=entity.entity_details&entity_id=68368571120-55)

⁷ JBCE, 'Made with Common Values', <https://www.jbce.org/publication/jbces-position-paper-on-made-with-common-values/>