

DiversifyEU: From Enabling Diversification to Regulating It & What It Could Mean For India?

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On 29 September 2026, the European Commission published a call for evidence on *Critical products – diversifying supply chains (DiversifyEU)*, a package to reduce the European Union's (EU's) reliance on dominant suppliers of critical products (European Commission, 2026a). The initiative is led by the Directorate-General for Trade and Economic Security, and feedback is open until 27 October 2026. A proposal is expected in December 2026 (Borderlex, 2026).

The call acknowledges that diversification is not happening fast enough. Businesses lack the price signals and incentives to change their sourcing, and sustained underbidding and subsidized overcapacity can undercut alternative suppliers. The Commission therefore proposes moving from enabling diversification to actively driving it, including through trade measures that could make sourcing from a dominant supplier costlier and sourcing from alternatives, inside the EU or in trusted non-EU countries, more attractive.

The call leaves key design choices open, including how dominant suppliers and trusted partners would be identified and how far the EU would look into supply chains. For India, the initiative could cut both ways: it may create demand for alternative suppliers, but Indian goods that rely on inputs from dominant suppliers may not count as diversified supply. This article explains the initiative, the questions it leaves open, and where Indian stakeholders could focus.

I. What is DiversifyEU?

The initiative follows from the December 2025 Joint Communication on Strengthening EU Economic Security, which identified supply chain resilience as one of six high-risk areas¹ and committed the Commission to explore ways of encouraging companies in high-risk sectors to source from at least two suppliers (European Commission & High Representative, 2025). In June 2026, Commissioner Šefčovič raised the prospect of a three-supplier requirement in critical sectors (Euronews, 2026). The same month, EU leaders endorsed progress on import diversification at the European Council and set an expectation that the Commission act before the end of the year (European Commission, 2026a).

The legal form of the package is not settled. The call describes two components:

- **Trade diversification instrument.** A new instrument under Article 207 of the Treaty on the Functioning of the European Union (TFEU), the basis of the EU's common commercial policy, including the possibility to trigger tariffs under Article 31 TFEU. Article 31 allows the Council, on a proposal from the Commission, to fix Common Customs Tariff duties without the involvement of the European Parliament.

¹ The six high-risk areas are: (i) strengthening supply chain resilience and counteracting high-risk dependencies in critical goods and services; (ii) attracting value-added inbound investment that reinforces the EU's economic security; (iii) supporting a vibrant defence and space industrial base and other high-risk industrial sectors; (iv) developing and maintaining leadership across critical technologies; (v) preventing access to sensitive information and data that could undermine the EU's economic security; and (vi) preventing and mitigating disruptions to EU critical infrastructure affecting the EU economy (European Commission & High Representative, 2025, Section 3).

- **Single Market measures.** Adaptation of existing measures under Article 114 TFEU, which may include support for alternative sources of supply inside the EU and in trusted non-EU countries, and demand aggregation, that is, joint purchasing to give alternative suppliers a predictable market.

The Commission says the package will close four gaps: the lack of a legal basis for using trade measures to steer sourcing; uncertainty over whether existing data collection can monitor supply chain risks; insufficient incentives to absorb the costs of de-risking; and weak protection against risks arising from gaps in market access, compliance and public support rules.

II. What the call leaves open

The call sets out objectives and legal bases but leaves the main design choices open. Until these are settled, partner countries cannot readily judge whether, or how, they would be affected.

- **Who is a dominant supplier.** The call does not define the term, and existing EU instruments and documents use different benchmarks. The Joint Communication treats control of 60% or more of EU supply by a single third country as one indicator of high-risk dependency. In the context of public procurement, the Net-Zero Industry Act applies where a single third country supplies more than 50% of a net-zero technology or its main components in the EU: public buyers must then ensure that no more than half the value of those items in a contract comes from that country (Regulation (EU) 2024/1735, Art. 25). The Critical Raw Materials Act sets a 2030 benchmark that no single third country should supply more than 65% of the EU's annual consumption of any strategic raw material, at any stage of processing. The benchmark guides EU and Member State action and does not restrict imports or bind companies (Regulation (EU) 2024/1252, Art. 5).
- **Which sectors are critical.** The call does not list sectors and asks stakeholders which supply chains to prioritize. The Joint Communication points to critical raw, processed and advanced materials, clean tech components, mainstream semiconductors, pharmaceuticals, aeronautics, digital and space technologies, and agri-food inputs such as feed and fertilizers. Since the call commits to avoiding overlap with sectoral laws, DiversifyEU may focus on products those laws do not cover.
- **Who is a trusted partner.** The call does not define the term. The nearest reference is the proposed Industrial Accelerator Act, which treats products from free trade agreement (FTA), customs union and procurement agreement partners as equivalent to EU origin, subject to reciprocity, and lets the Commission withdraw that status where reliance creates dependencies (Wunnerlich & Drumm, 2026).
- **How dependency and circumvention are assessed.** The call frames dependencies "throughout their value chains" and lists rerouting, operating through non-EU subsidiaries, restructuring ownership and reclassifying products as circumvention. The instrument may therefore look past the country of shipment to the origin of inputs and to ownership, but the call does not say how.
- **What companies would have to do.** Whether EU companies would face binding diversification targets, reporting duties or only incentives is undecided (Borderlex, 2026). Obligations on EU buyers would likely translate into greater compliance requirements for their suppliers.
- **How tariffs would work.** The call does not say whether tariffs would raise duties on dominant-supplier products, lower them for alternative sources, or both. Duties that differ by supplier

country would need to be reconciled with the EU's most-favored-nation (MFN) obligations at the World Trade Organization (WTO).

- **How effects on partners are assessed.** No impact assessment is planned. If a derogation is granted, a staff working document will present the evidence instead.

III. Should India be worried?

DiversifyEU names no country and is not aimed at India, but its effect on Indian exporters could cut both ways.

India is a plausible alternative source for EU buyers, and the Commission presents the EU–India FTA, concluded in January 2026, as a way to strengthen EU economic security by diversifying supply (European Commission, 2026b). Whether FTA status would count towards trusted-partner treatment is therefore of direct interest.

At the same time, many Indian manufacturers depend on inputs from suppliers the EU may consider dominant. For example, China accounted for between 65% and 86% of India's imports across the main categories of active pharmaceutical ingredients in 2025 (Jyoti, 2026). If dependency is assessed along the value chain, such products may not be considered diversified supply, and exporters may be asked to document sourcing and ownership. Exposure appears greatest in pharmaceuticals and chemicals, clean technology components and automotive parts, and limited in sectors such as textiles that the EU has not identified as high-risk. Steel and aluminium are already subject to the Carbon Border Adjustment Mechanism, and aluminium is a strategic raw material under the Critical Raw Materials Act; the call does not address how DiversifyEU would interact with these instruments.

For small and medium-sized enterprises (SMEs), the first effect is more likely to be compliance requests from EU buyers than tariffs.

The position is more complicated for groups with Indian ownership or roots that also produce inside the EU. As EU producers, such groups could benefit from support for EU supply capacity. As EU buyers, they could also face any diversification or reporting obligations placed on EU companies. Where they source inputs from affiliates in India, the treatment of that intra-group supply would depend on how the instrument assesses origin and ownership.

IV. What's next

The call closes on 27 October 2026, with exploratory meetings with industry and Member States running in parallel (European Commission, 2026a). After the proposal in December, a regulation under Article 207 would go through the ordinary legislative procedure in the European Parliament and the Council, while tariff measures under Article 31 would be adopted by the Council.

The consultation is India's main opportunity to inform the design before the text is fixed. Submissions from government, export promotion councils and industry could focus on three points:

- Objective, published criteria for identifying dominant suppliers and trusted partners, and the treatment of FTA partners.
- Recognition of substantial processing and value addition in third countries when dependency is assessed.

- Proportionate compliance requirements, with specific provision for SMEs.

Exporters in the sectors most likely to be covered would also benefit from mapping their upstream sourcing and ownership now.

DiversifyEU could position India as a preferred alternative supplier or treat some Indian goods as part of the dependency the EU seeks to reduce. Which outcome prevails will depend on choices the Commission has yet to make, and on the evidence it receives before making them.

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