Critical Raw Materials procurement, recycling & re-use

Eurometaux comments

As Eurometaux, the European non-ferrous metals industry association, we fully support the objectives of the Critical Raw Materials Act (CRMA) to improve the resilience and sustainability of Europe's raw materials value chains.

Our sector supplies many of the critical raw materials that enable our green and digital transitions and help strengthen our security and defence. But our ability to invest in Europe is increasingly constrained by outdated **EU State Aid rules which must be modernised** to reflect the global picture. The priority should be to enable a viable business case for domestic investment by modernising the EU's state aid approach and addressing real bottlenecks. In parallel, the CISAF (Clean Industry State Aid Framework) must shift away from the "funding gap" approach and/or past conditionalities limiting access to state support.

It is important to recognise that many critical raw materials are by-products of other industrial processes, and their production is often dominated by a single country. For example, China accounts for 98% of global gallium production. This creates risks of price manipulation that can undermine European investment**. Targeted tools like price support mechanisms are needed** to de-risk production and ensure Europe's strategic autonomy.

Similarly to Eurometaux's response to the upcoming EU Stockpiling Strategy, **here**, we also consider that a **joint purchasing mechanism** should carefully be assessed, taking sector-specificities and material characteristics into account to ensure that it really delivers on its objectives, while avoiding unwanted impacts, such as market distortions.

The EU's primary focus should be on tackling the real bottlenecks to its raw materials resilience: ensuring a business case for domestic investment and operations (EU finance, energy costs, regulatory coherence etc), and securing diversified global supply chains through partnerships and investments.

In this paper, we comment on the following aspects: i) Careful assessment of the joint purchasing mechanism; ii) Modernisation of EU state aid rules; iii) Bottlenecks for resilient raw materials value chains.

Our recommendations:

- Conduct a targeted impact assessment of a joint purchasing mechanism to ensure it does not distort markets or disincentivise EU production.
- Carry out a modernisation of EU State Aid rules to reflect global market realities and remove barriers such as the "funding gap".

1. Careful assessment of the joint purchasing mechanism

We understand that the ongoing fact-finding exercise will feed in the Commission's efforts to **promote joint purchasing of critical raw materials**. Here below are some considerations on this initiative.

Given the tough economic context faced by the EU non-ferrous metals industry, careful consideration is necessary to ensure that, whenever possible and keeping in mind the nature and specificities of some value chains, preference is given to materials produced in the EU. This with the aim of preserving security of supply and EU resilience, while promoting high ESG criteria and avoiding disadvantaging EU producers that often have higher costs (e.g. energy, labor).

As stated in a study by **Frontier Economics**[1], *'Demand Aggregation/Joint Purchasing Mechanism is particularly applicable when a standardised product (commodity) can be traded. This may be challenging for Strategic Raw Materials with a high degree of product differentiation'*.

Unlike natural gas, for which the AggregateEU has been used, strategic materials are a heterogenous group of materials, with different characteristics, specifications and market situations (e.g. more or less concentrated and/or volatile). In addition, they are usually sold under detailed customer' requirements and, in some cases, with a very narrow customer basis (i.e. gallium for gallium arsenide wafers).

Additionally, several raw materials would not benefit from a demand aggregation/joint purchasing mechanism because of different reasons:

- some metals are already transparently traded on the London Metals Exchange (e.g. aluminium, copper, nickel, zinc);
- metals with EU operations and/or investment projects must be safeguarded (e.g. silicon, manganese, lithium);
- metals have sometimes only a small number of industrial consumers in Europe (e.g. gallium).

In raw material sectors where Europe already has active and strategically important production systems (like aluminium) demand aggregation tools risk undermining rather than supporting investments. Artificially consolidating demand across buyers could distort pricing signals, misrepresent true market needs, and disincentivise upstream producers from scaling operations. Different consideration might be necessary for metals with no or limited production capacity in the EU.

Any EU intervention should ensure that joint purchasing does not destabilise business models already contributing to strategic autonomy.

It is also very important to note that many critical raw materials are produced as by-products from other industrial processes (e.g. gallium as a by-product of alumina refining). With China often dominating the production of some of these materials, support for derisking projects is necessary (e.g. through tools such as two-way Contracts for Difference (CfDs).

Our recommendations:

- Carefully consider the specificities of each raw and their suitability for a demand aggregation/joint purchasing mechanism.
- Avoid one-size-fits-all approach, while providing tailored support, such as two-way Contracts for Difference.

2. Modernisation of EU State Aid rules

It is necessary to assess how the EU's competition policy can best enable investments in domestic raw materials production, as well as to conduct a **thorough revision of EU State Aid rules** so they can bring a real added value in strengthening EU raw materials value chains.

The EU's State Aid rules were developed decades ago, when the global landscape looked very different to today, especially in the raw materials sector. Back then, the EU accounted for a significant share of global production across raw

[1] The study looked at the following raw materials: nickel, cobalt, lithium and rare earths.

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material value chains. The State Aid rules were therefore developed around the principle of preserving a level playing field within the internal market. However, raw materials tend to be globally traded commodities, for which the relevant market is not the European one but rather the global one. Here, European metals companies are competing against companies from other regions of the world that are heavily subsidising their own industries, due to their strategic importance. For example, a **2019 OECD study** found that of all the identified subsidies to the global aluminium industry during the period 2013-2017, 85% went to Chinese companies.

Moreover, as highlighted previously, the EU's State Aid Guidelines such as the CISAF must move away from requiring proof of financial distress or project unviability as a precondition for receiving support. The **Temporary Crisis and Transition Framework** (TCTF) and other Aid instruments include several such eligibility constraints which currently significantly limit the possibility to access State Aid.

The EU should be prioritizing support to projects with a solid business case, based on similar logic as the US IRA to re-establish Europe as an attractive investment destination for industry.

The primary aim of the EU's competition policy as well as any EU initiative around Critical Raw Materials should be to strengthen EU production (mining, refining, recycling) of critical raw materials, and ensure security of supply.

Modernisation of EU State Aid rules is key to bring these rules in line with today's global realities.

Our recommendation: Conduct a thorough revision of EU State Aid rules to reflect today's global market conditions, particularly for energy-intensive and trade-exposed sectors.

3. Bottlenecks for resilient raw materials value chains

The above-mentioned Frontier Economics study also highlights that a demand aggregation/joint purchasing mechanism would have to be accompanied by a series of other measures aimed at supporting Europe's strategic raw materials production.

In our **Metals Action plan**, we have identified the main bottlenecks preventing non-ferrous metals companies to invest in the EU and to remain competitive on the global scale, together with suggestions for how these can be addressed.

- **High-energy prices and unlevel playing field** – non-ferrous metals industry is highly electro-intensive, a price taker and operates with energy costs that are much higher compared to other global competitors (e.g. the cost of electricity is 2-3 times higher in Europe than in the USA). Measures should be taken to address the high cost of energy for Energy-Intensive Industries (EIIs), facilitating access to globally competitive electricity[1]. This could be done in a forward-looking manner that requests electro-intensive consumers to invest in new renewable generation assets (by signing a Renewable Energy Sources Power Purchase Agreement – RES PPA) in exchange for support for the additional costs that electro-intensive consumers face when signing a RES PPA, namely shaping/firming costs. As highly electro-intensive consumers, access to low-carbon electricity at globally-competitive prices is vital for our business. There are currently no mechanisms helping electricity consumers switch to consuming low-carbon electricity sources, e.g. by signing a RES PPA. Electro-intensive consumers are currently unable to sign RES PPAs due to the specific barriers they face (primarily shaping and

[1] E.g. introducing provisions in the CISAF framework to replace the Section 2.4. of the TCTF which allowed Member States to support industries exposed to exceptionally high energy prices.

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firming costs that increase the final price of the renewable PPA), therefore aid reducing scope 2 emissions needs to become eligible to public support.

- **Access to finance** – additional accompanying actions are necessary to de-risk projects and create a business case for raw materials production in the EU. We call for a **Sovereignty Fund** for manufacturing, including a strong raw materials focus, and a **Raw Materials Bank**, providing time-limited output-based support, applicable both to operating and capital costs.

- **Regulatory coherence** – the ambition of maintaining and boosting the extraction, processing and recycling of raw materials in Europe should be supported by a favourable, coherent and predictable regulatory framework. As an example, excessively restrictive regulatory requirements in chemicals legislation might discourage any investment in EU-based production or processing, disadvantaging the whole supply chain against other regions. Other EU frameworks such as the EU ETS and the CBAM must also be aligned to ensure consistent treatment of EU producers.

Additional aspects, such as the promotion of diversified supply chains, strengthening the business case for recycling raw materials here in the EU and protecting high-quality industrial jobs should also be addressed. It is essential that any action taken by the EU is fit-for-purpose and accompanied by concrete initiatives that improve material efficiency, circularity, and the regulatory landscape.

Our recommendation: Tackle the various bottlenecks (e.g. high energy prices, lack of financing, regulatory incoherence) that hinder the business case for European domestic production of raw materials.

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About Eurometaux: Eurometaux is the voice of non-ferrous metals producers and recyclers in Europe. We are an umbrella association representing the interests of the combined non-ferrous metals industry towards EU policy makers.

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