

Why is action on European critical raw materials needed?

Critical Raw Materials (CRM) are indispensable for a wide set of technologies needed for EU strategic sectors such as the net-zero industry, digital, space and defence. While the demand for such critical raw materials has never been higher, it is expected to continue to grow driven by the green and digital transitions. For instance, EU demand for **lithium** used in electric-vehicles batteries and energy storage is expected to increase by twelve-fold by 2030.

On the other hand, the supply of critical raw materials is confronted with rising geopolitical, environmental and social risks and challenges. Crucially, the EU faces dependencies on several critical raw materials, with often more than 90% of EU supply coming from a single third country. In addition, recent developments such as Covid-19 related supply disruptions, the chips shortage and the energy crisis following Russia's invasion of Ukraine have underlined the risk that excessive dependencies on the EU supply of strategic inputs pose to our economic and social welfare and to our security.

What is the Commission proposing today in order to strengthen the critical raw material value chains?

The EU must secure a sustainable, resilient and diversified supply of critical raw materials to succeed in its green and digital transitions and provide for the needs of strategic European sectors such as defence and space. It needs to do so to ensure the well-functioning of the Single Market, the competitiveness and resilience of its industries and to maintain its open strategic autonomy in a fast changing and increasingly challenging geopolitical environment.

The European Critical Raw Materials Act aims to ensure the EU's secure and sustainable supply of critical raw materials. The Act aims to strengthen all stages of the European critical raw materials value chain, diversify the EU's imports to reduce strategic dependencies, improve the EU capacity to monitor and mitigate risks of disruptions to the supply of critical raw materials, and improve circularity and sustainability.

The Act is accompanied by a Communication, which outlines how the EU intends to strengthen its global engagement to develop and diversify investment, production, and trade with reliable partners. The EU will pursue these objectives in cooperation with third countries through mutually beneficial partnerships, with a view to promoting their own economic development in a sustainable manner while also creating secure, resilient, affordable and sufficiently diversified value chains for the EU.

What has been the Commission's policy on securing critical raw materials supplies for the EU industry?

The 2008 Raw Materials Initiative and the 2020 Action Plan on Critical Raw Materials provide a framework for non-regulatory actions to strengthen EU access to raw materials. The EU has been carrying out actions to assess the criticality of many raw materials, promote the diversification of supply through Strategic Partnerships, develop raw materials clusters in research and innovation and create industrial alliances to build synergies and foster investments.

However, given the strategic importance of raw materials for the EU, the growing resource competition, and subsequent geopolitical tensions, the Commission is today proposing to take a legislative action to ensure Europe can benefit from a secure and sustainable supply of critical raw materials.

What is proposed under the Critical Raw Material Regulation?

The European Critical Raw Materials Regulation builds on four key pillars:

First, the proposal for a Regulation defines priorities and sets out our clear objectives in terms of strengthening EU's critical raw materials supply chains. In particular, it proposes to include the critical raw materials list as well as a new strategic raw materials list under the framework of the Regulation and therefore codifying them in law. At the same time, the Act proposes benchmarks to improve capacities for extraction, processing and recycling of critical raw materials in the EU and guide diversification efforts. The Regulation sets clear benchmarks for domestic capacities along the strategic raw material supply chain and to diversify EU supply: at least 10% of the EU's annual consumption for extraction; at least 40% of the EU's annual consumption for processing; at least 15% of the EU's annual consumption for recycling; not more than 65% of the Union's annual consumption of each strategic raw material at any relevant stage of processing is from a single third country. Second, the Regulation proposes new measures to strengthen European critical raw materials capacities along the entire value chain, such as for instance a new framework to select and implement Strategic Projects, which can benefit from streamlined permitting and enabling conditions for access to finance; as well as sets out national requirements to develop exploration programmes in Europe. In addition, Member States are required to provide all critical raw materials projects with a one-stop-shop for all relevant permits. Strategic Projects can also develop in third countries, to the mutual benefit of the EU and our partners.

Moreover, the Regulation also proposes measures to improve the circularity and the efficient use of the critical raw materials by creating value chains for recycled critical raw materials. For instance, by obliging operators and Member States to improve the recovery of critical raw materials from products and waste containing critical raw materials in the EU

market.

Thirdly, the Regulation sets out actions to improve EU preparedness and mitigate supply risks. To ensure resilience of the supply chains, the Act provides for the monitoring of critical raw materials supply chains, and information exchange and future coordination on strategic raw materials' stocks among Member States. Certain large companies will have to perform an audit of their supply chains, containing a company-level stress test.

Fourth, a common governing structure will be set up in the form of a Board, composed of Member States and the Commission, to advise and coordinate the implementation of the measures set out in the Act and discuss the EU's strategic partnerships with third countries.

What does the Commission propose to do to facilitate critical raw materials supplies from outside the EU?

The EU is already actively working on a broad range of tools to facilitate trade, investment and cooperation to open opportunities globally, thereby increasing the security and affordability of critical raw materials. Given the current challenges, synergies must be sought between the various available tools to ensure a coherent approach and deliver effective results in the shortest timeframe possible, notably using the Global Gateway strategy to leverage financial and policy instruments.

The EU external actions will cover the following:

The Commission will establish a critical raw materials club with partners to strengthen supply chains and diversify sourcing. It will reach out to all potential partners to set up this alliance.

The Commission will continue its efforts to sustain and strengthen the World Trade Organization (WTO), including in negotiating the plurilateral agreement on 'Investment Facilitation for Development'.

Bilaterally the EU will use its expanding network of Sustainable Investment Facilitation Agreements and Free Trade Agreements to support the ambition of the EU's trading partners to develop processing capacities and create win-win partnerships, such as with Chile and Australia.

The Commission will follow closely the impact of tariffs on the ability to import critical raw materials, and examine requests for duty suspensions.

The Commission will seek to expand the network of strategic raw materials partnerships with resource-rich countries, to the mutual benefits of Europe and our partners.

The Commission will work in the Organisation for Economic Co-operation and Development (OECD) to improve arrangements and work with EU Member States to set up an EU Export Credit Facility for inter alia supporting CRM supply chains abroad.

What's the difference between critical and strategic raw materials?

The Commission has been carrying out a criticality assessment to define the raw materials that are critical for the EU based on their economic importance and supply risk. The Act will contain a list of critical raw materials and will codify the critical raw materials methodology used for the assessment in law, which will be used to update the critical raw materials list periodically. The Act proposes certain measures, including those on monitoring, circularity and sustainability, to apply to all critical raw materials.

However, the Commission recognises that a specific focus must be placed on those raw materials that are used in strategic sectors such as renewable energy, digital, space and defence technologies and for whose projected demand growth compared to current levels of supply, combined with the difficulties of scaling up production, are likely to create supply risks in the near future. Based on this assessment, a strategic raw material list has been drawn up, which will be reviewed at least every 4 years.

As a result, the Act specifically proposes measures which address strategic raw materials, namely through actions aimed at increasing domestic capacities, diversification and risk preparedness. In addition, measures related to strategic stocks and joint purchasing apply to the strategic raw materials.

What actions does the Act propose to increase resilience and prevent supply disruptions in the critical raw materials supply chains?

The Act will provide a comprehensive framework to better equip Member States and companies to withstand supply disruptions. First, the Commission with support from the Critical Raw Materials Board, composed of Member States and the Commission, will coordinate the monitoring of critical raw materials-related supply risks, which will be accessible publicly. The Commission, advised by the Board, will coordinate stress tests across the strategic raw materials supply chains to evaluate actual exposure to supply risks. Second, the Act enables the Commission to gather information on Member States' strategic stocks across the EU to better equip the Union ahead of a crisis. In addition, to incentivise companies to develop appropriate supply risk mitigation strategies and strengthen their resilience, the Act compels large companies that manufacture strategic technologies with strategic raw materials to audit their supply chains every two years and present the results to their boards. Lastly, the Act will also set a mechanism to facilitate joint purchases of strategic raw materials for interested Member State authorities and European undertakings.

Which projects can be selected as Strategic Projects and what are they benefiting from?

Projects contributing to build strategic raw materials capacities across all value chain stages, both within and outside of the EU, can apply for the status of “Strategic Project”. Projects will be selected based on their contribution to the security of supply of strategic raw materials, their technical feasibility, sustainability and social standards. Projects in the EU need to provide a European dimension and projects in third countries local value added. Strategic Projects will benefit from streamlined permitting to accelerate administrative procedures. Member States will need to comply with clear deadlines for the entire procedure, coordinate under a single procedure the relevant environmental assessments and, where relevant, apply urgency procedures in case a judicial procedure is launched. To advise promoters of Strategic Projects on the best option to access funding and gather investments to develop the project, the Act will establish a dedicated group under the Board to coordinate support for each Strategic Project. In addition, the Act will facilitate off-take agreements, bringing project promoters and downstream users together. Given the high price volatility of many critical raw materials, predictable prices for the next years should ease the funding of the project, while providing downstream producers with stable and secure supply of key inputs.

For Strategic Projects outside of the EU, high environmental and social conditions continue to apply and local value added should be brought to the third country. The Commission, assisted by the Board, will support the implementation of the projects and will seek to create synergies with existing international initiatives, such as the Global Gateway strategy. The assessment and selection of Strategic Projects will be carried out by the Commission and the Board.

What does the Commission propose to facilitate the financing of critical raw materials projects?

In compliance with competition rules, the Regulation proposes to bring Member States and the Commission together with relevant financial institutions to discuss private sources of financing, existing financial instruments and EU funds, and to facilitate off-take agreements. To achieve this, one of the proposed actions is the Commission’s work with the European Investment Bank and other InvestEU implementing partners to seek ways to scale up support to investment in the critical raw materials supply chain, including via the setting up of blending operations. Private investment by companies, financial investors and off-takers will be essential.

However, where private financing alone may not be sufficient, the effective roll-out of projects along the critical raw materials value chain may require public support, including in the form of State aid. It is important to note that the proposed measures do not involve

new financing rules or resources, but rather aim at coordinating existing financing mechanisms. As far as national resources are concerned, the State aid framework provides ample possibilities to crowd-in private investments and to effectively roll-out critical raw materials-related projects. In addition, the Commission has recently adapted State aid rules to allow further flexibility for the Member States to grant aid to further speed up and simplify, with easier calculations, simpler procedures, and accelerated approval, while limiting distortions to the Single Market and preserving cohesion objectives.

What measures are proposed to foster the sustainability of critical raw materials production and increase their circularity?

Measures to increase circularity and efficient use of critical raw materials will be a key contributor to mitigate the import dependency that the EU is facing. The Act also addresses the need to improve sustainability of critical raw materials and includes special provisions to strengthen their circularity.

The Act sets general obligations for Member States to increase the collection, treatment and reuse of waste containing critical raw materials.

Through public procurement, Member States should also promote the use of secondary critical raw materials in their manufacturing sectors and develop national research and innovation programmes on recycling technologies to substitute critical raw materials. In addition, the Act promotes the recovery of critical raw materials from mining waste. The EU, due to its history of mining, has numerous old mining sites and tailings across the EU which can contain precious critical raw materials, but whose potential has not been analysed so far.

The Act obliges current operators to assess the possibility for such recovery and to gather information on the critical raw materials content of the waste they are generating as well as on the waste stored on their sites. For closed and abandoned mines, the Act makes Member States responsible for gathering this data – from permitting files as well as targeted sampling campaigns – and publishing it in an openly accessible database. This will allow potential operators to identify potential sites of interest and implement such recovery projects with public authorities.

The Act also contains provisions to establish circularity requirements for permanent magnets, which are technologies well-known for containing rare earths and for whom the EU is fully dependent on third countries. Today, less than 1% of rare earths consumed in the EU are recycled. Permanent magnets are found in a wide variety of products strategic for the energy and digital transitions (e.g. wind turbines and electric vehicles). Their recyclability is technically feasible but remains very limited. To ensure permanent magnets'

recyclability, the Act will facilitate the work of recycling facilities by setting information requirements on the type and composition of permanent magnets contained in a defined list of products and on the recycled content of certain critical raw materials in new magnets. Finally, the Communication accompanying the Act recognises the need to continue work on circularity and announces targeted actions on the most important waste streams containing critical raw materials: end-of-life vehicles, electronic waste, battery waste, and products not yet covered by EU waste legislation, such as wind turbines. For each of these, the Commission will develop or revise waste rules to maximise the recovery of critical raw materials in the coming years. However, circularity has to start earlier than when a product becomes waste. Therefore, the Commission will place a focus on the recyclability of critical raw materials and their substitution in its work on product-specific ecodesign requirements. It will also mobilise up to €200 million to deploy ten additional Hubs for Circularity to substantially increase recovery and recycling of raw materials in the entire Union.

What about Strategic Partnerships? What are they and can we expect more of them?

Strategic Partnerships promote sustainable growth and contribute to resilient raw materials and industrial value chains. Ultimately, partnerships leverage integration of the industrial and materials value chains between the EU and the partner country.

The first Strategic Partnership was established in 2021 in the framework of the EU-Canada Comprehensive Economic and Trade Agreement (CETA). A partnership with Ukraine was also signed in 2021. Ukraine is a significant global supplier of titanium and is a potential source of over twenty critical raw materials for the EU. In November 2022, the Commission signed Strategic Partnerships with Kazakhstan and Namibia. The intention is to expand upon this list in the coming years.

How does the EU ensure that critical raw materials supplying countries are not exploited?

Many of the world's richest sources of critical raw materials are found in emerging markets and developing economies. The EU is committed to supporting our partner countries to move up the value chain. Deploying a "Team Europe" approach between the EU, its Member States, and other relevant actors (such as Development Finance Institutions, the European Investment Bank, the European Bank for Reconstruction and Development) and creating synergies with the European private sector, some critical raw materials-related projects will be defined as priorities under the Global Gateway strategy.

These projects will be designed to provide the targeted partner countries with a high-quality and scaled-up EU offer, aligning partners' interests with EU interests. For instance, a core

aim of the Global Gateway is to support sustainable job creation and the promotion of decent work. This includes attention for vulnerable groups that encounter specific challenges to enter the labour market as well as to serious issues like child labour.

What actions will support skills, research and innovation in the field of raw materials?

The Communication also foresees actions on skills, research and innovation and standardisation to ensure that Europe leads on a responsible and sustainable critical raw materials sector that benefits citizens, businesses and the environment. In that sense, actions on standardisation at international level will be carried out to ensure that international technical standards on critical raw materials reflect the high environmental and social conditions to EU principles and values on the extraction sector

To remain competitive and fit for the digital and green economy, actions to up-skill and re-skill European workers will be carried out to ensure that circularity, sustainability, digitalisation and the latest innovation on the critical raw materials sectors are part of the core training of the European workforce. This will be done via a Raw Materials Academy and through a large-scale partnership on skills for critical raw materials.

Finally, to facilitate a more efficient use of raw materials resources, we need further research and innovation in the critical raw materials value chain. The Commission has already devoted under the **Horizon Europe work programme** €500 million for R&I critical raw materials projects to overcome the challenges ahead in all the [critical raw materials](#) and other raw materials.

Therefore, the Commission will deploy new initiatives to improve our R&I, including by improving the deployment and uptake of existing R&I breakthroughs through the European Innovation Council and the European Institute for Innovation and Technology, by presenting a Coordinated Plan of Action with Member States on advanced materials, including substitution and by developing a Strategic Implementation Plan under EIP on [raw materials](#).

Source: European Commission