

# What's Hot: Tit-for-tat in the green arms race should tighten metal supplies

Published 7 July 2023

## Nitesh Shah

Head of Commodities and Macroeconomic Research, WisdomTree Europe

The energy transition - the process of moving away from greenhouse gas intense energy consumption towards more renewable energy sources - presents a significant positive demand shock for the metals needed to build out grid infrastructure, distribution and transmission cabling, vehicle charging infrastructure, battery components, solar panels, and wind turbines. However, many nations who are trying to deliver on their promises to meet 'net zero' pledges have come to the realisation that much of the supply chain to produce the metals and the green energy components is currently far out of their jurisdiction and sphere of influence. The Covid 19 supply chain disruptions clearly highlighted vulnerabilities in the status quo. That crisis had already started the process of 'reshoring' or 'onshoring', i.e., moving more of a product supply chain closer to the consumer market. The energy transition is accelerating this trend.

## Inflation Reduction Act catalyses a global green arms race

The 2022 Inflation Reduction Act (IRA) in the USA aims to spur investment in domestic green technology. The majority of the \$394 billion in energy and climate funding in the IRA is in the form of tax credits with strings attached to local sourcing.

While other nations and regions have had some form of domestic sourcing incentives in place, the sheer size and scale of the US approach has inspired others to double-down on their strategies.

## The European Union's CRM

The European Union has maintained a list of Critical Raw Materials (CRMs) since 2011. CRMs combine raw materials of high importance to the EU economy and of high risk associated with their supply. The list sharpens the focus on supply security. In 2011, the list contained 14 materials and by 2017, in its fourth iteration, the list was 30 strong.

In March 2023, the European Commission proposed adding four more raw materials to the list. Aluminium has been added to the list<sup>1</sup>. In the previous iteration, bauxite – a key ingredient for aluminium production – was included, but the now the finished product of aluminium is on the list.

## Critical Raw Materials Act

In addition to Critical Raw Materials, the Commission has defined Strategic Raw Materials (SRMs)<sup>2</sup>. Copper and Nickel are additional SRMs (although they are not CRMs). Aluminium is both a CRM and

SRM. The European Commission's Critical Raw Materials Act proposal sets hard targets for domestic capacities in SRMs by 2030:

- 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
- no more than 65% of the EU's annual consumption from a single third country

On 30th June 2023, the European Council published its negotiating position<sup>3</sup>. It wants to raise the bar higher for processing and recycling:

- at least 40% 50% of the EU's annual consumption for processing
- at least 15% 20% of the EU's annual consumption for recycling

The European Parliament has not yet adopted its position and the full negotiation process will likely take time. But based on the Council's position, negotiations are likely to focus on higher rather than lower local sourcing.

### **China flirts with new resource restrictions**

China said on 3rd July 2023 it would restrict exports of two metals - gallium and germanium - used in semi-conductors and electric vehicles, escalating a technology war with the United States and European Union. However, rather than banning the export of the materials, the proposal is to put in place regulations for companies to obtain export licences for foreign shipments of the metal. The curbs follow USA's blacklisting of Chinese companies in recent years, aimed at cutting them off from access to US technologies, including the most advanced chips. Our understanding is that EU and Chinese officials are locked in negotiations at the moment to keep the trade channel of these metals open.

### **Conclusions**

While a slowly evolving process, last week saw several key markers for resource trade restrictions surface. While it's understandable that many countries want to ensure resource security by controlling more of the supply chains, we believe the process of adjustment will tighten material supply especially as tit-for-tat counter policies are adopted.

1 [https://single-market-economy.ec.europa.eu/sectors/raw-materials/areas-specific-interest/critical-raw-materials\\_en](https://single-market-economy.ec.europa.eu/sectors/raw-materials/areas-specific-interest/critical-raw-materials_en)

2 17 of the 34 materials are labelled as SRMs

3 <https://www.consilium.europa.eu/en/press/press-releases/2023/06/30/critical-raw-material-act-council-adopts-negotiating-position/>

### **Related blogs**

+ Energy transition gets unexpected boost

## Important Risks Related to this Article

### Important Information

**Marketing communications issued in the European Economic Area (“EEA”):** This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

**Marketing communications issued in jurisdictions outside of the EEA:** This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as “WisdomTree” (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

**For professional clients only. The information contained in this document is for your general information only and is neither an offer for sale nor a solicitation of an offer to buy securities or shares. This document should not be used as the basis for any investment decision. Investments may go up or down in value and you may lose some or all of the amount invested. Past performance is not necessarily a guide to future performance. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.**

The application of regulations and tax laws can often lead to a number of different interpretations. Any views or opinions expressed in this communication represent the views of WisdomTree and should not be construed as regulatory, tax or legal advice. WisdomTree makes no warranty or representation as to the accuracy of any of the views or opinions expressed in this communication. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

This document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares or securities in the United States or any province or territory thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.

Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.