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

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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 list1. 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)2. 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 position3. 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

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/

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