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NOTE

From: Presidency

To: Permanent Representatives Committee/Council

Subject: *Preparation of the Competitiveness Council on 27 May 2021*
Updating the new industrial strategy for Europe - the critical importance of securing access to critical raw materials
Policy debate

Delegations will find attached a Presidency note on "Updating the new industrial strategy for Europe - the critical importance of securing access to critical raw materials " with a view to the policy debate at the Competitiveness Council on 27 May 2021.

Competitiveness Council | Internal Market and Industry

Updating the new Industrial Strategy for Europe – the critical importance of securing access to critical raw materials

Presidency Discussion Paper

Much has changed since March 2020 when the Industrial Policy package was adopted by the Commission. The COVID-19 pandemic hit the European economy hard, with differentiated quantitative and qualitative impacts across the various sectors and industrial ecosystems.

The updated Industrial Strategy, presented by the Commission on 5 May, reaffirms the priorities set out in March 2020, notably the green and digital transitions. At the same time, it contains an assessment aiming to draw the lessons learned from the pandemic crisis to boost the recovery, enhance the EU's open strategic autonomy (which was extensively discussed at the informal meeting of Ministers for Competitiveness (Internal Market and Industry) in March this year), and to accelerate the twin transition, bearing in mind the requests made by the European Council in its October 2020 Conclusions to: (i) present a strategic report on the Single Market, including a state of play of the Single Market Enforcement Action Plan; (ii) assess the robustness of existing procedures and the need for actions to strengthen the Single Market resilience; and (iii) identify strategic dependencies, particularly in the most sensitive industrial ecosystems such as for health, and to propose measures to mitigate them.

Strengthening Single Market resilience

The first Annual Single Market Report looks, among others, at the impact of the crisis on the Single Market and on European companies, including on industrial ecosystems and small and medium-sized enterprises (SMEs). It also assesses progress on addressing key obstacles to the Single Market.

As a result of the analysis and the lessons learned, the Commission confirms its commitment to explore ways to strengthen the Single Market resilience. This includes the Single Market Emergency Instrument, aiming to provide a structural solution to ensure the availability and free movement of persons, goods and services in the context of possible future crises.

The document also highlights the important role of the ‘Single Market Enforcement Task Force’, launched in the framework of the industrial strategy in March 2020, as the high-level forum where the Commission and Member States collaboratively seek solutions for addressing Single Market obstacles.

Efforts will be pursued to address restrictions and barriers identified in the 2020 Single Market Barriers Report. In particular, the Commission will explore the possibilities of defining standards in the area of business services and improving practical implementation of the posting of workers. Focus will also be put on the interplay between goods and services across all ecosystems and the role of effective market surveillance by national authorities to face non-compliant products.

Specific initiatives to fight late payments, such as the future Observatory on late payments, the mobilisation of investments in SMEs through the SME window of InvestEU, and a new public-private IPO Fund to support SMEs and mid-caps, to ensure better access to equity financing, will also contribute to improve the SMEs’ solvency. These actions will foster the Single Market’s recovery and strengthen the competitiveness and resilience of EU industry.

Dealing with the EU's strategic dependencies

The March 2020 Industrial Strategy highlighted the importance of reinforcing the EU's open strategic autonomy and the need to reduce dependencies on third countries for some specific products, infrastructures and technologies of strategic importance. The COVID-19 crisis illustrated the importance of getting a better foresight of where current and future strategic dependencies lie.

In its Staff Working Document on strategic dependencies published with the updated Industrial Strategy, the Commission has carried out a trade data-based analysis that provides first insights. Out of 5200 products imported into the EU, the analysis identifies 137 products (representing 6% of the value of the EU's total import value of goods) in sensitive industrial ecosystems for which the EU is highly dependent. About half of these originate from China. These products relate mainly to the energy-intensive industries (such as raw materials) and health ecosystems (such as active pharmaceutical ingredients), or other products relevant to support the green and digital transitions.

Out of those, 34 products are seen as more vulnerable given their possibly low potential for further diversification and substitution with EU production. The present analysis covers six in-depth reviews on raw materials, batteries, active pharmaceutical ingredients, hydrogen, semiconductors and cloud and edge technologies. The analysis also shows challenges and dependencies in the area of advanced technologies.

On the way forward, the updated Industrial Strategy restates the Commission's will to continue engaging with Member States and Industry, including through the Industrial Forum to deepen its analysis and address identified strategic dependencies. As outlined in the Trade Policy Review, work will continue towards diversifying international supply chains and pursuing international partnerships with likeminded partners.

In addition, the updated Industrial Strategy reaffirmed the Commission's support to industrial alliances in strategic areas where they are identified as the best tool to accelerate activities that would not develop otherwise. In particular, the Commission has announced that it is preparing the launch of two alliances for Processors and Semiconductor Technologies, and for Industrial Data, Edge and Cloud. It is also considering the preparation of alliances on Space Launchers and on Zero Emission Aviation, working in full complementarity with the Renewable and Low-Carbon Fuels Alliance currently under consideration.

According to the updated Industrial Strategy, the Commission will also present a strategy on standardisation for a more assertive stance in European and international standards setting, in line with European strategic interests and values. Whilst technical by nature, standardisation is a highly strategic activity. Standards ensure interoperability between different devices and services, reduce adaptation costs, eliminate barriers to trade, help companies to access markets and facilitate the implementation of new technologies and products. Moreover, standards can play a key role in fostering EU competitiveness and technological leadership, notably in new areas where the EU, on its own or in cooperation with like-minded partners, has the ability to influence the international system.

The announced guidance on strategic public procurement can further contribute to diversifying the suppliers' base and strengthening EU value chains in a global context.

In conjunction with the updated Industrial Strategy, the Commission has also proposed a legal instrument to address the potentially distortive effects of foreign subsidies in the Single Market. This instrument can be a key element by addressing the external dimension of the level playing field and, by doing this, it will contribute to promoting a fair and competitive Single Market.

Finally, the initiatives laid out in the updated Industrial Strategy must also be set in the broader context of actions considered by third countries. For example, the US is undertaking a review of their supply chains with a focus on batteries, semiconductors, active pharmaceutical ingredients and rare earths, and six industrial bases¹. The G7 is also addressing global supply chain vulnerabilities as part of a new G7 economic resilience action plan.

Accelerating the twin transitions

The pandemic has affected the speed and scale of the green and digital transitions. To reinforce the business case for the transitions and its predictability, that are pre-conditions for well-informed investment decisions, Industry needs a coherent regulatory framework, access to capacities and infrastructure (including digital ones), access to finance (with a strong emphasis on equity instruments and on the need to improve the capital ecosystem), access to raw materials and decarbonised energy, and the right skills.

Against this background, the updated Industrial Strategy presents a first analysis of the challenges faced by the fourteen industrial ecosystems and of the transformative initiatives already undertaken. These analyses represent an important input to the co-creation, in partnership with Industry, public authorities, social partners and other stakeholders, of the so-called transition pathways for the industrial ecosystems.

There is also a need to create and deepen markets for green products and boost investments. The investments from Next Generation EU, which the Competitiveness Council had the opportunity to discuss last February, will provide opportunities to structurally change our economies. Multi-country projects, industrial alliances, European partnerships and other tools can play an important role to advance the twin transitions.

¹ Defence, Health, ICT, Energy, Transportation, Agri-food. See <https://www.whitehouse.gov/briefing-room/presidential-actions/2021/02/24/executive-order-on-americas-supply-chains/>.

Access to Critical Raw materials

The updated Industrial Strategy and its mapping of the EU's strategic dependencies and capacities further draws our attention to the EU's dependence on the supply of raw materials from third countries.

The EU Action Plan on Critical Raw Materials² presents ten actions to build resilience and open strategic autonomy, while reducing environmental and social impacts of resource use. Member States' awareness of their own strategic dependencies on critical raw materials, including via their use by downstream industries and their active engagement, is seen as critical for the success of the EU Action Plan. Amongst the most urgent areas that require action are rare earths. These are essential to produce the permanent magnets in a range of industrial ecosystems, notably automotive, renewables and defence³.

The almost complete reliance on a single source of supply for and refining of rare earths and the recycling of magnets (China) can be seen as a strategic risk that not only the EU, but also the US, Japan, the UK, Canada, Australia, India and others are hastening to address.

Investment is needed and the European Raw Materials Alliance has prepared an investment pipeline that could contribute to addressing important raw material dependencies. However, for this to succeed, downstream manufacturers need to provide a market.

² COM (2020) 474 of 3 September 2020.

³ 95% of electric vehicles use permanent magnets, wind turbines contain on average 600 kg permanent magnets per MW. The defence industry uses a minor share of permanent magnets but of high-grade and difficult to substitute.

Currently, domestic sourcing of rare earths is close to zero. The EU Action Plan calls on Member States and regions to make better use of domestic resources, by identifying critical raw material mining, processing and waste valorisation projects that can be operational by 2025 (e.g. through relevant investments in the National Recovery and Resilience Plans). Domestic sourcing has the potential of providing 20% of annual EU demand by 2030⁴.

The Commission has proposed to develop strategic partnerships with resource-rich countries in order to diversify external sourcing and is already negotiating with Canada and Ukraine. Other regions such as the Western Balkans are also important. Serbia has large resources of lithium, borates and other critical raw materials and it has confirmed its interest in developing a strategic partnership with the EU. The Commission further considers proposing strategic partnerships to interested countries in Africa, offering to help them to create value added in the mining sector as a driver for economic and social development.

Important to note, again, that the other global players are also looking at these countries to secure their supply of critical minerals. It is, therefore, key that Member States and European companies engage actively in these strategic partnerships.

Points for discussion:

- 1. Which three elements of the updated Industrial Strategy should be prioritized in terms of policy measures to be adopted in the short/ medium term? Having in mind the key role of the Internal Market, which are the three elements considered to be particularly important for the new Single Market Emergency Instrument?*
- 2. Will critical raw material dependencies jeopardise investments in the magnitude and pace needed to effectively activate the green and digital transitions? What raw material value chain investments do Member States intend to support through private investment, the Recovery and Resilience Facility, EU funds and/ or state aid?*

⁴ ERMA calculations: By now, ERMA identified 14 domestic projects that could supply 7000 t of magnets by 2030 and cover 20% of annual EU demand.