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**NOTE**

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From:	Presidency
To:	Permanent Representatives Committee/Council
Subject:	<i>Preparation of the Competitiveness Council on 9 and 10 June 2022</i> Strengthening the resilience of Europe's strategic industrial ecosystems <i>Policy debate</i>

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Delegations will find attached a Presidency note on 'Strengthening the resilience of Europe's strategic industrial ecosystems' for the policy debate at the Competitiveness Council on 9 June 2022.

**Strengthening the resilience of Europe's strategic industrial ecosystems***Policy debate***Presidency note****Addressing our dependencies in the short term and strengthening our resilience in the long term**

The successive crises facing the EU call for extensive work to strengthen the resilience of the European economy and strategic ecosystems while anticipating our changing needs to implement the green and digital transitions.

Russia's aggression in Ukraine underlines the need for decisive EU action in this area: besides the energy issues it has highlighted, it has revealed vulnerabilities for some of our supplies. In particular, these vulnerabilities concern raw materials, such as aluminium, vanadium, certain rare earth concentrates and palladium, which are critical inputs for different European industrial ecosystems, as well as noble gases such as neon, which is used in semiconductor manufacturing, and 70 % of the global production of which is supplied by Ukraine.

In the Versailles Declaration of 11 March 2022, the Heads of State and Government placed these issues at the heart of the EU's work. In its conclusions of 25 March 2022<sup>1</sup>, the European Council called for the building of 'a more open and robust economic base, notably by reducing our strategic dependencies in the most sensitive areas such as critical raw materials, semi-conductors, health, digital and food, and by pursuing an ambitious and robust trade policy, as well as by fostering investment' and a phasing out of 'dependency on Russian gas, oil and coal imports as soon as possible, as set out in the Versailles Declaration'. In keeping with the exchanges during this and previous presidencies, it is essential that the Competitiveness Council plays a major role in implementing the European Council's policies.

Since the start of the health crisis in March 2020, extensive work has been undertaken on the issue of European strategic dependencies and their effects on industrial ecosystems, amplified by the current economic, geopolitical and supply crises. In particular, the European Commission proposed various actions in its March 2020 industrial strategy<sup>2</sup> and May 2021 industrial strategy update<sup>3</sup>. The Next Generation EU recovery plan launched in the summer of 2020, the February 2021 Trade Policy Review<sup>4</sup>, the acceleration of sustainable industrial change with the 'Fit For 55' package<sup>5</sup> and the introduction, through the Digital Decade Communication<sup>6</sup>, of digital targets to be achieved by 2030 all form part of this effort.

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<sup>1</sup> EUCO 1/22

<sup>2</sup> 6782/20

<sup>3</sup> 8553/21

<sup>4</sup> 6308/21

<sup>5</sup> 10849/21

<sup>6</sup> 6974/21

Lastly, at the request of the European Council<sup>7</sup>, the EU has been working to analyse its vulnerabilities, as part of which the Commission provided an analysis of strategic dependencies in the EU in May 2021 and an update in February 2022<sup>8</sup>.

The EU therefore has a basis for factual reflection on which to build its industrial and regulatory actions in a targeted and proportionate manner.

Work has begun in the Council and in informal meetings organised under the current Presidency to translate these priorities into clear, ambitious and realistic European objectives for strategic industrial ecosystems to be met by 2030. The Digital Decade has set a clear target for semiconductors, initiatives are under way in the health, digital and agri-food sectors and the Commission has proposed an ambitious energy plan in its REPowerEU Communication. In order to meet these European objectives, the associated public and private investment needs must be evaluated and the necessary adjustments to the regulatory framework identified in order to create sufficient incentives for these investments. All stakeholders will need to be heavily involved in this effort.

This will also require a broader approach, integrating the different dimensions of the internal market and its enhancement, making sure our supplies adhere to European social, climate and environmental values, ensuring fair competition and developing strategic partnerships with other regions of the world.

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<sup>7</sup> EUCO 13/20

<sup>8</sup> 6506/22

## **Implementing the Versailles Declaration: the case of critical raw materials**

The situation in the EU is particularly fragile with regard to our raw material supplies: according to the first analysis of European strategic dependencies, in 2021 we produced less than 2 % of the raw materials needed for products such as batteries, wind turbines or robotics. Yet raw materials feed the majority of European industrial ecosystems. Therefore, these strategic dependencies are passed on to other key sectors of the European economy, such as the automotive and electronics industries.

The European Commission has already taken action in this area, notably by launching an action plan on raw materials in September 2020 and by creating a European Raw Materials Alliance (ERMA). The alliance has identified 28 mining, refining and recycling capacity development projects, with a total investment of EUR 12 billion, and earlier this year it announced the launch of a EUR 400 million public/private fund to invest in raw materials for electric vehicle batteries.

In keeping with the work carried out in the Council, a cross-cutting objective for each of the 30 raw materials identified as critical by the Commission could be envisaged collectively by 2030. This would set out a minimum threshold of, say, 30 % of our needs to be covered by domestic primary and secondary production, in addition to an objective to reduce our dependency on single external sources of supply for their extraction and/or refining.

In order to achieve this objective, the EU must go further and use all of the instruments at its disposal, jointly investing in (i) the development of capacities for the extraction and processing of European raw materials, in particular through the projects identified by ERMA, (ii) support for circular economy, recycling, substitution and innovation solutions, (iii) securing extra-European supplies through the conclusion of strategic and investment partnerships abroad, and (iv) compliance with environmental values for both local extraction and imports.

In its REPowerEU Communication published on 18 May 2022, the Commission also announced that it was working on a legislative proposal on raw materials aimed at strengthening the European value chain through the identification of natural resources, development projects and projects to extract raw materials, while ensuring a high level of environmental protection and promotion of the circular economy.

### **Points for discussion**

In the light of the above, ministers are invited to give their views on the following questions:

- *What are the priority actions to be implemented in order to continue the work of the Versailles Declaration and to set concrete European targets for production and the reduction of our dependencies in the six strategic sectors?*
  - *Given the announcement of a forthcoming regulatory initiative on raw materials and our increasing needs in order to implement the twin transitions, what policies would you like to support to develop primary and secondary production in Europe and strengthen the resilience of our supplies of critical raw materials from outside Europe?*
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