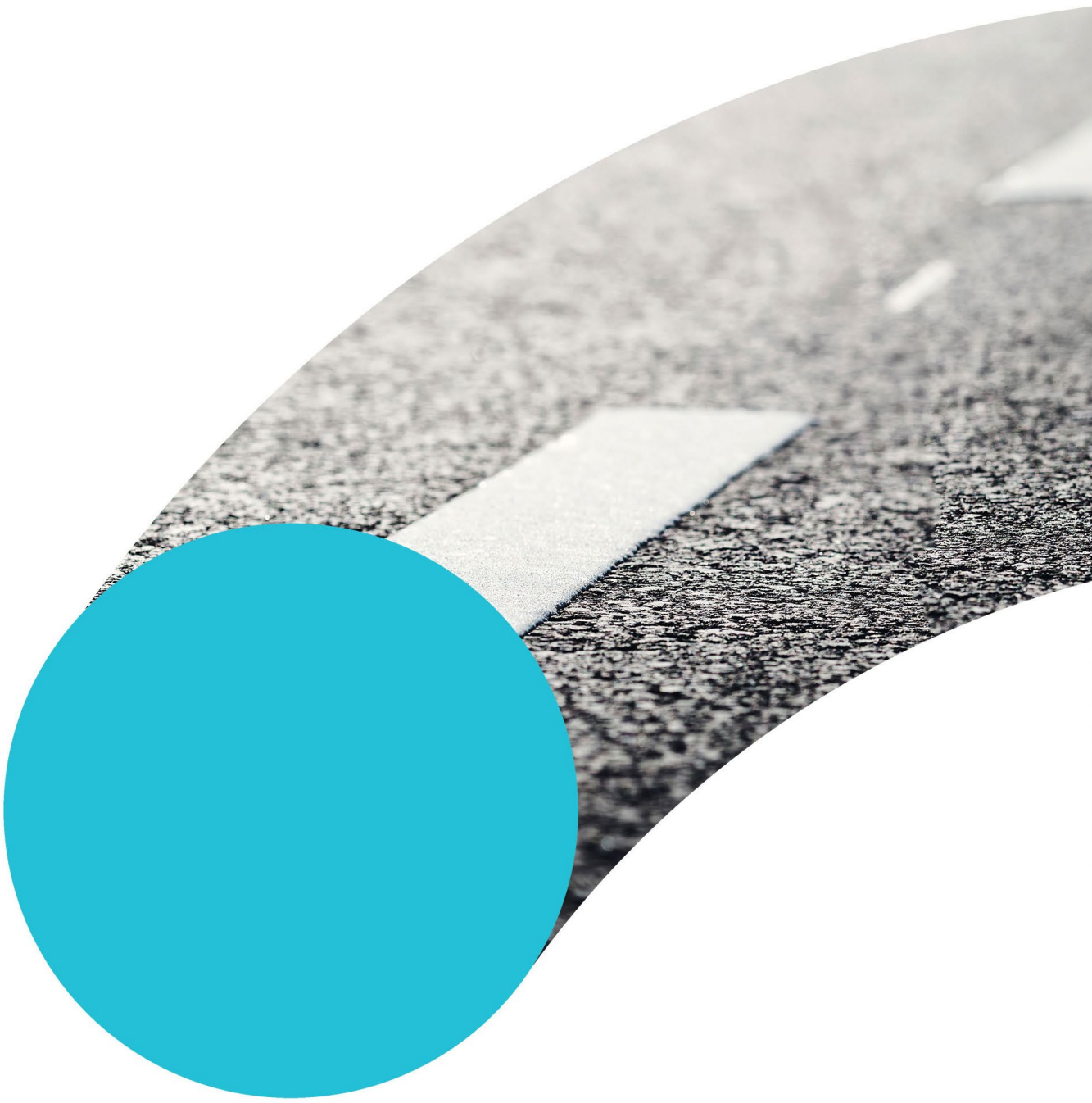
March 2023

ACEA Position Paper

Critical Raw Materials Act



CONTEXT

The European automobile industry is fully committed to the goal of decarbonising road transport. With the ban on sales of internal combustion engines for passenger cars and vans set for 2035, and new CO2 reduction targets for heavy-duty vehicles recently proposed, there has never been a greater need to ensure that the green transition proceeds smoothly.

Thanks to continuous industry investments, in 2022 over one in five all new cars sold in the EU had a plug. By 2030 this is forecast to rise to three cars in every five – putting the EU ahead of all other world regions. The truck industry is also developing the products for a very steep ramp up. Registrations of zero-emission trucks (BEV, FCEV) have accelerated from 692 (in 2019) to 1,239 (in 2020) and over 2,500 in 2022.

E-mobility is clearly the driving force for transport decarbonisation, and batteries and traction motors will be the dominant technology in achieving this. The key raw materials contained in these batteries and traction motors[1] are almost exclusively of non-EU origin, making the domestic industry reliant on other countries and external factors for their sourcing.

These supply chains are vulnerable to external shocks, dominance by a very small number of third countries, and supply/demand imbalances that create significant price volatility.

The COVID-19 pandemic, together with the semiconductor crisis and Russia's invasion of Ukraine, highlighted inherent weaknesses in global supply chains, along with the EU's extreme dependency on third countries for certain key materials. In order to reduce these risk dependencies and facilitate the transition to e-mobility, it is essential that the European Union takes steps to support the development of the European battery value chain. These must include enhanced security of access to critical raw materials.

CRITICAL RAW MATERIALS ACT

ACEA therefore welcomes the announcement by the European Commission of the Critical Raw Materials Act (CRMA), and proposes a number of actions to strengthen the availability of critical raw materials for Europe's industries.

Access to critical raw materials is essential for the establishment and proper functioning of the European electric vehicle battery value chain, as well as for grid management in the renewable energy sector. These raw materials are of central importance both for the transition to e-mobility, and for new or second life/reused batteries for the energy sector. The EU should focus on developing resilience throughout the battery value chain by diversifying domestic and international raw material supply sources and recycling, including supportive measures for investment in domestic supply. The fact that most of the required raw materials are not available in sufficient quantities within Europe emphasises the need for a trade and industrial policy that is based on both openness and strategic autonomy.

[1] In addition to e-mobility applications, raw materials also play important roles in other aspects of vehicle manufacturing.

SPECIFIC AUTOMOTIVE NEEDS

Following a preliminary analysis, ACEA has identified the following non-exhaustive list of critical raw materials that are of utmost strategic importance to the sector's green transition:

- Lithium, battery-grade nickel, manganese, cobalt and graphite: used in the production of lithium-ion batteries
- Iridium, platinum, tantalum, cobalt and nickel: for the production of hydrogen
- Rare earth elements such as dysprosium, neodymium and praseodymium: essential for the production of permanent magnets in traction motors for electric vehicles

Access to these materials needs to be significantly enhanced in order to ensure the green transition of the automobile industry. ACEA strongly supports regular updates to the European Commission's list of critical raw materials in EU industrial sectors, and welcomes ongoing cooperation between policy makers and industry to review industry needs and identify key bottlenecks.

KEY PRINCIPLES

ACEA calls on the European Commission to centre its strategy for raw materials around the following principles:

- Creating a supportive **investment environment** for mining, refining and recycling projects (eg low energy costs, fast authorisation procedures, practical environmental standards, skilled workers).
- Enhancing – through industrial policy measures – **domestic capacity** and removing barriers to extracting, refining and processing strategic critical raw materials.
- With regard to the **external dimension**, improving the security of supply and diversity of sources of raw materials through free trade agreements and raw materials partnerships.
- Strengthening the role of the **circular economy** to increase the availability of secondary raw materials.
- Ensuring that access to critical raw materials – whether sourced domestically, externally or through recycling methods – respects **international standards** and adheres to sustainable practices that fully respect human rights and the **environment.**
- Identifying strategic R&I projects in the fields of recycling, recovery and substitution of critical raw materials, and ensuring these have access to funding, while supporting the development and implementation of innovative practices throughout supply chains. A European agency for strategic raw material projects would be

required to independently identify the projects, as well as support them financially through a European raw materials fund.

DOMESTIC CAPACITY AND INDUSTRIAL POLICY

In order for the automobile sector to deliver the greenhouse gas emission reductions set out in the European Union's climate policy, the CRMA will have to rely heavily on the EU's industrial policy for its implementation.

The European Commission should therefore ensure that the CRMA is aligned with the EU's key priorities on:

- strengthening its industrial base;
- ensuring strategic autonomy;
- enhancing manufacturing investment;
- tackling the issue of energy costs;
- authorisation procedures;
- environmental standards; and
- creating favourable framework conditions to support the global competitiveness of European industry.

However, the move towards strategic autonomy should also balance the needs of a European economy that remains open to trade.

EXTERNAL DIMENSION

As there are geological limitations to the availability of certain raw materials in the EU, imports will continue to play a key role in the EU's transition to a green and digital economy.

In order to ensure security of supply, the EU must avoid excessively relying on a limited number of third countries from which to source raw materials. The recent invasion of Ukraine by Russia exposed the EU's vulnerability in this respect. Several industries across Europe, including the automobile sector, have been severely affected by shortages of key components and critical raw materials as a result of the invasion.

The EU's actions in the field of trade policy are therefore key, and should complement the CRMA by:

- Ensuring that FTAs concluded with resource-rich countries are ratified as soon as possible after negotiations are finalised. The agreements with Mexico and Mercosur – which were concluded over three years ago – are still waiting to be submitted for ratification, as is the agreement with Chile.
- Finalising FTA negotiations with Australia, which is one of the world's largest producers of lithium and rare earths, and speeding up negotiations with Indonesia.

- Exploring options for enhancing the provisions of the energy and raw materials chapters already contained in EU FTAs to ensure that EU companies are able to maximise their benefits.
- Establishing strategic partnerships with resource-rich countries beyond the framework of FTAs to deepen cooperation in the field of critical raw materials (including R&D, mining and exploration, and processing).
- Ensuring coherence between the CRMA and trade policy with regard to issues such as rules of origin for batteries used in EVs, as well as any recycled materials they contain, in order to facilitate the export of those vehicles under EU FTAs.
- Taking advantage of low-hanging fruit, such as review periods for rules of origin, or openness from trading partners to make rules for electrified vehicles more workable.

CIRCULAR ECONOMY AND RECYCLING

Given there is such a heavy dependency on imports, it is essential that critical raw materials are used to their full potential. European companies across the automotive value chain are already applying the principles of circularity in their business models. Vehicle manufacturers currently use recycled materials, despite numerous technical limitations and the fact that vehicles are very long-lasting products with an extremely complex supply chain.

The EU needs a realistic approach to the circular economy. Focusing solely on closing material loops cannot be the solution, because recycled materials will not be able to meet the demand for raw materials during the market ramp-up of electromobility. Furthermore, recycled materials do not necessarily represent the best option for reducing a vehicle's environmental impact over its whole life cycle. For the reuse of critical raw materials to be effective on a large scale, a number of key preconditions have to be met. These include ensuring that the availability and quality of recycled materials meet appropriate performance standards, in the same way that virgin materials must.

While recycling and reusing critical raw materials are useful approaches to reducing import dependency, some measures that are currently being discussed may result in problematic bottlenecks in the transition to cleaner mobility solutions. For example, the EU is aiming to formulise the use of recycled materials through provisions such as those in Article 8 of the Battery Regulation. However, setting mandatory recycled content targets should only be considered when other factors are in place. These include guarantees of the quality, availability and cost of this recycled material – aspects which must be considered in order to avoid disrupting the e-mobility transition. Regarding availability, it is important to avoid unnecessary restriction of sources of recycled materials by limiting them solely to post-consumer waste. Finally, mandatory recycled content targets risk impacting repair and second-life applications, and therefore negatively affecting the full potential of a circular economy model.

The CRMA should therefore focus on:

- Encouraging and strengthening the European recycling sector and promoting investment in technologies and accompanying processes that will yield quality recycled material.
- Monitoring the availability of materials – including recycled alternatives – while taking into account the growing needs of many industrial sectors, such as the automotive sector.

The automotive industry already has systems in place for tracking the critical raw materials contained in vehicles. These systems, tools and processes are well established throughout the full global supply chain, and would only require minor modifications and improvements. In addition, other upcoming pieces of legislation, such as the Battery Regulation, will define tools including the battery passport to collect and provide the relevant information from, to and within the automotive value chain.

In order to avoid creating an unnecessary administrative burden, existing regulations and further planned regulations have to be taken into account too. For example, waste policy should only be discussed in context with other policy areas, such as climate and energy policy. Moreover all new measures must be introduced in a harmonised and standardised way across the EU.

RECOMMENDED NEXT STEPS

ACEA and its members see accessibility to critical raw materials as one of the most important precursors for delivering decarbonisation of the automotive sector. ACEA welcomes the CRMA and will provide full support to the European Commission for further, deeper work on this initiative. The automobile sector would like to make the following recommendations:

1. The European Commission – in co-operation with industry stakeholders – should provide the European Union with a list of strategic critical raw materials and associated future policy measures. The current, outdated list of CRMs should become dynamic, be updated on a rolling basis and be sector-based, as different industrial sectors have different raw material needs and varying levels of urgency in terms of their green transition. This review process should be initiated as soon as possible to ensure that it feeds into all the legislative work that will follow in the coming months.
2. Political institutions need to send clear signals in order to change the global commodity market. This could take the form of a European agency for strategic raw materials and circular economy projects, which independently identifies raw materials projects and supports them with resources from a European raw material fund.
3. E-mobility is the driving force behind the decarbonisation of road transport. Therefore all critical raw materials for the European battery value chain, and in particular for EV applications, must be assessed and included in the list of strategic CRMs and reviewed periodically.

4. A thorough impact assessment is critical ahead of the adoption of any new policy measures, and such assessments must include all relevant parts of the e-mobility value chain.

5. The automotive sector asks for a concrete and rapid action plan to be developed alongside the CRMA in order to provide clear guidance and predictability for the industry.

6. With respect to the issue of stockpiling, the Commission should focus only on supporting entrepreneurial stockpiling. Central stockpiling is not expedient in times of demand-driven markets.

7. There are number of issues that the CRMA has to tackle with respect to standardisation, including voluntary standards and best practices that promote responsible behaviour in the mining, processing and use of critical raw materials. These issues also apply to a number of social and environmental factors that are relevant to the extraction of raw materials (and not only critical raw materials). Therefore, the European Commission should assess the suitability of initiatives such as the Initiative for Responsible Mining Assurance (IRMA), the Responsible Minerals Initiative (RMI) ESG Standard for Mineral Supply Chains, and the Responsible Business Alliance.

ABOUT THE EU AUTOMOBILE INDUSTRY

- 13.0 million Europeans work in the auto industry (directly and indirectly), accounting for 7% of all EU jobs
- 11.5% of EU manufacturing jobs – some 3.4 million – are in the automotive sector
- Motor vehicles are responsible for €374.6 billion of tax revenue for governments across key European markets
- The automobile industry generates a trade surplus of €79.5 billion for the European Union
- The turnover generated by the auto industry represents almost 8% of the EU's GDP
- Investing €58.8 billion in R&D per year, automotive is Europe's largest private contributor to innovation, accounting for 32% of the EU total

ACEA REPRESENTS EUROPE'S 14 MAJOR CAR, VAN, TRUCK AND BUS MANUFACTURERS

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