

The EU Critical Raw Materials Regulation Path to sustainable and responsible sourcing

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The European Union (EU) Commission published on 16th March 2023 the draft of a new Critical Raw Material Regulation ("CRMR")¹, which aims to ensure the sustainable and responsible sourcing of critical raw materials in the EU. The new regulation is of particular importance to plant engineering, energy and infrastructure in Germany and Europe, as it affects the availability and cost of materials necessary for the manufacturing of equipment and the erection of plants.

The Importance of Critical Raw Materials

Critical raw materials are materials that are essential to the EU's economy, but

their supply is at risk due to their high economic importance, high supply risk, and high environmental and social impact. These materials are essential for a variety of industries, including electronics, renewable energy, mobility, telecommunication, and aerospace. The EU is dependent on imports of critical raw materials, and the supply chain is often subject to geopolitical tensions and market fluctuations.

According to Annex I to the CRMR, the list of **strategic raw materials** include a variety of materials: Bismuth, Boron - metallurgy grade, Cobalt, Copper, Gallium, Germanium, Lithium - battery

¹ Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL establishing a framework for ensuring a secure and sustainable supply of critical raw materials and amending Regulations (EU) 168/2013, (EU) 2018/858, 2018/1724 and (EU) 2019/1020

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grade, Magnesium metal, Manganese - battery grade, Natural Graphite - battery grade, Nickel - battery grade, Platinum Group Metals, Rare Earth Elements for magnets (Nd, Pr, Tb, Dy, Gd, Sm, and Ce), Silicon metal, Titanium metal and Tungsten. The list of **critical raw materials** contemplated in Annex II to the CRMR is even much longer.

The new CRMR introduces a comprehensive framework for the identification and management of critical raw materials, with the aim of reducing the EU's dependency on imports and promoting the use of alternative materials and technologies. The regulation also includes measures to support the development of new sources and production technologies for critical raw materials in the EU.

The Lithium Value Chain and the Automotive Sector

The EU Commission emphasized in the CMR Regulation that the global demand for the lithium used to manufacture batteries for mobility and energy storage is expected to increase of up to 89-fold by 2050.

The lithium value chain is of particular importance for the production of lithium-ion batteries, which are essential for the automotive sector's transition to electric mobility. The lithium-ion battery market is expected to grow significantly in the coming years, driven by the increasing demand for electric vehicles and renewable energy storage systems.

The production of lithium-ion batteries requires several critical raw materials, including lithium, cobalt, nickel, and

manganese, which are mainly sourced from outside the EU.

The Telecommunication Sector

Also, the Telecommunication Sector is highly dependent on critical raw materials. Many of the materials used in modern communication technologies require rare or strategic minerals that are not easily available. Some examples of critical raw materials used in the telecommunications sector include:

Rare earth metals: These form a group of 17 elements that are essential to the production of a wide range of electronic devices, including smartphones, laptops, and other communication technologies. They are especially used in the production of magnets, capacitors, and other electronic components.

Gallium: Is a rare metal that is used in the production of semiconductors, which are essential to the functioning of communication devices like smartphones and computers.

Indium: A rare metal which is necessary for the production of flat-panel displays, touchscreens, and other electronic components.

Lithium: A critical mineral used in the production of batteries, which are essential to the functioning of mobile devices like smartphones and tablets.

Tantalum: Is a rare metal, used in the production of capacitors, which are essential to the functioning of electronic devices like smartphones and computers.

The scarcity of critical raw materials can create supply chain risks for the telecommunications sector. As demand for communication technologies continues to grow, the availability of these materials may become constrained. This can lead to price increases and supply chain disruptions.

European Critical Raw Materials Board

The CRMR foresees a European Critical Raw Materials Board, composed of high-level representatives from the Member States and the Commission, which will chair the Board (Chapter 7 CRMR). The Board will provide advice to the Commission and assist with coordination, cooperation and information exchange to support the implementation of this Regulation. Furthermore, according to Art. 35 para 6 CRM the Board may establish standing or temporary sub-groups to deal with specific questions and tasks. For the financing of Strategic Projects, a sub-group shall be established, involving representatives of national promotional banks and institutions, the European development financial institutions, the European Investment Bank Group, other international financial institutions including the European, the Bank for Reconstruction and Development and, as appropriate, private financial institutions shall be invited as observers.

Strategic Projects

The CRMR introduces a detailed mechanism to support strategic projects financially and administratively (especially regarding permits) (Chapter 3, Section 1 CRMR). This mechanism

aims to support the development of new sources and production technologies for critical raw materials in the EU.

- **Project Eligibility:** To be eligible for the Strategic Projects approach (Art 5 CRMR), projects must aim to develop new sources or production technologies for critical raw materials in the EU. The projects should also promote sustainability, reduce environmental and social impacts, and increase the EU's resilience to supply chain disruptions. Strategic Projects might be situated within the European Union, but also in third countries.
- **Financial Support:** The Strategic Projects approach includes financial support to Strategic Projects in the form of grants or loans. The Sub-Group Financing shall discuss and advise on how the financing of Strategic Projects can be completed, taking into account the funding already secured and considering at least the following elements (see Article 15 CRMR):
 - a) additional private sources of financing;
 - b) support through resources from the European Investment Bank Group or other international financial institutions including the European Bank for Reconstruction and Development;
 - c) existing Member State instruments and programmes, including from national promotional banks and institutions;

d) relevant Union funding and financing programmes.

- **Administrative Support:** The Strategic Projects approach also provides administrative support to eligible projects to navigate the regulatory hurdles associated with obtaining permits and licenses.
 - Even more importantly a Strategic Project shall be considered as being of public interest or serving public health and safety, and may be considered as having an overriding public interest, provided that all the conditions set out in those other Directives² are fulfilled.
 - Member States shall designate one national competent authority as a sole point of contact which shall be responsible for facilitating and coordinating the permit-granting process for critical raw material projects.
 - All dispute resolution procedures, litigation, appeals and judicial remedies related to the permit-granting process and the issuance of permits for Strategic Projects in the Union in before any national courts, tribunals, panels, including mediation or arbitration, where they exist in

national law, shall be treated as urgent.

- For Strategic Projects in the Union, the permit granting process shall not exceed:
 - **24 months** for Strategic Projects involving extraction;
 - **12 months** for Strategic Projects only involving processing or recycling.³

- **Evaluation and Monitoring:** Projects that receive financial and administrative support under the Strategic Projects approach are subject to evaluation and monitoring to ensure that they meet the project's objectives and comply with the regulatory framework.

General Impact on the Plant Engineering Industry

The plant engineering industry is one of the largest industrial sectors in Germany and Europe, with a significant role in the production of equipment for various industries. The availability and cost of critical raw materials have a significant impact on the plant engineering industry's competitiveness and sustainability.

The plant engineering industry is particularly vulnerable to supply chain disruptions and price volatility, as the availability and price of critical raw materials can significantly impact the

² Articles 6(4) and 16(1)(c) of Directive 92/43/EEC, Article 4(7) of Directive 2000/60/EC and Article 9(1)(a) of Directive 2009/147/EC

³ For Strategic Projects in the Union that had entered in the permit granting process before being granted the status of Strategic Project, the duration of the remaining steps of the permit granting process after the project is granted strategic status shall not exceed: (a) 21 months for Strategic Projects involving extraction; (b) 9 months for Strategic Projects only involving processing or recycling.

cost and delivery time of equipment. For instance, a shortage of critical raw materials like lithium, cobalt, or rare earth elements used in the production of batteries, electric vehicles, and renewable energy systems can lead to production delays and increased costs. Similar risks might appear in the production of equipment for the energy sector, such as wind turbines and solar panels and for semi-conductors.

A default in the supply chain can also result in companies being unable to deliver equipment to their customers, leading to a loss of reputation and business opportunities.

The new CRMR introduces several measures that are likely to affect the industry's operations, including:

- **Strategic Projects Support:** as described above.
- **Supply Chain Transparency and Due Diligence:** The regulation requires companies to undertake due diligence on the supply chain of critical raw materials, including assessing and mitigating social and environmental risks.
- **Promotion of Recycling and Substitution:** The regulation includes measures to promote the use of recycled materials, the development of new sources, and the substitution of critical raw materials. These measures are likely to promote innovation and the development of new technologies in the industry.

By promoting the development of new sources and production technologies for

critical raw materials, the CRMR can help to reduce the plant engineering industry's dependency on imports and mitigate the risk of supply chain disruptions and price volatility.

In addition to reducing the risk of supply chain disruptions and price volatility, the CRMR can also promote sustainability in the plant engineering industry. By supporting the development of sustainable supply chains, the regulation can help to ensure that the plant engineering industry meets the highest environmental and social standards, improving the industry's reputation and increasing its competitiveness in the long term.

Conclusion

The new CRMR is an essential step towards ensuring the sustainable and responsible sourcing of critical raw materials in the EU.

The regulation is likely to have a significant impact on the plant engineering industry in Germany and Europe. Particularly the Strategic Projects approach under the new CRMR is a mechanism aimed at supporting the development of new sources and production technologies for critical raw materials in the EU. This approach seeks to provide financial and administrative support to projects that promote the sustainable and responsible sourcing of critical raw materials and reduce the EU's dependency on imports.
