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The Critical Raw Materials Act: Risking everything through de-risking

On 13 December, 2023 the European Parliament adopted the Critical Raw Materials Act with an overwhelming majority. The new legislation will enable the EU to source so-called strategic minerals, such as lithium for batteries and rare earths for semiconductors. The Act is the latest milestone in the proposal Commission President Ursula von der Leyen announced in her 2022 State of the Union speech. Accordingly, the proposal aligns with the worldview of the so-called “Geopolitical Commission”. This worldview is based on an external threat, to which the Commission responds with power centralization, market regulation, and economic securitization. Although the text does not explicitly name it, this external threat is China, and the Critical Raw Materials Act represents another step in the so-called de-risking process. Similarly to the Commission’s de-risking concept, the Critical Raw Materials Act can be explored with simple analytical inquiries.

Why is this Act necessary? The EU today is heavily reliant on imports to meet its domestic raw materials needs; for instance, it sources 100% of its heavy rare earth elements, 85% of its light rare earth elements, and 97% of its magnesium supply from China. However, it nuances the overall picture that a European Union document highlighted the excessive dependence of the community as early as 1977, with the Commission later adopting a strategy to address the issue in 2008. However, as the numbers also reveal, significant progress has not been made in over 40 years, while the supply chain built on China has proven to be resilient. This raises the question: if not China, then who will ensure the supply of critical raw materials?

According to the proposal, most of the EU’s strategic raw materials should come from third parties, and there is also a 10% target for the EU’s consumption to be mined in the EU. The proposal does not identify which third parties to involve, but the list of potential countries is rather short. In fact, China owns most of the strategic raw materials. On the other hand, according to some studies, Europe is also abundant in raw materials, with literature primarily mentioning some lithium reserves found in France and Portugal. However, while promising results seem to be emerging from similar discoveries, a comprehensive and reliable assessment of mineral resources in the EU is currently missing. This lack of clarity is attributed in part to inadequate monitoring in the EU in recent years, as well as technical or geological constraints that hinder accurate measurements. This brings us to the next question: when is a transformation of the supply chain realistic? Currently, the timeframe for initiating a mining project in the EU takes between 10 to 15 years. This in itself precludes any significant contribution from new EU mining production to meeting the growing raw material needs of the EU by 2030. Although there is a possibility to reduce the processing time to two years within the framework of a strategic project, environmental concerns do arise, and strong resistance from local residents should also be expected. The proposal has, in fact, set a deadline of 2050 for the establishment of the new supply chain, theoretically allowing time for the entire permitting process. However, the most pressing question that needs to be addressed first is: how can the European Union achieve all of this? The capacity to draw investments is a crucial requirement for expanding mining capabilities in the EU. Nevertheless, due to the structural shortcomings mentioned earlier, as well as other obstacles such as the elevated energy expenses in mining operations, the economic uncertainties stemming from fluctuating commodity prices, or the potential scarcity of a skilled workforce, extractive projects are frequently perceived as highly risky. As a result, they do not appeal to international investors.

While the European Commission aims for de-risking in its China policy, it is incurring a series of additional risks. Considering that vulnerability in the strategic raw materials sector has been identified as a problem since 1977, European citizens should expect much more than empty China-bashing.

No great surprise there: The annual EU-China summit in Beijing

High stakes, low expectations – that was the essence of the preliminary comments regarding this year's EU-China summit in a nutshell. The event was the first in-person summit since 2019 and followed a rather frosty meeting last year that had been declared by Josep Borell a dialogue of the deaf. A plethora of controversial issues between the two parties (from the EU's trade deficit through Brussels' investigation of Chinese state support for EVs to how the war in Ukraine is perceived), together with preliminary statements from EU leaders, made any breakthrough highly unlikely. Overall, the outcome was mostly in line with these expectations, indicating that Brussels' stance on Beijing is unlikely to change substantially soon, and an upward spiral is not about to kickstart in the relationship. The summit made it very clear how much this relationship has eroded since 2019, as this time the two parties had already agreed prior to the event that no joint statement would be issued.

As for the future, due to growing scepticism on Brussels' part, one or two gestures from Beijing will not make a difference. The Chinese leadership should give a concrete sign of changing its course in the debated field of relations to create at least a chance for breaking the downward spiral. However, politicians in Brussels are making a tactical mistake when they declare that Beijing's stance on the war in Ukraine will be the main determinant of EU-China relations. It is likely that Beijing will be more willing to make concessions in economic issues sooner or later, such as creating a level playing field for foreign investors in China, than yielding to Western pressure and changing its stance on the Russian invasion, which would result in a clear loss of prestige. A rather conciliatory tone from Chinese leaders during the summit and the unmistakeable fact that the Chinese economy desperately needs to maintain its connections with the EU make more room for Brussels to achieve at least partial results in the controversial issues of bilateral economic relations. To get China to change its stance on Ukraine seems to be much more challenging, and the possible successes of the Russian armed forces could cause a panic in the West, which could further erode the EU-China relationship.

However, the summit itself has highlighted that the EU leaders intend to keep communication channels with Beijing open and do not want to give up the forums of regular negotiations. At the same time, it is crucial that Brussels resist adopting Washington's perspective on China, which is driven by competition for global supremacy. The EU should focus on and defend its own legitimate interests when dealing with Beijing, such as addressing the trade deficit or improving the operating conditions of European companies in China. This includes a pragmatic and targeted de-risking strategy that supports the future competitiveness of European industry.

Meloni government moves closer to the European mainstream by distancing itself from China

The Italian government has formally announced that it will no longer participate in the Belt and Road cooperation, more precisely, it will not extend the cooperation agreement that expires in March 2024, while maintaining its "strategic friendship" with Beijing. The announcement should not have come as a surprise to Beijing, since Prime Minister Giorgia Meloni already stated when she took office last October that she saw no point in Italy remaining in the Belt and Road Initiative (BRI). In September this year, during his visit to Beijing, Italian Foreign Minister Antonio Tajani stated that cooperation between the two countries would be better served by a bilateral strategic partnership, as the BRI had not lived up to expectations.

Italy joined the BRI project in 2019, the only G7 country to do so. Since then, trade between China and Italy has grown 1.6-fold, from USD 50 billion to USD 80 billion, although the Chinese side has benefited more: Chinese imports to Italian markets have increased from just over USD 35 billion in 2019 to nearly USD 61 billion in 2022, while Italian exports to China have risen from USD 14.5 billion to just USD 19 billion. The trade imbalance has increased in favour of China, flooding the Italian market with Chinese products, which now account for 9 percent of Italy's total imports.

However, the political reasons seem to be more important in motivating the Meloni government's decision. Since her election as prime minister, Giorgia Meloni has made several gestures towards European mainstream politics, which had previously viewed her with a critical eye and sometimes labelled her as far-right. When she was in opposition, she advocated for lifting sanctions against Russia, while as prime minister she has strongly condemned the aggression against Ukraine and made a strong plea for support for Ukraine during her visit to Kiev in February 2023. She also visited Washington in July this year, again in a bid to boost her government's credibility. The denunciation of the BRI agreement fits into this pattern, and Meloni certainly wanted to make the announcement before Italy's G7 Presidency started in January 2024, in order to increase the scope of the Presidency. The Italian Prime Minister seems to be confident that she will be able to promote Italy's interests more effectively in the European political arena if she is more in line with the expectations of mainstream European political forces, including "disengagement" from BRI cooperation.

Choosing to remain on the sidelines

In October 2023, the Third Belt and Road Initiative (BRI) Forum convened in Beijing, with only one EU member state, Hungary, represented at the top level. In contrast, the previous 2019 summit saw heads of state or government from seven EU countries in attendance. While one reason for this year's apparent lack of interest was attributed to bad timing — those eager to negotiate with the Chinese had already done so earlier in the diplomatic season — the trend is evident: the EU is showing decreasing interest in the BRI. Once treating connectivity, engagement, and communication as unshakable dogmas, EU leaders now seem to embrace the opposite stance, gradually adopting similar principles under the code name "de-risking".

This waning interest is mutual. China initiated the BRI a decade ago with the primary aim of connecting with its foremost trading partner, the EU. Unfortunately, growing estrangement between China and the EU has seemingly erased Europe from China's BRI considerations. During his keynote speech at the Forum, Xi Jinping mentioned Europe only twice, both times in the context of the China-Europe Railway Express (whatever that means), without acknowledging the European Union. A glance at the participant list of the Forum suggests that the BRI is increasingly becoming the club of the Global South, while the North appears to be indifferent. This is a concerning phenomenon, as reduced communication and cooperation heighten the chances of conflict and misunderstanding. This also raises the question whether the EU can afford to misunderstand China and be misunderstood in return.

The BRI is not a static master plan but an adaptive concept that responds to changing conditions. The Third BRI Forum catalysed significant changes in the scope and nature of BRI projects. BRI is not a unilateral affair of China, as all BRI projects result from bilateral or multilateral cooperation, with their content shaped collectively by all partners. By not only ignoring but even demonizing it, the EU loses the opportunity to have a say in the direction the BRI, most likely the largest connectivity initiative of our century, is heading and voluntarily gives up the chance to influence it in a positive way. Thus, the BRI is becoming one more field in which Europe conducts a self-imposed retreat for purely ideological reasons. The Forum and a key document published by the Office of the Leading Group for Promoting the BRI in November confirm that the BRI will go on — with or without the EU. The choice to be left out does not seem to be the wisest one.