CAMPAIGN PROPOSAL

A subsidy scheme for the Critical Raw Materials Act

Matteo Secco – Bocconi University
Nicolò Guerrini – Bocconi University

WORD COUND: 729 words

EXECUTIVE SUMMARY

The European Commission introduced the Critical Raw Materials Act (CRMA) in March 2023, with the primary goal of reducing the European Union's dependency on third countries for critical raw materials crucial to digital and environmental transitions. The CRMA sets ambitious targets for the EU by 2030, including extraction, processing, and recycling goals, along with limitations on single-country imports.

While acknowledging the Act's importance, concerns arise about its effectiveness due to the absence of economic incentive mechanisms. The CRMA aims for substantial milestones without introducing measures to incentivize industry restructuring, raising doubts about its impact on the competitive landscape.

Recognizing the Act's shortcomings, our campaign proposal suggests a subsidy scheme to further incentivize companies in line with CRMA objectives. This proposed scheme, financed through a new EU fund, would provide the financing necessary to foster industry development and enhance CRMA goal attainment.

Introduction

In March 2023, the European Commission presented the **Critical Raw Materials Act (CRMA)**. The Act is aimed at reducing the European Union's dependence on third countries, for the **supply of raw materials** considered critical for the digital and the environmental transitions of the Union.

According to the CRMA, **by 2030** the European Union must:

- **Extract** at least **10%** of the EU's annual strategic raw material consumption
- **Process** at least **40%** of the EU's annual strategic raw material consumption
- **Recycle** at least **15%** of the EU strategic raw material annual consumption
- **Import no more** than **65%** of the EU's annual consumption of a determined strategic raw material from a single third country

We believe the objectives laid down by the Act are of the **utmost importance**. Growing **geopolitical tensions**, in fact, require the Union to hedge itself against the risk that dominant countries in the raw materials supply chain could leverage their position to **blackmail** the Union in the future.

Moreover, we argue that the Act suffers from certain important **shortcomings** that must be addressed to achieve its objectives.

Problem statement

The CRMA sets very ambitious goals for the European Union to be achieved by 2030, without however introducing effective **economic incentive mechanisms** to reach those targets. It appears that the Commission believes that setting quantitative targets will be enough to incentivize industries to reconfigure their supply chains.

Considering the absence of incentive measures, it is natural to wonder whether the Act will have **tangible effects** on the **European competitive environment**. A company involved in the critical raw materials supply chain will still struggle with ongoing challenges, in particular **intense competition** from highly competitive foreign industries.

In addition, the biggest global economic competitors of the Union, the USA and China, already implemented stronger measures aimed at strengthening their domestic value chain:

- The **Inflation Reduction Act** proposed by the US Congress in 2022 creates a strong **subsidy system** in the form of tax credit for all the companies operating in those industries considered strategic for creating a sustainable economy
- A system of **below-market rate financing** was introduced in **China** for solar panels component production and assembly

In our opinion, the CRMA is not enough. We believe that failure to introduce effective economic incentive systems will hinder the Union from achieving the targets outlined by the CRMA, leaving it in a **vulnerable geopolitical position**.

Our solution

SUBSIDY SCHEME

The CRMA already foresees the recognition of the status of **Strategic Projects** for all those raw materials projects that would make a **meaningful contribution** to the security of the Union's supply of strategic raw materials (Art. 5). According to the Act, Strategic Projects would enjoy preferential bureaucratic treatment from Member States to prioritize their success.

Our campaign proposal recommends the implementation of a **subsidy scheme** capable of further incentivizing companies to pursue raw materials projects in line with the objectives outlined by the CRMA.

Subsidies can be granted in different ways such as:

- **Tax deductions** and partial coverage of social contributions
- **Grants** made available in direct relationship to the size of the industrial output of the Strategic Project in question
- **Preferential lines of credit** at a favourable interested rate with respect to the market rate

The money granted with these subsidies would **stimulate investments** in the raw material sectors from European companies. In this way the industry will develop quicker, and the targets laid down by the CRMA will have a higher chance to be reached.

Our solution

FINANCING

We propose to finance the subsidy scheme using the **Budget of the European Union** through the creation of a **new Fund**, such as ERDF or the Cohesion Fund. The fund would be active **from 2025 to 2030** and would be given a **shared management structure** between the European Commission and Member States' governments.

The CRMA already mandates the designation of **one national competent authority** for each Member State which shall be responsible for **coordinating the permit-granting process** for Strategic Projects (Art.8).

Such national competent authorities would act as **mediating entities** between the individual companies applying for the Strategic Project recognition and the European Commission, that would have the ultimate responsibility for the Fund.

The **Fund granting process** would work as follows:

- Individual companies **present their projects** to the competent national authority
- The competent national authorities present the **most valid projects** to the **Fund committee** managed by the European Commission
- The Fund committee **evaluates** the project and **allocates** the funds accordingly

Bibliography

- *Critical Raw Materials Act (2023)*, European Commission proposal
- *Critical Raw Materials Act (2023)*, European Parliament’s First Reading
- *Inflation Reduction Act (2022)*, Senate of the United States
- *Rebooting the European Union’s Net Zero Industry Act (2023)* Tagliapietra, Simone et al, Bruegel
- *Why Europe’s critical raw materials strategy has to be international (2023)*, Marie Le Mouel et al, Bruegel
- *Challenges and opportunities of the European Critical Raw Materials Act (2023)*, Alessandra Hool et al, Mineral Economics
- *Spillovers of innovation subsidies on regional industry growth: Evidence from China (2022)*, Yan Guo, et al, Economic Modelling
- *EU’s critical minerals act welcome but falling short, say green groups and industry (2023)*, Frédèric Simon, Euractiv