



CENTENARY POLICY
INSTITUTE

BUILDING GREEN SUPPLY CHAINS: SECURING ACCESS TO STRATEGIC RAW MATERIALS FOR ELECTRICAL VEHICLES

Salon Bleu, Cercle Gaulois Litteraire et
Artistique -Brussels

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Key points, conclusions and
recommendations from the discussion

ROUNDTABLE TAKE AWAYS

Chairman's Conclusions

- **Europe is on a collision course to Accidental Trade War** with China that will harm its industrial interests and lead to social and geopolitical turmoil
- **We need a moment of strategic clarity in Europe's industrialization policy.** Stability, predictability to promote record volumes of CAPEX needed for industrial green transformation
- **Trade & investment cannot be seen in isolation.** Which is why Europe has to develop a coherent approach to its key trading partners, namely China
- **More state aid,** more green import tariffs threatens trade and will lead to supply side disruption which will in turn result in higher costs and loss of competitiveness + inflation for consumers
- **Germany and France** face deep disagreements over engagement with China undermining European unity
- **Decarbonization, new technologies, disruption in supply chains,** energy price volatility, wage pressures / cost inflation, rising cost of capital – just some challenges that European industries face today.
- **European** automotive sector faces an existential challenge . Its own Kodak moment. If it does not invest in transformation smartly it may face complete extinction costing Europe millions of jobs
- **Geopolitical fog hangs over Europe.** Investors do not understand what lies behind rhetorical statements such as 'derisk', 'decouple' from China.
- There is **disconnect between words and actions.** Visits by Scholz, Macron, VDL, Sanchez show a lot of 'hidden' agenda by EU member states. Ultimately harms investor confidence
- Overall **EU policy especially towards China remains incoherent and woefully inadequate** to tackle the challenges of green energy transition from battery to EVs to solar modules and energy infrastructure

- **We must come to terms with reality that China** has a much more ambitious agenda in EV manufacturing and is 10 years ahead. Controls 80% of processing in critical raw materials. Creating self sufficiency in Europe is not an option at the moment
- **An outright trade war with China** will weaken European industries and result in deindustrialization as big players will almost certainly move to the US
- **Investment decisions for next 2-3 decades are taking place right now.** Europe needs to act if it is to stay in the game and avoid complete deindustrialization
- **Without industry and manufacturing, Europe will be weak and unable to project any substance in geopolitics.** Its values without social support, jobs and economic prosperity will be undermined by foreign influence
- **America First policy is hostile towards European interests.** It is very clearcut protectionist, simply and attractive for investors. Which is why European member states such as Germany are now breaking fundamental state aid rules to prevent outflow of businesses

Representative of European Manufacturing Sector View

- Where we are today Europe is not able to supply raw materials for green transformation without cooperation with China
- **Daunting challenge facing European industry today.** Trillions of euros of capital cannot be provided by state subsidies and European funding alone. We need private capital, which requires predictability
- **At the moment Europe faces serious competition from US Inflation Reduction Act (IRA)** with active campaigns to attract European players to shift manufacturing to USA because of predictability premium
- **Competitiveness requires smart cooperation on terms that make sense**
- **New stable deal with China to supply raw materials** and parts in exchange for market access and promotion of green agenda
- Where we are today hard to build a future supply chain in automotives, renewables or other modern manufacturing

Perspective from Lithuanian Academic

- Moving away from multilateralism to a world of rivalry and competition. No point of return unless the main players decide to reverse the trend.
- We are in an age of morally charged political rhetoric that is not backed by action for the interests of the electorate and in fact harms consumers and weakens Western society.
- Short term political logic prevails over strategic thinking as politicians sacrifice real national interests to gain vaguely defined popularity.
- When ultimately there is a failure the blame is often transferred to foreign powers or vaguely defined „West“.
- Protectionism on the rise as global cooperation descends into chaos with significant damage to trade and traditional investment patterns.
- Geopolitics should be understood as competition for strategic resources and trading routes. The events proceeding WWII had economic sanctions, trade control, and economic blockade elements in its arsenal. So is current posturing is linked to strategic rivalry between major powers.
- We know this can lead potentially to uncontrolled consequences such as outright war which we all wish to avoid.
- We are in finding ourselves in a permanent strategic rivalry between US, China, EU, Russia, India and even midsize powers
Reglobalization dreams are dead for now.
- Europe and China need trade economics much more than the US which can afford to become isolationist and protectionist.
- US is promoting its own development agenda at the cost of European interests from 2018.

- Europe is being forced to react in a way that harms its own interest and is contradictory in nature as its has internalized US security interests as its own.
- Taiwan posturing in Lithuania is a case in point. Rhetorical statements that achieved little in the way of promoting Lithuania's interest and definitely harmed economic ones.
- Taiwan episode in Lithuania exposed lack of coordination, confusion, political adventurism, and lack of strategic thinking.

Belgian Entrepreneur View

- Friendshoring is a viable option but current efforts in Central Asia, Africa are very ad hoc and disjointed.
- Legal instruments to protect investors are still missing in friendshoring destinations such as Central Asia.
- European Green deal and tariffs such as carbon adjustment border mechanism (CBAM) threaten imports from third countries.
- Reindustrialization of Europe requires stable legislation and consensus that is absent.
- We are on a path to 'accidental trade war' with China as politicians make irresponsible statements.

View from Agri Sector in Lithuania

- Agriculture meets a lot of challenges during the past - decarbonization, greening and on the same time competitiveness.
- **Supply chains disruptions** also affect agrifood sector and since food is very sensitive issue it might cause even people's existence.
- As we remember during **the covid quarantine supply chains were disrupted and producers met a lot of challenges with logistics when a lot of sea containers stucked in Asian ports and it created huge problems for our sector.**
- From this experience we must learn **about trade which plays a key role for our welfare: agriculture and food industry must remain competitive, specialize in production having the highest competitive advantage.**
- **Otherwise our businesses might be taken** by companies from other countries and it causes national security issue; trade following by countries good will relationship and mutual understanding gives us the way to prosperity.
- **So, we must take into consideration this issue and ensure stability of the economy.**

Leading Manufacturer of Rare Earths Products

- **Europe needs a Sovereignty Fund** and eurobond if it is to fully fund green transformation.
- **Trade & Investment** are very much tied together especially in the case of China. We must not lose sight of this. IF we close the door to trade, we will lose investments.
- EU needs its own Sovereign Fund to counteract US Inflation Reduction Act
- **Current policies in critical raw materials** are insufficient to incentivize investments in critical raw materials in Europe., despite large scale efforts.
- **Critical Raw Materials Act** imposed stringent requirement to diversify supply of raw materials without showing how to achieve that.
- **80% of processing of raw materials remains in China.** We are the only magnet producer for automotives outside of China.
- **Too much mythology** and propaganda clouds reality.

Brussels Regulations Expert

- We can expect members states to engage in direct subsidies like Germany.
- State aid will almost certainly lead to internal fragmentation and tensions within the EU.
- It is now inevitable that Europe will face a serious trade tensions because of green tariffs.
- Ten years behind China in EV space.

Representative of Pro European Youth Movement

- Need Eurobonds to fund this transition. Need federalism.
- Currently each member is acting on its own.
- State aid big risk to European unity. Countries like Italy will not accept Germany creating new national champions.
- China should be seen as a friendly competition that can support European green energy transition.

Energy Association Leader

- Dealmaking in the rest of the world is faster, more effective, and bigger in size. Essentially Europe is being left behind.
- EU institutions lack coherence and credibility these days to deliver the policy.
- What we call Europe in Brussels is outdated.

Representative of EU Commission

- We should NOT expect more from Europe. There are no silver bullets. Europe will continue to muddle through until it reaches a crisis point and then bounce back

Defining Strategic Materials for EVs

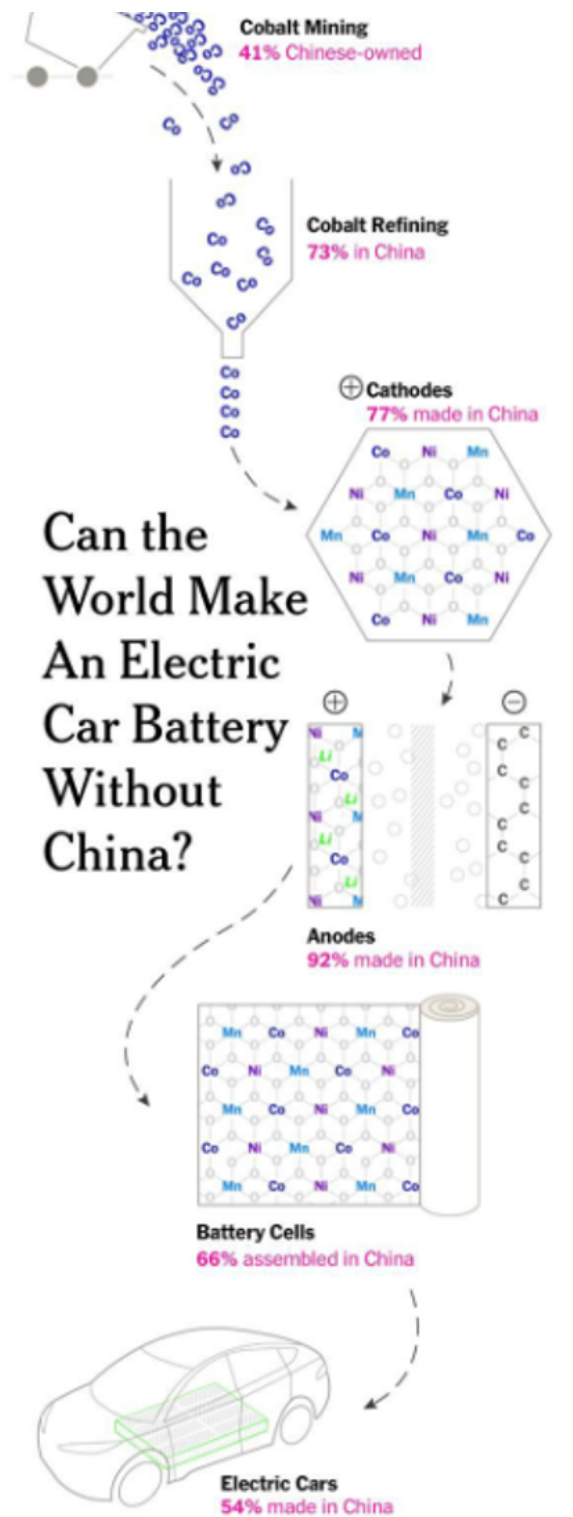
1. Lithium
2. Cobalt
3. Nickel
4. Copper
5. Rare Earths
6. Semiconductors, Magnets

Discussion Points:

1. Europe has set its strategic priorities on Green transition by 2030 and lacks a clear path of how to get there.
2. Automotive industries face existential risk and severe competition from both US and China and pressure from decarbonization goals, rising wages, higher cost of capital (ECB rate hikes)
3. How can Europe make industries competitive globally? How can it win the race for Evs?
4. At the heart of it new supply chains that are being built and relationship with China?
5. Geopolitical posture is clear but inconsistent, often short sighted and goes against industrial policy logic.
6. US makes loud statements on geopolitical front, but in fact is far more pragmatic, simple and protective of its industries + attracting European players. TRUE AMERICA FIRST CENTURY.
7. Europe needs to protect its industry and have serious global players in automotives if it is to have ANY geopolitical weight at all. This is all the more critical in the emerging Defense sector.

Battery At the Heart of it

- Regulation, supply chains, raw materials and processing
- Complex, messy, risky business that is highly subsidized
- One champion in Europe or everyone for themselves?



RECOMMENDATIONS

Engaging With China on Fair, Transparent and Strategic Terms

1. **Stability First** - supply chains are NOT just for Xmas – supposed to last a long time . Investors need 10—15- 20 yr investment horizons
2. **Predictability First** - too much rhetoric and completely different reality as EU member states pursue their own interest
3. **Strategy:** Clear division of labour, competitive advantages, specialization
4. **China as Factory to the World Era is over** - need to accept 'circular' approach ie America, China, Europe will pursue 'self-sufficiency'/ However, China and Europe CANNOT DECOUPLE
5. **Derisk** = fair deal for both sides that offers a prospect of growth and development. China still has ambitious growth agenda and is the biggest market for EVs

***Discussion was held under Chatham House rules**