CONSULTATION RESPONSE

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Input Paper to the Call for Evidence for an Impact Assessment regarding a European Critical Raw Materials Center

The Technology Industries of Sweden (Teknikföretagen) and the Swedish Security and Defence Industry Association (SOFF) welcome the initiative to establish a center for critical raw materials and consider it strategically important in order to strengthen the EU's economic security and competitiveness in an increasingly complex geopolitical context. With rising geoeconomic competition and weaponization of dependencies, there is an urgent need to strengthen security of supply, resilience to trade disruptions and deterrence to economic coercion. Recent export control measures on critical minerals (including rare earth elements) and permanent magnets demonstrate that security of supply can be affected not only by physical shortages but also by geopolitical decisions. Future EU measures therefore need to strengthen resilience against politically motivated export restrictions.

While supportive of the initiative, it is important to consider the complexity of industrial production networks when designing policy measures in order for it to be successful. Our member companies develop technologies identified as critical to the EU's economic security and collective security and defense interests. For defence companies, security of supply is not only an industrial competitiveness issue but also directly linked to national security and the ability of Member States to build, sustain and support military capability over decades. Long-life defence systems require secure access to critical materials throughout their entire life cycle, including maintenance, upgrades and spare parts.

In general, the vast majority of our member companies are not direct purchasers of critical raw materials; rather, critical raw materials are primarily input materials in components that are sourced on the global market. While the closest tiers of industrial supply chains are becoming more regionalized, components deeper in the supply chains remain highly globalized, to leverage specialization and economics of scale. Therefore, it is difficult to ensure the interconnectedness of new capacity (or stockpiles) of critical raw materials in Europe and the usage of downstream European manufacturing industries, i.e. resilience for critical technologies. As such, the complexity of contemporary industrial production networks poses challenges for the application of instruments such as demand aggregation or joint purchasing, stockpiling and release/distribution thereof, or information gathering and market intelligence.

Consequently, we consider that the main ambition should be to achieve a more balanced, well-functioning, diversified global market for critical raw materials as a whole, by counteracting monopolistic positions that can control or manipulate the market. This entails promoting production capacity (including extraction, processing, refining, and recycling) of critical raw materials outside of countries to which supply is currently

overly concentrated and that can leverage overreliance as economic coercion against other states. An important part of this effort is to diversify the supplier base for critical raw materials and components, reducing dependencies on single source suppliers, countries or regions to strengthen overall supply chain resilience. At the same time, a value chain perspective is needed, that recognizes that security of supply for strategic industries depends not only on access to raw materials but also the capacity to process materials and manufacture critical inputs and components. We stress that this requires coordinated action among EU and trusted partner countries, such as key EU trading and security alliance partners.

We acknowledge that the business case for critical raw materials production in EU Member States is disadvantaged by global imbalances resulting from non-market behavior in other countries. Given the strategic necessity of critical raw materials for national and European security, we support measures to address the unfavorable risk-reward profile for projects in Europe and partner countries to stabilize the global market. However, we stress that the price mechanism is essential to a market economy and that any proposals that may have a distortive effect on this mechanism should be considered with caution. Where possible, policy measures should focus on improving investment conditions and reducing project risks rather than intervening directly in market pricing. In addition, it is essential to safeguard competition and a level playing field in the Single Market.

While we acknowledge that stockpiles may have a mitigating effect in case of acute shortages resulting from export restrictions or supply chain disruptions, any EU framework must remain a crisis instrument for exceptional cases and not a standard operating procedure. We regard strategic stockpiling as a complement to, rather than substitute for, national industrial preparedness and investments in new production capacity of critical raw materials. In the long term, security of supply ultimately depends on Europe's ability to produce critical raw materials and strategic inputs, along with international partners.

Effective stockpile administration will require an early-warning system for resilience planning, to inform coordinated preventive measures. Such monitoring should include geopolitical developments, export control measures, concentration risks, and potential disruptions outside the EU. To ensure that stockpiling measures are effective and proportionate, there is a need for a better understanding of supply chain risks and vulnerabilities across the value chain. For many downstream manufacturers, the relevant bottleneck is not access to raw materials as such, but access to qualified components and intermediate products manufactured several tiers upstream. Such understanding should be based on aggregated relevant market information and risk indicators that support resilience planning and improve understanding of emerging supply risks, without requiring access to company-specific sensitive data.

It is essential that any such system protects sensitive and confidential information, particularly in defense-related value chains. Information relating to technological capabilities, production volumes, stockpiles, sourcing arrangements and substitution strategies may be commercially sensitive and, in some cases, directly relevant to national security. We therefore have strong reservations regarding any legal obligations

to disclose detailed supply chain information to EU institutions. Member States are best placed to handle sensitive and, where relevant, classified information, assess risks in their national context and determine what information can be shared further. Execution of preparedness measures and access to sensitive data should therefore remain under Member State authority in line with national preparedness plans.

Against this background, we caution against the use of central stockpiling, which we consider difficult to implement in practice in terms of management and distribution when crises occur. Any stockpiling mechanism should primarily support national measures and be managed close to the industrial user. A preferred alternative to state-operated stockpiles could be maintaining stocks through contracts at company level with producers, where the state reimburses stockholding costs. Maintaining strategic reserves at the state level may result in higher costs than incentivizing companies to hold larger inventories. It should also be noted that not all critical raw materials are suitable for stockpiling.

Demand aggregation and joint purchasing could potentially allow for improved access to international suppliers, stronger negotiating leverage, and greater predictability. However, such instruments face similar challenges as stockpiling with regard to the complexity of industrial production networks.

The ongoing work within NATO on defence critical raw materials should be considered complementary to EU initiatives. Close coordination between the EU and NATO will reduce duplication and strengthen resilience for industries supplying both civilian and defence markets.

Ultimately, the most successful approach will be to create enabling conditions for a competitive, sustainable mining industry in Sweden and Europe and to facilitate recycling and circular processes together with international partners. This can contribute to a more balanced and stable global market for critical raw materials.

Finally, we reassert that international partnerships will be key to diversifying supply and reducing shared overreliances that can be weaponized for economic coercion.

About Us

The Technology Industries of Sweden (Teknikföretagen) represents 4,600 member companies that constitute one third of Sweden's exports. Our member companies comprise both major, renowned, global corporations as well as micro, small and medium-sized enterprises. A common denominator is that they are knowledge-intensive and export-oriented companies competing on a global market.

The Swedish Security and Defence Industry Association (SOFF) is a business association for companies in the security and defence sector operating in Sweden. SOFF currently has over 470 member companies operating in defence, societal security and cyber security.

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