

# A New Era for Europe's Resource Sector?

Europe's stimulus packages give the energy transition a kickstart, but resource projects for key commodities face challenges ahead

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## Introduction

In the first half of 2020, the Covid-19 virus tore its way through much of Europe, forcing almost all governments to apply strict lockdowns and straining intra-European cooperation and trade. The subsequent economic crisis has triggered a wave of unprecedented stimulus packages across the continent, including a €750 billion recovery fund agreed by the EU in July. Many governments appear to view the crisis as an opportunity to accelerate transitions to a greener economy, with large portions of stimulus packages earmarked for green businesses and projects, and stipulations restricting access to businesses with high carbon emissions. A common slogan has been that we should ‘build back better’.

Such moves signal both opportunities and risks for resource companies. Demand for oil and (to a lesser extent) gas will gradually reduce over the coming decades as governments strive for carbon neutrality, and explorers are likely to face a more restrictive regulatory and financial landscape. In turn, this will present new opportunities in renewable energy sources. Demand for strategic minerals, particularly battery metals, is likely to increase as

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European investment in electric vehicle production accelerates, although whether that translates into more mining within Europe looks far from certain. Resource projects could also more often become embroiled in geopolitical standoffs – with Europe keen to shore up its resource security while fending off competition from China and reducing its dependence on Russian oil and gas.

In this note, we offer Critical Resource’s initial thoughts on why resource companies should pay attention to recent developments in Europe. The EU often leads the way in pioneering climate change regulation and recent developments may serve as a bellwether for other developed economies – particularly if Democratic candidate Joe Biden wins November’s election (having placed climate change at the centre of his campaign). Finally, while Europe’s support for a ‘green revolution’ could present major opportunities for resource firms, those looking to develop new projects will need to overcome the NIMBYism and community and NGO opposition that has stymied so many mining and energy projects over the years.

## Europe at a crossroads

Although strains among European nations are nothing new, the cohesiveness of the European Union and its ability to exert influence on its non-member neighbours have come under considerable scrutiny in the years following the financial crisis of 2007 - 2008. Tensions over economic reform, the Brexit vote of 2016 in the United Kingdom, populist Eurosceptic

movements in Italy, France, Hungary and Poland, and disputes over an EU stimulus package and financial aid following the Covid-19 crisis have all put relations within the EU and with its neighbours to the test.

Meanwhile, the encroachment of external powers has caused concern among both the EU and its allies. The perception of closer ties between Hungary and Russia triggered an intervention by the Trump administration in May 2019. Further, during the height of the economic crisis triggered by Covid-19, the EU's competition commissioner, Margrethe Vestager, called for national governments to fend off Chinese takeovers by buying stakes in hard-hit companies where necessary and to strengthen their ability to scrutinise and block acquisitions. In the short-term the recovery in stock prices over the last three months has made this threat less immediate, but these fears have compounded existing tensions between China and the West over technology and trade.

It is against this geopolitical backdrop that the EU and European national governments have sought to jump start their economies and prevent catastrophic decline through ambitious stimulus packages, and accelerate the 'green deals' intended to usher in a carbon neutral future. As we outline below, Europe's post-Covid-19 stimulus packages present both opportunities and hurdles for resource

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companies and investors on the continent, most notably in the form of increased demand for battery minerals and renewable energy and stagnating demand for oil and gas, running alongside a patchwork of (often opaque) permitting regimes and stakeholder opposition to resource projects.

## **A 'Green New Deal' for Europe?**

In July 2020, the European Council agreed a €750 billion stimulus package, entitled Next Generation EU, in addition to its seven-year budget of €1.074 trillion for 2021-2027. Of this total budget of €1.824 trillion, 30% is earmarked for spending on climate action – with a view to achieving net-zero carbon emissions within the EU by 2050.<sup>1</sup>

Of this total sum, €360 billion will be borrowed from private and public lenders. The European Council has suggested two key measures to plug the financial gap: taxes on nonrecycled plastic and a 'carbon border adjustment mechanism', involving levies on goods imported from countries outside of the EU whose emissions exceed a benchmark to be determined by the

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<sup>1</sup> The deal agreed by European Council leaders has yet to be ratified by the European Parliament or national parliaments, so it is likely to face further amendments before its ultimate implementation.

European Commission next year. This latter measure would prevent the off-shoring of carbon-intensive manufacturing and lock in a commercial incentive for low-carbon metals and minerals. It aligns with the broader attempt within the stimulus package to reduce reliance on fossil fuels overall – spelling reduced demand for oil and gas in the long run. Indeed, in order to access funds, EU member states will need to agree to work towards net-zero emissions by 2050.

In addition to EU action on climate change in the wake of Covid-19, many European powers are set to implement policies internally that promote a green transition whilst simultaneously rescuing their economies. **38% of Germany's €130 billion stimulus package** is to be spent on building a 'future friendly Germany', which includes a strong focus on the energy transition. This will include a €9 billion package for the development of hydrogen power, as well as extra subsidies for hybrid and electric vehicles.

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Similarly, **France is set to implement a generous incentive scheme for buyers of electric vehicles (EVs)**, intended to bolster the French automobile industry whilst encouraging French car manufacturers to increase EV production. If this trend is mirrored throughout the automobile industry, it will lead to significant reductions in demand for petroleum on a global scale and require a significant upgrade of global electricity generation and transmission infrastructure. The colossal scale of this undertaking will mean it will not happen suddenly but will mean significant increases in demand for key metals and minerals used in batteries and modern energy infrastructure.

**By contrast, the UK has thus far made no strong commitments towards reducing reliance on fossil fuels** via its recovery plans. However, government rhetoric on carbon neutrality signals that a more consolidated energy strategy is yet to come with more substantive announcements expected at the COP26 global climate change conference in Glasgow in 2021. The extent to which the UK aligns with the EU on its energy policy and support for renewables will also depend on the outcome of ongoing negotiations for a post-Brexit trade deal.

## Implications for the energy sector

All of this spells an accelerated transition from fossil fuels to renewable energy in the decades to come. However, there is little in the 'Next Generation EU' agreement to suggest that action will be taken to reduce subsidies that support the fossil fuels industry – indicating that the

appetite for new oil and gas projects has not withered entirely. With unprecedented levels of borrowing across Europe in the wake of Covid-19 lockdowns, it is possible that governments will be hesitant to reject new revenues from the oil and gas sector entirely in the short to medium term.

While earlier versions of Europe's 'Green Deal' foresaw a role for natural gas as a stepping stone leading away from thermal coal use (namely in Eastern Europe), and while some countries may look to nuclear power, the European Commission has since developed a strong preference for investment in hydrogen technology. With China now leading in

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solar and wind, the EU is angling to claim leadership in 'green' hydrogen.<sup>2</sup> The European Commission estimates that investment will range between €180 and €470 billion by 2050 presenting an excellent opportunity for energy companies seeking to transition towards renewable energy production themselves.

Several energy companies have made significant strides in placing themselves at the forefront of the energy transition. Shell, for instance, is investing up to \$2 billion a year in renewable energy initiatives (approximately 9% of its capital expenditure in 2019), including wind and solar power, hydrogen stations and EV charging points across Europe, through its 'New Energies' business. Equinor expects to increase its renewable energy production capacity tenfold by 2026, primarily through its portfolio of offshore wind projects. Such moves will enhance their resilience as Europe's energy landscape transforms.

## Opportunities for the mining sector

Government support for EV production in France and Germany is likely to be mirrored across the globe in the years to come. This will substantially increase demand for battery minerals globally. This is underscored by the planned construction of battery production facilities across Europe – including in France, Germany, Poland, Sweden, and the UK.

A collective European push for security of supply for domestic EV production has brought into question the availability of raw materials, with metals like nickel, lithium and cobalt likely to present the key bottleneck in the EV battery supply chain. While it might take two years to construct a gigafactory, moving a mining project from exploration to production typically takes a minimum of 7-10 years. Such concerns are reflected in Tesla's recent supply contract with

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<sup>2</sup> 'Green' hydrogen refers to hydrogen made from water using renewable sources, as opposed to 'grey' hydrogen produced using fossil fuels, or 'blue' hydrogen which is carbon neutral but made from non-renewable sources.

Glencore for cobalt sourced in the Democratic Republic of Congo – a move that may prompt European consumers and regulators to consider whether a ‘cleaner’ supply chain is possible closer to home.

This problem is a good example of how European foreign policy often conflicts with both climate-related and industrial priorities. French and German leaders have expressed their concerns about China’s stronghold over the EV supply chain and have built their industrial policy around developing European

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supply chains. Companies that can communicate how their projects play into these political priorities may be able to build favour with European political institutions. However, as discussed below, bypassing Chinese production requires a level of support for domestic extractive projects that shows no signs of manifesting any time soon within Europe. Making it easier to develop mining projects in Europe may prove crucial to achieving European energy and industrial policy objectives.

## **The challenge of project development in Europe**

Industry leaders complain of the complexity, arbitrariness, and politicised nature of permitting regimes in Europe. Investors are often unwilling to endure the length of time it takes to acquire permits and win public support for projects in European jurisdictions. Furthermore, both mining and oil and gas suffer from a negative image in many parts of Europe. NGO and community opposition, whether based on environmental grounds or NIMBYism, poses a frequent challenge for resource companies. Projects across Finland, Greece, Poland, and Portugal, Romania, Spain, Sweden and the UK have all been stalled in recent years due to stakeholder and anti-mining NGO opposition. Similar challenges have faced onshore energy projects throughout Europe, with fierce opposition coming from environmental NGOs and local communities to everything from shale gas to onshore wind.

However, there have been notably successful projects in Europe that could serve as useful models for potential investors. The Woodsmith potash project in the UK, recently acquired by Anglo American but developed by Sirius Minerals, won community and government support despite being positioned within a protected national park.

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The projects success was built on a foundation of very proactive community engagement and strong environmental mitigation measures building the trust of local communities. Rio Tinto’s Jadar lithium borates project in Serbia is another

example of a project which enjoys widespread community and government support, again based on early and transparent community engagement and a strong value proposition regarding employment and regional development.

## **Conclusion**

The full impact of the Covid-19 crisis and its associated reforms and stimulus packages remains to be seen. However, much of its impact will be to accelerate trends that have been on the cards for some time. Companies that have already made strides on climate and ESG will find themselves at an early advantage. Meanwhile, European ambitions for energy and supply-chain security are increasingly ambitious. Projects that appear to strengthen European access to strategic battery metals could play into these political priorities. However, companies seeking to establish new projects will need to be laser-focused on engaging proactively with stakeholders to demonstrate a compelling value proposition and address any environmental concerns through best-in-class mitigation measures. Addressing the risk of community and NGO opposition will be paramount, regardless of how favoured their projects might be in national capitals and in Brussels.