



GLOBAL
TRADE
ALERT

A Thick Markets Approach to CRM: Findings of the 31st Global Trade Alert Report

ABCI Webinar, American University
24 July 2023

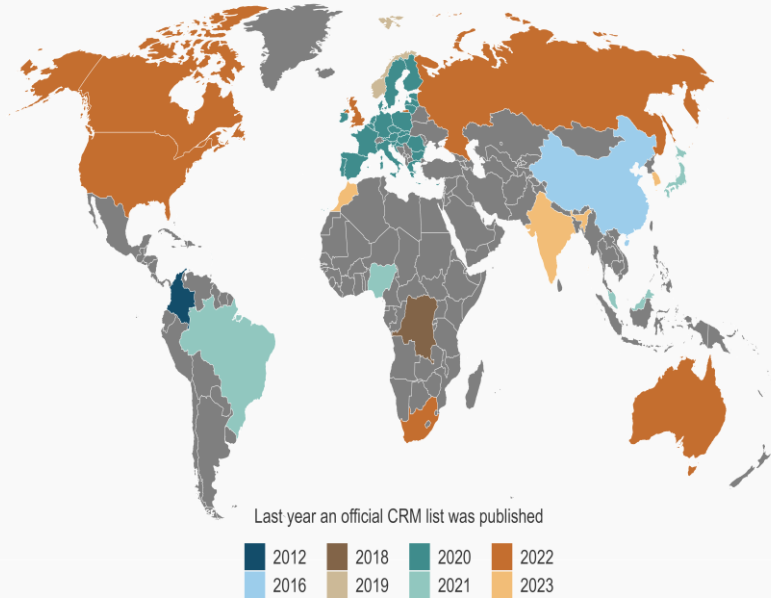
Simon J. Evenett, Professor of International
Trade & Economic Development and Founder
24 July 2023

**St. Gallen
Endowment**
for Prosperity through Trade

Summary of the Report's Main Findings

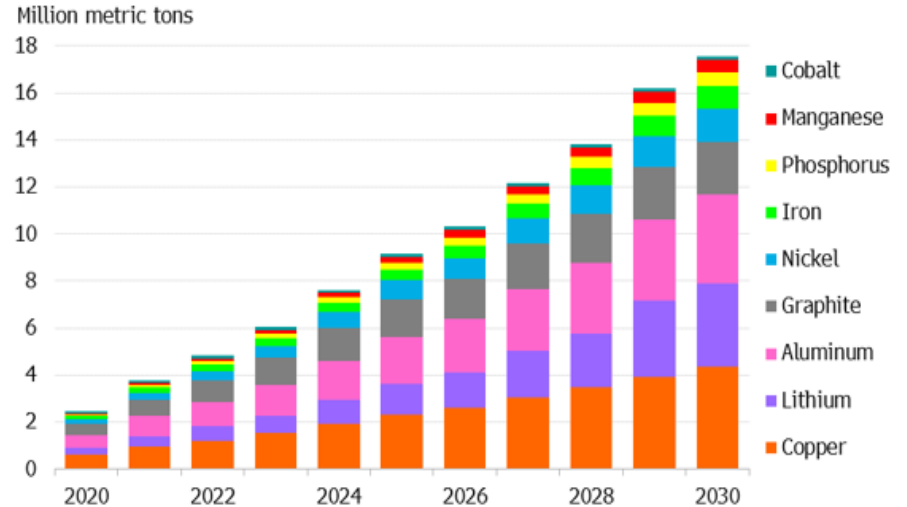
1. Some raw materials are important—but designating them «critical» is a magnet for rent-seeking.
2. Beware of much of the narrative surrounding CRMs—a lot of it cannot be supported by evidence.
3. Difficult to see how current unilateral and bilateral/group approaches will result in enough supply of CRMs.
4. Managed badly CRMs can become an unnecessary source of trade tensions.
5. Pursing a Thick Markets approach brings together the interests of potential buyers and sellers of CRMs.

Why CRMs are a live trade policy issue



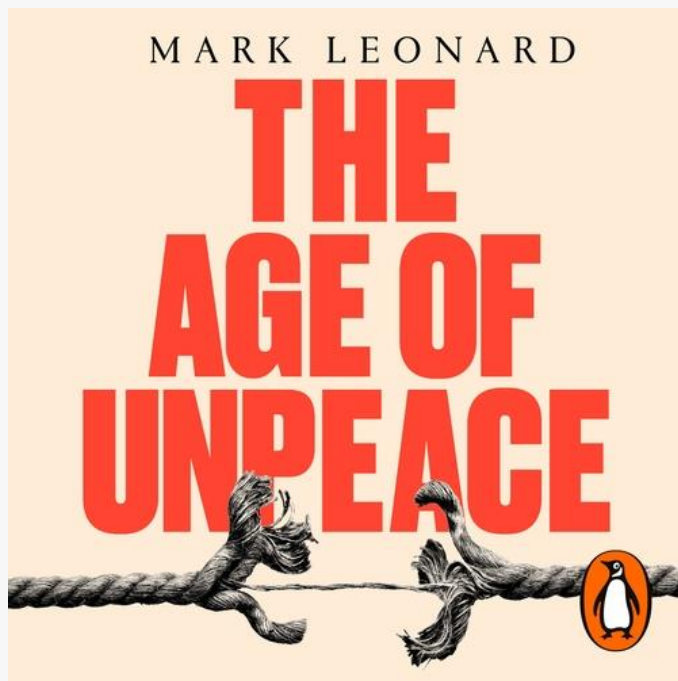
Accelerating Demand

Metals demand from lithium-ion batteries is expected to top 17 million tons in 2030



Source: BloombergNEF. Note: Metals demand occurs at the mine mouth, one year before battery demand.

Two competing narratives—we need a unifying logic for CRMs



Security of Supply

Chile's White Gold Rush

In a move to nationalize lithium, Santiago could freeze vital foreign capital investments.

Export bans boost Indonesia's onshoring policy

Insa Wrede
02/07/2023

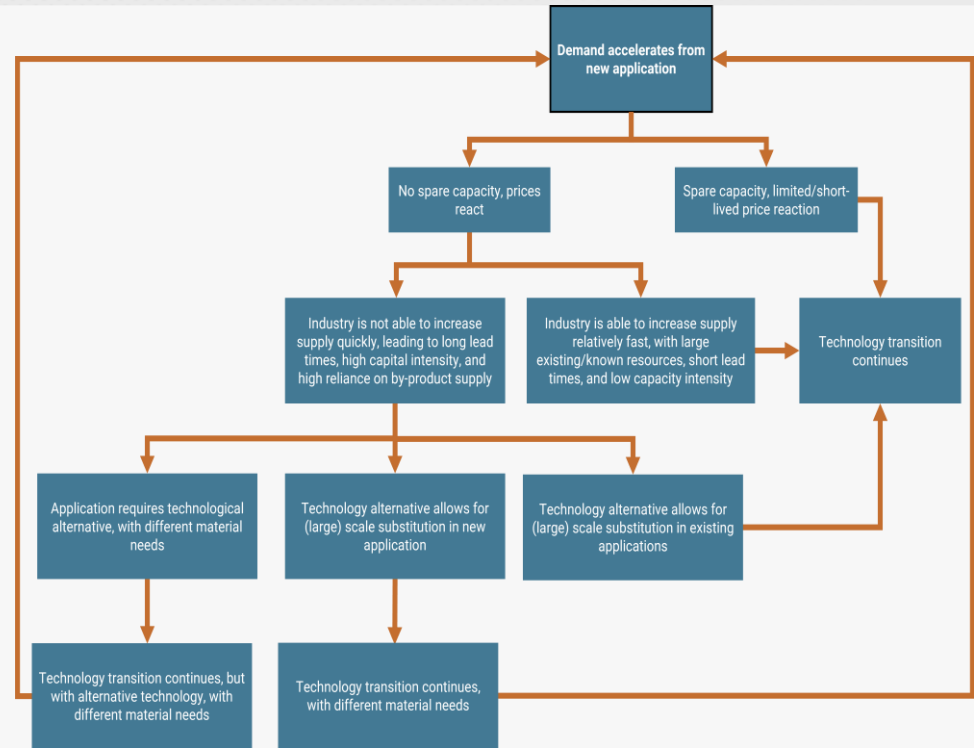
If you want to benefit from Indonesia's huge mineral wealth, you need to share many of the spoils with the country. But as global investors feel invited to President Widodo's party, Europe is coming late again.

Major development opportunity

What is a CRM? Properties of CRMs

Given existing policy and regulation in place and extant corporate practices, the state in question:

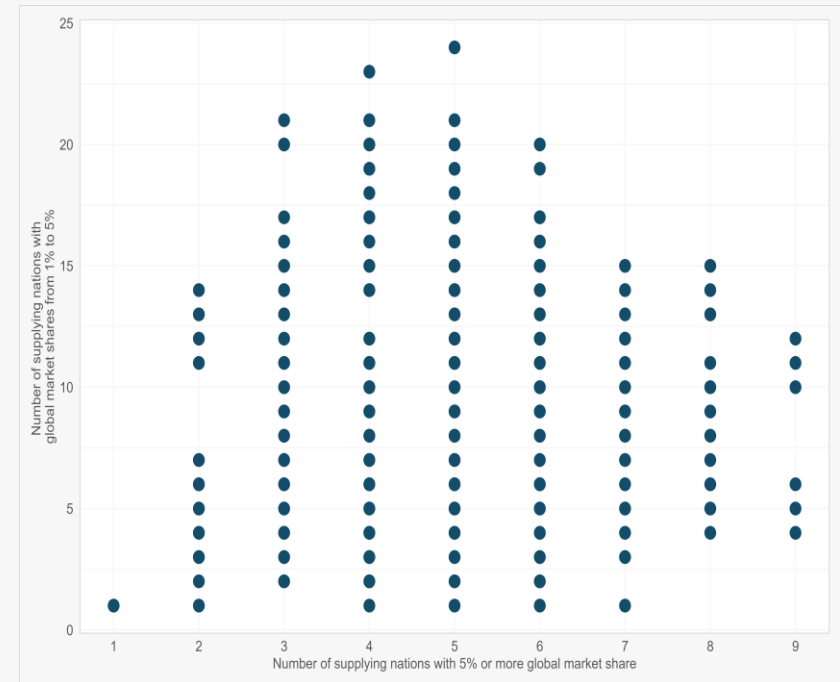
1. attaches a sufficiently high probability that, now or at some point in the future, the supplies available for use by buyers from their economy are insufficient;
2. that any shortfall is not expected to be filled quickly enough by private sector suppliers of that material;
3. that any shortfall is not likely to be met readily and affordably by substituting for another material;
4. that, should it occur, any shortfall either compromises a cherished societal objective or results in material harm for those societal stakeholders that the government in question seeks to protect or advance.



The Supply Side of CRMs: A mixed picture but there are rays of hope

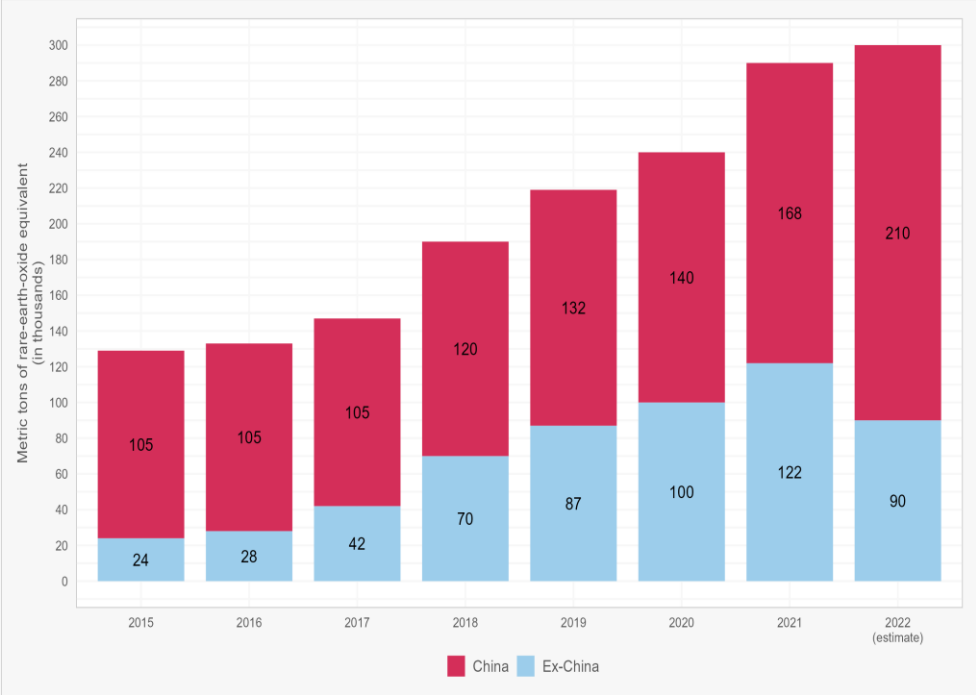
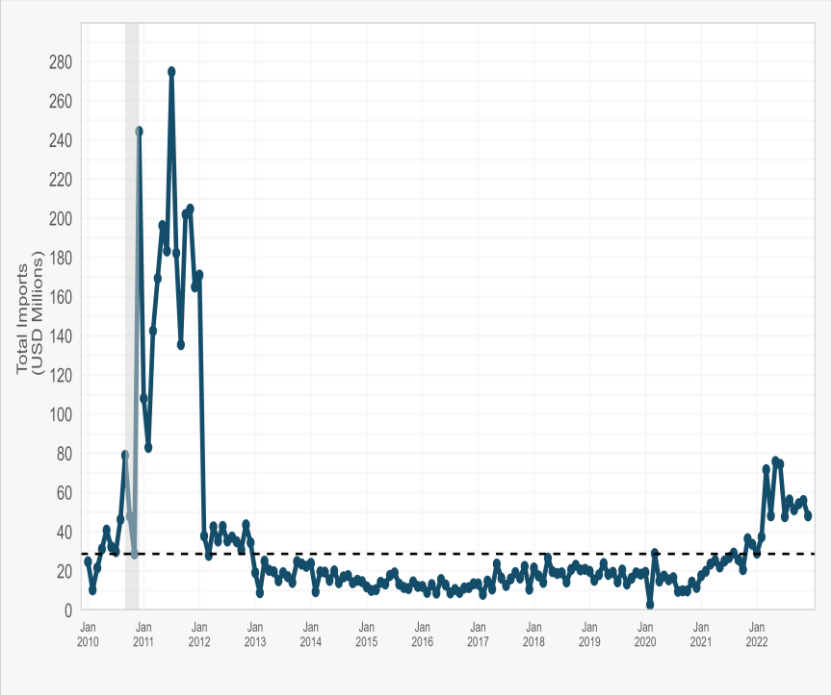
Factors holding back private sector capacity expansion:

1. Long and costly permitting times.
2. Unnecessary bureaucratic hurdles (perhaps motivated by side payments).
3. Uncertainty over pricing and trade policies.
4. Anti-competitive practices among firms.
5. Private sector coordination failures.

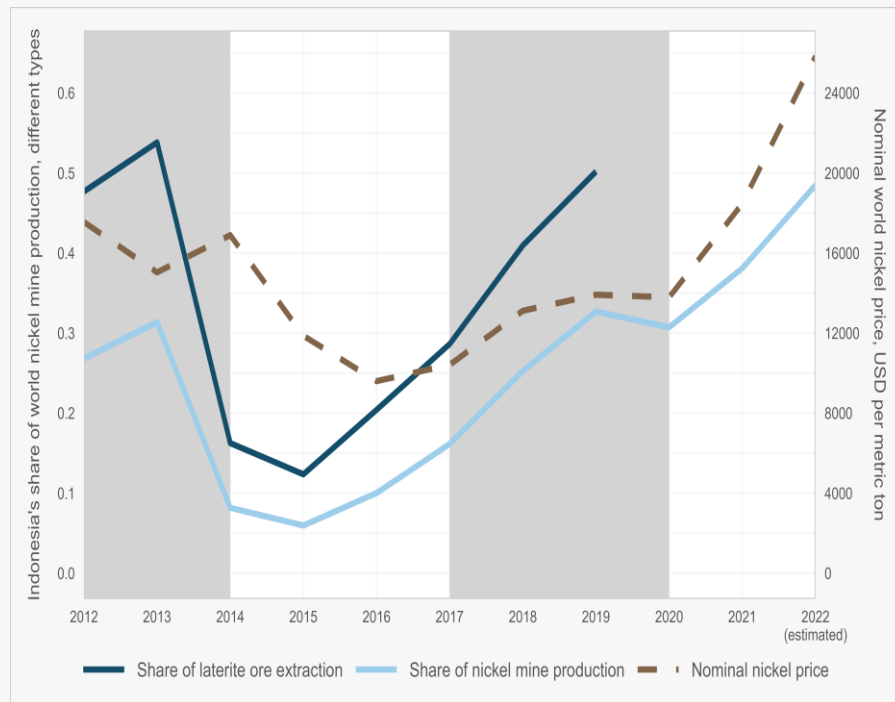
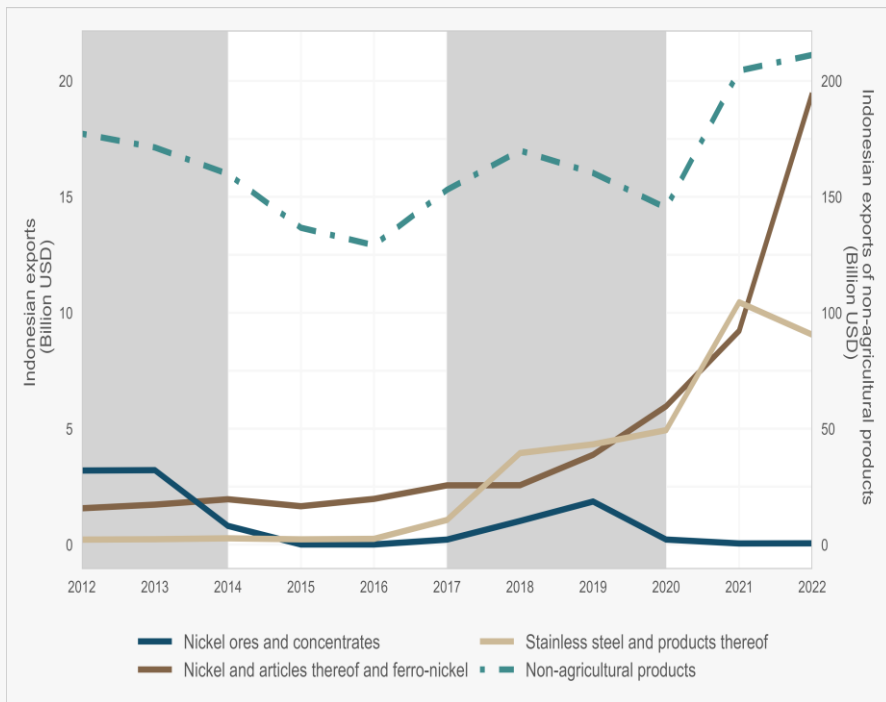


Potential to expand fringe suppliers

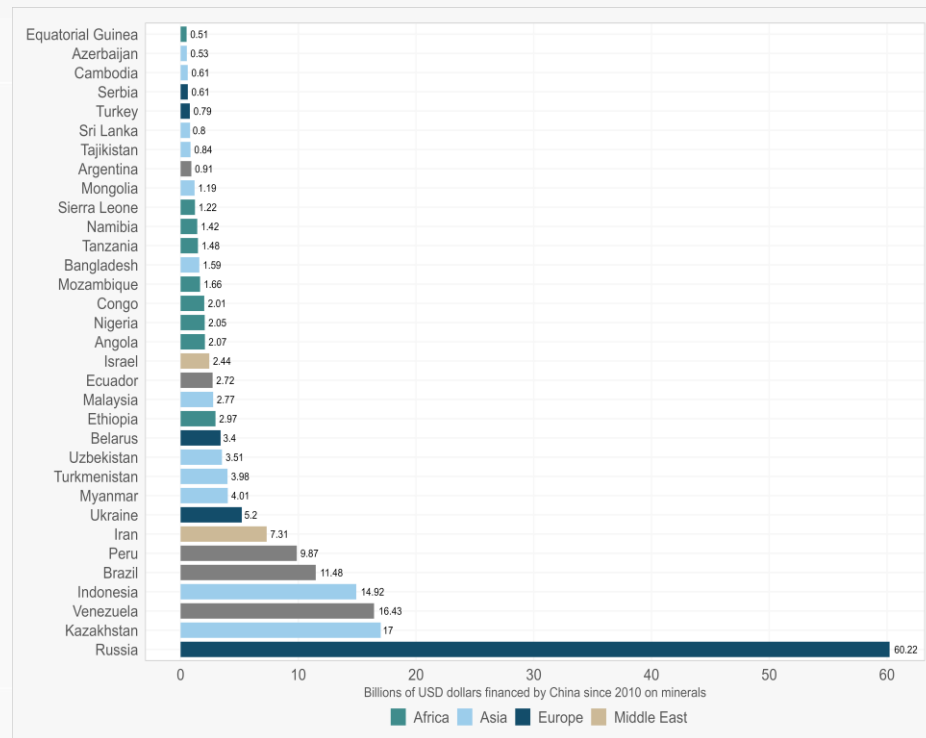
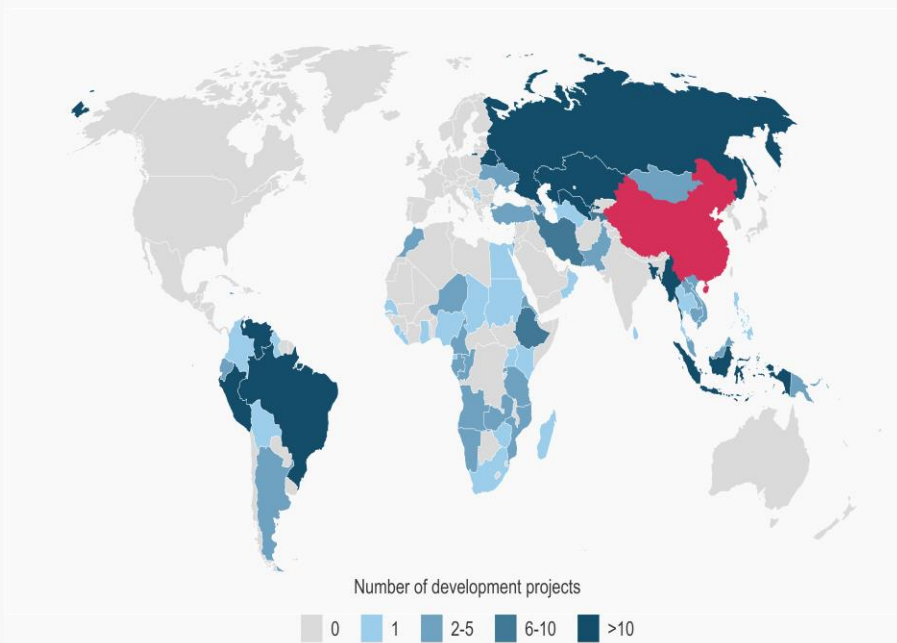
Misteps: Mistaken identifying of “weaponizing CRMs”—the case of China in Q4 2010



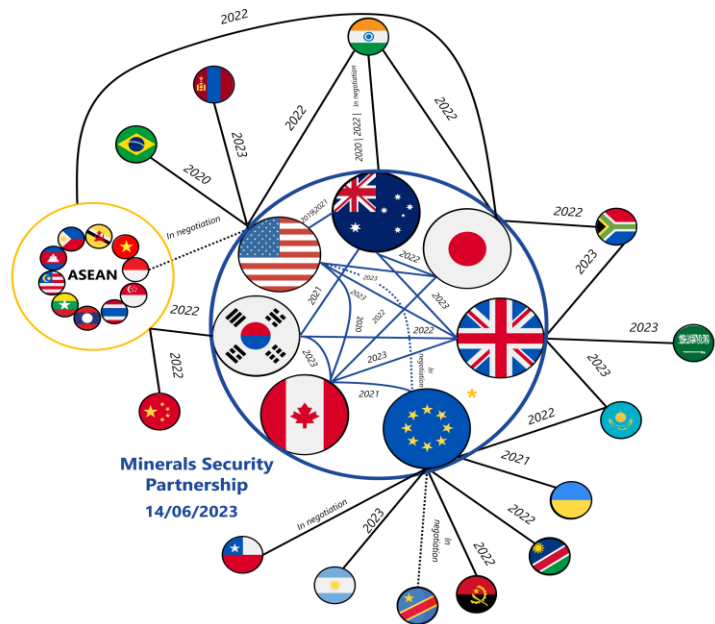
Misteps: Indonesia's resort to an export ban on nickel ores



Misteps: Transactions to expand supply including aggressive offtake accords



Misteps: Ineffectual bilateral and group initiatives



*Finland, France, Germany, Sweden, and the European Commission

United States and Japan Sign Critical Minerals Agreement

March 28, 2023

Historic agreement will diversify key supply chains and strengthen the U.S.-Japan bilateral economic and trade relationship

U.S. DEPARTMENT of STATE

POLICY ISSUES

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Minerals Security Partnership

MEDIA NOTE

JUNE 14, 2022

Recommendations for an alternative approach: Promote Thick Markets



1. Scale the challenge properly using a Rule of Reason approach.
2. Take steps to progressively thicken markets over time.
3. Eschew public and private sector steps that thin markets.
4. Expect occasional shortages and market disruption and prepare accordingly.
5. Rebuild trust and discourage opportunism by ratcheting up transparency.

Want to learn more?

- Download the report from here:
 - <https://www.globaltradealert.org/reports/gta-31-report>
- Blog postings on the report:
 - <https://www.weforum.org/agenda/2023/07/5-steps-scale-up-critical-raw-materials-thick-markets-approach>
 - <https://cepr.org/voxeu/columns/revisiting-china-japan-rare-earths-dispute-2010>
- Contact email: simon.evenett@sgept.org