BACK BRITISH METALS

Strengthening the UK strategic metals industries

We recommend that the government:

- **Focus on metals as a crucial 'sub-sector' as part of the industrial strategy[1], focusing on the metals industry, its value chains and their future trajectories** – this should look at areas of UK competitive advantage, barriers for companies (planning and energy costs), trade barriers (global and EU), and skills.

- **Develop a Strategic Materials Strategy** – this should be built on the learnings from the Critical Minerals Strategy and focused on the future demand for key metals and minerals and promoting investment in mid-stream and downstream processing technologies as the world moves through the clean energy transition

- **Publish a strategy to identify and remove barriers preventing financing of metals projects and to make the UK the most attractive jurisdiction for foreign direct investment** – the UK has one of the world's largest capital markets, and world-leading commodities expertise, combined with regions that can be cost-competitive for metals development. We think this should include a menu of interventions that can be made for strategically important projects.

- **Ensure regulatory coherence** – ensure policies across government (like UK REACH and chemicals regulations) are aligned with growing the industry.

- **Develop trade agreements covering the metals sector with key economies,** including the EU, to ensure UK based production can benefit as part of wider value chains and markets.

- **Work with the metals industry to develop policies and regulations to drive collection and recycling** of identified metals, through, for example producer responsibility mandates and consumer education

Why back British metals?

Metals and minerals – including "critical minerals" – are the building blocks of modern economies. From green technology to defence products, Britain needs them for its prosperity and both national and energy security.

And we can lead the world. Britain has some natural advantages that make it uniquely well-placed to capitalise on these fast growing and strategically important industries. But companies which supply, recycle and process metals face subsidised rivals and unfair competition, meaning this requires government support. We know how to maximise this growth in a cost-effective way by crowding in private finance.

Demand for many metals is growing quickly. As the world economy grows and moves away from fossil fuels, entirely new value chains are emerging. There is an opportunity for the UK to lead and become a green energy superpower. It also allows Britain to benefit from the rapid growth in these sectors, which in turn makes the sectors downstream of them more competitive too, creating an ecosystem of skills, jobs and technology.

Securing these industries not only contributes to our economy, but also security. Our assumptions that supply chains are secure and immutable have been challenged in recent years: stretched by Covid, Red Sea piracy, Suez and Panama Canal issues, container shortages as well as broader geopolitical concerns and increasingly restrictive trade policies.

The concentration of industrial capacity in specific jurisdictions, as well as the demonstrated willingness of actors to restrict access to key materials, has resulted in growing concern about the impact on our security as well as prosperity. This concentration has happened because of the use of subsidies and trade mechanisms that distort the market as countries seek to maximise supply and onshore production in their own jurisdictions. All other major economies are now taking action to boost supply (including through recycling) and processing of these metals which underpin the key sectors of the future, from net-zero, to AI to defence applications.

What's more, Britain is well-placed to lead. It combines Europe's strongest financial market, with genuinely world-leading mining and commodities expertise. Additionally, it has regions that have the right profile to be globally competitive.

This creates a win-win-win. Britain reindustrialises and regenerates left-behind communities, whilst benefitting from the growth forecast for these industries and contributing to wider resource security and domestic capabilities.

But how can this be achieved?

Recommendations

We believe the most effective way to achieve this would be the creation of mechanisms that crowd-in private finance by derisking projects. The UK government should provide itself with a selection of policy interventions it can make on projects (planning support, loan guarantees, and contracts for difference) and then – on a project-by-project basis – implement the interventions that financiers would need to invest at a competitive rate.

The very act of government sponsoring a project makes it more investable and some mechanisms, like loan guarantees, need not have a cost associated with them if all proceeds well. It simply unlocks low-cost capital for projects (through de-risking).

Metals projects are often capital intensive up-front and have a long "valley of death" between studies first being commissioned to entering production. Getting robust financing in place is the major barrier stopping these from being built in Europe, even though we know we need more capacity and that there will be demand.

They can also be at the whims of price volatility in small tonnage markets, as well as competing against subsidies, which means having price guarantee mechanisms (similar to mechanisms used in offshore wind) will help get some projects financed.

In summary we recommend that the UK government:

- **Focus on metals as a crucial 'sub-sector' as part of the industrial strategy[1], focusing on the metals industry, its value chains and their future trajectories** – this should look at areas of UK competitive advantage, barriers for companies (planning and energy costs), trade barriers (global and EU), and skills.

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Contact us:

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Annex – list of opportunities and barriers

Global metals hub

- London is the global centre for industrial metals trading and the UK is the leading financial and physical hub for global industrial metals use. The city hosts the headquarters of a number of the world's largest miners, with world-leading expertise and is also the pre-eminent global financial centre. This means it has unparalleled capabilities for metals project financing.

Funding

- Volatility and uncertainty in metal prices create a difficult investment environment for both primary miners and secondary refiners (recyclers). To stay competitive, secondary refiners must manage costs. The UK is a higher-cost location for both capital investment and ongoing operational costs, making other low-cost geographies more attractive, as they offer a stronger economic return. Investment in the UK needs to be incentivised by the Government through Grants and subsidies to help tip the balance of investment in the UK's favour. We recommend that government grant processes be significantly streamlined.

- The UK has many of the elements needed to take a leading position in this global 'metals-based innovation'; however, it is not investing enough in R&D. UK Government-financed R&D expenditure currently stands at just 0.46% of GDP, against the OECD average of 0.6%, ranking the UK 27th out of the 36 member nations. A strategy to increase UK spending to at least 0.6%, as well as an overarching metals innovation funded programme is desirable.

- As a specific example, the UK can secure future competitiveness and critical mineral security of supply by funding R&D targeting new applications for platinum, palladium, and rhodium, such as sustainable fuels production. **This would capitalise on the large supply of recycled PGM that already exists in the UK** (from recycled catalytic converters**).** Successful innovation will create more UK-grown technology for export and could help to bridge supply gaps in other critical minerals.

Tax

- **The Tax system as it stands does not fully support innovation or consider the full economic life cycle of an investment** (as often investment projects have a horizon of many years). The US's Inflation Reduction Act, with its new credits in support of building a clean energy economy makes the US a very attractive location to invest. The UK Government should consider tax and other investment mechanisms (e.g., Super Deductions, grants) to support businesses essential for sustainable clean energy, to make the UK an attractive place for metal businesses to invest in**. The recent announcement that critical minerals are now able to access UK Export Finance support is a welcome step in the right direction.**

- **HMRC policy / interpretation of policy is not supportive of a UK metals processing industry that serves a global market**. Certainty of supportive UK tax laws is imperative to create a strong environment for metal businesses. Recent lack of clarity by HMRC on the long-term application of tax rules (specifically, for Import VAT recoverability on goods imported but not owned by the processor/refiner) could have a material impact on decisions to locate processing and refining capacity in the UK. Capacity already located in the UK would lose market share to European competitors who do not require VAT registration, application or charge. (Note: the use of current customs special procedures e.g. IP and/or customs warehouse is not an appropriate fix as it is administratively burdensome and would give rise to an unacceptable commercial risk.)

Trade and customs

- **UK Free Trade Agreements (FTAs) support UK metal businesses that export globally.** Typically, across the UK / EU the imports of 'raw' metal (ingot or powder) are free of customs duty. However, elsewhere there can be duty, in particular India where there is duty payable. BBM member JM has fed into the UK's Indian FTA negotiation team its desire that these duties be eliminated and also the proposed origin rules. Where possible the movement of metals across borders should be without tariffs.

- **The UK now has control of its borders and therefore over the implementation of import tariffs and other mechanisms such as CBAM**. Ideally, these would be structured to be most supportive of a UK metals industry and associated development of clean energy technologies. The UK can also seek to favourably influence such tariffs elsewhere, for example in India. One aim could be the introduction of zero-duty rates in the UK and/or globally i.e. through the WTO, for products in 'green' supply chains (akin to the WTO's Pharmaceutical (Pharma) Agreement and the Information Technology Agreement).

- **Uncertainty in the applicability of the HS (Tariff) classification of waste & scrap could hinder the UK's role in the global circular econom**y. Typically, businesses can move metal-containing waste & scrap into the UK for processing without duties. However, there is some uncertainty when the goods are finished goods that are coming in for recycling/refining: they could be considered more appropriate to the finished goods tariff classification and not those of waste and scrap – for example, an automotive catalytic convertor, subject to 6.5% duty. A business designating these as waste & scrap under a duty-free heading is therefore subject to risk, albeit the import is for recycling purposes. In principle, to avoid this risk, the parts would have to be crushed or pre-processed in some way prior to import. Clarification that such parts can be designated as waste & scrap, even given their finished form, would be beneficial, as would a consistent approach to any material imported for the purposes of recycling.

- **Special procedure complexity - Inward Processing (IP) is restrictive and gives rise to commercial risks**. We recommend adjustments to the regime to be more aligned with the US's use of "drawback" instead where appropriate. In other words, all imports, without the need to hold an authorisation, can have import duty recovered on them as long as it can be demonstrated that the goods have been exported again, either in their unprocessed form or incorporated into a semi-finished or finished product, even if the exporter is not the importer that suffered the duty originally.