



# Tying critical materials through the Untied Loan Guarantee: A proven and effective way to secure materials needed for Europe's Energy Transition

Jeff Amrish Ritoe, October 2022





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## A proven and effective way to secure materials needed for Europe's Energy Transition

Those who have read the past papers that I wrote as a HCSS strategic advisor will know that I advocate a more proactive European approach in securing the materials that are critical to produce clean energy end applications.<sup>1</sup> Wind turbines, solar PV panels, lithium-ion batteries that power electric vehicles, all these end-applications require minerals and raw materials for their manufacturing. Although Europe still seems committed to the Paris Climate Agreement it needs to seriously ramp up its efforts to secure these materials. And in doing so, it needs to get two crucial players in the supply chain for raw materials on its side: (i) the raw material producers and (ii) financial risk takers.

The good news is that there is an instrument that gets both players onboard at the same time: the Untied Loan Guarantee.<sup>2</sup>

Leading industrialized nations such as Japan and Germany have been using some form of the Untied Loan Guarantee for more than fifty years to secure the supply of raw materials. These countries are among the largest consumers of raw materials worldwide and the stable and reliable supply of raw materials is of great significance to their industry. However, they are highly dependent on the supply of raw materials from abroad due to the limited resources of domestic raw materials. Although the responsibility for a sufficient raw material supply lies first and foremost with (private) companies themselves, the governments in these countries acknowledge that supply chain constraints, distortions in trade, as well as political influences can impede the access to certain raw materials for companies.

If a German company needs raw materials to produce goods that are considered of strategic importance to German national and macro-economic interest, that company will scan the globe for opportunities to source these raw materials. Let's assume it finds that opportunity in a South American country with a shaky political history. And let's assume that, despite this history, the German company still wants to be involved in the project because it offers the opportunity to source large volumes of (high) quality raw materials. Commercial lenders (i.e. banks) will be hesitant to borrow money for the company's involvement in such project due to the high political default risk in a country with an unstable political climate, making it very hard for the German company to play a role in the project and secure the raw materials so desperately needed for the German industry. And it is here where the Untied Loan Guarantee brings value. As illustrated in Figure 1 below, the Untied Loan Guarantee

<sup>1</sup> Ritoe, Jeff Amrish. "The New Great Game: Securing Critical Minerals Today for a Clean Energy System Tomorrow." Bangkok: The Hague Center for Strategic Studies, 2021. <https://hcss.nl/wp-content/uploads/2021/08/The-New-Great-Game-August-2021.pdf>

<sup>2</sup> Germany refers to this instrument as the *Untied Loan Guarantee* whereas other countries, such as Finland, may use different references such as *Raw Material Guarantee*. The principles though are always the same.

effectively means that the German Federal State covers any (political) credit default risks for projects it considers crucial to the supply of critical (raw) materials.

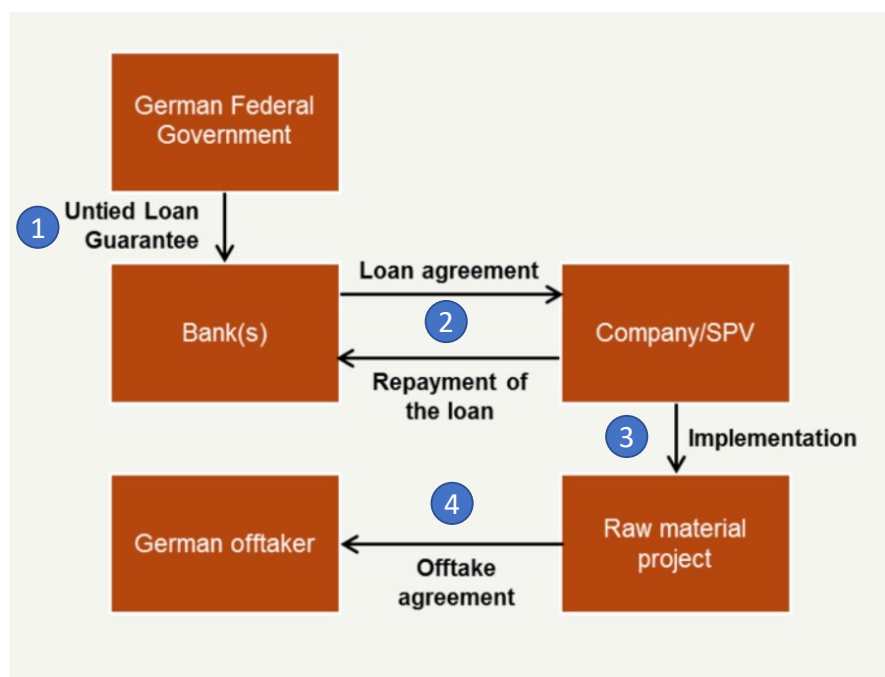


Figure 1: Basic structure of incorporating an Untied Loan Guarantee in a raw material project.

Source: <https://www.agaportal.de/en/ufk-garantien/grundlagen-ufk/grundzuege-ufk> and Jeff Amrish Ritoe.

By providing such guarantee, the state removes the biggest hurdles for commercial lenders to provide a loan to the project company established to operate for example a mine or processing company in a high-risk country. The important prerequisite, however, is that the producer must commit to signing an offtake agreement with a German company that requires these materials to produce goods that are considered of strategic national importance to the German Federal State.

The ultimate aim of the Untied Loan Guarantee or similar forms of state guarantees is to level the playing field for German raw material importers vis-à-vis competitors domiciled in other industrialized countries. Of course, there will be an extensive due diligence by the state entity issuing such loan guarantee to conduct a thorough risk-reward assessment. Such a due diligence process can easily take up to a year sometimes as the scope of this process today is wider and puts greater emphasis on matters like human rights and the environmental footprint of a project. But this is where the issuing state entity can benefit from the extensive due diligence that the commercial lenders have done or are doing anyway. Commercial banks scrutinize all bits and pieces of a project (including the regulatory and political environment in the host country) before granted loans. Close collaboration between commercial banks and the entity issuing the loan guarantee saves time (and a lot of lawyer and advisors fees).

In a time where the great economic powers have all committed to invest in clean energy end applications, a new great game to secure the raw materials needed to produce these clean energy end applications has started. And those who do not have access to a steady supply of raw materials will be left without a chair when the music stops. So perhaps it's time that more EU member states follow the good example of Germany.