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Towards an EU strategy to secure access to industrial raw materials

Summary

Europe needs a comprehensive strategy in line with market forces to secure access to non-energy raw materials covering the following key issues:

- Removing international trade distortions
- Prioritising raw material needs in EU External Relations
- Addressing access to raw materials in EU Development Co-operation policies
- Ensuring proportionality of Environmental, Health and Safety (EHS) policies with respect to their impact on access to raw materials
- Ensuring effective competition on raw materials markets
- Strengthening research and innovation to encourage sustainable raw material supplies
- Addressing national/local policies that affect access to raw materials

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A Strategic Issue for the Competitiveness of EU industries

Europe's industrial base is characterized by a diversified range of interdependent industries featuring complex value chains, from natural resources exploitation to processing to manufacturing. Maintaining the EU as the world's largest industrial producer will require access to imported or domestic raw materials. Therefore, UNICE calls for a comprehensive EU strategy to facilitate this access in the future as a vital component of Europe's industrial competitiveness.

A strategy respectful of market forces

Growing global demand for many industrial raw materials, driven largely by the rapid industrialization of emerging countries such as China or India, has generated substantial price increases on raw materials markets in recent years. European business can adapt to these changing patterns of global demand, but some industrial raw materials markets have also been affected by government intervention in various forms:

- trade and industrial policy measures have been used by an increasing number of countries to provide their industries with a decisive advantage in raw materials purchase or investment transactions;
- large economies in transition and emerging countries have restricted their exports of raw materials on world markets to subsidise their domestic needs;
- traditional business practices governing transaction terms and material conformity assessment in the purchase of raw materials are not respected by some new market players, notably in China, leading European business to suspect the widespread use of subsidies;
- environmental policies, in the EU in particular, are imposing increasing constraints on extraction, processing and use of raw materials, which reduce sources of supply.

The competitiveness of EU industries will suffer if government policies that thwart the free market for access to industrial raw materials are not abolished. A well thought through European strategy has an important role to play in removing trade distorting practices, securing the right framework conditions for the proper functioning of raw materials markets and promoting sustainable use of resources.

¹ *The notion of "industrial raw materials" refers to the raw materials needed by European industries for their production. Therefore, it includes energy raw materials (i.e. oil and gas) to the extent that they are used as feedstock for industrial production (as opposed to energy production). Due to the specificity and complexity of existing agricultural policies, the issue of agricultural raw materials lies outside the scope of this paper.*

Issues to be addressed at EU level

International trade policy

Government invoked trade distortions are creating difficulties for European industries' access to raw materials on the world market. An increasing number of countries restrict the export of raw materials by means of export taxes or other measures, operate dual-pricing schemes on the export of their natural resources or subsidize the import or local purchase of raw materials. These practices provide these countries' industries with a decisive supply advantage over their international competitors.

The EU should work to establish a level playing-field among countries and regions regarding access to raw materials. This will require a new approach to trade policy because the instruments or policies that create distortions are not traditional trade barriers and are difficult to address under current WTO rules whose trade disciplines and instruments were not conceived to prevent or tackle these kinds of distortions directly.

To address this challenge, EU trade policy should:

- seek the effective elimination of the causes of distortions by engaging firmly in bilateral consultations and negotiations whenever necessary;
- actively promote the development of new WTO rules and bilateral disciplines addressing export restrictions/taxes, import subsidies, dual pricing and other practices that result in discriminatory access to raw materials; and
- build support for recent EU proposals to classify export taxes and restrictions as non tariff barriers and dual pricing as an illegal subsidy in the WTO and the OECD.

The DDA Round and the EU's extensive network of bilateral agreements should be used to secure meaningful progress in this important area. The Council of Ministers should systematically include the abolition of the above mentioned trade distorting measures in future negotiating mandates given to the European Commission.

External Relations

EU external policies should take into account the vital importance of access to raw materials supplies for EU competitiveness. Improving access and the long term stability of supply flows must be on the agenda when shaping EU external policies and identifying priority partner countries and should be addressed by EU officials at high ranking bilateral meetings and summits. External policies should develop partnerships which promote the development of raw materials production under sustainable conditions, work against distortions of competition and safeguard non-discriminatory access to raw materials notably through national treatment in investments, and undistorted access to and respect of exploration and mining rights.

Development co-operation

Many developing countries have considerable natural resources, whose exploitation and export could contribute to their economic development and to the alleviation of poverty. One major challenge for development co-operation with these countries is to assist them in making the most out of these natural assets whilst ensuring the sustainability of their development.

EU private investment in natural resources should be encouraged as it can make a substantial contribution to this end. In addition, EU development cooperation should encourage private sector participation in infrastructure (Public Private Partnerships) and set up appropriate tools (such as output based aid). The EU should prioritize land use planning and economic infrastructure (road and rail transport, electricity and water supply, sea port facilities, etc) that are essential to the sustainable development of a natural resource economy.

Environmental, Health and Safety (EHS) policies

EU EHS policies have created a demanding operating environment for EU industries regarding pollution prevention and control, health and safety at work, product stewardship and waste management. The cost of this extensive regulatory framework is significant for many industrial sectors and can reduce their global competitiveness in access to raw materials relative to companies or industries that are subject to less strict EHS requirements. In addition, certain EHS policies may reduce the opportunities of access to raw materials by deterring trade partners from pursuing or entering into business relations with EU producers. Better regulation and proportionality, including in relation to the impact on access to raw materials, must become an integral part of the EHS policy.

Competition policy

In certain sectors, a relatively small number of companies operating worldwide account for a large share of the production and international supply of essential raw materials. In such highly concentrated market structures, the principle of effective competition is of paramount importance to ensure effective functioning of the market. This should be properly considered when addressing mergers or possible anti-competitive practices.

Research and innovation

Research and innovation play an important role in improving access to raw materials through greater efficiency in resource extraction/development, material use and recovery of end-of-life products. The European Technology Platform (ETP) on Sustainable Mineral Resources should define priorities, time frames and action plans to ensure continued and focused research activities for sustainable mineral resource supplies. The 7th R&D Framework Programme must endorse those priorities and action plans. Similarly, other collective research projects which are being developed within broader, international, frameworks such as the United Nations Environmental Programme (UNEP) should be encouraged.

Issues to be addressed at national level

In view of Europe's limited wealth of mineral resources, many EU industries are heavily dependent on imports of raw materials. This dependence could be reduced, however, if Member States acknowledged the economic and strategic importance of their non-energy extractive industry for the economic and social development of Europe.

However, facilitating sustainable mining and processing of domestically available minerals is a challenge under current environmental laws. A balanced mineral policy, respectful of sustainability principles, should enable progress towards this objective.

Targeted actions for land use planning, authorization process, collection and use of geological data, and incentives for exploration can promote sustainable access to raw materials.

In addition, the development of the European thematic strategy on the sustainable use of resources should support industry's efforts to use raw materials in an efficient way. More work is needed to facilitate access to the wealth of "surface" resources generated by consumers in end-of-life products. Action at local level must be enhanced to increase the collection of valuable materials from discarded consumer products, and to ensure that recycling effectively closes the loop of the life-cycle of used products, thereby saving both material and energy resources. Furthermore, certain features of the Internal Market need to be resolutely addressed such as, in particular:

- the lack of harmonization of the VAT regime applicable to metal scrap, which leads to fraudulent trade patterns that divert domestic scrap supplies from the EU waste recovery sector to export markets, or
- the lack of harmonized interpretation, or even implementation, at national level of certain features of the Waste legislation, which creates serious competitive distortions in the recycling sector and eventually hinders this activity.

National authorities should pursue these reforms to support EU industries which have developed world class competence and capabilities in mining and recycling that enable them to operate according to the highest environmental standards whilst achieving high levels of performance in terms of material and energy efficiency.

The way forward for a coherent and effective EU strategy to enhance the security of supply of industrial raw materials

The strategic importance of access to raw materials for the competitiveness of EU industries must be acknowledged. EU business needs undistorted, non-discriminatory and stable access to raw materials. Secure access to raw materials should be a priority at both EU and national level based on a coherent, comprehensive and effective EU strategy. This strategy should include trade policy, external relations, development co-operation, EHS, competition, research and innovation as well as national resource policies. The High Level Group on Competitiveness, Energy and Environment provides a platform to galvanize the political commitment required to launch a coherent strategy to facilitate access to industrial raw materials.

Annex

Examples of policies and measures that hinder access to raw materials

Country	Policies/Measures
Russia	Export taxes; no refund of value-added tax for exports; restrictions on mining investment and exploration rights .
Ukraine	Export licenses on iron ore and export taxes or ban on metal scrap; dual pricing on oil.
Venezuela	Export ban on metal scrap; subsidy on purchased metal to the metal processing industry.
Saudi Arabia	Dual pricing scheme on oil and gas .
China	Export taxes; reduced VAT rebate on exports, export quotas and licenses; restrictions on investment; State support to mining investment.
Pakistan	Export taxes on metal scrap.
Vietnam	Export taxes on metal scrap.
EU	REACH; national interpretation and implementation of the legislation on trans -border movements of waste; differences in national VAT regimes on metal scrap; restrictions on mining activity and exploration.