

SPEECH

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ADDRESS BY GUIDO GLANIA INTA HEARING 22 JANUARY 2008

Thank you very much for inviting BUSINESSEUROPE to this hearing on raw materials. Access to raw materials is extremely important. We appreciate very much that the European Parliament is now dealing with this issue.

BUSINESSEUROPE is the umbrella organization of 39 industrial and employers' organizations in Europe. It represents more than 20 million European companies.

For more than two years BUSINESSEUROPE observes carefully the development on international raw materials markets and the overall situation as regards access to industrial raw materials. The range of materials we are interested in is quite broad. It reaches from metals, stones, hide and skins, wood to crude oil – if used as feedstock for industrial production. In September 2006 BUSINESSEUROPE has adopted the position paper which is circulated today.

Given the time constraints I will only make four key points:

1. European industry is heavily dependent on access to raw materials.
2. Distortions of competition are an underlying theme of the current developments
3. Access to industrial raw materials will remain a strategic key issue for the competitiveness of European business.
4. Europe needs a broad raw materials strategy

First point: European industrial production is heavily dependent on access to raw materials. I wish to recall this basic truth: The availability of raw materials is a precondition for manufacturing. All in all, Europe is heavily dependent on imports of many raw materials.

Two examples: Imports account for 88 % of Europe's iron ore consumption. Europe accounts for 5 % of copper production but 24 % of world consumption. That is to say: Developments on the international markets are of crucial importance for European industry. And of course they are of importance for the entire industrial value chain.

Second point: Distortions of Competition. BUSINESSEUROPE believes that well functioning markets are the best way to safeguard access to raw materials. However, the current market developments are to a considerable extend distorted.

Many countries adopt for instance **export taxes or bans** for raw materials and scrap. (an example is Russia). By this they intend to keep the raw materials in the country. Another market distortion stems from **subsidies**. Sometimes they are injected into the economy through bank loans (an example is China). Another factor is **double pricing**, artificially cheap national raw materials which are considerably under world market

prices. This is in example the case in Saudi Arabia. Here it is seen as a key policy measure to boost the development of the petrochemical industry. European companies cannot compete on an equal footing with their competitors in third countries which benefit from these policies.

Another dimension which has to be kept in mind is foreign direct investment. About 50 % of Chinese FDI goes into the energy & raw materials sector. China is ever more investing in resource rich countries such as Sudan, Nigeria, Angola and Congo.

To give you an example of what challenges we are facing: Last December the Chinese steel company Baosteel was allegedly preparing a bid for one of the largest mining companies, Rio Tinto. In this context we are talking about an investment worth 90 to more than 140 billion euro. At the moment this acquisition seems not be realized. But this example shows the challenges we have to be prepared to face.

Third point: We are facing a strategic challenge. Access to industrial raw materials will remain a key issue for the competitiveness of European business. Some people do question this assumption. The higher prices have lead to significantly more investment. Global mining production is rising. There is more exploration, new mines. Will the market again return to the smooth period we have witnessed in the 90s of the last century? We have to see that global consumption is also growing at a rapid pace. Let me illustrate this by some startling figures: The Chinese imports of iron ore were ca. 150 mio t in 2005. If the current trend would last the Chinese imports would be 710 in the year 2020. Wood: increase from 34 mio. Cubic meters to 150. Copper: 3 million t to 20.

Hence, we are probably not witnessing a short term phenomenon, but a long term trend and it is not certain whether global mining production can keep pace with growing demand. In this context I also wish to hint to the fact that we see similar challenges on the world agricultural and energy markets. Examples: Chinese meat imports may rise from 0,3 to 4 million tons. Crude Oil: from 91 mio. to 1860 million t. These figures sound incredible. Hence, they are only a simple extrapolation of the current trend. Even if we expect a somewhat slowing Chinese economy, we still will face enormous pressure on all these markets.

My fourth point: Europe needs a broad strategy to face this challenge. Against this background BUSINESSEUROPE calls for a broad based EU strategy encompassing among others trade policy, development policies, domestic issues, research and development. BUSINESSEUROPE believes that markets are the best way to safeguard access to raw materials. But it is a political challenge to defy market distortions.

What does this mean? Let me just briefly explain our pleas in the field of trade & development policy:

Trade policy: We strive at the abolition of export restrictions. The best way would be to ban those measures by means of improved WTO rules. Of course, this is not easy to achieve in the framework of the Doha Round. But also WTO accessions and bilateral trade agreements lend themselves to improve the situation. We see that EU trade

policy has understood the strategic importance of this issue and is addressing export restrictions on various levels. We appreciate this. But we must make sure that access to raw materials remains high on the trade policy agenda.

Development Policy: Let me here just quote what Mr Saadi's has stated in his study: "the European Union has to develop close links between aid, economic partnerships and the security of supply sources of primary commodities from Africa" (p. 46). Indeed, it is a challenge to help developing countries to make the most of their natural resources. Exploration of deposits, sustainable mining, transport infrastructure – and of course sound economic framework conditions - there are many levels at which development co-operation can assist. We feel that EU development cooperation has not yet taken up this challenge.

Due to the time constraints I was only able to briefly touch upon this very complex issue. Let me just mention three more dimensions:

There are **geopolitical risks**. China accounts for ca. 90 % of world production of wolfram (tungsten), Congo 40 % of cobalt, Russia 43 % palladium.

There is the issue of competition between the energetic use and the industrial use of renewable primary products. Policies which subsidize the use of these materials as **biofuels** go to the detriment of the industrial use of those raw materials.

Competition policy: In certain sectors, a small number of companies account for a large share of the production and international supply of essential raw materials. Further mergers are imminent.

Thank you once again for inviting BUSINESSEUROPE to this hearing. We stand ready to provide further information and expertise from industry experts.

Thank you very much for your attention.
