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ADVANCING THE EU'S RAW MATERIALS POLICY

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Today's conference is of great importance to Business Europe, the association of European business federations. We bring together all of the national business associations from each European Union country and from some EU candidate countries. For example, in France, the MEDEF is one of our members; in Germany it is the BDI.

Current Challenges

We have been very active on the issue of access to raw materials for many years now as a result of a number of problems that have developed for European business. In the run up to the financial crisis, supply constraints emerged in various raw material markets leading to a substantial increase in their price for European industries. Most of these supply constraints arose due to the increase in demand by emerging countries such as China, India, Brazil or Russia. These countries are investing heavily in industrialisation and infrastructure, consuming enormous amounts of raw materials.

A second raw materials challenge, that is less talked about but probably more important, is the demand for certain minerals emerging from the development of new technologies. Most of the so-called high-tech, IT hardware and most of the Greentech hardware requires substantial mineral content. This can include traditional metals such as copper as well as very specialised, rare metals, the production and supply of which is concentrated in China.

This is particularly the case for hybrid or electric cars. It has been forecast that, in this area, demand could overtake supply levels in the near future.

A third raw materials challenge can be classified as market distortions. Many countries around the world have adopted policies to favour the supply of raw materials to their own industrial markets. In this way, they give themselves a competitive advantage. This can clearly be seen in larger, emerging markets, most particularly in China. China has a very consistent raw materials strategy that involves providing favourable conditions for its raw materials to its own industry. However, China is not the only country to employ such market distortions. Other countries have also attempted to do so. Russia has done this with less high-tech materials such as wood and scrap. There is also a policy in many oil producing countries to subsidise their industrial development by providing free oil and gas to the development of their petrochemicals industry, for example. These market distortions have resulted in many problems for European industry as they lead to competitiveness distortion for downstream users.



Finally, most businesses are exploring sustainable development issues today. This also has an impact on the development of raw materials markets. In Europe there is a real challenge for the development of a mining industry, which faces severe constraints from an environmental or sustainable development perspective.

The Raw Materials Initiative

As a result of these challenges, Business Europe and a number of other bodies pushed the EU to take action on raw materials, leading among other things to the EU Raw Materials Initiative. Somewhat rapid action has been taken by the Commission. For example, it has taken trade action against countries that tried to restrict the sale or export of raw materials. A major case is underway between the EU and China concerning certain metals. Dialogues have also been undertaken with countries such as Russia where trade problems have arisen. DG Enterprise has worked with a team of industrial experts to develop a list of critical raw materials. Business Europe has participated in those meetings.

From our perspective, the core issue in this area was not only to consider security of supply constraints but also to consider the technological dimension. What are the critical raw materials we need for the technological changes that we expect in European industry in order to meet environmental, technological demands and changes of business? Other issues have been clarified: what do we mean by raw materials in Europe, and what are the core problems to be addressed?

Advancing EU Policy

In order to advance the EU's raw materials policy, work is required with respect to the security of both EU and foreign sources of supply. With respect to EU sources of supply, we require better internal rules, be they European or national rules. Foreign sources of supply require more cooperation between the EU and external partners.

Contrary to what most people believe, there are mining possibilities in Europe and in the EU candidate countries. However, the mining industry faces two major challenges. First, European regulations on the environment or on health and safety are being applied in such a way as to make it very challenging to launch new mining projects in Europe. This can take the form of environmental rules such as Natura 2000, or rules that govern the use of certain chemical proceedings such as the use of cyanide in gold mining. This regulatory delay is in addition to the time taken for mining projects to obtain the necessary financing and approvals. At the national or local level, land use planning can also have an impact. That planning has been linked to abuses such as corruption. It is also associated with Not In My Backyard (NIMBY) protests.

With respect to recycling, many of our security of supply needs could be seriously reduced by having a much stronger recycling policy. This is a core issue for domestic and regional interests.



With respect to foreign sources of supply, there are two areas in which the EU could act. First, by developing trade and investment rules for the resource sector. This is a taboo subject as most countries consider the resource sector to be strategic and therefore off limits to the EU as such. However, if we want to work with foreign partners, we need to develop a set of rules for the resource sector that everyone can benefit from: resource holders, investors, companies, buyers, etc. I believe that resource-holding countries will ultimately see the need for such rules. There are two angles of attack here. First, in the WTO, which is a very slow process. Second, the EU needs to challenge the restrictive practices being undertaken by certain countries.

A final issue is raw materials diplomacy, where the EU could make a major input if it were to make a huge leap in its foreign relations. As you will be aware, the EU's trade policy and development policy operate independently from each other. If we were to give clear political directives that we will use our trade and development policies to favour or provide privileged relations to resource-holding countries, we would be able to make progress. For the time being, that is not possible. For example, the EU's development policy cannot be used to secure the supply of resources with a given country. That would be against the European Union's own laws. We would therefore have to change some EU policies quite fundamentally. That does not mean that we will use development policy to take over mines in Africa, for example. Instead, we could use this policy to develop more privileged relations with certain countries. However, no one in the development policy community is willing to talk about such issues; nor is anyone in the European Commission. Only we in the business community raise that question, and we never obtain an answer.

If we want to talk resource diplomacy with countries that have significant mining resources, we need to consider how European regulations affect the import of those minerals. If the EU continues to apply hazard-based regulations on imported nickel, raw materials etc., no one will export any minerals to the European Union because that would be illegal. The European Union's own regulatory regime needs to be risk-based and not hazard-based when it comes to raw materials. Otherwise we will simply not be able to import certain substances. That could be part of the dialogue with the countries exporting those minerals.

Other points:

- Hazard-based regulations lead to a ban on certain substances, which are considered as being a hazard. That would be justified in the case of asbestos, for example, but not for the use of other minerals. It was proposed and then retracted with respect to nickel or the use of cyanide in gold mining. Even when retracted, companies will hesitate in their use of a mineral as they fear being accused of using a hazardous substance. When the EU develops regulations on these minerals, there is often no effective lobbying in their favour as the relevant producers are not located in Europe. The laws go forward and we then realise that they have a negative impact on a particular industry sector.



- Trade and development policies should be linked. There is indeed a development angle to trade policy. However, we do not have EPAs with all ACP countries, as some of the negotiations were not concluded. The concrete foreign policy tools at the disposal of the European Union are development policy and trade policy. The Lisbon Treaty circumscribes what development policy can be used for. I would ask whether development policy could not also be linked to certain domestic objectives of the EU. The Lisbon Treaty states that the foreign policy of the EU must also support the objectives of the EU in terms of domestic policy. Do we want to make that bridge to say that part of our development policy is involved in pursuing our own objectives such as the security of supply of our raw materials?
- That should definitely not mean a neo-colonial policy for EU development policy. However, we could have a policy that privileges cooperation with resource holding countries. This could take the form of cooperation between mining companies and the EU development aid agencies in order to build infrastructure etc. At the same time, it would facilitate our access to supply. However, this remains a very taboo subject in the development community.
- If security of supply matters, and Business Europe believes it does, we need to optimise our available domestic supplies. We also have to optimise our external supplies. If that requires privileging certain countries – and not necessarily African countries – then we may have to do so. In exchange, they will give us privileged access to their raw materials. That is what diplomacy and strategic partnerships are all about. Countries that hold resources want and expect to be privileged in exchange for access to their resources.
- It is not unusual for the EU's partner countries to ask for technological cooperation as part of a deal for the security of supply. That is the case for Russia, for example, and for many other countries. This is something that individual member states can do. However, it is difficult for the EU to do that as it cannot engage in trade and investment promotion. Nevertheless, the EU could take action to favour such arrangements. For example, we could imagine cooperation with Ukraine where we improve the security of gas transits to Europe in exchange for European companies helping Ukraine attain greater energy efficiency. That would lead to technological cooperation, a reduction in Ukraine's overall energy consumption, and a greater security of gas supply for Europe. That type of approach could be developed at the European level. We could even use the European emissions trading scheme to fund such cooperation.

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