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### **OPEN MARKETS FOR RAW MATERIALS**

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Ladies and gentlemen,

BUSINESSEUROPE is a strong believer in Free Trade. As the leading industrial exporter, European industry depends heavily on an open markets policy to boost growth and competitiveness. So do our major trading partners like China or the U.S. because no one is entirely self-sufficient in raw materials.

Europe is also heavily dependent on imports and this is especially the case for raw materials. For this reason, we have been strong supporters of the EU raw materials strategy originally presented in 2008 and substantially updated by this Commission in 2011.<sup>1</sup>

This Commission strategy is the foundation of Europe's industrial policy which aims to generate growth and jobs through manufacturing on which our economy depends so heavily. Without access to raw materials at globally competitive prices, we cannot have a successful manufacturing sector in a globalised economy.

Today's panel focuses on the external dimension of the raw materials strategy. And I will outline where the EU has been successful and where more progress is needed to boost industrial growth.

#### **Part I: Open Markets for Raw Materials**

First, in terms of open markets and trade, I must congratulate the Commission – Commissioners De Gucht and Tajani – for their efforts to increase the security of supply of raw materials. Our main challenge in this field has been the restriction of raw materials exports by some major producers such as Russia and China (NB. Chinese deputy ambassador is on the panel).

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<sup>1</sup> Commission Communication 2011 : « Tackling challenges in commodity markets and on raw materials »



We acknowledge that resource holding countries have the sovereign right to choose whether or not to extract key resources. However, once a country decides to produce raw materials, it should not limit their export for the purpose of granting discriminatory a price advantage to their industry. The WTO forbids such discriminatory measures that upset the level playing field for trade.

Several concrete trade measures have been adopted by the Commission to address these restrictions.

- The EU has challenged export restrictions before the WTO dispute settlement system – notably Chinese measures on different metallic minerals and the WTO has thus far declared these measures to be a violation of its rules.<sup>2</sup>
- The EU has introduced rules to expressly forbid all types of export restrictions on raw materials in its latest generation free trade negotiations and has agreed to specific measures with Russia on wood exports and internal gas prices in its WTO accession protocol.
- The EU has introduced rules on anti-dumping to address the impact of raw material restrictions on dumped product prices.

We are not yet in a world of open markets for raw materials but this Commission action has had a positive impact in promoting open markets between raw material exporters and importers by clarifying that normal trade rules apply in this field.

Looking forward, the EU needs to build on its excellent work in the trade policy field to develop closer diplomatic cooperation with resource holders. Since we have the pleasure of discussing with the Deputy Ambassador of China today, I would underline that China and the EU have the opportunity to move from WTO disputes toward cooperation in the field of raw materials.

Mr Deputy Ambassador, we have more to gain from cooperation than WTO disputes. If China lifts its export restrictions, we can look at ways to boost cooperation in more sustainable production techniques and in areas like raw materials recycling where European companies are leaders in the sector. I personally see a bright future in this win-win cooperation on raw materials between the EU and China.

## **Part II: Cooperation with our partners from resource holding countries**

This brings me to the second point that I would like to raise in this panel: raw materials diplomacy.

On this issue, the EU policy is very mixed. On the one hand, Commissioner Tajani and Commissioner Oettinger (for Energy) have put in significant efforts to develop

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<sup>2</sup> The Commission has taken China to the WTO twice for basic minerals like bauxite and afterward for more high tech minerals like rare earths and tungsten. The WTO has already declared China's practice a violation of the rules in the first case although China is appealing this case. We are awaiting the outcome of the second case on rare earths but most experts expect China to lose this case as well.



closer ties with major suppliers to the EU market. The EU and Russia have very good relations on minerals trade and, although challenging, a much better understanding on energy issues today than just a few years ago. This is based on a growing understanding of mutual interest in trade in raw materials and energy. Similar constructive exchanges could be developed with other major suppliers of raw materials.

However, we also have concerns that certain EU regulations may undermine our cooperation with raw materials providers. For example, the Commission proposal to effectively ban fuels produced with Canadian oil sands oil as a raw material under the Fuel Quality Directive (FQD) will generate additional costs for industry for almost no environmental benefit. Some experts suggest that the carbon savings of this measure will be the equivalent to the carbon costs of moving the European Parliament back and forth to Strasbourg every month – I won't support or deny this claim as it may cause problems for our moderator Paul Rubig with his French colleagues who defend their parliamentary seat in Alsace (joke!). But the anticipated trade dispute with a major supplier of energy and raw materials – Canada - will have very harmful effects on an otherwise positive economic partnership. Under the guise of sustainability, the Commission is proposing increased costs for industry and worse relations with our suppliers of raw materials. BUSINESSEUROPE disagrees with this approach.

Another measure that will affect our supply of raw materials (and energy) is the transparency directive for extractive industries. European companies are strong believers in transparency. This is especially the case for our companies operating in the mining and energy sectors because transparency can help significantly lower their costs while improving the stability of their relations with resource holding countries where they operate. This is why many European companies are active supporters of the Extractive Industries Transparency Initiative (EITI) which requires both governments and extractive industries to open their books to public scrutiny. Similarly the OECD Guidelines on Multinational Enterprises (MNE Guidelines) apply very strict rules on companies in exchange for receiving fair treatment as investors in host countries.

Regrettably, the EU transparency directive for extractive industries takes a very different approach to promoting transparency. By essentially imposing very strict legal requirements on European companies without engaging the resource holding countries in the process, the EU will undermine its own security of supply for energy and raw materials. Let me clarify why the directive as currently proposed will have this negative effect. First, by requiring EU companies to report on payments to government at project level, there will be huge accounting costs on extractive industries and these costs will necessarily be passed on to downstream industries. Second, by requiring reporting even in cases where legislation in the resource holding country does not allow disclosure of information on payments to governments, EU companies will find themselves in a *catch 22* situation. Either they will have to break the law in Europe or they will have to break the law in the countries where they are operating. This not only violates the OECD MNE guidelines but it exposes European companies to significant risks of expropriation.



The EU will also likely adopt a new policy to deal with the challenge of conflict minerals in the Congo. The business community, like many others, is deeply concerned with the situation in the region and with the role that minerals trade can play in supporting/prolonging the conflict. For this reason, we are of the view that the EU institutions, business and NGOs should join forces to promote public-private projects to address this challenge. Many such initiatives exist at national level already so we think that the EU, with its vast diplomatic resources in the region, could cooperate with industry to tackle this problem in an effective way. And here I urge a high degree of caution against following the American Dodd-Frank Act Conflict Minerals rule. Upon taking effect, this rule led to a decline of 90% of the Congo's exports to the US – a de facto embargo. Denying the Congolese any right to trade will only make a difficult social situation worse in the country. So please Commission, take a good look at BUSINESSEUROPE's constructive position on conflict minerals to address this important issue.

To conclude, you can see by both my critical remarks and my constructive proposals that BUSINESSEUROPE considers trade in raw materials to be vital for industrial growth. In addition, we strongly support trade rules to promote open markets. At the same time, we believe that European regulations affecting the import of raw materials should be designed to promote good cooperation with major supplying countries and regions. We can better achieve sustainability and economic competitiveness goals through closer cooperation with our trade partners.

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