

# Raw Materials – Raw Deal

## How Europe's approach to trade in raw materials threatens the environment

March 2011

We depend on raw materials – or natural resources – every day, often without even thinking about it. From the sugar we put in our coffee to the copper in our mobile phones, our economy has become dependent on the availability of cheap raw materials. If supplies of these materials began to dry up due to scarcity or high prices, the wheels of industry would grind to a halt.

But we know that the earth's natural resources are limited, and competition for them is increasing. With consumption growing in industrialised countries and emerging economies, urgent questions are being asked about who should control trade in and prices of raw materials. At the same time, the potential for international conflict over natural resources is mounting.

The European Union (EU) consumes a disproportionate amount of the world's natural resources: the average EU citizen consumes three times as many raw materials as an Asian citizen, and four times as many as someone living in Africa.

In order to secure its access to raw materials in the future, the EU has launched a new strategy: the Raw Materials Initiative. Skewed to help European corporations, the strategy pays virtually no attention to environmental and social concerns.

### High-tech and 'green' technologies

Both the latest must-have gadgets and environmentally-friendly products are often made with rare and coveted raw materials. For example, lithium is used in batteries and certain rare earth elements are frequently used in the electronics and IT industries.

### Congolese coltan

Coltan is a key element in many electrical products, particularly mobile phones. The Kivu region in the Democratic Republic of the Congo (DRC) possesses 60-80% of the world's coltan reserves. But this sought-after element has been linked to the armed conflict in the DRC which has already killed over six million people. The UN has proposed a moral embargo on Congolese coltan, but this has not been possible to enforce. The money generated by these deals helps support the arms trade while tens of thousands of people work in dangerous conditions.

## The EU Raw Materials Initiative

The European Commission's Raw Materials Initiative (2008) has three pillars:<sup>1</sup>

1. Securing access to raw materials on world markets
2. Promoting the extraction of raw materials from European sources
3. Reducing European consumption of raw materials

Regrettably, this last pillar contains only vague statements about promoting a more efficient use of resources, whilst the measures in the first pillar are very concrete; **foreign policy, trade policy, and development policy will all be used to ensure Europe can get its hands on raw materials from other countries.** The Council of European Ministers has even gone so far as to explicitly ask Member States to use development aid money to secure access to raw materials.<sup>2</sup>

The EU is using trade policy to access raw materials primarily by opposing export duties and seeking to ensure greater protection for its companies operating overseas.

### Export Duties

Restricting exports can take many forms, including raising taxes on exports, banning them, or requiring licensing for exports. All forms of export restrictions aim to reduce the volume of exports and have been widely used as part of successful historical and recent industrial policy. The general aim of an export tax on raw materials in developing countries is to protect the country's own processing industries and ensure that these newer companies are able to compete globally. **Export duties can also support the protection of the environment and natural resources. For example, an export duty on unprocessed wood can prevent forests being stripped bare.**



Photo: Magnus von Koeller, Creative Commons License.

However, the EU fears that export duties could lead to scarcity of raw materials and higher prices for European companies. Therefore, in negotiations for new bilateral free trade agreements (FTAs) and Economic Partnership Agreements (EPAs), the EU has been pushing countries to give them up. For instance, the EPA the EU signed with Cameroon in January 2009 states that “no customs laws on exports will be introduced, nor will existing ones be increased for trade between the parties.”<sup>3</sup> Under the EPA, Cameroon was forced to abolish some of its export restrictions on wood and the forestry industry despite the fact that these restrictions were put in place to promote development and prevent the export of certain species of trees.<sup>4</sup>

## Investment

As a result of the Lisbon Treaty, investment policy has become an EU rather than Member State competence. It is the Commission’s responsibility to exercise this. In 2010 the European Commission presented a draft of a new ordinance designed to create better conditions for EU investors across the world. The EU is pushing for a thorough liberalisation of policies related to **foreign direct investment (FDI)** and maximum levels of protection for European investors, based on three essential principles:<sup>5</sup>

1. “National Treatment” whereby foreign investors would be given the same or better conditions than domestic companies
  - » The insistence on national treatment prevents developing countries giving preferential support to domestic companies, banning foreign investments in certain sectors, or giving preference to regional investors in order to promote regional integration or South-South cooperation.
2. “Investor protection” which would give wide-ranging protection to investors
  - » “Investor protection” often gives more rights to foreign investors than to national governments or affected communities. It allows companies to resort to international arbitration forums to settle disputes between states and investors; these processes are lengthy, expensive, and conducted behind closed doors.
3. “Unrestricted flows of capital over national borders”
  - » Governments will be restricted even further in their power to stop money generated from the extractive industry leaving the country.

These measures would severely limit the extent to which developing countries can control the use of their natural resources in the interests of their own people and the environment.

The liberalization of FDI is advanced on the basis that it stimulates economic activity and employment. However, according to UNCTAD, there is scarcely any evidence to support the view that foreign investment plays a leading role in economic growth in African or other developing countries.<sup>6</sup> Instead there are clear indications that FDI follows economic growth in a country, rather than causing it.<sup>7</sup> Generally, of total FDI flows, only a small part reaches sectors that most benefit poor people.



### Land as a commodity?

With the development of bio-fuels many food companies have started buying huge tracts of land to produce palm oil and ethanol. This process is undermining biodiversity and frequently forcing local communities from their homes and their fields. Granting foreign investors excessive rights to use land in this way is undermining food security and contradicts public policy aimed at fighting poverty and inequality.

In Paraguay, thousands of peasants do not have access to land, which is a major cause of malnourishment in rural areas. When local people applied to gain access to land that they lived on but which was owned by Germans living abroad, it was opposed. The justification was that granting local peasants rights to the land would violate the terms of an investment treaty signed between Germany and Paraguay. Following the ruling, the peasants were violently expelled from their settlement by police.<sup>8</sup> Similarly, the Philippine government is under heavy pressure to abolish its agrarian reform policies and instead authorise the purchase of land by non-Filipinos.<sup>9</sup>



Brickworks north of Dhaka, Bangladesh. Photographer: Richard Else.

## What's wrong with the EU's approach to raw materials?

The EU's approach to trade in raw materials could have grave social and environmental consequences.

### Environmental damage

The EU seems to see the world's finite natural resources as commodities to be bought as cheaply and consumed as quickly as possible. The EU's current policy could discourage developing countries from implementing environmental policies for fear of the consequences. For example, in 2010 the mining company Blackfire threatened to take the Chiapas government in Mexico to court under clauses in the North American Free Trade Agreement (NAFTA) because it had ordered the closure of a barite mine for environmental reasons.<sup>10</sup>

The EU's approach also encourages over-extraction, which often goes hand-in-hand with the destruction of natural habitats and displacement of indigenous people. A prime example of this is Vedanta.<sup>11</sup> A company listed on the London Stock Exchange, Vedanta has been responsible for serious environmental damage and human rights abuses in India where it mines bauxite.

The fallout of over-extraction of natural resources is already evident. For example, gold and silver mining in Bolivia, Mexico, Peru, and Brazil – as well as costing the lives of millions of people – led to irreversible metallic contamination. Experts believe that over-extraction of raw materials is one of the five biggest threats to biodiversity.<sup>12</sup> Thus, the EU's focus on unrestricted access to raw materials can be seen as a grave environmental hazard.

### Social impacts

One consequence of the EU's raw materials strategy is that poorer countries are no longer able to use

valuable political tools like export duties to develop their economies and instead remain trapped in a cycle of dependence on exporting their unprocessed natural resources. The rights and freedoms granted to European companies operating abroad, meanwhile, could dramatically limit developing countries' ability to protect their environment and ensure that the gains made from producing raw materials benefit their economies and citizens.

### Time for a new direction

Europe's approach to trade in raw materials will rob poorer countries of the ability to shape their own development strategies and protect their finite natural resources. Fairness and sustainability must be at the heart of the global trade in raw materials to preserve our valuable natural resources while respecting environmental, social and human rights. Instead of consuming more and more raw materials, the EU must seek a new direction.

### The EU must:

- Tackle the massive over-consumption of resources in Europe compared with the rest of the world. At the same time, Europe must find different ways of using and reusing raw materials
- Allow developing countries to use exports duties and regulate the behaviour of foreign investors operating in their countries
- Help poorer countries to integrate into the global economy in a way that benefits them, such as by reducing their dependency on exporting raw materials, increasing the processing of raw materials in their own countries, and protecting finite natural resources
- Promote equitable use of natural resources across the world and work towards a sustainable future for all.

## Take Action!

Join thousands of people across Europe taking action to challenge the EU's approach to trade in raw materials. Go to [www.traidcraft.co.uk/rawmaterials](http://www.traidcraft.co.uk/rawmaterials) or [www.comhlamh.org/campaigns](http://www.comhlamh.org/campaigns) to find out more.

This briefing paper is based on a paper by Maxine Combes, on behalf of AITEC (translated from the French "Ressources naturelles: mettre l'Union Européenne et sa politique commerciale hors d'état de nuire"). It has been produced as part of a common project including the collaboration of Traidcraft Exchange (UK), Comhlámh (Ireland), AITEC (France), and Oxfam Germany and WEED (Germany). The contents of this paper are the sole responsibility of Traidcraft Exchange and Comhlámh. For further information, see: "The New Resource Grab: How EU Trade Policy on Raw Materials is Undermining Development" (November 2010), by the aforementioned organisations.



**weed**



This Briefing Paper was produced with the support of the European Union. The views expressed in it are exclusively those of the participating organisations and can under no circumstances be regarded as reflecting the position of the European Union.

## Endnotes

1. Now replaced with Pillar 1: Fair and sustainable supply of raw materials from global markets; Pillar 2: Fostering sustainable supply within the EU; Pillar 3: Boosting resources efficiently and promoting recycling.
2. EC, Council conclusions: An integrated approach to a competitive and sustainable industrial policy in the European Union, 28. Mai 2009, Abs. 24
3. Interim economic partnership agreement between the EU and Cameroon, 28th February 2009, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:057:0002:0360:EN:PDF>, Articles 14-18
4. Friends of the Earth, Undercutting Africa: Economic Partnership Agreements, Forests and the European Union's Quest for Africa's Raw Materials, October 2008, p.vi
5. European Council, Outcome of Proceedings of the Trade Policy Committee, 22, January 2010, S. 3, <http://register.consilium.europa.eu/pdf/en/10/st05/st05667.en10.pdf>
6. UNCTAD, Economic Development in Africa: Rethinking the Role of Foreign Direct Investment, 2005, S. 64
7. Ha-Joon Chang, *Bad Samaritans: The Guilty Secrets of Rich Nations and the Threat to Global Prosperity*, Random House, London, 2008, S. 99
8. Rolf Künemann, 'Foreign Investment and the Right to Food', in Brot für Alle et al, *The Global Food Challenge: Towards a Human Rights Approach to Trade and Investment Policies – Case Studies on Trade, Investment and the Right to Food*, 2010, p.50ff, <http://www.fian.org/resources/documents/others/the-global-food-challenge/pdf>
9. Shepard Daniel and Anuradha Mittal, *The Great Land Grab: Rush for World's Farmland Threatens Food Security for the Poor*, Oakland Institute, 2009, p.14
10. "Bill to tax unprocessed wood exports passed," 12 May 2010, [www.allafrica.com/stories](http://www.allafrica.com/stories)
11. Corporate Responsibility Coalition, *The Reality of Rights: Barriers to Accessing Remedies When Business Operates Beyond Borders*, May 2009
12. The other four threats are: changes in soil conditions brought about by continuous crop rotations, pollution, the proliferation of invasive species and climate change. *Le Monde* 13th July 2010