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European Union's Approach to Raw Materials Engagements: A Review of Engagements with Third Countries

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STRADE is an EU-funded research project focusing on the development of dialogue-based, innovative policy recommendations for a European strategy on future raw materials supplies. In a series of policy briefs and reports, the project will offer critical analysis and recommendations on EU raw materials policy.

This policy brief is the first in a series of research articles and reports to be produced under STRADE. This brief reviews previous and current EU raw materials engagements undertaken with third countries, with the aim to categorize the nature of such engagements.

Introduction

Access to a stable and sustainable supply of raw materials for the European Union (EU) is indispensable to support 30 million people employed in the EU's raw materials industrial sector, as well as providing inputs to diverse industries with a total added value of € 1 300 billion[1]. Acknowledging the importance of such access, the Raw Materials Initiative (RMI)[2] in 2008 articulated the need for the EU to secure a sustainable and stable flow of raw materials from both within the EU and from third countries. The initiative provided a coherent set of objectives to direct raw materials engagement, where previously such actions were often varied and uncoordinated.

To understand the current and future direction of the EU's engagement with raw materials producing countries, it is prudent to assess how such engagements were approached previously. Based on EU policy documents and other commentaries, this policy brief reviews EU raw materials engagements with third countries over the past decades, provides a short description of major initiatives and categorises them by the approach adopted. Thus, it does not reflect the STRADE consortium's view and evaluation, which will be given in later policy briefs.

One of the basic principles for ensuring a stable raw materials supply for the EU is the creation of an enabling environment for the global mining sector. A sector with a diverse range of participants, operating in a transparent and well governed sector, with responsible mining practices and a stable investment environment, aids the EU's objective in achieving supply stability. In pursuit of this goal, the EU's efforts have changed from provisional technical and financial support to long-term diplomatic and development efforts. Its engagements have now moved from limited direct sector support to meet a broader set of objectives, including environmental and social sustainability.

In previous decades, the EU lacked specific direction and coordination addressing raw materials diplomacy; agreements with African, Caribbean and Pacific (ACP) countries took little account of supply security. More recently, as trade issues have impinged on security of supply of certain materials, the EU's attention has shifted somewhat to ensuring long-term supply stability for raw materials.

Through funding and assistance programmes the EU has provided financial support to commodity-dependent countries experiencing reduced export earnings, directly invested in mining projects, established on-going dialogue to promote cooperation in critical materials and developed technical assistance programmes with partner countries.

These efforts can be categorised under contingency support (historical), capacity development and supporting access to free markets through diplomacy (current).

[1] http://ec.europa.eu/trade/policy/accessing-markets/goods-and-services/raw-materials/

[2] http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0699:FIN:EN:PDF

Contingency Support

The European Economic Community's Lomé Agreement in 1975, focusing on cooperation with the ACP countries, and set the stage for the European Development Fund (EDF). Under the EDF, STABEX (Système de Stabilisation des Recettes d'Exportation) focused on agricultural products and was established under the first convention. SYSMIN (System of Stabilization of Export Earnings from Mining Products), which focused on mineral products, was established under the second Lomé Agreement in 1979, with funding made available in 1986. The programme was eventually phased out by 2000 and replaced by subsequent projects originating under the Cotonou Agreement of 2000.

SYSMIN (1986-2000)

SYSMIN funding was established in 1986 to support, when needed, ACP states that had struggling mining sectors. The first disbursements were made in 1986, with the fund acting as a compensatory mechanism through which governments could be remunerated for the actual or projected loss of export earnings in the mineral sector. These were the result of unforeseen events such as natural disasters or a sharp fall in global commodity prices. The loan was based on projected losses and the amount needed to support affected mines. The amount sought was stipulated by the partner country, and then verified by the EU through its own technical studies.

Between 1986 and 2010, €3.71 billion[3] had been lent under SYSMIN to 18 countries. Loan disbursement followed a stringent eligibility criteria; a country must derive 15% of its total export earnings from one commodity or 20% from a number of commodities; the predicted fall in earnings must have been caused by a *force majeure* event; the government must provide evidence it was not culpable; and demonstrate the fall in earnings would have a negative impact on the country's national development. The loans were provided interest free to the receiving governments, which could be used to support the distressed mining sector/company or to support economic diversification away from the mineral sector.

SYSMIN provided vital financial assistance for countries, where commercial markets were unwilling to provide finance due to the risk profile of such projects/countries. In the first ten years, to 1996, SYSMIN funds were largely utilised to finance upgrades to existing mining related infrastructure, and for the purchase of new plant equipment. Over the last ten years of SYSMIN, the focus was re-directed towards training of local geological personnel, building negotiation capacity within governments, conducting geological surveys and supporting the associated geological systems and technology. Although new applications for SYSMIN were closed in 2000, assessment of submitted applications continued, with successful cases receiving funding until 2010.

SYSMIN

Strengths	Weakness
Funding request initiated by partner countries	Stringent eligibility criteria
Counter cyclical to balance detrimental impacts of commodity price decline	Long lapses between application and financing
Provided finance not available from commercial markets	Local capacity building not a priority
Supported continued operation of distressed mines.	EC staff limited understanding of mining sector
Supported economic diversification away from mineral sector	Funding conditionality forced large scale procurement from EU vendors

FLEX (2001-2011)

The Cotounou Agreement, successor to the Lomé Agreement, continued to maintain a funding mechanism for countries experiencing a loss in export earnings, under the Fluctuations in Exchange Earnings (FLEX) programme. The main objective of the programme was to safeguard macroeconomic and sectoral reforms and policies at risk as a result of a drop in revenues. The financing criteria were tightened; applicant countries had to demonstrate three successive years of earning losses of 10% or more (reduced in 2004 to 2% for land locked nations and the least developed countries). Recipient countries would typically receive funding about five years after the application. Between 2000 and 2002, €36 million was disbursed, and only six countries met the criterion set under FLEX. In 2003, this increased to 13 countries (€77 million)[4], with export losses calculated for both agricultural and mineral products.

Both SYSMIN and FLEX were designed as contingency funding programmes, with strong eligibility criterion, often making it difficult for countries to access funding. While stringent conditions were applied at the application stage, monitoring the use of funds was considerably weaker. The intention of both programmes

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[3] Calculated from EDF annual reports; https://ec.europa.eu/europeaid/annual-reports_en

[4] Griffith-Jones and Gottschalk (2005); Compensatory Financing for Shocks: What Changes Needed? A Study for DFID

was to provide assistance when distressed mining sectors could have a detrimental impact for the wider economy. In practice, meeting the rigid criterion for funding and the time taken to assess applications and disperse funds meant the intended impact of both SYSMIN and FLEX was minimal. The delay in disbursement resulted in financing becoming pro-cyclical rather than counter-cyclical, as had been intended.

SYSMIN and FLEX are not unique in this matter. The IMF operated a broader but otherwise similar scheme in the past. The IMF's Compensatory Financing Facility (CFF), which changed name to the Compensatory and Contingency Financial Facility (CCFF) in 1988, was intended to alleviate acute balance of payment problems. It came to be associated with commodity export revenue fluctuations as these were the most common cause of such issues. However, the facility has not been used since 2001, mainly as it proved difficult for countries to meet the strict conditions and because of the time taken to process applications.

Since the 2000s, the EU has moved away from ad-hoc funding strategies, towards creating long-term capacity within partner countries and supporting free and fair[5] access to mineral markets globally.

Capacity Development

Direct Project Funding

National Indicative Programmes (NIPs), undertaken by the European Economic Community, and then continued under the EU, focused on long-term capacity development in the partner countries. NIPs are established under the European Development Fund (EDF), for a five-year period and constitute large development assistance programmes, with the mineral sector as one possible component. Of the NIPs signed with 16 APC countries in the 11th EDF period (2014-2020), the mining sector is addressed through wider efforts to promote good governance, infrastructure and energy related projects. Projects under NIPs have included promoting transparent management of extractive revenue in Democratic Republic of Congo, Ghana, Nigeria and Sierra Leone.

Where assistance is undertaken under NIPs, this includes capacity development for the national mineral institutes, conducting geological surveys and staff training, as well as funding pre-feasibility studies. NIPs-based programmes focused on increasing mineral related investments to the country with set targets and tangible results. For example, in the case of Botswana, NIPs assistance lead to a marked increase in purchase of geological datasets and mineral exploration license applications by prospective investors.

Multi-annual Indicative Programmes (MIPs) are a more recent initiative (2014-2017) and result from the Partnership Instrument of the EU. No specific raw materials initiatives could be identified under this programme (the EU-Latin American MIPs is in early stages) at this time. Moving forward, these programmes expect to engage with a larger global audience (not limited to ACP countries) and involve emerging and advanced countries.

More recently, mining sector assistance has moved away from direct funding through NIPs and has been provided through Overseas Development Assistance (ODA) funding to programmes administered by international development partners.

Funding Through Partner Organisations

From 2011 to 2015, the EDF provided €50.4 million for projects targeting the mining sectors, through international development agencies. For example, EU funding was made available for the UNDP's 'Stones for Development' (2015) programme, supporting small and medium-sized enterprises in ACP states. The project focuses on building capacity within the low value mineral sector, such as construction materials and ornamental stone.

In early 2015, the EU-funded PANAFGEO roadmap was launched. This is a Geological Cooperation programme between EuroGeoSurveys (the Geological Survey Association of Europe) and The Organization of African Geological Surveys. The endeavour is funded with other multilateral funding institutions, and aims to build the capacity of the African continent to manage its own extractive sector, whilst addressing the possibility for discovery of new mineral deposits of importance for Europe.

Such projects focus on identified issues within partner country mining sectors; supporting capacity development and targeting specific constraints. These initiatives aim to create stable and well governed mining sectors in partner countries, with the aim of contributing to a stable supply from global mineral markets, benefitting the EU.

[5] What may be considered 'free' and 'fair' access will differ by partner countries, and the issue will be discussed in greater detail in a later policy brief.

Supporting Free and Fair Access to Markets

The EU, in-line with its approach to creating free and fair access to global markets, has taken a similar approach in its raw materials engagements. The Raw Materials Initiative (RMI), adopted in 2008, acknowledged the 'multiple, complex and interrelated'[6] challenges in ensuring a stable supply of non-energy raw materials. Moving forward it advocated a decisive European response and an integrated strategy ensuring European competitiveness.

The RMI utilises a three pillar strategy for securing access to raw materials: fair and sustainable supply from global markets; sustainable supply from within the EU and resource efficiency; and the supply of secondary raw materials through recycling. As noted previously, STRADE will further explore the concept of 'fair' from a partner perspective in future policy briefs.

Of relevance here is the first of these pillars, which defines the relationship with non-EU countries through partnerships founded in raw materials diplomacy, promoting free and transparent commodity markets, supporting sustainable development through cooperation and enhancing transparency within mining sectors.

In 2014, the establishment of a Partner Instrument (PI) for Cooperation with third countries emphasized the need for a collaborative approach to provide direct support for the EU's external policies. The instrument looks to build alliances through partnerships and dialogues and advance engagement with third-party countries, where previously such engagements were almost entirely limited to financing measures meeting ODA criteria.

The EU's acknowledgement of the need for a non-financial instrument to 'promote a stable and inclusive international order, pursue common global public goods, promote core interests of the Union and increase knowledge of the Union in those countries'[7] also shapes the direction for the raw materials engagement with partner countries.

Strategic Partner Dialogues

The EU aims to create a global marketplace in which small, medium and large EU businesses thrive. This is managed through trade negotiations and agreements within the World Trade Organisation (WTO), as well as bilateral engagements with other countries. Directorate General (DG) Growth maintains strategic trade dialogues with a host of regions that are of specific economic importance for the EU.

These dialogues cover a wide range of subjects including conformity, trade barriers, innovation and industry standards. The overarching goal is to enable EU business to compete in global market place, whilst ensuring EU industry has access to necessary inputs of goods and services.

For example, the EU-China dialogue looks at lowering export restrictions in China and removing protectionist measures taken by the government in Beijing. The EU-India dialogue holds high level political summits annually, back-to-back with business summits. The EU has initiated regulatory dialogues for specifics sectors aimed at removing trade barriers and opening up space for Free Trade Agreements (FTAs) to be signed with partner countries.

The EU-US Transatlantic Trade and Innovation Partnership is the most comprehensive dialogue undertaken by the EU. Now in its twelfth round, and aiming to be finalised by the end of 2016, the partnership covers all aspects of the transatlantic trade relationship, including raw materials and export barriers encountered by EU companies.

Keeping in line with these broader partnership dialogues, the EU has adapted specific raw materials dialogues with partner countries. Aided by the Raw Materials Initiative (2008), the EU initiated 'Letters of Intent', signifying agreement with partners in pursuing a mutually beneficial relationship, followed by collaboration in hosting workshops, conferences and cooperation in WTO negotiations and FTAs. Letters of intent have also resulted in specific undertakings or 'dialogues' with a number of partner countries.

The Joint Africa-EU Strategy (JAES), in 2007, had been formalised in a joint session in Brussels four years earlier, and saw the EU and the African Union confirm their commitment to work together in geological surveys (trainings), governance, investment, skills development, waste management and infrastructure. The EU continues to support the African Mining Vision, fostering the translation of the vision into national action plans and the African Minerals Development Centre.

With China, two simultaneous dialogues are currently operating; the National Development and Reform Commission (metals working group - 2003) and the Raw Materials Working Group (2010). A dialogue on steel also takes place regularly. The aim of the dialogue is to promote fair access to markets for the EU, with annual meetings held since 2014.

[6] http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52008DC0699#document1

[7] http://eur-lex.europa.eu/eli/reg/2014/234/oj

The EU, US and Japan tri-lateral dialogue (2011), works towards promoting cooperation in critical materials. It aims to exchange geological data more easily between the three regions, with a view on how classification systems can become more compatible with one another and with global standards. To date there have been four conferences and two workshops. A meeting planned toward the end of 2016 aims to continue this dialogue.

The EU and Greenland letter of intent (2012) focused on raw materials diplomatic engagement, as well as capacity development of Greenland's raw materials sector through assistance to geological surveys, analysis of infrastructure and investment needs related to the exploitation of the mineral sector. The last delegate meeting was held in June 2015.

The EU-Latin America Dialogue (2014) on raw materials is a more recent initiative, currently setting the stage for identifying mutual interests and different funding instruments in the mineral sector, for cooperation between the two regions.

These dialogues, often based around diplomacy, establish a common platform for discussions with partners. However the effective utilisation of these platforms, to achieve meaningful and actionable outputs, remains to be determined.

Free Trade Agreements (FTAs)

Apart from trade agreements under the WTO, the EU has signed bilateral trade agreements with South Korea, Singapore, South Africa and Vietnam which include the prohibition of duties, taxes, or other fees on the export of raw materials, including all critical raw materials in the case of Vietnam. Multilateral agreements between the EU and Central America, and with Columbia and Peru, include similar prohibition of taxes on exports. Tajikistan's commitments, during its WTO accession, also require its raw materials exports to be duty and tax exempt, apart from a limited list of products allowed most-favoured-nation tariff rates.

Such agreements contribute to an international raw materials market that is unhampered by barriers, opaqueness and irregularities, allowing for stable access to global supplies. How effective these arrangements are for the EU, particularly in terms of protection against supply shortages, is not clear at this time.

European Investment Bank (EIB)

The EIB provides direct investment funding to mining projects, to promote sustainable development, create jobs and innovation, promote sound environmental and social management practices and develop infrastructure. The EIB's investment funding is available for all ACP states under the Cotounou Agreement; it has mainly been utilised by projects operating in African countries.

The EIB lends to public and private mining companies, with loans ranging from €8-100 million, under debt-financing along with other (public and private) investors. EIB has also provided investment to external funds, such as the African Lion Mining Fund, specialising in high risk, high reward projects in the junior mining sector. By 2015, €652 million has been invested in less than 15 projects producing aluminium (Mozambique), copper (Zambia), iron ore (Mauritania), manganese (Gabon), magnesium (Rep. of Congo), nickel (Zambia), rutile and ilmenite (Mozambique) and soda ash (Kenya). The finances have, in the main, been used to finance subsequent phases of mine construction, associated export infrastructure such as port and rail infrastructure, and to support increased production from operations.

The efforts to promote free trade agreements as well as individual investments in mining projects, aim to utilise the private sector to access and sustain international raw materials flows. The EU's ability to use preferential trade/investment agreements is curtailed, in line with its WTO commitments. Therefore the approach aims to create free and fair access to global markets, allowing private sector actors to secure raw materials supply for the EU in the long-term.

Member States' Engagements

In recent years the major of EU initiatives have focused on creating enabling market environments, primarily using diplomacy and trade agreements as the tool to enhance engagement. The EU28 member states complement this engagement through targeted raw materials programmes, including development policy, and bi-lateral and multi-lateral agreements.

Finland, Germany, Sweden and the United Kingdom are the most active members of the EU28. Germany and Finland tend to favour direct project funding; the former focuses on long-term, holistic mineral sector development projects, while the latter concentrates on geological capacity development for partner countries.

The UK conducts the majority of its raw materials s engagements through partner organisations, rather than direct bilateral assistance. For example, it was instrumental in the creation of the Extractive Industries Transparency Initiative (EITI), donating around €15 million for its establishment.

The Swedish Development Agency (SIDA) has funded the 'Meeting Points Mining' programme to facilitate sustainable partnerships between companies in the mining sector in Sweden and its counterparts in southern African countries, including Botswana, Mozambique, Namibia, South Africa, Tanzania and Zambia. Finland's Finnpartnership programme creates linkages between the Finnish private sector and companies in the developing world across a variety of sectors, including the mining industry.

With the EU, more than half of the projects on raw materials engagement are through financial assistance, followed by trade agreements and diplomacy. In contrast the EU28 nations support focuses on developing capacity of partner countries in geological services, mineral governance, mining industry partnerships, and on environmental and social standards development.

Conclusion

This short review of EU initiatives and programmes indicates a shift in approach from provisional assistance in the early 1990s to a more broad-based approach by 2015. The EU has moved from the early years of concentrating on contingency support for ACP mineral dependent countries (through instruments like SYSMIN and FLEX), to providing capacity support (through NIPs and funding partner organisation programmes) and establishing partnerships (joint Africa-EU strategy).

The Raw Materials Initiative (2008) articulates the EU's need to maintain access to a stable and sustainable supply of raw materials. The Partner Instrument (2014), although focusing on the larger cooperation environment, provides the course for the EU in its raw materials engagements. The EU has defined the need for a foreign policy instrument of global scope. This will underpin the EU's relationship with any country of strategic interest and will acknowledge the necessity for designing a strategy to achieve the goal.

This short review does not reflect the opinion of the STRADE consortium since it mainly aims at describing and categorizing major EU initiatives. Subsequent policy briefs will provide STRADE's critical analysis and recommendations on EU raw material policy.

Going forward, the EU needs to develop practical and harmonised approaches to define the cooperation agreements that have been established in principle. Dialogues are an important tool for creating accessible raw materials global markets; however, they need to be complimented by more considered and focused interventions.

Private sector partners, such as mining companies and metal producers, will continue to be the instruments through which the EU will access raw materials, and the creation of an enabling operating environment for them remains paramount. This worldwide enabling environment embraces mineral producing and mineral consuming countries.

Over the next two years, using a dialogue-based approach with partner countries and stakeholders, the STRADE project will provide recommendations to formulate a strategy for the EU's raw materials engagement for ensuring a sustainable and stable supply of minerals.

The strategy will have to meet several different objectives, ranging from the continued competiveness of the European mining and equipment industries to sustainability and development goals in both Europe and raw materials producing countries. While trade-offs between objectives will be inevitable, the strategy will provide suggestions to arrive at such trade-offs, will define the roles of industry, civil society, the EU and member states, and, where possible, will identify possible synergies.

Project Background

The Strategic Dialogue on Sustainable Raw Materials for Europe (STRADE) addresses the long-term security and sustainability of the European raw material supply from European and non-European countries.

Using a dialogue-based approach in a seven-member consortium, the project brings together governments, industry and civil society to deliver policy recommendations for an innovative European strategy on future EU mineral raw-material supplies.

The project holds environmental and social sustainability as its foundation in its approach to augmenting the security of the European Union mineral raw-material supply and enhancing competitiveness of the EU mining industry.

Over a three year period (2016-2018), STRADE shall bring together research, practical experience, legislation, best practice technologies and know-how in the following areas:

1. A European cooperation strategy with resource-rich countries
2. Internationally sustainable raw-material production & supply
3. Strengthening the European raw-materials sector

Project Identity

Project Name	Strategic Dialogue on Sustainable Raw Materials for Europe (STRADE)
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