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# European Raw Materials Policy — Past and Current Development

by Hans R. Krämer, Kiel \*

**In world-wide negotiations and agreements on raw material problems the Community is either taking part as such or represented by the member state providing the Chairman of the Council. Admittedly it has often been difficult to work out the required common position for the member states, and only insofar as a consensus has been reached between them can therefore be talked of a European Raw Material Policy.**

The final report of the Ministers' Conference on International Economic Cooperation (CIEC) which was held in Paris from May 30 to June 2, 1977 stated that the participants were able to agree on a number of problems and measures. As far as raw materials are concerned, they mentioned<sup>1</sup>:

- ☐ Establishment of a Common Fund with purposes, objectives and other constituent elements to be further negotiated in UNCTAD;
- ☐ Research and development and some other measures in favour of natural products competing with synthetics;
- ☐ Measures for the promotion of international cooperation in the field of marketing and distribution of raw materials;
- ☐ Measures to assist developing countries to develop and diversify their indigenous natural resources.

Apart from its importance for economic cooperation on a world-wide level, the report is significant in that it gives an idea of what is meant by the term "Common Raw Material Policy" in the European Communities, for the Community participated in the CIEC as one entity: there were 19 developing countries among the 27 participants and 8 industrialized countries of which the "European Economic Community", represented by the Presidents of the Council and the Commission, was one. So, having only one vote, the Community had perforce to work out and take a common position.

## Other Demands of the Developing Countries

Such a common position was prerequisite to the quoted statement. The mentioned passages express however only one aspect of the raw material policy, namely the aspiration to provide the raw material producers with larger and more secure outlets. There are a number of other demands by

the developing countries with a bearing on this complex of problems which were not received with general consent at the conference, such as that for compensatory finance to stabilize the export earnings of the raw material producers and the linking of raw material prices to those for industrial products (raw material price indexation). The aspect of the raw material policy which is of special importance to the consumer, namely the efforts to ensure adequate raw material supplies at fair prices, was raised at the conference but figured mainly as a subject in the negotiations on energy problems. At the opening of the CIEC the Community regarded this aspect indeed as one deserving priority treatment, as emerges from the fact that the conference according to the wishes of its initiators was to have dealt only with energy questions; the more extensive programme was arranged only when demanded by the developing countries.

## Comprehensive Common Policy Required

But the Community is by no means solely a consumer of raw materials. The well-known problems of the agricultural surpluses are clear evidence of this. Not only is the Community a major producer of several agricultural commodities but mineral raw materials are also produced in large variety on its territory. The latter include, among sources of energy, especially coal and, on an increasing scale, mineral oil and natural gas (in the North Sea).

It is implicit in this diversity of facts that a Common Raw Material Policy must be comprehensive. It must pertain to the production of raw materials in the Community as well as to the supply of imported raw materials to the Community. It is

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<sup>1</sup> Under the heading of "Raw Materials and Trade" the final report was reprinted in the EC Bulletin, No. 5, 1977, para. 1.2.11.

concerned with raw materials of mineral, vegetable and animal origin or — seen from another angle — sources of energy, raw materials for industry, foodstuffs, tobacco and beverages. The legislative foundations for a Common Raw Material Policy are accordingly to be found in various Community statutes, and the development and implementation of this policy concern several Community authorities. Conversely this implies that the Treaties of Paris and Rome have not established a unitary competence in this sphere. What is known as a Common Raw Material Policy has emerged piecemeal in the course of time in a sectional and fragmentary manner.

### **Preference for National Means**

In the historic sequence coal was the first commodity to engage the attention of the Community. This important raw and fuel material was subjected to a comprehensive common regulation by the first of the treaties establishing European communities — the Paris Treaty for the formation of the European Coal and Steel Community (ECSC) of 1951. This treaty envisaged the possibility of a “manifest” sales crisis (due to lack of demand) facing the producers (Art. 58 ECSC Treaty) as well as the danger of a “serious deficiency” (Art. 59) affecting the supply of coal to consumers — the supply of raw materials. The ECSC Treaty gives to the Community institutions (especially the Commission/High Authority) intensive control and intervention powers in both contingencies. These range from the fixing of output quotas in surplus situations to the designation of priority uses in cases of shortage.

The High Authority is known to have been unable to use these instruments to the extent it deemed appropriate. In the time of slumping coal sales since 1958 in particular it has been unable to gain its point against the member states who preferred to combat the crisis by national means. The mentioned Community instruments do however still exist for a raw material policy in the coal sector, and it is by no means impossible that use will be made of them when the situation changes.

As regards other energy materials — i. e. the ores, source materials and special fissile matter for the generation of nuclear energy — a common supply policy is explicitly prescribed in the European Atomic Community Treaty (Art. 52 Euratom Treaty). A so-called “Agency” has been set up which has been given exclusive rights over the purchase and sale of materials of this kind and charged to ensure that all users are supplied on equal terms.

Vegetable and animal raw materials are in large part covered by the Common Agricultural Policy

decided upon at the establishment of the European Economic Community. A large number of agricultural market organisations have since been promulgated with the aim of

- ☐ increasing the productivity of agriculture in the Community,
- ☐ raising the incomes of the agricultural population,
- ☐ stabilizing the markets of agricultural products, and
- ☐ safeguarding the supply of the consumers at fair prices (Art. 39 EEC Treaty).

These aims at the Community level are commensurate with those identified earlier for a worldwide raw material policy; the aim is, on the one hand, to raise the efficiency and incomes of the raw material producers and, on the other, to ensure safe and cheap supplies for the raw material users. The support in the framework of the Common Agricultural Policy is however confined to EEC producers while the agricultural supply policy is intended for EEC consumers alone. This is shown clearly by the — so often deplored — protection for agriculture inside the EEC which is necessarily operating to the detriment of foreign competitors. As a result some agricultural production sectors are kept in being which would otherwise be unable to compete with more favourably placed producers especially overseas.

If the Common Agricultural Policy is regarded as part of the raw material policy, it needs pointing out that its high cost and the complaints of other agricultural exporting countries are tolerated not only in order to maintain and increase farming incomes inside the EEC but for the sake of an assured supply of agricultural raw materials to the Community as well.

It was however only in recent years that the supply desideratum has come to the fore, and even today it is often ignored in the discussion about the agricultural policy. It was however mentioned in the EEC Treaty, and the attention to indigenous raw material sources serves this purpose within the scope of a comprehensive Community raw material policy.

### **Possibilities of Self-sufficiency**

This part of the supply policy was discussed by the EC Commission under the heading of “Possibilities of Self-sufficiency”. In a statement on the Community’s supply of raw materials<sup>2</sup> the Commission expressed the opinion that “an extension of Community production” may be considered especially for the reproducible materials of animal

<sup>2</sup> Published as Supplement 1/75 of the EC Bulletin.

and vegetable origin. The "reproducible materials" — i. e. agricultural products — are indeed especially suitable for this. It is because they are reproducible that their output — and thus the degree of self-sufficiency — can be increased by more intensive cultivation. If the costs are no deterrent, even tropical products can be produced in Northern Europe (under glass). The only question is the cost-effectiveness of such action. The Commission concluded that an autarky policy was out of the question for Europe, not only on grounds of cost but because such a withdrawal of Europe into itself would mean a final split between the industrialized states and the other countries<sup>3</sup>.

Without aspiring at complete autarky the Commission however recommended that the Community should raise its self-sufficiency level so as to protect itself more effectively against the dangers of a disruption of the supplies reaching it from outside. It pointed in this context to the mechanisms of the Common Agricultural Market but included the mineral raw materials in the scope of its considerations. As far as the latter are concerned, the Commission expects substantial further deposits to be discovered on Community territory through the application of new prospecting processes. A lasting rise of raw material prices and improved mining methods may make the exploitation of low-grade ores a paying proposition.

The long-term alleviation of the supply problems of the Community in regard to mineral raw materials is discussed by the Commission in detail in a proposal dated June 24, 1977<sup>4</sup> for a research and development programme to cover a period of several years. According to this programme it intends to support studies into the exploration of hidden and deep-lying deposits in EC countries and to assist in improving prospecting methods and techniques. In a second research area assistance is to be given for the development of processes for the dressing of low-grades and complex ores in which the Commission sees an important indigenous source of metals.

The Community can also achieve a higher degree of self-sufficiency by exploiting the maritime deposits. In the sector of the animal raw materials an attempt is now being made on the way over a common fisheries policy, not to increase production, but to preserve what is an important source of food by conservation of the existing fish stocks. The recovery of the stocks of overfished species is to be ensured by means of fishing quotas and temporary fishing bans so as to safeguard the

long-term supply of the Community with this high-protein food.

An analogous Community arrangement could perhaps have been contemplated for the mineral and fossile raw materials on and below the seabed had the continental shelf of the North Sea not been divided between the littoral states long ago and the national authorities declared to be competent for the grant of licences, etc. As in all other cases however, this fact has not ruled out the inclusion in the Common Raw Material Policy of the mineral oil under the North Sea in particular. This became very clear during the discussion on common minimum prices for crude oil. Such minimum prices are important chiefly because they facilitate feasibility studies into the commercial exploitation of maritime deposits of mineral oils and natural gas. As the utilization of undersea deposits involves exceptionally high costs, oil and gas production from such sources can only be profitable if a fairly high price can be secured over a long period. Hence the efforts, especially by the United Kingdom with its particular interest in North Sea oil, to make sure of common minimum prices high enough to cover at least the costs incurred. So far however no such price has yet been fixed.

The endeavour to utilize the heavy metal modules ("manganese modules") on the ocean beds for the supply of the Community with mineral raw materials extends beyond the continental shelf and the EC fishing zone. A common policy could help to preserve access to maritime deposits for mining enterprises in the member states even if the Law of the Seas is amended.

An increase of production in the Community — including the "EC seas" — is not however the only means of raising the degree of self-sufficiency. The dependence upon outside supplies can be lessened also by making better use of the locally available and imported raw materials. There are essentially three methods to be considered: the first one is the development or application of processes which increase the yield from the raw materials used or supply an equal amount of finished products from a smaller quantity of raw materials; secondly, secondary raw materials can be recovered from waste and salvage material and used to make new products ("recycling"); thirdly, raw materials in short supply can be reserved for certain productions which are held to be particularly important or meriting preferential treatment.

All three of these methods offer themselves for many raw materials while others, e. g. food and fuels, because of their nature cannot be used a second time. The efforts towards economies are mostly directed at certain raw materials, but it can happen that economical use of one raw

<sup>3</sup> Section 2.3.1 of the Statement.

<sup>4</sup> Proposal for a research and development programme in the field of primary raw materials to cover several years (Indirect action 1978/1981), Com(77)284.

material makes economies in the consumption of others also easier. The Commission mentioned in its statement<sup>5</sup> the recovery of metals as an example: much less energy is needed for scrap reclamation than for the smelting of ores.

### Economies and Substitution

The Commission's efforts to bring about raw material economies in the Community have so far been confined to a few instances. Studies on the recycling of non-ferrous metals have been carried out in the framework of the common research programme, and the non-nuclear energy research programme is concerned with the saving of energy as well as with other matters<sup>6</sup>.

The first Council recommendations for raw material economies also concern the energy sector. Five recommendations<sup>7</sup> have been made. They are for improved thermal insulation of buildings, rational use of energy in heating installations, road vehicles and short-distance passenger traffic, and rational use of energy required for the operation of electrical household appliances.

Economies of this kind can lessen the dependence upon raw material imports in the short run and over the long term. While the Council recommendations will produce savings only in the longer term, the steps taken immediately by the EC countries in the oil crisis of 1973/74 are examples of instantly effective measures; they included bans on Sunday driving, lower speed limits and the lowering of heating levels in public buildings. Stock-piling also offers opportunities for overcoming short-term bottlenecks in the supply of raw materials. The Community has resorted to this remedy only in the sectors of energy and food supplies which have been mentioned here several times, and not generally.

Directives for the laying-down of emergency stocks of crude oil and/or oil products were issued as early as 1968<sup>8</sup>. The member states were requested at that time to accumulate stocks corresponding to no less than 65 days' domestic consumption. On December 19, 1972 the Council in a further directive<sup>9</sup> raised the minimum stock-requirement to the equivalent of at least 90 days' consumption.

<sup>5</sup> Statement on the raw material supplies of the Community, para. 2.2.

<sup>6</sup> Tenth General Report on the Activities of the European Communities, paras. 391, 397.

<sup>7</sup> Official Journal of the EC, 1976, No. L 140, pp. 11, 12, 14, 16 and 18.

<sup>8</sup> Council directive of December 20, 1968, Official Journal of the EC, 1968, No. L 308, p. 14.

<sup>9</sup> Official Journal of the EC, 1972, No. L 291, p. 154.

<sup>10</sup> Official Journal of the EC, 1975, No. L 231, p. 1.

<sup>11</sup> Statement on the raw material supplies of the Community, para. 2.2.

<sup>12</sup> Ibid, para. 2.3.

No Community legislation has yet been passed about the storage of foodstuffs. What quantities of food are stored depends upon the intervention purchases in pursuance of the Common Agricultural Policy. The food stocks ("mountains") accumulated in this way have however unintendedly grown much too large, with the result that their function of providing useful reserves for the supply of the population of the Community has fallen into oblivion.

Long-term objectives are also served by a policy of replacing scarce raw materials by more readily available ones and thereby making the overall supply position more secure. The EC encourages this substitution only in a few fields, especially in the sphere of energy supplies where the possibility of the supply of hydrocarbons being endangered by natural, economic or political factors has induced investigations to uncover alternative sources of energy. The development of processes for the utilization of solar energy and terrestrial heat is playing an important role in the non-nuclear energy research programme adopted by the Council in August 1975<sup>10</sup>.

The Commission considers substitution desirable in the case of other raw materials of which may soon be a shortage<sup>11</sup>. If the risk to Community supplies is due to dependence of the Community upon one or a few supplying countries it may however be advisable to aim at greater diversification of supplying countries<sup>12</sup>. The Commission considers this to be imperative in the case of countries which might "give rise to political problems" as well as in the case of those which would be enabled by their dominant position in the Com-

### Critical Raw Materials

Commodity	Dependence on imports <sup>a</sup> (in %)	Opportunities for		Political risks to supplies	Safety of supplies
		substitution	recycling <sup>b</sup> (in %)		
Aluminium	55	great	25	no	satisfactory
Chrome	100	in part	22	yes	doubtful
Copper	95	in part	35	yes	doubtful
Tin	83	in part	45	no	satisfactory
Iron	80	slight	17	no	adequate
Manganese	100	slight	slight	yes	satisfactory
Phosphates	99	minimal	slight	yes	doubtful
Platinum	100	slight	20	yes	adequate
Tungsten	95	in part	25	yes	doubtful
Zinc	75	in part	20	no	doubtful
Wood/Wood pulp	c	slight	24	yes	doubtful
Vegetable oils	d	great	0	no	satisfactory
Wool	80-100 <sup>e</sup>	great	30	yes	doubtful
Hides and skins	40 <sup>e</sup>	in part	0	yes	inadequate
Protein	80 <sup>e</sup>	in part	0	yes	inadequate

<sup>a</sup> Dependence upon imports from third countries; as a rule only raw material. <sup>b</sup> Present percentage rate and possible increase in the future: + substantial increase possible, — limited increase possible, 0 no increase possible. <sup>c</sup> Wood: 17 %, Wood pulp: 40 %, Paper: 58 %. <sup>d</sup> Oilseeds: 67 %, Unrefined oils: 34 %, Total: 78 %. <sup>e</sup> General dependence.

Source: Memorandum on a European Raw Material Policy, Brussels 1975, Table 40.

munity market to dictate inequitable supply conditions which it would be difficult to accept.

### **Foreign Trade and Raw Material Policy**

This strategy has the effect of putting the foreign trade in the service of the raw material policy. Beside the coal policy, the nuclear energy policy and the agricultural policy this is the last sphere in which the primary Community legislation provides explicitly that the competence to deal with the supplies of raw materials rests with the EC institutions. Art. 113 of the EEC Treaty lays down that a common trade policy is to be designed and implemented according to uniform principles. Commercial treaties with third countries are to be negotiated by the EC Commission and to be concluded by the Council on behalf of the Community. Agreements for association with mutual rights and obligations, joint action and special procedures can be concluded by the Council according to Art. 238 of the EEC Treaty.

On the basis of these provisions the Community can try to add to the number of supplying countries by bilateral agreements or seek commitments for supply guarantees from (present or future) supplying countries in order to ensure safer raw material supplies. It can also participate in international negotiations and agreements on a multilateral level which open the prospect of greater security of supplies. Financial services, technical assistance and measures to facilitate imports from the countries concerned may be considered in return. Such packages of mutual rights and obligations with provisions for permanent joint agencies to review and extend the cooperation are usually provided for in a cooperation agreement.

### **Cooperation Agreements with Developing Countries**

The EC Commission regards cooperation agreements with developing countries which are suppliers of important raw materials as an especially suitable means of safeguarding supplies for the Communities over the longer term. Such agreements are compatible with the development policy as conceived by the Commission which seeks to promote the economic development of the partner countries through financial, technical and trade-political cooperation.

Best known among agreements of this kind, and including the largest number of developing countries, is the Lomé Convention between the EEC and the ACP states of 1975 which has been concluded with 48 African, Caribbean and Pacific countries<sup>13</sup>. Under the aspects of raw material policy this Convention is noteworthy chiefly because it introduced for the first time a system for the

stabilization of the export earnings from certain raw materials for the benefit of the ACP states (the Stabex system). The Stabex system applies only to a few raw materials (ground-nuts, cocoa, coffee, cotton, coconut, palm oil and kernels, leather, hides and skins, wood, bananas, tea, sisal, iron ore) and is subject to restrictive preconditions (e.g. earnings from exports of the raw material in question must regularly have amounted to no less than 7.5 p.c. of the total export earnings of the ACP country concerned during the previous year) but the developing countries nevertheless share the view that it provides a suitable procedure for mitigating the wide fluctuations of their incomes from raw material exports. The Community has in this way made an important contribution to the solution of this pressing problem of the raw material-exporting developing countries. A procedure resembling the Stabex system may be more acceptable<sup>14</sup> on the international level than other systems which have been considered under UNCTAD auspices<sup>15</sup>.

Cooperation agreements have also been signed with Morocco, Algeria, Tunisia, Egypt, Jordan and Syria. The EC Commission sees them as part of the Community's Mediterranean policy which has the long-term aim of creating a large economic area to include, if possible, the oil exporting countries of the Middle East. The Commission hopes that in this way and through the so-called Euro-Arab dialogue it will be possible to safeguard the mineral oil and natural gas supplies of the EC better than has been the case in the past.

In world-wide negotiations and agreements on raw material problems — such as the Conference on International Economic Cooperation mentioned at the beginning of this article — the Community is either taking part as such<sup>16</sup> or represented by the member state providing the Chairman of the Council at the time. Admittedly it has often been difficult to work out the required common position for the member states, especially in regard to the Integrated Programme for Commodities postulated by the developing countries, and only insofar as a consensus has been reached between the member states can therefore be talked of a European Raw Material Policy. If this common policy is strengthened it will however be easier to engage in a dialogue with the producing countries and thereby to help to safeguard the raw material supplies of all the member states of the European Community.

<sup>13</sup> Official Journal of the EC, 1976, No. L 25, p. 2. The number of participating developing countries has risen since to 52.

<sup>14</sup> Cf. Dietrich K e b s c h u l l, Divergent Opinions on the Common Fund, INTERECONOMICS, 1977, No. 3/4, p. 88.

<sup>15</sup> Proposals of the Commission to this effect can be found in the statement "On the raw material problems in the relation with the raw material-exporting developing countries", in Supplement 6/75 of the EC Bulletin.

<sup>16</sup> The Community as such is a party to the international agreements for wheat, sugar, cocoa, coffee and tin either as a member or as an observer.