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The EU Raw Materials Initiative and Effects upon Resource-Based Development: Lessons from Africa

Karin Küblböck

In the context of a global surge in demand for commodities, increasing competition and rising prices, several industrialized countries including the European Union have adopted strategies to secure access to raw materials. At the same time, in resource-rich developing countries the debate has intensified about too little benefits from their mineral wealth and about a necessary greater contribution of the mining sector to economic transformation. Through Article 208 of the Lisbon Treaty the EU has a legal obligation to consider the interests of developing countries in all its policies. The question therefore arises if the policies outlined and implemented in the EU Raw Materials Initiative (RMI) live up to this obligation. This Policy Note first outlines the content and implementation of the EU RMI[i] and second assesses its possible effects on policy space in African countries that aim to pursue resource-based development strategies.

The EU Raw Materials Initiative – Content and Implementation

Securing access to raw materials plays an important role in EU growth strategies. In this context, the „Raw Materials Initiative" was launched by the European Commission in 2008, with a focus on non-energy and non-agricultural raw materials (EC 2008). The RMI is based on the analysis that access to and affordability of non-energy minerals are crucial for the EU economy, and that those materials have not yet received sufficient attention. It points out that securing „undistorted access to raw materials is increasingly becoming an important factor for the EU's competitiveness" (ibid.: 2). The initiative is based on three pillars – (i) ensuring access to resources in third countries; (ii) fostering supply of raw materials within the EU and (iii) an improving efficiency of resource use and recycling. The emphasis lies on the first pillar which is implemented primarily via the EU's trade and investment policies, as well as its development policies.

Regarding trade policies, the EU will „use current trade rules to the maximum" to pursue the goal of gaining undistorted access to raw materials (EC 2010: 8). More concretely, it seeks to implement the RMI by including the commitment to eliminate export restrictions in trade and investment negotiations, by tackling trade barriers in its resource diplomacy and by „promoting the debate" in international for a and via WTO dispute settlements. So far, the EU has put considerable efforts into the implementation of the first pillar of the RMI. For instance, it introduced the prohibition of export duties, -taxes or other -fees on extractive resources in various Free Trade Agreements, it tabled two WTO-complaints against export restrictions applied by China[ii] and it exerted „peer group pressure" in WTO Trade Policy Reviews and WTO access negotiations (EC 2012, 2013).

The EU development policy should contribute to securing access to raw materials by creating „win-win situations". This should be accomplished via the strengthening of state capacities and by helping partner countries to improve their management of raw materials (EC 2011). The European Investment Bank (EIB) is also an important player in implementing the RMI as it is a large lender to extractive industries. However, NGOs criticize that it lacks the necessary binding environmental and social standards to ensure adequate ex ante assessment of projects to ensure positive outcomes for the local population (Counterbalance 2012).

The issue of transparency of the extractive sector has received increased attention in the last decade. Even if there is still no international binding standard on traceability and transparency of raw materials, there is a broad range of voluntary initiatives[iii] which the EU partly supports or tries to learn from. From 2011 on, the EU revised its Transparency Directive and formulated a new Accounting Directive, based on similar provisions taken in the USA. The final text stipulates that all listed and large non-listed oil, gas, mining and logging[iv] companies have to disclose all payments above € 100.000. Member states will have to transpose the directives into their national legislation until July 2015 (Küblböck 2013).

Resource-Based Development in Africa

In the last decades, in many developing countries, the mining sector has not made any substantial contribution to inclusive development. The extractive industry usually has weak links with the rest of the national economy, the mines' ownership and operation are mostly in hands of foreign companies, most of the minerals are exported in raw form and the industry imports the largest part of its inputs from abroad

(UNECA/AU 2011). In the 1980s and 1990s, African mineral policies have mainly focused on a withdrawal of the state from productive activities and in trying to attract foreign direct investment (FDI) to mining sectors. Main policy measures included a reduction or elimination of state participation in mining enterprises; the provision of a wide range of incentives for foreign investors such as eliminating restrictions on foreign ownership, reducing corporate taxes and granting tax holidays; liberalizing exchange controls and exchange rate policy; and the introduction of wide-ranging investment-protection measures (e.g. as part of Bilateral Investment Treaties), such as the stability of the fiscal regime, profit repatriation and non-expropriation. Those measures substantially weakened state authority and institutionalized asymmetrical power relations in favor of private actors – notably transnational mining companies – with important consequences for local political processes, participation and community welfare. While numerous actors have been involved in this reform process, the Bretton Woods institutions took the lead in determining the orientation of the policy measures introduced[v] (UNECA/AU 2011; Besada/Martin 2013; Campbell 2010b).

While from a corporate perspective, the outcomes of those reforms were undoubtedly positive, from a host country perspective, the contribution of FDI in the mining sector to public revenues, local employment and diversification has often been disappointing (Campbell 2010b). The liberalization of trade and investment regimes has in many cases constrained necessary policy space „to organize a more dynamic long term growth path" (UNCTAD 2005). In 2007, a „Policy Big Table" organized by UNECA and AfDB concluded that while Africa had traditionally not gained the best possible benefits from resource-exploitation, the situation was further exacerbated in the 1990s (UNECA/AU 2011). According to World Bank estimates, over the last 40 years, developing countries without major natural resources have grown two to three times faster than those with high resource endowments (UN Interagency Framework Team 2012). In recent years, this trend was inversed and investment in natural resources has led to higher growth rates. However, this has so far not been translated into corresponding job creation. Moreover, since the early 1990s, employment created in the mining sector is characterized by an expansion of casualization and contract labor (UNECA/AU 2013).

One consequence of the liberalization of the African mining sector has been an increasing delegation of public functions to private enterprises, including service delivery, rule setting and implementation, and a „retreat of the state from the mediation of socio-economic relations" (Szablowski 2007 cit. in Campbell 2010a: 19), which is closely linked to a further weakening of state legitimacy and has „left private enterprises increasingly subject to social claims" (ibid.: 19). In this context, the increasing voluntary or imposed engagement of mining companies in the investment of clinics, roads, and infrastructure makes it more difficult to hold governments accountable for providing public services (Campbell 2010a). One response to weak state regulatory authority has been the emergence of a complex body of norms and standards. These 'alternative accountability mechanisms' (Couman 2010 cited in Besada/Martin 2013) mostly originate in the multilateral arena,[vi] such as different safeguard mechanisms[vii] established by the World Bank Group, the Extractive Industries Transparency Initiative (EITI), the Equator Principles or the Kimberly Process (Besada/Martin 2013). The often technocratic rather than political procedures, the segmented nature of those mechanisms, the question of coherence with national policies and the lacking capacities of states to monitor and enforce them are likely to increase problems of legitimacy in the future (Campbell 2010a). Correspondingly, many proposals from international donors to introduce „governance indicators" and to improve resource governance in developing countries miss the key point that past reform measures have severely weakened the political and institutional capacity of local governments and that current policies, such as International Investment Agreements continue to do so.

The commodity price boom starting in the early 2000s – the prices of metals and fuels more than tripled between 2000 and 2011 – has intensified the debate on countries benefiting too little from their mineral wealth. In this context, several resource-rich countries have adopted measures aimed at using their resource base for broader economic development and at reaping higher income from raw material exploitation and exports, such as Argentina, Tanzania, South Africa, the Ukraine or China (Campbell 2010b; Ramdoo 2011; Tull 2013). The example of countries like Bolivia and Venezuela has also added momentum to the debate on the potential raising higher income from the extractive industry.

In this context, the „African Mining Vision" (AMV) was adopted by African Heads of State in 2009 (AU 2009). The vision proposes a shift away from a model of extractive resource exploitation towards broad based and inclusive development. It aims at fostering economic diversification and industrialization through the creation of linkages, skills and technological development and mutually beneficial partnerships between stakeholders. It envisages „a sustainable and well-governed mining sector that effectively garners and deploys resource rents and that is safe, healthy, gender and ethnically inclusive, environmentally friendly, socially responsible and appreciated by surrounding communities" (AU 2009: v). In December 2011, the AMV Implementation Plan (AU et al. 2011) was adopted, breaking down the AMV into concrete policy proposals divided into nine clusters, such as mining revenues, linkages and diversification, governance, environmental and social issues.

Hence, in addition to the endeavor to optimize public revenue from resource production and to ensure compliance with environmental and social standards, the question increasingly arises how the mining sector can contribute to economic transformation and structural change, reallocating economic activity from lower to higher productive sectors and in particular to industrial sectors. In this context it is useful to analyze the development model on which current liberal mining policies are based on (Campbell 2010a) and to consider opportunity costs and alternatives to current strategies[viii].

Even if the AMV is increasingly becoming a reference point for a broad range of actors (TWN 2013), the above described weakening of state authority in Africa in the past

decades has resulted in a severe lack of capacity and power to implement the envisaged policy measures (Campbell 2010a). Nevertheless, the new context helped several African countries[ix] to improve their bargaining position with foreign investors and to introduce new legislation, higher taxes or to renegotiate old mining contracts (UNECA/AU 2013; De Backer 2012). Furthermore, governments increasingly have to respond to pressure from civil society groups and communities for improved revenue management and for improving environmental protection and compensation to affected communities (Darimani 2010; Kimani 2009) as well for as broader economic benefits, in particular job creation.

Conclusion and Policy Recommendation

In order to live up to the ambitious objectives formulated in the AMV, wide ranging and decisive policy measures are needed to ensure extractive industries become a foundation for local economic development. This requires on the one side political and technical capabilities and policy space in resource-rich countries and on the other side a shift in international policies related to natural resources. The EU Raw Material Initiatives' objective to secure „undistorted" access to raw materials, resolutely pursued by the EU via its trade and investment policies is clearly in contradiction with the demand for increased policy space in order to achieve structural transformation and broader development outcomes. On the contrary, crucial policy measures undertaken by the EU in the context of its Raw Materials Initiative risk to further reduce necessary policy space. „If countries are denied the possibility to utilize domestic policy measures, including export taxes, as part of efforts to increase value addition, then you are compromising some of the fundamentals of resource-based industrialisation." (Antonio Pedro, former head of the UNECA Natural Resources division, cited in Van Teffelen 2012: 47).

Furthermore, EU development policies, in addition to the endeavor to improve standards and good governance regarding transparency and taxation, should also change or broaden the concept of the development model accompanied by those policies. In this context, it is important not to treat good governance as a merely technical issue and to recognize that not only administrative capacity but also developmental capacity is necessary and that standards and norms imposed from outside have to be coherent with a national context. Moreover, peoples' participation should be taken seriously and shouldn't be organized as an „add-on" activity according to the preferences of project sponsors. Capacity is also needed within the state and civil society in order to monitor the proper implementation of the Transparency Directives.

With regard to improved national resource governance, increased international efforts are necessary to support financial transparency, eliminate the practice of transfer pricing and close tax havens as well as to establish compulsory international minimum standards regarding social and environmental impacts to stop the race to the bottom in producer countries when trying to attract minerals FDI; moreover, international policies are required that allow countries to pursue development friendly and enhancing industrial policies including the use of local content rules and export restrictions where useful and appropriate. Another challenge for resource-dependent countries is the high price volatility coming from international commodity derivative markets. Agreements to regulate these markets in order to reduce speculation and volatility that is not related to fundamental factors would be important as well as global facilities to support countries in coping with the remaining price volatility and related income shocks[x].

The expressed goal of the European Commission in its RMI to achieve a „win-win situation" can only be realized if countries are granted more policy space and decisive international measures are taken in order to improve resource governance. Moreover, the main focus of the EU Raw Materials Initiative on securing access to resources risks to distract from the necessity for urgently transforming its own economic model towards decarbonising and low resource use. Therefore the concept „win-win" should be seen in a long term perspective and include the environment and future generations.

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i For a more detailed discussion see Küblböck 2013.

ii E.g. with Colombia, Peru, Ukraine Central America, Korea and Singapore.

iii Such as the Kimberly process, the Forest Law Enforcement Governance and Trade (FLEGT), the Timber Regulation, the Extractive Industry Transparency Initiative (EITI), the OECD's Due Diligence Guidance on Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas , the Group for Responsible Sourcing of the 3Ts (tin, tungsten and tantalum) and Gold, the „Regional Initiative on Illegal Exploitation of Natural Resources".

iv Going further than US legislation which only includes listed companies, and doesn't include timber.

v The approach was systematized in the 1992 World Bank document „Strategy for Mining in Africa" (Campbell 2010b).

vi Those mechanisms come from IFIs, UN, NGOs, Companies – but they all do not bear responsibility for implementation or if those initiatives don't work.

vii E.g. Environmental Impact Assessments or Involuntary Resettlement processes (conducted and therefore influenced by the project sponsor, concerning participation etc.) (Campbell 2010a).

viii A recent UNCTAD Investment Policy Review for Mozambique showed that natural resource-based investments have not yielded inclusive outcomes, and that the regulatory bias towards mega-projects in this sector has crowded out small and mid-sized investments in other sectors that could contribute more meaningfully to achieve social objectives (UNCTAD 2012).

ix Such as Angola, Tanzania, Guinea, Mozambique, Zambia (De Backer 2012).

x For a detailed discussion see Nissanke/Kuleshow (2012) and Staritz/Küblböck 2013.

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