

Worth the wait? The EU's latest Communication on Raw Materials

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After numerous delays, the European Commission's second Raw Materials Communication has now been published. Initially foreseen for November 2010 under the guidance of Enterprise and Industry Commissioner Tajani, the document finally saw the light of day in February 2011, after having been more or less appropriated by the cabinet of President Barroso.

The Communication did not turn out to be quite what everyone was expecting, however. Instead of being a practical follow-up to the EU's 2008 Communication on the Raw Materials Initiative (RMI), half of the document, initially planned to be released as a separate paper, now deals exclusively with the interdependence between financial and commodity markets. This is due in no small part to a late intervention from France, who wanted to bolster its G20 priority of combating speculative behaviour on commodity markets.

Given that the decision was taken to merge the two papers little over a fortnight before the publication of the Communication, it is unsurprising that the two sections are barely integrated. The title: 'Tackling the Challenges in Commodity Markets and on Raw Materials', speaks volumes in itself. Besides giving marginal attention to industrial raw material markets, the particular priority of the section on commodity markets is food security and agricultural as well as energy products, in line with the G20 agenda and the Pittsburgh and Seoul summits that pledged to address food market and excessive fossil

fuel price volatility. If Paris hoped that the inclusion of this section would have strengthened its hand by adding momentum to the G20 meeting of finance ministers in Paris last month, it must have been disappointed. No progress was made on this issue and EU member states remain deeply divided – not only on policy questions such as position limits, but even on fundamental issues such as the extent to which speculation is actually responsible for rising commodity prices. In this context, Germany, for example, has been particularly displeased with the inclusion of commodity markets in the text.

Be that as it may, it is clear that commodity markets, including those for industrial raw materials, need to be considered in any broad raw materials strategy. But that does not mean it had to be forced into the Communication. In that case, the Commission might as well have included the Communication on 'A Resource-Efficient Europe', which was published only a week previously by DG Environment. Lumping all these issues together without a common thread does justice to none of them.

What it does do is suggest that there is a lack of European strategy and cohesion on these matters, both within the Commission itself and among the member states. Instead of having each of the Directorate-Generals (DGs) pushing their own agendas with regards to raw materials and then throwing them together into a sort of forced marriage, each DG's work needs to be better embedded in a larger strategy.

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In this context, the European Commission could establish an inter-departmental working group on raw materials including all of the relevant DGs, the Joint Research Council (JRC) and its new External Action Service (EEAS). This working group could make use of information from the existing EU Raw Materials Supply Group, a stakeholder group consisting of industry representatives, NGOs, trade unions, member states and their respective geological services. Both the United States and France have recently established such inter-departmental working groups in order to ensure a measure of coherence when it comes to dealing with strategic natural resources.

By establishing such a working group, the Commission would not only ensure the streamlining of the approach to the topic of raw materials throughout the different DGs and policies, it would also increase coherence and provide a structured forum to deal with this issue rather than letting potential in-fighting bog down processes.

In addition, more and more member states are developing their own raw materials strategies. Germany and Finland have already published theirs and more will undoubtedly follow. Brussels should ensure unity and consistency across the diverging member states on this issue. The pursuit of national raw materials strategies by, for example, Berlin, Paris or London would not only duplicate efforts, lead to inefficiency and a waste of resources, but could possibly even lead to intra-EU competition for natural resources abroad. Germany is currently discussing the establishment of several exclusive 'resource partnerships' with countries such as Kazakhstan, Mongolia and Namibia, for example, and is opposed to putting such partnerships on an EU level.

As difficult as it may be, the European Commission should therefore ensure coherence, both internally and with the member states when it comes to raw materials and foreign policy.

Brussels should also investigate how best to promote a common external strategy on raw materials. The currently planned Communication on the external dimension of energy security could serve as a template.

In this context, co-operation should be particularly advanced with partners facing similarly difficult circumstances when it comes to strategic resources, such as the US and Japan. Trilateral co-operation could include data sharing on supply and demand, analysing supply chains, creating joint research and development programmes, and sharing best practice, particularly on dealing with commodity markets. Brussels has already taken first steps in establishing a partnership on raw materials with the US in November of last year, it is puzzling therefore that

this has not been mentioned explicitly in the Communication itself.

With regard to data sharing, the EU, the US and Japan could eventually even try to launch a larger global initiative within the G20 based on the Joint Organisations Data Initiative (JODI), which was among the outcomes of the producer-consumer energy dialogue under the International Energy Forum (IEF). After all, enhancing transparency and improving data is of global relevance and there is hardly a country that is completely autarkic when it comes to raw material supply. For example, while China currently holds a monopoly in the production of rare earths, it is dependent on the import of iron ore and holds similar reservations to its European counterparts towards this concentrated market, which is dominated by three major mining companies (BHP Billiton, Vale and Rio Tinto), as its European counterparts. As sensitive as the sharing of data usually is, global initiatives in this sphere can ultimately also serve as confidence-building measures between actors.

However, before such concrete steps can be taken internationally, and in addition to the establishment of the necessary institutional structures to ensure consistency, an effective raw materials strategy also needs to set priorities and have a clear focus. It is somewhat questionable whether the Raw Materials Initiative does this adequately, since the net has been cast wide with regards to the raw materials in question, even if the focus is solely on non-energy, non-agricultural resources. After all, the 14 resources identified as the most critical for the EU have been lumped together with almost every other imaginable industrial raw material, ranging from construction aggregates such as sand and gravel to wood and natural rubber. Of course, each resource has a degree of importance in its own right and many industrial lobbies continue to make this point, complaining that there is an excessive focus on critical resources such as rare earth elements (REE), aiming to swing the narrative on raw materials in their favour by particularly stating that all resources are equal. Clearly, however, some are more equal than others. Here, Brussels should prioritise and give a particular focus to the identified critical raw materials.

The Commission is, of course, well aware of this, as indicated by the fact that it does aim to identify priority actions for the critical raw materials. Nevertheless, the scanty policy-relevant discussions on critical raw materials in the current RMI Communication suggest a certain unwillingness to stand up to entrenched interests and clearly and openly prioritise those resources that are most critical. One cannot help but presume that, in a desire not to incur the wrath of any particular lobby, the Commission decided against making such a prioritisation public.

One can only hope that, behind closed doors, the Commission does truly give priority to the critical raw materials and not cave in to other industries' demands. Particularly in the context of time, personnel and budgetary constraints, many arising out of the aftermath of the financial and economic crises, it would be more effective to pursue a nuanced yet focused strategy, clearly distinguishing between critical raw materials and those that are less critical. The critical raw materials are identified as such for a reason and should therefore be the subject of targeted policy measures (as the Commission already indicated by stating that it will identify priority actions for them) and specific budgetary resources.

Looking across the Atlantic, for example, legislators in the US have to some degree taken such an approach, so far restricting their raw materials focus to rare earth elements. In identifying critical raw materials, the issue of criticality should also be kept fluid as different resources can become more or less critical, not only over time but also depending on the set of indicators employed (iron ore is a particular case in point for the latter when including market actors' concentration or pricing). Here, the Commission has already taken a positive step by aiming to continue monitoring the issues of critical raw materials and regularly updating the list at least every three years. But more work can be done on the critical raw materials in order to further our understanding of them. The Commission, for example, should examine the complex relationship between the critical raw materials and some of their associate base metals (i.e. cobalt as a by-product of nickel or copper and rare earths for iron) and investigate the refining capacities as well as the entire supply chain. The debate surrounding rare earths is one particular case in point with regards to the latter.

Many have downplayed the dependency on Chinese supply arguing that new mines in the West are quickly coming online and will provide greater security. However, what is particularly needed is the capacity to refine and alloy the material in order to produce industrial components – if that is not available then bottlenecks will form and new mining activity will only provide part of a security-of-supply solution, since after all the rare earths from those new mines will also end up in China. This is so because China is dominant in the forming of rare earth metals into alloys and even in the manufacture of magnet parts and components.

In conclusion, the EU needs to build a more coherent and nuanced strategy, internally and externally, that tackles crucial and short-term challenges, such as those associated with the critical raw materials. The latest Raw Materials Communication does not inspire a whole lot of confidence in this regard, as yet.