



**Euro-Latin American Parliamentary Assembly  
Assemblée Parlementaire Euro-Latino Américaine  
Asamblea Parlamentaria Euro-Latinoamericana  
Assembleia Parlamentar Euro-Latino-Americana**



*Committee on Economic, Financial and Commercial Affairs*

19.10.2011

## **WORKING DOCUMENT**

Trade in raw materials between the EU and LAC (Latin America and the Caribbean)

EP rapporteur: Catherine Grèze (Verts/ALE)

## **Trade in raw materials between the EU and LAC (Latin America and the Caribbean)**

### ***What are raw materials?***

Raw materials are basic materials which, when reduced, treated or combined with other raw materials, are used to manufacture a finished product. The term is therefore used to indicate a material which originates in the natural environment and is in an untreated or almost untreated state. The following materials can thus be regarded as raw materials: latex, iron ore, crude petroleum, wood, coal, gold, silver, lithium, copper, lead and aluminium.

### ***Trading relations between the two regions***

A number of Latin American countries have a long history of mining, and the exploitation of raw materials has shaped the relationship between this region and the European Union (EU) for centuries. Essentially, this relationship involves the exporting of raw materials from Latin America in exchange for manufactured products originating from the EU, an arrangement which has, for a long time, prevented the industrialisation of the region. Exports to Europe have been growing since 2000 owing to the boom in raw materials prices. For example, in 1990, Latin America accounted for 12% of world mining investment, whereas, in the first decade of the present century, this figure has risen to 33%. Nevertheless, the worsening world crisis which began in 2008 has considerably affected trade between the two regions. Exports from Latin America to the EU, which fell by 24% between May 2008 and May 2009, were hit particularly hard by the fall in raw-materials prices and by the recession in the EU. However, the rise in raw-materials prices which began in the second quarter of 2009 made it possible for Latin American exports to the EU to recover gradually.

If we stick to the definition of ‘raw material’ referred to above, then trade in raw materials between the EU and Latin America is a one-way street: the EU essentially exports manufactured products. This being the case, it is possible to expand that definition so as to include agricultural raw materials. In that case, the situation changes considerably because, although Latin America exports substantial quantities of materials such as soya or palm oil, the EU is also a major exporter of agricultural raw materials (e.g. milk, wheat, etc.). Is it, then, advisable to include agricultural products when considering trade in raw materials between the two regions?

### ***The risks involved in the exploitation of raw materials***

As we can see, mining can be a not inconsiderable source of revenue for the exporting countries, thus helping to swell their national budgets. However, mining is not without its social, health and environmental consequences, and the direct and indirect costs of those consequences have to be evaluated. At the present time, in fact, there are certain regions of the world which export raw materials but which are nowhere near achieving the level of development that might have been expected. In Africa, for instance, there is even talk of a ‘resource curse’.

The exploitation of raw materials implies giving land concessions to extractive industries so that they can search for ores and possibly extract them (e.g. in Peru, 75% of the Amazon rain

forest is covered by concessions to extraction companies). This often results in conflicts over land use, particularly if the land in question could be used to produce food crops. Tension is often made worse by the substantial changes produced at the extraction site and in its surroundings: the negative effects on fauna and flora, the use of considerable quantities of water, and even the pollution of rivers and the atmosphere by mining dust. This problem is made worse when, as is often the case, the extraction sites are situated in fragile areas or ecosystems. The deterioration in the environment is often irreversible, has a negative effect on the health of the people who live nearby, and impoverishes rather than enriches them. A typical example is the extraction of gold and the use of the process known as lixiviation, or leaching, which requires large quantities of cyanide. This is even more true now that the crisis is leading people to buy gold as a safe investment, so that it becomes necessary to extract more and more gold ore. Among the most frequently heard complaints are: the false information provided by the companies to local people, the fact that people have to move away from their homes, and the lack of workers' rights. In all, close to a third of mining operations in Latin America have led to conflicts with the communities living in the areas subject to concessions to mining companies (139 out of 337)<sup>1</sup>.

The risks associated with mining have been identified by the International Council on Mining and Metals, which shows that these conflicts are a strategic problem for this sector.

### ***Increasing pressure on resources and the destinies linked to them***

In the years to come, world demand for raw materials, particularly ores, will continue to grow. On the one hand, they are essential for the production of new technologies (including those associated with renewable energy and the reduction of greenhouse gases), and, on the other, the world's population continues to grow and the technology needs of emerging countries will increase exponentially. An international raw materials race is therefore under way. China is a key player, and its presence in Latin America is already well established.

This growing pressure on resources highlights the problems associated with mining, because increasingly sensitive areas have to be explored in order to meet the demand for raw materials. Moreover, the current situation, in particular regarding climate change and the finite nature of resources, is also forcing us to choose a more sustainable extraction model.

It is obvious that raw materials represent a sizable stake, both for the EU (as demonstrated by the European Commission's initiative) and for Latin America. In this sector, the destinies of the two regions are closely linked. The tools that are necessary to control those risks as much as we can must, therefore, be put in place so as to permit greater stability of the sector and sustainable production, since these alone will allow Latin America and the European Union to continue to be highly efficient and to set an example to the rest of the world. In effect, the two regions share common values and priorities, such as the seeking of peace and security, the strengthening of democracy and the promotion of human rights.

### ***Improving existing agreements between the two regions, reorienting the current negotiations***

---

<sup>1</sup>Observatory of Mining Conflicts in Latin America

In the light of the stakes and risks already mentioned, it is essential that the raw materials sector should be more regulated. At the moment, the frameworks for this trade are the association agreements which either already exist or are in the process of being negotiated, and the bilateral investment agreements between the EU and Latin America. In these agreements, the elements which are concerned with free trade encourage the emergence of conflicts threatening trade between the two regions, including the following:

***(a) The principle of national treatment***

This principle, which is almost automatically included in the agreements between the two regions, threatens newly emerging industries and endogenous development, because it places transnational investors (supplying themselves with foreign machinery, technologies and capital) on an equal footing with local businesses.

***(b) Intellectual property rights (IPRs)***

Thanks to the patent system, the technologies remain in the hands of the big companies of the North. The countries of the South have no access to it, which prevents any endogenous industrialisation. Creative solutions are required so that IPRs can respond both to globalisation and to the need for development.

***(c) Foreign Direct Investments (FDIs)***

Arrangements such as ‘indirect expropriation’ (when new national laws restrict investors’ room to manoeuvre) threaten the exporting countries’ capacity to strengthen their social and environmental legislation. In fact, they run the risk of legal proceedings and the payment of considerable sums in compensation (e.g. Doe Run in Peru).

***(d) The liberalisation of services***

Access to basic services, such as water and energy, is called into question by the substantial demands of major mining projects. The liberalisation of this type of sector may have very negative consequences on the local people and must be treated with the utmost caution.

***Strengthening and rebalancing governance in the sector***

As we have seen, the governance of the raw materials sector is currently very weak and unbalanced. Here are our proposals for strengthening it:

- (a) Ratify the ILO conventions and include them in the agreements currently being negotiated or revised.
- (b) Comply with multilateral environmental agreements.
- (c) Ratify anti-corruption conventions.
- (d) Strengthen companies’ social responsibility and make it compulsory.

- (e) Make European companies and their subsidiaries responsible.
- (f) Define more clearly the criteria of the new LAIF (Latin American Investment Fund) so that it contributes to the objectives of sustainable exploitation of resources.
- (g) Subscribe to initiatives in favour of more transparency in the sector (e.g. the Extraction Industries Transparency Initiative (EITI)).
- (h) Cooperate on the issue of reducing the use of resources, in particular by product eco-design and recycling.
- (i) Facilitate access to justice for the victims of exploitation.
- (j) Ensure that local people are informed, consulted beforehand and involved in the decision-making process (e.g. Peru's law on prior consultation).
- (k) Define extraction and non-extraction areas according to their environmental sensitivity (e.g. Natura 2000 in Europe).
- (l) Prohibit exploitation in areas of conflict.
- (m) Allow the existence of taxes on raw materials.
- (n) Regulate stock-market activity and control speculation, so as to restrict volatility in the prices of raw materials.
- (o) Support innovative approaches to resource management (e.g. the Yasuní-ITT initiative – a proposal to refrain from exploiting the oil reserves of the Ishpingo-Tambococha-Tiputini oilfields in the Yasuní National Park, Ecuador).