Committee on Economic, Financial and Commercial Affairs

25.11.2011

WORKING DOCUMENT

Trade in raw materials between the EU and Latin America

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The first years of the new millennium have brought about major transformations worldwide in political, economic and social terms, thanks to shifts in hegemonic patterns. Thus, the emergence of the 'BRIC' group of countries (Brazil, Russia, India, China) is leading to a new dynamic for world trade, with the great powers having to accept drastic changes in order to preserve their interests and influence.

Equally, the developing world has had to face changes to the traditional structuring of external demand. In this regard, Latin America has in the past always prioritised sales of its primary products to the US and the EU, concurrently with receiving high-value added manufactured goods from those same countries.

In the context of these changes in the structure of economic and political power which have arisen in recent years at world level, it is felt that Latin America now has the best opportunity it is ever had in its history to develop its productive apparatus and position itself as a region capable of world leadership. Such a perspective would take into account the present characteristics of world demand and, above all, the value of the region's immense non-renewable natural resources and the enormous energy potential created by its vast wealth, unique on the planet, in water.

In addition to mining and the extraction of energy-sector products deriving from oil, gas and coal, the region has an agricultural sector with every possibility of conquering international markets, with high-quality products and competitive prices thanks to low labour costs in its more than twenty countries. It is therefore essential to accelerate the improvement of the conditions of entry for Latin American products on the European market.

In this connection, the Eurolat Parliamentary Assembly, meeting in May 2011 in Montevideo (Uruguay), declared in a resolution of its Committee II (Economic Affairs and Trade): 'The European Union and Latin American countries must play their part in reducing trade barriers, in order to facilitate cross-border trade. The substantial reform of agricultural, export subsidies, committed to in the WTO Doha Development round, should be completed at the earliest possible date'[1].

Within this framework, it is important to lay stress on how the historical relationship between Latin America and the EU is now manifested in a pole of trading exchanges, as a result of significant foreign direct investment (FDI) by the countries of Europe in the region, especially in Chile and Mexico, both of which countries have for some years now had free trade agreements giving them access to the EU market. It is now hoped that similar agreements with Peru and Colombia will be in place in 2012, while the green light has been given to further negotiations with Mercosur.

The result of all this may be expected to be a new dynamism in terms of investment and biregional trade. There will certainly be more FDI from the European side, while in Latin America there is likely to be great interest in positioning the region's products in a market of 400 million inhabitants, recalling also that the great majority of EU Member States are characterised by high levels of purchasing power.

[1] Euro-Latin American Parliamentary Assembly: 'Prospects for trade relations between the European Union and Latin America' - http://www.europarl.europa.eu/intcoop/eurolat/assembly/plenary_sessions/montevideo_2011/resolutions/trade_en.pdf (Accessed 4 October 2011).

In this process, the region needs to create common policies and strategies with a view to ensuring that, in the medium to long term, Latin America's production and exports to the EU are grounded in the transformation of raw materials into products with high value added: this would allow Latin America to evolve a model that is oriented to sustainable economic development and the modernisation of the productive apparatus.

Latin America in the new global context

The new political and economic map of globalisation in the 21st century has resulted in a world in which US hegemony is now weakened, leading to significant financial contraction. No solution is on the horizon for the eurozone crisis, which has destabilised the world's capital markets. The situation has been further complicated by the natural disasters of March in Japan, thanks to which what was till recently the world's second-biggest economy is now facing a period of stagnant growth.

Meanwhile, the rise continues of the 'BRIC' countries, which are now at the forefront of international trade, with international capital flows being modified in consequence. In this context, Latin America now begins to be perceived not merely as a large warehouse existing to meet the avid demands of an ever more industrialised world in terms of raw materials and food products, but, beyond that, as a region capable of turning the present economic convulsions to its advantage and thus consolidating its position on the world markets.

The region's response to the world economic crisis

At the time of the 2008 financial crash, the region won praise thanks to its counter-cyclical economic policies and the high demand for raw materials. The result was the emergence of major investment opportunities for the EU in countries such as Chile, Colombia, Peru and Brazil.

According to World Bank Vice-President Pamela Cox, the region offered a remarkable display of resilience in the face of the economic crisis, and, for the first time in its history, was able to remain on the outside of global economic trends, exhibiting a certain degree of *immunity*. 2010 saw exceptional macroeconomic results, thanks to sound economic policies and high performance by the region's raw materials, a trend related to external commodity prices and their positive effect for countries exporting basic agricultural goods, minerals and oil.

Despite all this, the EU's current difficulties could yet affect Latin America, in terms of trade, investment, remittances and fiscal equilibrium. Daniel Titelman, head of the research unit at CEPAL (the Economic Commission for Latin America and the Caribbean), believes that the 2008 crisis unleashed by the subprime mortgage phenomenon in the US marked a first challenge for the region, from which it emerged with flying colours. However, he argues that there will be a 'second half to the match', which has only just begun, with the Greek crisis and its potential knock-on effect on other EU economies such as Portugal or Spain.

As the most recent IMF report has stressed, *there is an acute fear of the unknown*. This uncertainty could lead to a worsening of the economic crisis and reduced growth rates.

The commercial framework for raw materials

According to Eurostat, the EU accounts for 20% of world trade, as well as being Latin America's second-biggest trading partner. For their part, the 20 countries of Latin America account for 6% of the EU's external trade, above all in agriculture products (23%) and food products (21%).

Significant percentages are also supplied by extractive industry products (18%), raw materials (2.4%), fuel (11%), manufactured goods (10%), chemicals (5%), machinery and equipment related to transport (3%) and motor industry products (11%).

The EU's sales to Latin America are concentrated in the area of high-technology, high value-added manufactured goods, such as agri-industrial machinery, transport equipment and chemicals.

Eurostat also states that in 2009 total exports in euros from Latin America to the EU were in the region of EUR 75 billion, of which 65% corresponded to raw materials (EUR 48 140 million) and 33% to manufactured goods (EUR 24 728 million).

'The Latin American century'

This phrase is now being regularly repeated by many of Latin America's leaders, whatever their political tendency or view of integration. There is general agreement that Latin America needs to become one of the world's leading regions: this will mean creating an interface between the productive sector and governments, with a view to action to foster integration and ensure that the region's achievements correspond to what is now expected of it.

The region is blessed with a very high degree of comparative advantage. As far as natural resources for the extractive industries are concerned, it is the world's leading region. The picture for Latin America in terms of raw material prices is, therefore, positive.

It is necessary to open up new markets, and this is being done by Peru, Colombia, Brazil and Chile. Nonetheless, if the region's rhythm of growth is to be sustained, objectives such as boosting productivity or encouraging anti-cyclical mechanisms will be vital. Efforts must also be made to maintain and increase the flow of raw materials, to the EU and to other markets (e.g. the Asia-Pacific market), while also encouraging export diversification and productive innovation.

According to Silvia Reyes, Director of the trade information service at Colombia's export promotion office PROEXPORT, the region is not only rich in non-renewable resources such as coal, oil and natural gas, but is also a potential major producer of renewable energies from hydrological and biomass sources: these latter are the future of humanity, and the conditions therefore exist for a 'golden century' for Latin America. The region should therefore, she believes, prioritise supplying the developed economies with alternative energy sources.

It is also essential to conceive the region in structural terms as an area of agri-industrial production oriented towards the establishment of productive chains, given the existence of an ample supply of agricultural products and competitive labour costs at world level.

Mauricio Ramírez, who currently chairs the Colombian Association of Small and Medium-sized Businesses (ACOPI), argues that 'the development of the region will depend to a large extent on the growth and progress of individual businesses, recalling that SMEs and microbusinesses have the capacity to register higher growth rates than the big multinationals'.

This is one of the reasons why the subregional integration processes need to concentrate on ensuring that, in border areas characterised by intensive trade, efforts are made to create economies of scale through building productive alliances with policies based on a collective and solidarity-oriented approach aimed at developing high value-added products. This should enable effective competition on markets like that of the EU, which demands high-quality products at competitive prices.

In the case of Latin American producers, as things stand it is farmers who ultimately suffer most from high EU trade barriers affecting the region's products. Given this, on 1 May 2008 Committee II of Eurolat tabled a resolution to the organisation's plenary calling for a continued effort to meet Doha Round objectives in full. Concretely, paragraph 10 of this resolution called on the EU and the US to 'substantially to reduce their agricultural subsidies, in particular export subsidies, which distort international trade and are detrimental to developing countries' interests'.[1]

Latin America's development requires fair trade with the EU, as well as the encouragement of 'win-win' commercial alternatives.

The flow of raw materials to Europe has turned Latin America into a major warehouse for primary products. However, this state of affairs could undermine the region's environmental sustainability if its natural resources are overexploited. It is therefore also important that the region should have a common policy for the protection of its forests, water resources and mineral resources, to be agreed in partnership with the EU in the interests of protecting the environment in Latin America.

Further progress needs to be made on public-private partnerships with a view to recovery. The EU, as a client for Latin America's primary products, must continue with creating a political climate favourable to concrete commitments in terms of conserving and maintaining resources.

On this point, biregional political dialogue should concentrate on promoting fair trade, with a view to the development of the productive apparatus in Latin America while also improving productivity in the EU.

Finally, Latin America's growth is certain to continue, despite the uncertainties weighing on its future and that of Europe. It is therefore essential, despite the region's wealth of resources in terms of oil, gas, hydroelectricity and metals and its abundant supplies of water and land for food production, to seek to develop an action plan which will ensure the translation of those natural resources into value added or manufactured goods.

[1] Euro-Latin American Parliamentary Assembly: 'Challenges and opportunities of the Doha Round' - '.http://www.europarl.europa.eu/intcoop/eurolat/assembly/plenary_sessions/lima_2008_htm/adopted_docs/resolution_trade_committee_en.pdf. Accessed 10 October 2011.