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

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I. Towards fairer trade

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 basic materials taken from nature in an untreated state. The following materials can thus be regarded as raw materials: latex, iron ore, crude oil, wood, coal, gold, silver, lithium, copper, lead and aluminium.

Many of the countries of Latin America (LA) have a long history of mining extraction, and the exploitation of raw materials has shaped the relationship between this region and the European Union (EU) for centuries. In this context, it is important to mention that the historical relationship between LA and the EU has now evolved into one of a trade hub, involving strong Foreign Direct Investment by the European bloc in the region. According to Eurostat, the EU accounts for 20 % of world trade, as well as being LA's second-biggest trading partner. The focus in LA has always been on the sale of its raw materials to the United States and the EU, while receiving from them manufactured goods with high added value. LA's exports to the EU include a high percentage of mining and quarrying products (18 %), raw materials (2.4 %), fuel (11 %), manufactured goods (10 %), chemical products (5 %), machinery and equipment related to transport (3 %) and automotive industry products (11 %). For its part, the EU makes sales to Latin America of high-technology manufactured goods with high added-value, such as agri-industrial machinery, transport equipment and chemical products. The intensification of this trade in the last two decades corresponds to increased investment: between 1990 and 2001, global investments in minerals in Latin America grew by 400 percent, with the region receiving 23 percent of global investments made in 2005.

Trade in raw materials is also a major challenge for the European Union, as demonstrated by the European Commission's communication in 2008 of its 'Raw Materials Initiative: meeting our critical needs for growth and jobs in Europe' (COM(2008)0699). European industry is facing increasing difficulties with regard to the supply of raw materials, particularly those identified by the European Commission as the '14 critical raw materials'. In the final analysis, the future of European industry depends in great part on these raw materials, involving neither energy nor agriculture. These resources are particularly important for transforming into a sustainable economy with low carbon emissions, since they are used in high-technology products such as catalytic converters and batteries and in building renewable energy facilities. Moreover, according to the European Parliament resolution on 'An effective strategy for raw materials for Europe' (2011/2056 (INI)) dated September 2011, these challenges are seen as an opportunity for a new, innovative cooperation of mutual interest between the EU and non-member countries.

Thus, trade in raw materials represents a great challenge, both for the EU and for Latin America. The future of the two regions is closely linked in this sector, since they share common values and priorities, such as seeking peace and security, strengthening democracy and promoting human rights.

However, the dominance of raw materials in the export patterns of Latin American countries – already known in the 1960s as 'the raw material exporter character of the region' – is still one of the main obstacles to real development. 50 years later, despite some progress in diversifying production in Latin America, this characteristic remains essentially unchanged;

in fact, this role has been accentuated in some countries in the region.

It would be desirable for production and exporting from Latin America to the European Union to be based, in the medium and long term, on the conversion of raw materials into value-added products, as this would convert Latin America into an ideal setting for sustainable development of its economy and would involve modernising its system of production. It is a way of promoting a win-win relationship between the two regions. Thus, the extraction of resources could contribute to the national economy through the payment of a tax or an increase in royalties, which would play a vital part in mobilising own funds for development and for investment in diversifying the productive sector.

II. Towards a more sustainable economic model

A. The risk of dependence in times of crisis

The European Union is currently in a very deep economic crisis. Obviously, this has consequences for countries with which its has trade relations, since the crisis has destabilised global capital markets: exports from Latin America to Europe fell by 24 % between May 2008 and May 2009, as a result of the fall in prices of raw materials and the recession in the EU. Starting in the second half of 2009, Latin American exports to the EU recovered progressively as a result of rising raw material prices. However, this situation highlighted the risk of an economic relationship too closely tied to one region.

Evidently, the crisis is far from over and may be repeated at any time. The EU's current difficulties could yet affect LA via trade, investment, remittance flows and fiscal balances. In fact, in the context of work done by Daniel Titelman, head of the Research Unit of ECLAC (the Economic Commission for Latin America and the Caribbean), the 2008 financial crisis caused by so-called subprime mortgages was only the first half of a game in which the region came out well. The situation in Greece and the possible contagion of other EU economies, such as Portugal and Spain, is just the beginning of the 'second half'. As the latest IMF report puts it, 'Fear of the unknown is great'. Such uncertainty could lead to a worsening of the economic crisis and reduced growth rates. Therefore, from the economic point of view, the way out of this dangerous dependence is to strengthen the productive system itself, encourage the production of value added products, diversify the economy and thus overcome the risks involved in a purely extractive economy.

B. Risks for the agricultural sector and water access

The agricultural sector in LA has every possibility of success in international markets with its high quality products and competitive prices, due to the low labour costs in its more than twenty countries. However, competition for fertile land entails the risk of the 'cash-crop' sector displacing food production, which is often in the hands of families and peasants. Furthermore, the extraction of raw materials requires land to be granted to mining companies, meaning that the peasant population is often displaced by large-scale mining projects.

Every stage of mining extraction involves the use of great amounts of water. Certain mines – the open-pit kind – can consume up to 100 million litres of water a day. Water pollution caused by its use in mining, as well as the leaching technique, which requires large amounts of cyanide in gold mining, coupled with pollution caused by dust with high mineral levels, can cause serious problems to human health and irreversible damage to the ecosystem, as well as to agricultural land in mining areas and to river basins and rivers.

The potential for social conflict is already very great. 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). Evidently, the risk of conflicts over water increases considerably in areas where water is scarce and in areas of agricultural production. There are growing numbers of demonstrations by communities affected by mining. These are mainly peasants and indigenous people, whose living conditions are clearly made worse by the effects on their health and the environment. They feel the negative impact and find their part in the decision-making process limited, especially with regard to the granting of licences for exploration and mining, which are unilaterally defined by their states. The above-mentioned risks associated with mining extraction have been identified by the International Council on Mining and Metals, which shows these conflicts to be a strategic problem for the sector worldwide.

Therefore, it is also important for the region to have a common policy on protecting its forests, water resources and mineral resources, which should be made known to the EU in the interests of protecting the environment in Latin America. The European Union, as a buyer of Latin America's raw materials, should continue to promote political forums aimed at achieving concrete commitments towards ensuring conservation and respect for resources.

C. Risks for finite raw materials

The flow of raw materials to Europe has made LA a major warehouse for primary products. This situation could become detrimental to environmental sustainability in the region if its natural resources become overexploited. The current situation, particularly the finite nature of resources, thus forces us to choose a more sustainable extraction model. The use of appropriate, cleaner technology (resource efficiency), reuse and recycling, seeking added value created in the source region, as well as diversification of sources of production and employment towards the top of the value chain, all minimise dependency and ensure the survival of the regions for future generations.

In this regard, it is important for the EU and its Member States to support developing countries by sharing experiences in more sustainable mining extraction practices, in increasing efficient use of raw materials and in recycling. This is what is emphasised by the European Commission's communication, 'The Raw Materials Initiative: meeting our critical needs for growth and jobs in Europe' (COM(2008)0699) – and by the 2011 communication supplementing that of 2008.

D. Rio + 20 and the international commitment to transitioning to a green economy

The Rio + 20 conference reaffirmed the urgent need for the international community to change current patterns of production and consumption. A more rational and sustainable use of natural resources is a crucial component of this model, not only because of the environmental costs linked to mining, but also because of the risks of shortages and even exhaustion of some important, vital resources.

III. Green investments, investments in the future

Now is considered to be the best time in LA's history to develop its system of production and to establish itself as a region that is a world leader. Meanwhile, the 'BRIC' countries are emerging as major players in international trade, leading to a rearrangement of international capital flows. It should be noted that the so-called BRICs, countries that have seen very rapid economic growth (Brazil, Russia, India and China), opted in favour of renewable energy, knowing that mining has always given more benefits to multinational capital, caused irreparable environmental and social damage, and kept mining extraction regions in poverty.

In 2010, for the second consecutive year, China was the world's top ranked investor country in renewable energy. Chinese companies produced more than half (55 %) of all new photovoltaic modules, compared to European companies, which, in the same year, produced only 13 %. Renewable energies accounted for some 26 % of total electricity capacity in China, 18 % of generation and more than 9 % of final energy consumption in the same year. Similarly, worldwide, 50 % of all new wind turbines were installed in China. India, another country in the BRIC Group, has numerous wind turbine manufacturers. Its 13GW of wind energy capacity places the country fifth in the world. In 2010, its investment in renewable energy (3.8 thousand million) ranked it eighth in the world.

According to Silvia Reyes, Director of Trade Information at Colombia's Export Promotion office, PROEXPORT, Latin America is not only rich in non-renewable resources, such as coal, petroleum and natural gas, but is also a potential major producer of renewable energies from hydrological and biomass sources. These are humanity's future and, therefore, the conditions exist for a 'golden century' in Latin America.

IV. Specific proposals

Improving existing agreements between the two regions, reorienting current negotiations

Currently, due to the risks mentioned, it is necessary to improve the existing regulations in the raw materials sector. The current international framework for these exchanges are bilateral investment agreements between the EU and Latin America. However, certain elements inherent in these free trade agreements tend to allow conflicts to arise, threatening trade between the two regions. Let us examine some important points:

a) The principle of national treatment

This principle, which is included almost automatically in 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)

Under the current system of patents, technologies remain in the hands of large companies from the North. Southern countries cannot access them, preventing 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 exporting countries’ capacity to strengthen their social and environmental legislation. Indeed, they risk incurring lawsuits and paying considerable sums in compensation.

d) The liberalisation of services

The water resource and energy requirements of large-scale mining operations threaten access to these basic services. The liberalisation of this type of sector may have very negative consequences for 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) Regulate stock-market activity and control speculation, in order to restrict volatility in the prices of raw materials.

b) Subscribe to initiatives in favour of more transparency in the sector (*e.g. the Extraction Industries Transparency Initiative (EITI)*).

c) Ratify conventions against corruption and close ‘tax havens’.

d) Cooperate on fiscal policy to ensure that foreign investors contribute through appropriate taxation to development in countries where they carry out their activities.

e) Strengthen corporate social responsibility, obliging companies to publish annual reports with detailed information on production volumes, profits and taxes paid, as well as on environmental and social practices.

f) Ratify and implement ILO Conventions and include them in agreements which are being negotiated or reviewed, and ratify appropriate monitoring mechanisms and ensure compliance therewith.

g) Respect multilateral agreements on environmental matters and reaffirm the right to water as a human right, in accordance with the UN.

h) Cooperate in technological research and development towards more sustainable practices in mining raw materials, and towards reuse and recycling technologies and green design.

i) Define extraction and non-extraction zones based on environmental sensitivity, existence of conflicts and socio-cultural vulnerability.

j) Comply with the requirement for consultation or free and informed prior consent of indigenous peoples, offering detailed, timely information, with consultations at the stage prior to participation in decision-making, adhering to ILO Convention 169 and the UN Declaration on Rights of Indigenous Peoples.

k) Facilitate affected communities' access to justice.

l) Promote establishment of a raw material diplomacy ((COM 2011) 25 final) in respect of human rights and good governance.

m) Define more clearly the criteria of the new LAIF (*Latin American Investment Fund*) to make it contribute effectively to the objectives of sustainable exploitation of resources.