Effective raw materials strategy for Europe

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PURPOSE: to present an integrated strategic vision to overcome the obstacles on commodity markets and difficulties regarding raw materials.

BACKGROUND: in recent years, commodity markets have displayed **increased volatility and unprecedented price movements**. Prices in all major commodity markets, including energy, metals and minerals, agriculture and food, increased sharply in 2007 to reach a peak in 2008, declined strongly from the second half of 2008 and have been on an increasing trend again since the summer of 2009. Fluctuations in prices of agricultural commodities have consequences for farmers, the food industry and consumers, including in the poorest of countries.

Markets are experiencing the **growing impact of finance**: between 2003 and 2008, for example, institutional investors increased their investments in commodities markets from 13 billion euro in 2003 to between 170 and 205 billion euro in 2008. Investment by index traders in particular has increased strongly.

Faced with these developments, the European Commission has taken a number of initiatives: in 2008, it already drew attention to the strategic importance of defining policies for raw materials by launching the raw materials initiative (RMI). Since then, it has taken actions within this framework to address sustainable access to raw materials both within and outside the EU, as well as on resource efficiency and recycling. It also began an in-depth reflection on commodities market in general and on food prices and security of food supply in particular. In response to the financial crisis, it has launched a range of measures to improve the regulation, integrity and transparency of financial markets, and most recently it has made a proposal for the regulation of energy markets.

This Communication presents an overview of what has been achieved in each of these areas and of the steps which are planned to take the work forward. This work is part of the Europe 2020 strategy which is closely linked to the flagship initiative for a resource efficient Europe. It will feed into the work of the G20 which agreed at the Pittsburgh summit "to improve the regulation, functioning, and transparency of financial and commodity markets to address excessive commodity price volatility". This commitment was reinforced in November 2010 by the G20 summit in Seoul.

CONTENT: the European Commission presents an overview of the main developments that have affected the financial and physical commodity markets (energy, agriculture, raw materials) and outlines the measures taken since the launch of the raw materials initiative. These include:

- the identification of **14 critical raw materials** at EU level which display a particularly high risk of supply shortage in the next 10 years and which are particularly important for the value chain;
- the implementation of an **EUtrade strategy** for raw materials;
- actions in the area of **development** in particular under the 10th EDF or projects financed by the EU-Africa Infrastructure Fund, EIB lending to mining projects or the 7th Framework Programme for R&D for geological surveys;
- the drawing up of **guidelines** specifying the points that need to be respected to ensure that the extraction of raw materials in the EU is compatible with the Natura 2000 criteria;
- the creation of new areas of research within the Framework Programme for R&D and the drawing up of "**End-of-Waste"** criteria.

While significant progress has been made in implementing the RMI, further improvements are necessary. An integrated approach based on the **three pillars** is essential, as each contributes to the objective of ensuring a fair and sustainable supply of raw materials to the EU.

1) Fair and sustainable supply of raw materials from global markets (pillar 1): the Commission will follow the issues posed by critical raw materials in order to define priority actions. It will regularly update, at least every three years, the list of critical raw materials already identified.

The EU will actively pursue a "**raw materials diplomacy**" with a view to securing access to raw materials, in particular the critical ones, through strategic partnerships and policy dialogues. Among other things, the Commission proposes to:

- enhance European financial and political support for the Extractive Industries Transparency Initiative (EITI), and help developing countries to implement it;
- examine ways to improve transparency throughout the supply chain and tackle in coordination with key trade partners situations where revenues from extractive industries are used to fund wars or internal conflicts;
- promote the application of EU standards by EU companies operating in the developing countries;
- examine, in co-operation with African national and regional authorities, how to promote the most appropriate infrastructure, and deal with related governance issues;
- help developing countries increase their geological knowledgeto allow them to better estimate national mineral reserves, better plan budgets based on expected revenues from these reserves and give increased bargaining power vis-à-vis mining firms.

The Commission intends to reinforce the Raw Materials Trade Strategy in line with development and good governance objectives. The Commission considers that the EU should:

- continue to develop bilateral thematic raw materials dialogues with all relevant partners, and strengthen ongoing debates in pluri – and multilateral fora (including e.g. G20, UNCTAD, WTO, OECD);
- carry out further studies to provide a better understanding of the impact of export restrictions on raw materials markets, and
- further embed raw materials issues, such as export restrictions and investment aspects, in ongoing and future EU trade negotiations in bilateral, plurilateral and multilateral frameworks.

2)Fostering sustainable supply within the EU (pillar 2): extractive industries fall under this category but its development is hindered by a heavy regulatory framework and competition with other land uses. Many regulatory issues in this area are the competence of Member States. The Commission therefore acts mainly as a facilitator for the exchange of best practices. At the same time, the Commission considers that the following practicesare particularly important in **promoting investment in extractive industries**:

- defining a National Minerals Policy, to ensure that mineral resources are exploited in an economically viable way, harmonised with other national policies, based on sustainable development principles and including a commitment to provide an appropriate legal and information framework;
- setting up a land use planning policy for minerals;
- identification and safeguarding of mineral resources (taking into account other land uses) including their protection from the effects of natural disasters;
- putting in place a process to authorise minerals exploration and extraction which is clear and understandable;
- increase the synergies between national geological surveys.

3)Boosting resource efficiency and promoting recycling (pillar 3): to promote a Europe that is more efficient in its use of resources, it is vital to strengthen the measures that counter obstacles that restrict recycling and to improve the implementation of the EU's existing legislation in the waste field. In particular, the Commission proposes to:

- review the Thematic Strategy on waste prevention and recycling in 2012 to develop best practices in collection and treatment of key waste streams, in particular those which contain raw materials with a negative impact on the environment;
- develop new initiatives to improve the competitiveness of the recycling industry in the EU, notably by introducing new market instruments that will encourage the development of secondary raw materials;
- consider mobilising funds from the 7th Framework Programme for R&D in order to improve techniques for detection, identification, tracking and location of illicit shipments;
- examine the feasibility of applying a global certification scheme for recycling facilities to the export of waste streams.

4) The regulation of financial markets: in view of these developments, the regulation of financial markets is a critical element. Regulatory initiatives have already been taken or are planned in the coming months to increase the integrity and transparency of the commodity derivatives market. The revision of **Directive 2003/0006/EC on Market Abuse**, in spring 2011, will aim to clarify what trading in commodity markets constitutes abuse, and to ensure that all venues and transactions where abusive practices can occur are properly covered under pan-EU rules.

In its communication, the European Commission also observes that further research is required to understand better the **interaction between physical and financial commodities markets**. The Commission intends to continue its work in the area, in the context of the G20 at global level.