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Africa and the EU Mineral Trade

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5.6. Africa and the EU mineral trade

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Earlier chapters in POLINARES Workpackages 2 and 4 identified security of supply of raw materials as a key potential risk to continued EU competiveness. The position of the EU in global mineral interactions, and the resultant challenge of addressing the risk of security of supply in context of non-energy raw materials, was further discussed in Chapter 4 of this work package.

This chapter elaborates upon these previous chapters, and aims to briefly illustrate the existing multi-lateral collaboration and regional development cooperation mechanisms. It concludes by highlighting certain considerations for future dealings between the EU and the Sub-Sahara African region regarding the securement of access to non-energy raw materials.

1. Overview

Mineral trade between the EU and Sub-Saharan Africa (SSA) is relatively limited, with the region accounting for less than 5% of the EU's fuel imports, and 4.7% of its ores and metal imports in 2011.[1] The SSA region similarly does not represent a major export destination for the EU minerals trade and only accounted for 1.5% of the regions ore and metals (including iron and steel) exports in 2011.[2]

Although the region does not necessarily represent a vital trade partner to the EU measured in terms of volume, the nature of the commodities imported increases the significance of the region significantly, as several non-energy raw materials identified by the

[1] For the purpose of this discussion, the term 'non-energy raw materials' refers to non-agricultural raw materials that is not primarily used for energy generation, but rather comprises minerals and metals used in the industrial production and manufacture of goods. The terms 'non-energy raw materials' and 'minerals' are therefore used interchangeably throughout this discussion.

[2] Data from Raw Materials Group.

EU as 'critical', originates from African countries.[3] EU companies currently operating in Africa account for 2.5% of the global mined production (with Africa in total accounting for around 9% of global value).[4] Moreover, the African continent has only recently become a growing export destination for EU construction equipment (including mining equipment), with exports in this regard doubling from $2.2 billion in 2005 to $4.3 billion in 2011.[5] Despite its apparent small share in EU mineral imports and exports, the African region has however grown into a point of contention with other emerging economies, particularly that of China.

China's growing mineral and oil based engagement with African countries has increasingly become a cause of concern for a number of Africa's traditional donors, both governments and international financial institutions. African leadership has by and large welcomed China's fresh approach to developmental assistance, which eschews interference in domestic affairs, and emphasises a developmental model that places a more central role on state participation (Foster *et al*, 2008). In addition, a large share of financial assistance by China is focussed on general, multi-sector infrastructure development, often in exchange for access to domestic natural resources.[6] Recent examples include Chinese approval for a total of $4.5 billion to Angola between 2004 and 2007, followed by a $3 billion agreement with Gabon in 2007. (Campos *et al*, 2008). Similar agreements were arranged with Guinea ($7 billion in 2009) and Zimbabwe ($8 billion in 2009) towards investment in infrastructure projects in exchange for access to mineral commodities. The largest agreement to date was arranged with the Democratic Republic of Congo (DRC) in 2007 for $8.5 billion, followed by a further $5 billion loan in 2008. In terms of the agreement, China was granted access to, and development of, DRC mineral resources in return for providing investments in five key areas, namely water; electricity generation; education; health; and transport. This development included the construction of 31 hospitals, 145 health clinics, 5,000 houses and two universities (Vandaele, 2008; Komesaroff, 2009).

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3 Critical minerals stemming from African countries include Platinum Group Metals, Cobalt, and Tantalum (*Critical Minerals for the EU: Report of the Ad-hoc Working Group on defining critical raw materials*, at http://ec.europa.eu/enterprise/policies/raw-materials/files/docs/report_en.pdf).

4 Data from Raw Materials Group.

5 Trade data based on calculations from COMTRADE data online.

6 This engagement approach is also commonly referred to in literature as the 'Angola Model' (Davies, 2010).

In 2009, the IMF, together with several of the DRC's creditors, opposed the vast infrastructure agreement as risky, citing beliefs that low commodity prices or unexpected difficulties with extracting the resources could impair the ability of the venture to repay the infrastructure loans, thereby forcing the DRC to borrow to repay the Chinese (Brautigam, 2010). A period of tense negotiations finally culminated in the DRC-Congo deal being reduced from $13.5 billion to $9 billion. This renegotiation is of note, as it represented the first major confrontation between Chinese investors and traditional European financiers operating in the SSA. Since the renegotiation, both the EU and China have revised their relations with the SSA, and have shifted their focus towards a more engagement based, cohesive approach in accessing African minerals.

The EU in particular has started to recognise the crucial role that Africa can potentially play in providing continued access to raw material, mainly as a result of the publication of its Raw Materials Initiative,[7] and the subsequent identification of 'critical minerals'.[8] With it also came the renewed appreciation of engaging with African countries in a collective, regional manner, rather than on an individual country basis.

2. Past and present collaborative initiatives between the EU and SSA

Though general cooperation and development relations between Europe and countries within the SSA region is not a new development, and indeed dates from the post-colonial era in various forms, subsequent decades have seen an increasing emphasis being placed on mineral commodities as a means to achieve mutually beneficial development.

2.1. The EU and African Caribbean Pacific states

The First Lomé Convention of 1976 provided for trade cooperation between the EC and 71 African, Caribbean and Pacific (ACP) states, and provided in particular for mining and agricultural commodities.[9] In accordance with this agreement, mineral commodities from the ACP states were permitted to enter the European Community (EC) duty free. In return, the

[7] For a detailed analysis of the EU Raw Materials Initiative, see POLINARES D4.01 – Chapter 4.

[8] The implications and potential impacts of the report *Critical Minerals for the EU: Report of the Ad-hoc Working Group on defining critical raw materials*' was discussed and commented on in detail in POLINARES D2.01 – Chapter 19.

[9] http://eeas.europa.eu/acp/index_en.htm.

EC committed €3 billion in aid and investment. The Convention was revised on four occasions until 1989, after being replaced with the Cotonou Agreement in 2000, which was itself revised in 2005 in Luxembourg and in 2010 in Ouagadougou. The Agreement will be in effect until February 2020.[10] The main aim of the Agreement is to reduce and eliminate poverty whilst contributing to sustainable development, and to assist with the advancing of the economic, cultural and social development of the ACP States.[11]

Of interest within the context of mineral commodities, is that the Agreement acknowledges that the volatility of earnings related to exports in the mining sector can have a detrimental effect on the development of the ACP states. The recovery of value added tax on imports, discriminating licence systems, or prohibitively high export duties, can all attribute to potential market distortions (Tiess, 2010). As the European Development Fund forms the main instrument for providing community assistance for development cooperation in terms of the Cotonou Agreement, the agreement therefore provides specifically for additional support within the EDF to offset such distortions.[12]

2.2. Africa-EU Strategy Action Plan 2011-2013

This focus on regional interactions has further led to the initiation of the Africa-EU Strategy Action Plan 2011-2013. As part of the African-EU partnership on Raw Materials, the action plan focusses on governance, investment, and geological knowledge and skills. The activities set out in the action plan include: [13]

- On governance:

[10] The Cotonou Agreement provides for a revision clause which foresees that the agreement is adapted every five years till 2020, at http://ec.europa.eu/europeaid/where/acp/overview/cotonou-agreement/index_en.htm.

[11] Article 1 of the Agreements reads: "*The partnership shall be centred on the objective of reducing and eventually eradicating poverty consistent with the objectives of sustainable development and the gradual integration of the ACP countries into the world economy*."

[12] Article 8(1) of the Agreement recognises that *"… losses of export earnings as a result of short-term fluctuations may jeopardise the development financing requirements and the implementation of macroeconomic and sectoral policies. The degree of dependence of an ACP State's economy on the export of goods, and <u>in particular from agricultural and mining products</u> shall, therefore, be a <u>criterion for determining the allocation of long-term development</u>."*

Article 8(2) continues by allowing for *"mitigat(ing) the adverse effects of instability of export earnings and safeguard the development programme jeopardised by the drop in revenue, <u>additional financial support</u> may be mobilised from the programmable resources for the country's long-term development…"*. (author's emphasis).

[13] Source: http://ec.europa.eu/enterprise/magazine/articles/industrial-policy/article_11029_en.htm.

  - Promote natural resources governance including in the areas of revenue transparency and fiscal regimes;
  - Support training on best practices to negotiate mineral contracts;
  - Assist in developing policy scenarios for promoting trade and the sustainable development of the mining sector.

- On investment:
  - Help develop analytical tools for mapping mining development corridors for investment promotion, consistently with any general investment promotion strategy in place;
  - Cooperate to assess opportunities for increasing local content and value-added through local processing of African mineral resources, particularly by SMEs;
  - Assist in improving mineral policy and related regulatory frameworks including on land use planning for minerals and authorization process in order to promote the investment climate;
  - Promote Corporate Social Responsibility.

- On geological knowledge and skills:
  - Facilitate exploring mineral resources potential in Africa;
  - Foster further co-operation between African and European geological surveys;
  - Support capacity building to help improve the responsibility for environmental quality, including in areas such as rehabilitation of mining sites and recycling.

In support of the above activities, the EU Raw Materials Initiative states:

> *'The European Commission, the European Investment Bank (EIB), and other European development financing institutions, in co-operation with African national and regional authorities, will continue to assess how to promote the most appropriate infrastructure, and related governance issues, that can contribute to <u>the sustainable use of the resources of these countries and facilitate raw materials supply</u>, using respective sector dialogues to steer this process. In particular, the European Commission will assess (a) the feasibility of increasing <u>lending (which may include grant-loan elements) to industry, including mining and refining projects and in particular post-extractive industries</u> and (b) investigate the possibility of promoting financial instruments that reduce risk for operators on the basis of guarantees supported by EU, including by the European Development Fund. The existing EU-Africa Infrastructure Trust Fund could also assist African countries in this task."* (author's emphasis).

2.3. EU-Africa High Level Stake Holder Meeting

Following through on promoting the EU-Africa partnership in mineral development, in January 2012 a high-level conference was held in Brussels, titled '*Translating Mineral Resource Wealth into Real Development for Africa*'. Delegates included state representatives, civil society and industry from 22 African countries.

In his keynote speech Antonio Tajani, Vice-President of the EC in charge of Industry and Entrepreneurship said:

> *"We should work toward a coherent vision on development, mining and raw materials, to support African capacity at the appropriate national, sub-regional or continental level and within the available cooperation instruments ... this is an excellent opportunity for us to share our experiences and views on how mineral wealth can foster broad-based growth, especially in Africa where the availability of resources has not always led to inclusive growth for Africa's people. It is my view that resource wealth can and should act as an engine for inclusive growth and sustainable development, in turn <u>creating 'win-win' situations where both developed and developing countries benefit from the sustainable supply of raw materials.</u>"* (author's emphasis).

The delegates focused on three major areas of cooperation, namely, good governance, investment and infrastructure, and geological knowledge & skills. Areas of joint cooperation between the EU and Africa were further identified as follows:

- Improvements in governance by further improving:
  - transparency – especially with regard to payments and contracts;
  - administrative capacity for governments and parliaments in contract negotiations;
  - involvement of civil society and the private sector.

- Europe can aid Africa in Investment and infrastructure by:
  - improving the investment potential of mining development corridors;
  - enhancing policy and regulation on issues like environmental impacts of mining;
  - transferring such approaches to state mining companies (using its experience in corporate social responsibility);

  - using small firms (mining and other) to increase local content and diversify mining supply chains.

- The EU and AU would work to improve geological knowledge and skills by:
  - cooperation between the European and African geological surveys;
  - improving the capacity of the Organization of African Geological Surveys (OAGS);
  - Continuous training in this area – and especially African capacity to provide it.

3. Comments on future engagement

The above sections demonstrate a clear effort at intensifying engagement, and improving relations between Europe and the SSA. It further illustrates that the extraction of non-energy raw materials offers a potential foundation upon which to build future relations, be it as a means for the EU to secure access to mineral resources, or principally for regional development and poverty alleviation in terms of sustainable development objectives. Such an approach, however, though potentially beneficial to both developed and developing countries, needs to take into account certain factors.

The by and large welcoming by SSA countries of investment and development commitments by countries such as China and India, illustrates the potentially favourable results of investment models differing from traditional Western methods. One reason for this acceptance is that whilst current EU development policies might be well intentioned, a gap may exist between the norms and values of SSA countries and their European counterparts. Although this by no means implies that the EU should discard its founding principles when engaging with the SSA region, it indicates that reconsideration might be necessary regarding the manner in which these norms and values are employed in these engagements. Therefore, although it is essential for the EU to assert its core values when dealing with regional trading partners, care should be taken to focus on illustrating the benefits of these values through example, rather than through pure advocacy alone.

The Lomé and subsequent Cotonou Conventions offer sound reference points for future international or regional agreements related to the securement of non-energy raw materials sales and the stabilisation of export prices through the use of market elements. However, a more direct focus on the securement of access to mineral commodities, with political values and norms *subsequently* introduced utilising active participation in in the extractive industries as a platform, might ultimately prove a better means to maintaining a long-term European presence in the SSA region.

Furthermore, if future engagement with commodity rich countries in the SSA are going to increasingly rely on non-energy raw materials as a point of departure for engagement, note should be taken that some of the minerals deemed 'critical' by the EU, are also generally considered to form part of so-called 'conflict resources'.[14] The supply of such conflict resources vary greatly with market conditions, which is often in reaction to high commodity prices as a result of derived demand.[15] With the EU's status as a principal global producer, and its high-level of import dependence on non-energy raw materials, any future agreements related to addressing such conflict resources will inevitably impact on the supply of such commodities, thereby necessitating a reliance on alternate sources.

Whilst this does not imply that the issue of conflict resources should go unaddressed, caution is advised as to the implementation of any strict policy agreements that does not fully take into account the complete value chain of the commodities in question. Previous initiatives, such as the Dodd-Frank Act implemented by the United States, impacted severely on miners and communities in the upstream production chain, whilst arguably failing to achieve its downstream objectives. If the EU were to implement similar or even stricter objectives without taking into account the possible repercussions in the SSA countries concerned, it may very well rebound in the form of the loss of long–term access to minerals due to negative perceptions regarding future EU dealings in the region.

14 Notable examples of 'critical' minerals deemed conflict resources include cobalt, tungsten, and tantalum (in the form of coltan).

15 The demand for minerals is closely related to the demand for the secondary commodities that are produced from these minerals. Demand for these secondary commodities in turn relates to the demand for the end commodities and services produced from it. The patterns and levels of consumption of goods and services are therefore influenced by the demand for non-energy raw materials as well, such as in the case of technology booms (POLINARES WP D02.1 – Chapter 16).

Conclusion

Mineral trade between the EU and Africa has been relatively limited to date, with relationships focussed on broad regional cooperation and development mechanisms of former colonies, as opposed to establishing specific access to non-energy mineral resources.

Although the SSA region does not yet represent a vital trade partner to the EU measured by volume, the criticality of some of the commodities produced increases the importance of the region significantly. It is further notable that certain of the mineral commodities that have been deemed ‘critical minerals’ to the EU are also considered conflict resources. This has the potential to further complicate future access; directly through supply shortages as a result of actual physical unavailability, as well indirectly through legal policy means, e.g. the United States’ Dodd–Frank legislation.

Resources demand from large emerging consumer economies, such as China, India and the Gulf States admittedly places pressure on the potential EU commodity interest in the SSA. Coupled with increased commitment to infrastructure development by these countries, and the acceptance thereof, necessitates a possible reconsideration of the manner of EU involvement in its own assistance and development mechanisms to emerging mining economies in the SSA.

Although recent engagements, such as the EU-Africa High Level Stake Holder Meeting, place a renewed focus on the importance of the region, regional collaboration is not a new development. Past initiatives, like the Lomé and Cotonou Conventions, offer apt models for future international or regional agreements between the EU and SSA, due to its focus on the securement of non-energy raw materials sales, and the stabilisation of export prices through the use of market elements. However, although such regional development interaction has the potential to be favourable to both the EU and resource rich developing countries in terms of the import and export of non-energy raw materials, care should be taken as to the manner in which such interactions is presented. The strong emphasis and advocacy of EU norms and standards may potentially be misconstrued as efforts to maintain a European presence in the regions, in lieu of that of the Chinese (i.e. “to kick out the competition”) rather than genuine intentions of securing access to mineral commodities and the improvement of the material quality of life in SSA countries.

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