The EU's Raw Materials Initiative may be of little benefit to the EU or to the developing countries it intends to help

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The EU's new Raw Materials Initiative (RMI), aims to increase Europe's access to raw materials in developing countries, while at the same time increasing development in those countries. **Benjamin Laag** *argues that it remains to be seen whether the RMI can actually improve EU's access to raw materials, and that it may also not provide the benefits it intends to in developing countries.*

Europe's economy is highly dependent on the import of raw materials. According to the European Commission's report of critical raw materials for the EU, this dependency does not primarily result from a physical scarcity of commodities but from new geopolitical challenges, supply risks and rising commodity demands from emerging economies. For example, China's strategic export restriction on rare earthand its resolute quest for resources in Africa defy European commodity interests. Many resource-rich developing countries possess raw materials vital for Europe's economy. Consequently, the EU's Raw Materials Initiative (RMI)addresses this high import-dependence and foresees a "relevant role" for EU development cooperation to accommodate Europe's need for "undistorted access to raw materials" in developing countries.

However, the contribution from EU development policy that is envisioned by the RMI may not necessarily correspond with its objectives (e.g., poverty alleviation), since the development of the resource wealth of many developing countries does not automatically lead to broader development. Instead, several resource-rich countries, for instance, the Democratic Republic of Congo, are plagued by a multi-faceted "resource curse" that can be referred to as the following asymmetric principal-agent problem:

The first principal is constituted by the citizens of a

The first principal is constituted by the citizens of a country virtually owning the natural resources within its national borders. As an agent of this principal the developing country government is to administer these resources for the benefit of its citizens. The second principal consists of the stakeholders of an extractive cooperation who want its managers or agents to secure as much profit as possible. As we know, agents are bound by the preferences of their principals while also pursuing their own self-interest. In order to ensure an economically viable extraction of natural resources, the stakeholders of a company link the manager's salary to the profits of the company. Usually, the highest good of a government is legitimacy by its principal resulting from providing public goods and being responsive to the people's demands. Thus, legitimacy requires some degree of taxation (to provide for public goods) and representation (to channel people's demands).

Tenge Fungerume Mine, DRC - Credit: Chad Kellogg (Creative Commons BY NC SA)

The strength of these incentives (profit and legitimacy) is put to a test when the agents (extractive cooperation and government) start interacting on behalf of their principals. If negotiating with extractive industries is financially beneficial for governments (granting property rights and security in return for royalties, fees, and also bribes), the feedback loop from the government to its people is severely weakened. Excessive resource revenues or "rents" (making taxation obsolete) in combination with feeble government accountability create an asymmetric agency problem that finally prevents countries from translating their resource wealth into economic development or pro-poor growth.

In a nutshell: Europe's urgent need for other countries' raw materials constitutes a passable foreign policy interest. Nevertheless, as the RMI states, "meeting our critical needs for growth and jobs in Europe" does not inevitably bring about the expected benefits for commodity-exporting countries that are pursued by EU development policy.

In order to ensure a "sustainable supply of non-energy raw materials for the EU" the RMI builds on three pillars. The third (reduction of the EU's consumption of primary raw materials) and the second pillar (fostering sustainable supply of raw materials from European sources) have internal perspectives on policies and behaviour within the EU. The first pillar is about "access to raw materials on world markets at undistorted conditions" and prescribes a European "raw materials diplomacy" with specific demands for development policy. These demands include development action at three different levels: strengthening states, promoting a sound investment climate, and promoting sustainable management of raw materials. Consequently:

- the 10th European Development Fund has allocated € 2.7 billion for good governance programmes (*strengthening states*);
- the European Investment Bank supports mining projects in Africa with an average annual amount of € 140 million through the EU-Africa Infrastructure Fund (*sustainable management of raw materials*); and
- the Extractive Industries Transparency Initiative (EITI) receives funding from the EU in order to increase the transparency of government revenues (taxes, profits, royalties) generated by extractive industries (*promoting a sound investment climate*).

While the European Commission speaks of a win-win situation for European industries and resource-rich developing countries, it is important to recognise the shift from policy coherence *for* development to "coherence between EU development policy and the EU's need for undistorted access to raw materials". This

shift also echoes in the critique of many NGOs who complain about European raw materials diplomacy: It is not based on development objectives but driven by competition with USA and China. Also, considering developing countries mainly as exporters of raw materials is too narrow. For example, a *sound investment climate* could generate revenues from resource extraction necessary to develop local downstream industries. But without corresponding regulations governing natural resource extraction, more openness to FDI could also overburden the capacity of local tax regimes or accelerate unsustainable resource patterns at the same time.

Only partially addressing these concerns, the RMI has been complemented by the communication "Tackling the Challenges in Commodity Markets and on Raw Materials" which devotes two pages to the coherence between supply of raw materials and development policy. Stronger emphasis is put on enhancing governance and transparency to achieve "inclusive growth and sustainable development in resource rich countries". The Commission proposes country-by-country reporting in order to gather more precise information of how to "enhance capacity for using revenues to support development objectives". Based on the RMI and together with the African Union Commission's policy on mining and minerals, the African Mining Vision has been developed in 2009 to increase cooperation in governance, investment and geological knowledge. Best practises are to be shared with the African Development Bank, and the application of EU standards by European extractive industries in developing countries is to be promoted.

Taken as a whole, this recent communication broadens what could have been a rather narrow RMI. Nonetheless, it remains to be seen whether the RMI can improve EU's access to raw materials in developing countries and how this strategy relates to other policy objectives. In other words: how can European resource policy coherently reconcile interest and values?

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