



# Natural Resources and Sustainable Growth:

## A 21st Century Trade Issue

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**T**he global community is putting unsustainable pressures on the world's resources. Some suggest we are reaching or transgressing planetary boundaries in areas such as carbon dioxide emissions, biodiversity losses and freshwater availability. There are increasingly concerns in relation to scarcity, although we need to qualify this. For example, there are plenty of energy sources (coal, gas) but carbon space is scarce, so we are looking increasingly for renewable energy sources. There is plenty of water in some countries, but there is a lack of water development in many poor countries and physical scarcity in others, and globally there will be a gap of 40% between supply and demand by 2030. There is still unexploited land, but globally there are increasingly pressures on land use.

It may still be a long time before crucial raw materials and rare earth metals (the European Union (EU) has identified 14 of them) run out, but the concern is that many of them are concentrated in sometimes weakly governed locations (antimony, fluorspar, gallium, germanium, graphite, indium, magnesium, rare earths and tungsten in China; platinum group metals in Russia, cobalt and tantalum in the Democratic Republic of Congo; and niobium and tantalum in Brazil). Moreover, if targets on renewable energy are to be met, this increases demand for rare earth metals faster than their supply. Wind turbines and electric vehicles rely on dysprosium and neodymium to make the magnets essential for their generators and motors. All of this means sustainable growth and hence future development is under pressure.

The European Commission (EC) Communication recalls the Raw Materials Initiative and mentions a set of EU trade-related regulations to promote sustainable management of timber and fish. But there is little

further discussion of natural resources. There is a bit more under the heading of response to crises: 'Poor developing countries also face other global challenges, such as securing sufficient, reliable energy supplies or adapting their economic systems to changing global climate conditions and threats to their natural resource base' and 'World Trade Organisation (WTO) members will need to pay more attention to these major issues in the coming years. Effective cooperation with emerging countries will be essential.' And, in the section linking natural resources to conflict: 'In parallel we will continue to cooperate with and provide support to developing country partners on sustainable mining, geological knowledge and good governance in natural resources management.' The Communication may not be considering the full scale of the natural resource challenge in the coming decade. A much more strategic approach will be required.

What is the EU doing on natural resource management, especially in relation to raw materials? It has put in place: (1) internal policies such as the EU Raw Materials Initiative; (2) bilateral and global trade policies on natural resources; and (3) development cooperation measures. First, the Raw Materials Initiative discusses 41 essential raw materials, and points to shortages of 14 key raw materials used in making cell phones, solar power cells, batteries and other electronics: antimony, beryllium, cobalt, fluorspar, gallium, germanium, graphite, indium, magnesium, niobium, platinum group metals, rare earths, tantalum and tungsten. The demand for these is expected to increase. Communications in 2008 and 2001 relating to the initiative are based on three pillars: (1) access to raw materials globally under undistorted conditions (e.g. development policy and trade strategy); (2) a sustainable supply from European resources; and (3) reduced consumption of raw materials and increased efficiency.

Second, the EU has introduced trade provisions. EU unilateral trade provisions include Everything But Arms (EBA), the Generalised System of Preferences (GSP) and the GSP+. The GSP+ offers additional tariff preferences to 16 countries to support vulnerable developing countries in the implementation of international conventions in the areas of sustainable development and good governance. Bilateral trade agreements also include provisions on natural resources. The full EPA with Economic Partnership Agreement (EPA) with the Caribbean Forum (CARIFORUM) and the interim EPAs signed by many (but not all) Africa, Caribbean and Pacific (ACP) countries and regions seek to ban export restrictions and export taxes, subject to temporary and exceptional circumstances such as critical shortages of foodstuffs, protection of infant industries or protection of the environment, in a way that goes beyond WTO obligations. This has been a source of friction for African trade ministers; for example, Namibia signed the Southern African Development Community (SADC) interim EPA only after reserving the right not to implement the agreement unless the provision on export taxes was lifted. EU agreements with Chile, Korea and Mexico also ban export restrictions. Furthermore, the EU has successfully challenged export restrictions by China at the WTO: China accounts for over 90% of the world's production of rare earth metals.

Third, on development cooperation, the EU published the Agenda for Change in 2011, which emphasises: (1) good governance, including to manage natural resources; and (2) the importance of inclusive and sustainable growth.

This quick review suggests the EU has begun to consider access to raw materials. It has tried to secure access of raw materials by asking developing countries to ban export restrictions and taxes. Export restrictions and taxes are not the most efficient way, however, of diversifying LIC industries; it is better to design appropriate corporation and loyalty tax schemes and put in place good economic policies to benefit from the exploitation of natural resources. Moreover, Least Developed Countries (LICs) themselves can be major victims of export restrictions. But African/LIC negotiators themselves will need to be persuaded by these arguments, and they have so far been more interested in retaining policy space. Until then, it is important to pursue the multilateral route.

What is notable, however, is that much less attention has gone to the increasing scarcity of water and land, which is essential for food security, energy production and much (if not everything) else. This will become increasingly important in the coming decade. The challenges are different, as land and water are not as easily traded as rare earth metals, so what is important is that countries can access land and water virtually and via trade. Countries that lack access to water and land (and hence have large food and energy import bills) will need to retain access through (virtual) trade. The Communication rightly identifies trade and food security as an issue, but what is the operational follow-up?

The natural resources agenda is more general, and the Communication on Trade, Growth and Development needs to acknowledge this. Trade is indeed a solution to increasing scarcity of natural resources, but efforts to reduce consumption, increase efficiency and augment the sustainable supply of natural resources will all be important to promote growth and development. A crucial part of this is promoting effective governance of natural resources worldwide: well-managed resources can contribute to sustainable growth. It is not immediately clear how much trade and investment provisions (the Extractive Industries Transparency Initiative (EITI), Forest Law Enforcement, Governance and Trade (FLEGT), etc.) can help with this – good governance is a long-term process that needs to build on domestic institutions and policies (and there is large heterogeneity; compare, e.g., the experiences of Botswana and Nigeria). The AU African Mining Vision is the beginning of a process. Access to (virtual) natural resources will be a key feature of trade relationships in the future. The EC Communication pays too little attention to the operational and strategic aspects of this 21st century trade issue.