

# Raw Materials – Raw Deal

## How Europe's approach to trade in raw materials threatens poor countries

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### The scramble for raw materials

**W**e depend on raw materials – or natural resources – every day, often without even thinking about it. From the sugar we put in our coffee to the copper in our mobile phones, our economy has become dependent on the availability of cheap raw materials. If supplies of these materials began to dry up due to scarcity or high prices, the wheels of industry would grind to a halt.

But we know that the earth's natural resources are limited, and competition for them is increasing. With consumption growing in industrialised countries and emerging economies, urgent questions are being asked about who should control trade in and prices of raw materials. At the same time, the potential for international conflict over natural resources is mounting.

The European Union (EU) consumes a disproportionate amount of the world's natural resources: the average EU citizen consumes three times as many raw materials as an Asian person, and four times as many as someone living in Africa.

In order to secure its access to raw materials in the future, the EU has launched a new strategy: The Raw Materials Initiative. Skewed to help European corporations, the strategy pays virtually no attention to the interests of the countries that export raw materials. Instead, these countries are under pressure to continue to allow the exploitation and export of their natural resources – even though that may mean that these prices remain low on world markets.



### Cheap suppliers? The role of developing countries in the raw materials trade

In the past, colonial powers exploited large areas of Africa, Asia, and Latin America as sources of raw materials. Products such as coffee, gold, and cotton were produced or extracted often with local people suffering extreme brutality in the process. Materials were then shipped to countries in the northern hemisphere to be processed in manufacturing and industrial plants. To this day many developing countries don't have the industries to process the raw materials they produce. As a result, poorer countries often have no choice but to keep selling off their natural resources. Colonialism may well be over, but its trade structures remain in place.

### The role of the state in the raw materials sector

To achieve sustainable economic development and reduce the dependency on exporting raw materials, clear laws and regulations are desperately needed. Developing countries must be able to effectively control their natural resources to make sure that:

- social and environmental damage is avoided
- profits from raw materials are better shared so they benefit the population of the country from which they are taken
- processing and manufacturing of raw materials in developing countries themselves is promoted.

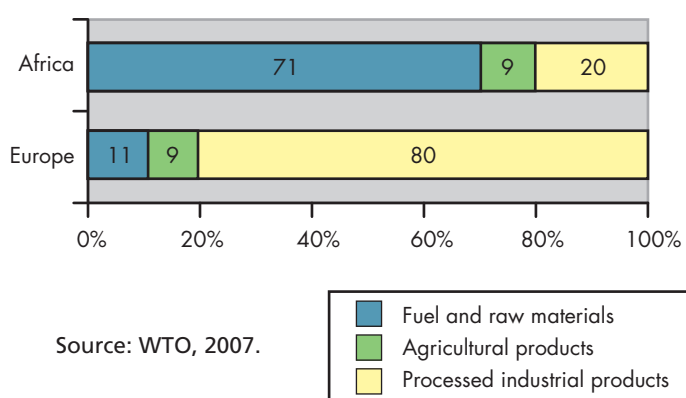
With fragile economies, developing countries have few instruments available to them to control their natural resources and promote development. Now Europe's new approach to trade in raw materials is threatening to rob poor countries of even those limited tools.

### Export duties

Processing adds value to a product. Manufactured copper cable, for example, is many times more valuable than the raw copper ore it is made from. Therefore, by exporting materials in their raw state, countries lose out on the profits that could be made from processing them. Vital revenue that could fund services like education or investment in industrialisation is lost. As such, poor countries remain trapped in a cycle of dependence on exporting cheap raw materials. For example, 71% of Africa's total exports are raw materials, as opposed to just 20% processed products. In contrast, 80% of the



Fig. 1: Goods exported from Africa and Europe



EU's exports are processed products (see Fig. 1, above).

One key way in which poorer countries can promote development is to raise duties on the export of their unprocessed raw materials. It can be argued that taxing exports may make a country's raw materials less attractive on the world market. However, it encourages producers to process their raw materials locally. And the export duties raised can boost a state's revenue, meaning it has more money available to develop its economy. Export duties may also be used to protect the environment; for instance a duty on unprocessed wood can help stop forests being stripped bare.

Developing countries must be allowed the freedom to use export duties in the interests of their people. It is, however, precisely this freedom which is threatened by the EU's Raw Materials Initiative.

### The leather sector in Kenya: Regulating the export of raw materials

Africa produces 15% of the world's cow hides and 25% of the world's goat and sheep skins. Its share of global leather production, however, is just 2% because most of the animal hides and skins are processed elsewhere.

In the 1990s international creditors such as the World

Bank put pressure on Kenya to liberalise its foreign trade. Therefore, the Kenyan government reduced the taxes on leather imports coming in to the country. The result was a crisis in the Kenyan leather sector, which could not compete with the imported goods. A flood of cheap leather imports led to the loss of thousands of jobs in local tanneries. The Kenyan government also lost some 1.14bn Kenyan shillings (€10.2m) in revenue every year.

In response, Kenya introduced the Vision 2030 Programme in 2006, designed to promote industrialisation in several key sectors. To support the development of the leather industry, duties were imposed on the export of raw animal hides and skins.

These duties, originally at 20% and then 40% from 2009 led to a strong reduction in the export of unprocessed animal hides and skins. Exports of leather, however, rose. In the year following the introduction of the export tax processed leather exports rose by 54%.

Since Kenya has introduced the export tax, 98% of its animal skins and 96% of its animal hides are now processed in its own tanneries. The country's income has increased because the tanneries pay around 100m Kenyan shillings to the government in tax (previously this figure was just 10m Ksh). Leather workers' wages have risen by an average of 21%. 1,000 jobs directly associated with the leather sector and 6,000 indirectly associated with it have been created. In addition, many people who lost their jobs during the 1990s have been employed again. People like Joseph (see case study).

The export duty created a clear incentive to process animal hides and skins produced in Kenya within the country itself. The increasing revenues also allowed the Kenyan government to use the money to further invest in the leather sector. It has recently made 175m Kenyan shillings (€1.7m) available to develop up to seven more tanneries in the country's districts. It hopes this will

create jobs and income in some of the country's poorer regions. With the protection afforded by the export duties, the Kenyan leather sector is able to develop and compete globally in the long term:

*"I would have to give up my tannery if the export duty was abolished. We would not be able to compete with China. If this tax were abolished we would lose many jobs. We cannot afford to export any more jobs by continuing to export the unprocessed animal skins. We must industrialise and develop."*

Robert Njoka, General Manager of Zingo Investments.

### Case study: Zingo Investment

Grace Wangunguthu and Joseph Njugauna work in Zingo Investments, a small Kenyan tannery where the workforce has risen from seven people four years ago to 25 people today.

Joseph already has 39 years' experience in the Kenyan leather sector. "I lost my job in the tanneries in the 1990s. There were hardly any jobs around then. If I did find work it was only as a casual labourer. I earned very little. Now I am in full-time employment again."

Grace (34) is responsible for sorting and quality control. It is her first job since returning to work after staying at home to care for her two young children. She earns 25,000 Kenyan shillings (€240) per month, almost five times the average wage in Kenya.

Since the export duties were introduced, production at the tannery has increased from 10,000 pieces of processed leather per month to 200,000 and Zingo Investments is looking to expand further.



Joseph Njugauna and Grace Wangunguthu at Zingo Investments, Kenya. Photo: Mark Curtis.

The example of Kenya's leather sector shows clearly how dependence on the export of a country's unprocessed raw materials may be reduced by government action. "Export taxes are a stop-gap needed to bring the industry to a certain level, to become competitive in the face of competition from other countries," confirms Dr. Kiruthu of the Eastern and Southern Africa Leather Industries Association.

### The EU's new raw materials strategy

Increasing demand and competition for raw materials globally is causing problems for the EU. But rather than significantly reducing Europe's consumption of raw materials, the EU is trying to secure cheap imports of raw materials for its member states. At the same time it ignores concerns about development and the environment.

The European Commission is negotiating free trade deals with developing countries that remove virtually all the obstacles to it accessing raw materials. In particular, Europe is trying to stop developing countries from introducing export duties on raw materials and regulating foreign companies operating in developing countries.

One example of Europe's aggressive approach is seen in its pursuit of Economic Partnership Agreements (EPAs), which the EU is currently negotiating with 78 states in Africa, the Caribbean and the Pacific (ACP states). The EU argues that export duties on raw materials are counter-productive for economic development in poorer countries. It believes that the ACP states should instead do everything in their power to increase their raw material exports. The draft of an agreement between the EU and the East African Community (Kenya, Tanzania, Uganda, Rwanda and Burundi) forces East African countries to get agreement from the EU before they can introduce an export duty (and then only on a limited number of products for a limited time). An export tax like the one Kenya used in its leather industry would be very difficult to introduce if this agreement comes into force.

### Foreign Investment

The EU is also attempting to push through conditions which would make it much harder for developing countries to regulate foreign companies operating in their raw materials sector. For example, developing country governments would not be able to compel foreign companies to cooperate with domestic companies or to employ local people. This is a vital tool many developing countries use to ensure that foreign investment benefits the local population as well as investors.

Europe's hunger for raw materials is threatening development in poorer countries. The example of EPAs shows how the EU is pursuing its own economic interests at the expense of developing countries, cutting off opportunities for poor countries to carve their own path out of export dependency and poverty.

### Time for a new direction

In order to increase Europe's competitiveness, the EU's Raw Materials Initiative focuses on securing unrestricted supplies of raw materials from other parts of the world, but ignores concerns about development and the environment. Instead of trying to obtain unrestricted access to raw materials by signing new free trade agreements, the EU must seek a new direction.

### The EU must:

- tackle the massive over-consumption of resources in Europe compared with the rest of the world. At the same time, Europe must find different ways of using and reusing raw materials
- allow developing countries to use exports duties and regulate the behaviour of foreign investors operating in their countries
- help poorer countries to integrate into the global economy, such as by reducing their dependency on exporting raw materials, increasing the processing of raw materials in their own countries, and protecting finite natural resources
- promote equitable use of natural resources across the world and work towards a sustainable future for all.

## Take Action!

Join thousands of people across Europe taking action to challenge the EU's approach to trade in raw materials. Go to [www.traidcraft.co.uk/rawmaterials](http://www.traidcraft.co.uk/rawmaterials) or [www.comhlamh.org/campaigns](http://www.comhlamh.org/campaigns) to find out more.

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