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INSTRUMENTS FOR COOPERATION WITH THE ACP COUNTRIES IN THE FIELDS OF
MINING AND ENERGY (1)

In connection with the current negotiations between the Community and the ACP countries for the renewal of the Lomé Convention, the Commission intends, by means of this Communication to the Council, to draw attention to the need to step up cooperation in the fields of mining and energy.

Recalling to mind the facts that make it important to develop the ACP countries' mining and energy potential, both in their interests and in those of the Community, and the worrying trend of investments, notably in Africa, the Commission has produced a consolidated and more detailed text covering proposals made earlier.

Reference should be made in particular to the communication to the Council of January last year on the need to encourage European investment in developing countries (2) (see P-6 of January 1978) and that of July 1978 on cooperation with the developing countries in the field of energy (P-86 of July 1978)(3).

Although these proposals are put forward here in the context of strengthening ACP-EEC cooperation, they nevertheless form part of a policy which should embrace other developing countries. Such a policy is justified not only in order to develop mineral and energy resources, but also because it meets the need, stressed by the OECD, to increase the financial flows to the Third World with a view to boosting world economic growth.

I. THE FACTS

Energy - a heavy burden for the ACP countries

- Although certain ACP States are producers and exporters of energy products (oil, uranium), most of them are heavily dependent on external sources of supply: more so than the Community, they have to rely on oil (80% of energy consumed).
- The level of energy consumption in the ACP countries is very much lower than the average for the countries of the Third World, namely 85 kg of oil per head per year as against 300 kg in the rest of the Third World. The corresponding figure for the United States is 7 800 kg, and for Europe 3 100 kg.

(1) COM(79)130
(2) COM(78)23
(3) COM(78) 355

See also:

Trend of private investment in developing countries by the Member States of the Community - Commission working paper of 5 February 1979.

Cooperation in the field of energy SEC(79)31 of 11 January 1979.

- Any economic development - notably of industry in the ACP countries - entails higher levels of consumption. The cost of this might be impossible to bear if no relief can be found through the development of the ACP States' potential in the areas of traditional and renewable energy.

Mining potential - a trump card for industrial development

Mining is already a basic factor in the economic life of several ACP countries, in terms of export earnings (1), budget revenue and employment and it will gain in importance with the development of industries based on the local processing of raw materials. But this potential has yet to be developed, expenditure on exploration encouraged, projects identified and investment in exploitation promoted before more ACP countries can benefit more systematically from the resources of their subsoil.

Mineral exploration in Africa has plummeted

Although 40% of known reserves of the main ores are in developing countries, in 1976 only 10% of the mining companies' total expenditure on exploration was disbursed in those countries. Africa is particularly badly off, since the European mining undertakings have virtually ceased to undertake expenditure there (except on uranium prospecting) since 1974.

Considerable investment is needed

According to studies by the United Nations, for production to be able to cope with the probable growth of demand for the period 1977-80, investment in mining to the tune of \$ 158 000 million (1975 values) would be required, of which \$ 55 000 million in the developing countries, meaning a sum of \$ 4 000 million to \$ 5 000 million per year. European mining undertakings, however, invested only \$ 120 million in 1977 and the drop in their expenditure on exploration is an indication that this figure will probably be even lower in the future.

The Community's increasing vulnerability

The degree of the Community's dependence for its supplies of industrial raw materials has been estimated at an overall 75% (as against 15% for the United States).

In respect of eight essential minerals (cobalt, chromium, copper, manganese, nickel, phosphates, tin, tungsten) there is total or virtually total dependence and the developing countries provide a large proportion of the Community's supplies.

The EEC is bound to become even more vulnerable if:

- (a) its mining undertakings invest less in the developing countries and generally allow themselves to be outdistanced by American (2) or Japanese firms;
- (b) efforts to develop production become concentrated on a smaller number of countries.

II. PROPOSED INSTRUMENTS

A. To develop exploration and prospecting

Besides stepping up technical assistance to the ACP countries for the purpose of cataloguing geological and mineral features (EDF and bilateral aid), new ways must be found to encourage investment in intensive exploration - which is much

(1) Papua New Guinea, Zaire, Zambia (copper) - Senegal, Togo (phosphates) - Guinea, Guyana, Jamaica, Surinam (bauxite) - Gabon (manganese) - Niger (uranium) - Liberia, Mauritania (iron ore).

(2) Since 1970 European investment in mining - even in the developing countries - has been only half that of the United States.

more costly - for this is the only way of identifying feasible exploration projects. With this in mind the Commission proposes:

1. that the Community help set up in the ACP countries national or regional mineral exploration funds, to which the Community could make financial contributions together with other backers;
2. that the Community participate by providing risk capital for investment in prospecting.

B. To promote investment in production

Public financing bodies - especially those in the Community - must be made to play the part of catalysers or direct investment by European mining concerns in the ACP countries.

1. So that more systematic use may be made of existing facilities the Council should acknowledge the principle that it is in the Community's interest to ensure that the sources of the Community's supplies of certain minerals are diversified further. Moreover, the EIB would be invited to play a more active part in financing energy and mining / ^{projects} It would be given the possibility of committing its own resources beyond the level stipulated in the Convention and the restrictions the present Convention imposes upon the granting of interest rate subsidies in the mining and energy sectors would be removed.

2. To neutralize the non-economic risk

Two ways of doing this are proposed:

- (a) by making it easier for the host country to acquire a holding in the capital of the mining company to be set up; for this the Community would provide quasi-capital assistance;
- (b) by rules of conduct written into standard agreements on the protection of investment, the precise terms to be drawn up with the host country on a case-by-case basis by reference to the specific features of the project.

3. To step up financial cover against certain non-economic risks

Any European investors that cofinance mining or energy projects with the EIB in the ACP countries are at present covered, to very different degrees, by the various national guarantee systems.

The Commission proposes, therefore, that, when it is acknowledged that such projects are in the interest of the Community, they should be given a Community guarantee to cover all the risks not covered by the national systems.

This guarantee would be operated via the relevant national agencies. It would be financed by a guarantee fund to be constituted at Community level from the premiums paid in by the companies being insured and to be guaranteed by the Community budget. The guarantee would be decided when, on the initiative of the host country, specific protection agreements are concluded (see 2.(b) above).