

# COMMISSION OF THE EUROPEAN COMMUNITIES

COM(89) 278 final  
Brussels, 2 June 1989

## MEMORANDUM

on the mining industry in the Community

---

(presented by the Commission)

## MEMORANDUM ON THE MINING INDUSTRY IN THE COMMUNITY

### INTRODUCTION

This memorandum results from the request addressed to the Commission by the Council of Ministers in December 1988 to undertake a study concerning the mining problems in the Community and to present, in the light of its conclusions, proposals for possible action.

Since 1975, the date of the last Commission communication concerning Community supplies of raw materials, two broad categories of initiatives concerning the mining industry have been taken at the European level:

- (i) The first category concerns political initiatives and consideration. The European Parliament adopted two resolutions on mining activities: the first (1) dating from March 1982, concerned the supply of mineral and plant raw materials. The second (2) adopted in June 1986, concerned the evaluation of the Community's mineral resources. During the debate on this second resolution, the Commission undertook to carry out a study on the profitability of the Community's mining industry. This study, started in June 1987, focuses on the range of activities concerning non-energy mining in all the Member States. Due to the extent of the subject matter, this was only finished in March 1989.

---

(1) Moreau Report  
(2) Ippolito Report

(ii) The second category of initiatives in recent years consists of concrete political steps in the fields of research, of external policy and development as well as in the support of certain individual projects within the Community. As regards research, there was the "raw materials" section of the framework programmes of research and development. On the external level there was the setting up of SYSMIN which has resulted in operations in Zaire, Zambia, Jamaica, Guyana, Mauritania, Liberia, Rwanda and Niger. The EIB, for its part, has made contributions to operations in Papua-New Guinea and the ECSC to an iron ore project in Carajas (Brasil). Considerable efforts have also been made to promote the development of the mining industry within the Community. Apart from the R&D programmes for raw materials, the E.I.B. has provided a loan for a copper and tin mine in Neves Corvo and the Commission has co-financed a study on the modernisation of tungsten mines in Portugal. E.C.S.C. loans have been granted to various projects in the Netherlands (molybdenum roasting furnaces) and in Greece (ferro-chromium ovens). Furthermore the European Regional Development Fund has made a significant contribution to the development of the mining industry in the less-favoured regions of the Community. Between 1985 and 1988, the ERDF co-financed 39 individual mining investment projects in Denmark, Germany, Italy, Greece, Spain and the United Kingdom. Total ERDF aid for these projects amounted to 10.6 MECU. Furthermore, some of the National Programmes of Community Interest and Integrated Development Operations financed by the ERDF contained direct and indirect measures in support of the mining industry. In this context it should be noted that the ERDF could make a bigger contribution to the development of the mining sector in the less favoured regions in the Community if the Member States with mining potential wanted it to and demonstrated the importance they attach to the development of mining activities by giving them more prominence in the regional development and conversion plans they submit to the Commission. Finally it should be noted that the Community mechanism for mine prospecting incentive loans, although adopted in December 1984, has never been voted a budget.

This period provides evidence that the Community is pursuing a certain mining policy, aimed mainly at lessening the degree of dependence on outside sources for ores involved in technologically advanced activities. At the same time, it seems that Community policy has, to a large measure, been of benefit to third countries.

In the same period, the successive enlargements of the Community have profoundly modified the economic profile of the Community mining sector. The three new Member States are blessed with a real mining potential and with real prospects for the future. The reserves of the Iberian copper zone (the Neves Corvo mine) already considered to be easily the most interesting mining site in Europe is a typical example. Bauxite, chromium and nickel reserves in Greece, the quality of tungsten ore in Portugal, the deposits of gold in the Iberian Peninsula and in Scotland, also justify real hope.

This new profile of the mining industry in the Community, contrasts with the fact that, in many Member States, mining continues to have the image of a sector irredeemably slowing down and condemned to play a more and more marginal role in supplying the general needs of the Community. If the first of these views poorly reflects the reality of a sector where technological progress in recent years has been very rapid, the second does not hold up to a detailed analysis.

- (i) First of all, the mines of the Community cover, on average, one quarter of Community needs in respect of all metals, a far from negligible amount especially in terms of the balance of trade. For industrial minerals, all our needs, if not more, are covered. Additionally, as chromium is the only metal for which no adequate substitute has yet been found, and as the Community depends essentially on South Africa and the USSR for its supplies, the certified reserves in Greece could make it, given present market conditions, the largest European producer with Turkey and Albania.
- (ii) Secondly, mines form part of an industrial system which includes those downstream industries which also supply mining equipment and need the mines of Europe as test laboratories and demonstration sites in order to maintain or increase their sales at world level.
- (iii) Finally, an appreciation of the economic importance of the European mining industry should not be confined to the weight of its activities on Community territory. It should extend also to the international role of these enterprises which, in turn, directly affect the security of supply to the European economy. In this regard, the first condition of survival of these European enterprises is their international competitiveness. Once a resumption of international mining investment becomes apparent, this competitiveness will largely depend on the conditions underlying access to resources.

The structure and nature of Community contributions to the mining sector in recent years, coupled with recent evolution in the industry, can be seen as justification for a re-examination of the Community mining sector and a re-evaluation of Community policy. This memorandum is a contribution to such a re-examination and contains an evaluation of the economic significance of the Community mining sector (Part 1) and an analysis of the principal problems of the sector together with possible solutions (Part 2). A final appreciation is put forward in the conclusions.

## 1.-ECONOMIC SIGNIFICANCE OF THE MINING INDUSTRY IN THE COMMUNITY

A complete economic evaluation of the non-energy mining activities in the Community has not yet been completed, national meetings having still to be held in the FRG, Belgium and Italy. Nevertheless, the available facts permit a realistic overall evaluation of the various characteristics of the sector:

- (i) The average production in 1986-87 was approximately ECU 12 000 million. The breakdown, based on turnover ex-VAT, indicates the overall predominance of industrial stones in the Community (see Table 1).

Table 1 - Structure of the comparative value of mining production in the Community (average 1986-1987)

	EEC	USA	CANADA
METAL ORES	0 850 ECU million (7%)	5 425 (25%)	3 400 (74%)
NON-METAL ORES	3 400 ECU million (28%)	16 275 (75%)	1 200 (26%)
INDUSTRIAL STONES	8 000 ECU " (65%)		
<b>Total</b>	<b>12 250 ECU million</b>	<b>21 700 ECU million</b>	<b>4.600 ECU million</b>

- (ii) In so far as employment is concerned, the available facts indicate 200,000 employees but it is difficult to make a clear distinction, for non-metal ores and industrial stones, between personnel directly concerned with mining activities and those concerned with product transformation. At the moment, the estimated break-down still indicates a predominance of the industrial stone sector (60%) over the other non-metal ores (30%) and over non-ferrous metals (10%). As a comparison, it should be recalled that non-energy mining jobs in Canada in 1986 amounted to 38,150 of which 68% were in the non-ferrous and 32% in the non-metal sectors.

- (iii) As to external trade, extra-Community trade of non-energy mining products (excluding ferrous ores) show a commercial deficit of 3,650 ECU million (1986), divided as follows: 2,300 for non-ferrous, 1,100 for non-metals and 250 for industrial stones. For intra-Community trade, the figures in 1986 were 1,850 ECU million of which 1,150 concerned non-metallic minerals and 0.350 respectively for non-ferrous minerals and industrial stone.

The overall market in these mining products, both intra- and extra-Community, represents 9 000 ECU million of which 4.4 pertain to non-metal minerals, 3.3 to non-ferrous and 1.2 for industrial stones.

These flows show the strong dependence of the Community on external sources and of its potential interest in reducing and/or diversifying the supplies from third countries by means of increased autonomy, and, increasing the competitiveness of certain Community products (bauxite, wolframite, magnesium, base metal concentrates) on the world market.

## 2.-THE MAIN PROBLEMS OF THE EUROPEAN MINING INDUSTRY

### 2.1. Exploration

The problems most often encountered at the exploration stage can be generally attributed to two factors:

- insufficient information on resources and deposits, procedures for granting exploration licences which are too complicated, too slow and too restrictive;
- the absence of tax incentives and of a system based on world-wide profits.

#### (i) Geological knowledge

The principle deficiency in this area concerns the lack of means by which finance may be granted to national geological institutes for drillings considered useful to improve their knowledge to a degree likely to induce private industry to become interested and commit risk capital. It is often suggested that Community R&D programmes could play a more active role in this area.

(ii) Procedures for granting exploration licences

Although the situation differs from one Member State to another, the procedures for the authorization of exploration are often complex and slow and result in a certain amount of legal uncertainty as to the further rights of exploitation. This area is normally a matter of national or regional responsibility except when discrimination forbidden by the Treaty is concerned.

Nonetheless, a joint examination of these problems by the Member States and the Commission could constitute a useful comparison of experiences, which would encourage the national administrations in their effort to adapt their laws and procedures to current needs.

(iii) The absence of suitable tax incentives

The marked tax differences inside and outside the Community create distortions in the decisions to invest taken by mining companies. In particular, a number of third countries, including Canada, permit tax deductions for exploration costs on the international level. Indeed, a Canadian mining company which carried out drillings in many foreign countries is authorized to deduct the costs of unproductive drillings from the taxable income of its mines.

The European industry considers that such variations in tax systems force mining companies in the Community to form other companies in these third countries, as has recently been done by the Metallgesellschaft firm. Like the previous cases, such a problem deserves a joint examination by the Member States and the Commission.

(iv) Aid for exploration on Community territory

After many years of examination, the Council adopted in 1984 the regulation proposed by the Commission providing for the granting of loans for exploration on the territory of the Community, reimbursable in the event of exploitation of a deposit. However, two Member States, citing the relative plethora of raw materials and the Community budgetary problems remained opposed to the adoption of a relatively modest budget of ECU 10 million for four years.

Since then, the situation has developed considerably. First of all, two successive enlargements have greatly enriched the Community's mining potential, as shown by the recent discoveries in Greece and Portugal with another expected in Spain. Consequently, because of the previous plethora of raw materials and the recession, the price level for raw materials has led to unnecessary mine closures, so much so that currently there is a relative shortfall in supply and sustained high prices for most metals.

However, the Commission considers that mining exploration should not be a short term activity. Whatever happens, the Community industry will always require raw materials and the exploitation, where profitable, of the mineral resources of the Community will contribute in an important fashion to its security of supplies, and to the levelling out of the trade balance. In any case the Commission considers that any support in this sector should avoid artificially favouring the profitability of mining projects. In fact, the proposed regulation requires a major financial

participation from private operators and they are unlikely to take part in risky operations.

The Commission considers that its proposed regulation remains pertinent to the current situation. It is suggested that the Council consider the requests of Spain, Italy, Ireland, Greece and Portugal favourably so as to make the December 1984 regulation operational.

## 2.2. Exploitation

The problems mentioned above for authorization procedures are even more acute for exploitation, in particular because of the environment, and involve as many closures as start-ups. The tax problems with regard to amortization, "carry-back", provisions for licencing funds and retraining of staff at the end of the operation, and for fluctuations in raw material prices as well as currencies are also valid. Finally, the social costs often reflect systems which are unsuitable for the present situation of the mining industry.

### (i) Authorization procedures for mining exploitation

The authorization procedures for exploitation of mines more than for any other industrial activity often last several years. In general, the present administrative apparatus does not favour a dynamic mining policy with relation to the opening-up of new deposits or for the closing of those which are no longer profitable because they have been exhausted or because of unfair competition.

An initial step towards improvement could involve the amalgamation of the conditions required by the various public, local, regional and national authorities, especially in the environment sector, so as to enable a modulation at local level, particularly with regard to the environment and accelerated legal procedures, as well as a re-examination of procedures for the abandoning of mine workings.

The Commission considers that the conditions for simplification and better coordination of the authorization procedures exist in Directive 85/337 on the evaluation of the effects of certain projects on the environment and that this should be the basis for any solutions to be examined. In any case, these problems and their solutions could usefully be the subject of a joint examination by the Member States and the Commission.

### (ii) Tax aspects

The exploitation of a mine is an economic activity which is considerably different from other industrial sectors. Exploitable resources are limited in quantity and will be exhausted within a given time-scale. Generally, tax legislation is not well-suited to the life of mines, in particular the rules for amortization, for the carrying over of losses during the first years of activity, for provisions for licencing costs and the retraining of staff, which are not only predictable but inevitable at the end of the exploitation period. In addition, many mining products are extremely sensitive to

the prices charged for raw materials, which are subject to major fluctuations at world level and are more influenced by fluctuations in currency exchange rates. As is the case in certain countries and with certain sectors, the possibility of authorizing companies to set up reserves for fluctuations in the price rates should be examined.

(iii) Social costs of exploitation

In certain cases, the social legislation has become an anachronism. Devised to meet the legitimate social demands of the miners in the 19th century, it is often, if not always, still applied to mines in existence today which are often very up-to-date or on a small scale or open cast. On the other hand, because of the closure of mines which have become marginal, the demographic development of the staff laid off results in an increase in social costs which tends to be difficult to absorb.

These developments have so multiplied in recent years that the Member States and the Commission should together study what adaptations are required to modernize the social legislation applicable to mines so as to make it more compatible with modern operating conditions and competition.

(iv) Training problems

In certain Member States there is an increasing trend for students who wish to take geology or mining engineering courses to be persuaded to take some other course with better prospects for placement in the professions. The result is that a number of universities and technical institutions are considering closing these faculties, the overall costs per student becoming prohibitive.

Such developments threaten the future of the mining enterprises in the Community which over a period of 20 years will find that they no longer have qualified staff to keep their activities in Europe going or to manage their activities in third countries. In turn, the preservation of the technological standards of those European companies which manufacture and export mining equipment is threatened.

It is useless to encourage students to choose a discipline without taking career prospects into consideration but it is not unreasonable for the infrastructure to be maintained for those who will still be needed. It is quite clear that the Member States should, at Community level and in conjunction with the authorities concerned with university and technical education, examine how education in these fields can be rationalized and coordinated, in particular by emphasizing specialization and mutual accessibility.

(v) Financing exploitation

Financing problems exist for mines as for any other economic activity. The only difference is that a mine has a limited life whereas most other activities can be considered long-term. The Commission's opinion is that this in itself does not justify favoured treatment. Indeed, it appears to the Commission that the relatively modest size of the Structural Funds can provide the necessary financing for mining investments if those Member States which are demanding a Community mining policy agree to devote to the mines a proportion of the sums earmarked for the strengthening of their economies. For the Commission it is clear that investments in mines may benefit from the financial support of the FEDER, the ECSC funds or the EIB and that the problems related to the closures of unprofitable mines can be dealt with by the Social Funds.

The mining countries in the Community often call for the equivalent Community "Sysmin" for themselves. The solution to the problems of the Third World looked for as part of the development policy and resulting from commitments made by the Community with these countries would not make it possible to come to an agreement on "compensations" for Member States.

In addition to the structural funds, the financial resources of the ECSC (for ECSC products and alloy metals) and the EIB are sufficient for the proper financing of mining activities carried out by Community companies, both in their own countries and in third countries. However, the problem of EIB contributions impossible in certain third countries, would have to be examined.

On the whole there does not appear to be a lack of financial instruments at the Community level to provide back-up within the economic sphere relating to normal mining exploitation. However, those responsible for the various financial instruments justifiably wish their actions to be supported by clear guidelines. In the opinion of the Commission, it would be useful for the management of the structural funds and the Community's financial instruments, for the Council to underline the importance of mining activities in the Community, and in particular in the Mediterranean countries and Ireland, as well as the investments undertaken by our mining companies in third countries.

### 2.3 Research and development

In examining research and mining development, the whole process must be taken into account, i.e. the treatment of ores, their conversion into raw products, semi-finished products and finished products as well as the manufacture of mining equipment suitable for present and future conditions.

In the present situation, the geology of the Community requires much more sophisticated techniques than before, because of the fact that we are dealing with "hidden" deposits. Furthermore, the deposits found often involve complex ores, the treatment of which requires the use of sophisticated techniques. Finally, it should not be forgotten that ores constitute an indispensable base for the development of advanced materials.

In these conditions, Community support for R&D in this sector which has been furthered for a number of years under the "Raw Materials" programme should be continued under the Framework Programme for Research and Development, the accent being put on contributions to the improvement of the competitiveness of European industry.

## 3. THE EXTERNAL ASPECT

The external aspect of the mining industry, while being perfectly relevant, is not in any way original, although this does not mean that it is any the less important. It relates basically to access to the mining resources of third countries, investment conditions and guarantees and anti-dumping procedures.

The problems encountered by the European mining industry on the international level relate either to questions of access to resources and to investment guarantees, or to the conduct of commercial policy notably in anti-dumping matters.

### 3.1. Access to resources

Access to resources has been the subject of international debate since the Lima Declaration. The various North-South conferences have discussed the point for almost fifteen years without success and the topic is currently one of the main items on the agenda of the negotiation group on products originating from natural resources in GATT, as part of the Uruguay Round. The Community will persevere in its efforts to establish a certain balance between access to the market on the one hand and access to resources on the other. As regards investment guarantees, it is appropriate that current efforts at international level, aimed at improving the existing systems, be continued. Furthermore, certain Member States have been able to achieve bilateral results which the Community has not. The Commission can only encourage Member States to continue efforts in this direction so that ready access to the resources of the Community's mining industry can be ensured.

### 3.2. Business practices of third countries

Because of the particular nature of the mining sector, sales at low prices over a short period can cause major and sometimes almost irreparable damage to the Community producers concerned, even if these sales are not seen as dumping. As an example, the recent liberalization of China's external trade set in motion fierce competition for the export of tungsten ore and which resulted in such a rapid drop in prices that practically all the mines in France, Spain, Portugal, Canada and the United States were obliged to close. Anti-dumping procedures have been started with respect to this product.

The Commission will continue to ensure that a suitable response, in accordance with Community antidumping rules and the relevant GATT rules, is made to any unfair pricing practices that it observes.

## CONCLUSIONS

The Community's mining industry, especially in the Mediterranean countries, is of major economic, commercial and social significance. Furthermore, from the international point of view it plays an essential role in assuring Community supplies.

This rapid re-examination of the problems confronting the Community's mining industry permits two sets of conclusions to be drawn concerning the type of solutions which could be implemented at Community level or at national level.

1. The first group of conclusions concerns the position of the sector in the Community economy and the conditions necessary to ensure development under normal economic conditions.

- (i) The mining industry forms an integral part of the achievement of the internal market in 1993 and deserves just as much attention as the other sectors if it is to contribute through an improvement of its competitiveness and as a result of greater freedom within the Community: to a reinforcement of the productive framework of the Community's economy. The on-going efforts to adjust and streamline public tender procedures should extend to the mining sector where national mining laws are among the most restrictive.
- (ii) The idea of a specific sectoral policy for the mining industry is no more justified than for the majority of the other industrial sectors. Mines form a part of an industrial network which must ensure its competitiveness and more importantly display its ability to consolidate its level of technological development. To assist this evolution there are, at Community level, a range of budgetary instruments which can be applied. What is missing at Community level is a clear common view as to the importance of the sector and the role it must play in the Community economy.

2. The second set of conclusions concerns the actions which might be taken to respond in a precise manner to the principal problems of the Community mining industry. In this context there are four types of actions which might be taken.

## 2.1 a programme regarding R&D, exploration and exploitation

### (i) Research and development

The requirements for government intervention in the sector must be looked at critically and closely so as to be in a position to say which Community R&D actions are the most suitable for strengthening the competitiveness of European industry and programming their implementation under the Framework Programme for Research and Development.

### (ii) Exploration

The regulation existing for this area must be redrafted in particular to take account of enlargement. If this system of incentives for exploration on Community territory were to succeed, the Commission could subsequently request the Council to continue this type of contribution.

### (iii) Exploitation

Opening up a mine, expanding it, modernizing it, or closing it is clearly a regional structural operation which could, if necessary, be financed by the Structural Funds and supported by the ECSC funds and by the EIB according to their responsibilities and priorities.

In fact, existing and future structural fund appropriations appear sufficient to assure the required level of finance if those national authorities of the Member States which seek a Community mining policy ask that a relatively modest portion of these funds be used for this sector.

Should Member States include in their regional plans the development or reconversion of actions concerning the development of the mining industry, the Commission will study these requests carefully. If these actions contribute to the development of the regions concerned, the Commission is ready to take account of the establishment of a Community support framework.

In any case, the Commission sees no necessity to create special mining funds, simply to compensate for the SYSMIN of Lomé, while the possibility exists of using the structural funds to finance mining activity in the Community.

## 2.2 A more favourable economic and social framework

The Community mining industry appears particularly susceptible to criticism concerning its complex administrative procedures, the lack of legal security and tax incentives comparable to these existing in a number of third countries, and social costs which do not reflect modern criteria.

Most of the problems relate to national, or regional, regulations and legislation. Nonetheless, the prospect of achieving the Internal Market in 1992 makes it clear that Member States must accept the necessity of improving the environment for companies, including upstream activities such as the mining sector.

In this context the Commission proposes that, with the help of a group composed of experts from the Member States, all the elements of the environment affecting the mining industry, and which are likely to constitute a handicap, be examined in a systematic and detailed manner. The result of such an exercise should take the form of recommendations concerned with improving the environment of the mining sector in the Community as a result of joint action by the different national authorities.

### 2.3 A better appreciation of training needs

The Commission suggests that a company specialized in the management of human resources be given the task of drawing up an all-embracing balance sheet of the requirements and resources in the field of geology and mines, and to suggest measures for the rationalization of education in the mining sector after consultation with the main institutions involved.

### 2.4 A correct, but aggressive, trade policy

The Commission considers, as far as external matters and the Uruguay Round are concerned, that the Community, in so far as the mining sector is involved, should emphasize the question of own resources. This should be done with due respect to the GATT rules concerned with subventions and dumping. As far as the day-to-day conduct of trade policy is concerned, the efficacy of anti-dumping procedures should be further improved.

Moreover, the renewal of the forthcoming Convention with ACP states will provide the chance to improve the treatment of the mining sector in the areas of industrial co-operation, investments and SYSMIN and can do so within the framework of the mutual interests of the contracting parties.

All things considered, the Commission proposes that the Council recognise that the objective of achieving competitiveness in Community mining companies is important from two aspects.

On the one hand, the competitiveness of the whole of a sector, in which the technological ramifications should not be underestimated, and which includes the important sub-sector of mining equipment and services, can be ensured.

And on the other hand, a permanent Community interest at international level in mining affairs can be maintained, the strategic importance of which must not be underestimated. To this end, the Community mining sector must pursue its policy of change.

Accordingly, the mining sector merits the attention of the public authorities and financial institutions with a view to benefiting from an economic and social environment which would enable it to improve its long-term competitiveness, in particular as a result of research, innovation and modernisation.