

# MEETING EUROPE'S RESOURCE CHALLENGE WITHIN AND BEYOND EU BORDERS



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## SUMMARY

The European Union (EU) faces a serious resource challenge. It is dependent on external sources of energy and other raw materials, and this makes it vulnerable to resource availability and price fluctuations. If not managed, this could have serious implications for Europe and its competitiveness, for public and private sectors, for citizens and for overall European well-being.

The EU takes environmental challenges seriously, at least on paper, and has developed a number of internal policies and initiatives to tackle problems related to loss of biodiversity, inefficient use of resources and poor waste management. It is widely recognised that the EU should work together to tackle the energy challenge. At the same time, the EU has a two-fold approach to the external dimensions of resource challenges. Firstly, the EU has made sustainable development a fully-fledged component of its own narrative worldwide. Secondly, as do all actors, it has an interest in protecting its self-interests amidst increasing global competition over resources. However, in order to tackle the resource challenge effectively, the EU must both turn words into action within Europe and clarify its external strategy and the means to implement it.

This Policy Paper is part of a series entitled "[EU resource management: what European external action strategy?](#)" which also includes contributions by Sami Andoura (*Notre Europe – Jacques Delors Institute*) and Clémentine d'Oultremont (Egmont), Gonzalo Escibano (Real Instituto Elcano), Nadège Chambon (*Notre Europe – Jacques Delors Institute*) and Stephen Tindale (CER).

It is a contribution to the project "[Think Global – Act European \(TGAE\). Thinking strategically about the EU's external action](#)" directed by *Notre Europe – Jacques Delors Institute* and involving 16 European think tanks:

Carnegie Europe, CCEIA, CER, CEPS, demosEUROPA, ECFR, EGMONT, EPC, Real Instituto Elcano, Eliamep, Europeum, FRIDE, IAI, Notre Europe – Jacques Delors Institute, SIEPS, SWP.

Four other series of Policy Papers deal with key challenges on defence, EU neighbourhood, migrations and economic policy. The final report presenting the key recommendations of the think tanks will be published in March 2013, under the direction of Elvire Fabry (*Notre Europe – Jacques Delors Institute, Paris*).

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## 1. Why does Europe have to take resource challenges seriously?

World population growth, and more specifically an increasing middle class, is putting enormous pressure on global resources such as energy, water, land, food and minerals. As a consequence, the environment is also under enormous pressure. Demand for food is growing. The world is losing its biodiversity. Waste keeps accumulating, not enough materials are recycled and, as a result, valuable materials are lost. In addition, as man-made greenhouse gas emissions levels continue to rise, climate change and associated extreme weather events will continue to increase, which will have further impacts on the availability of fertile land and fresh water and, consequently, on food and energy production. These changes are also coupled with environmental changes like increased soil erosion, deforestation and extraction of groundwater reserves.

Overexploitation of resources and environmental destruction can lead to resource scarcity, which can have far-reaching and unforeseeable economic, social, political and security implications and lead to unparalleled governance problems. It is important to remember that resources such as energy, food, water, minerals and ecosystems are closely interrelated, and changes in the supply and use of one resource can have serious implications on others. The effects of overexploitation of resources will seldom be limited to one region: spill-over effects will also be felt in geographically distant markets and communities. As global competition for resources increases, prices rise and resource supplies become less secure. Price volatility will fuel even more uncertainty across the world.

Resource-dependent Europe is greatly affected by the global resource challenge and its implications. Raw materials, including energy imports, account for approximately 30% of EU imports, which in 2010 were worth €528 billion.<sup>1</sup> It is dependent on energy imports such as oil, gas and hard coal from few suppliers outside Europe – namely Russia. It relies on outside sources for raw materials for chemical, construction and other industrial sectors. For example, it needs rare earths from China for its high-tech and environmental industry. As a result, Europe's vulnerability to both price fluctuations and possible disruptions in the supply chain can also impact industrial competitiveness and the profitability of its businesses.

### “ INTERSTATE DISPUTES OVER RESOURCES AND INCREASING IMPACT OF CLIMATE CHANGE ARE TURNING INTO DRIVERS FOR REGIONAL TURMOIL ”

At the same time, Europe cannot escape the political, security and humanitarian implications of resource-driven crises outside its borders. Interstate disputes over resources in the Middle East region and the increasing impact of climate change on land, food and water availability in Central and Eastern Africa are rapidly turning into drivers for regional turmoil. Moreover, tensions and mistrust between Russia and its Central and Eastern European neighbours over energy flows continue to threaten security of supply in several EU countries. The melting of permafrost in the Arctic region, while representing in itself a major global concern, is also starting to strain relations between countries over access to either existing or presumed energy and mineral reserves. These developments can create geopolitical instability, a rise in migratory flows and even regional conflicts.<sup>2</sup>

Meeting the global resource challenge and tackling the negative economic and social consequences, such as low growth and energy poverty requires a two-fold strategy.

Firstly, change must start at home. It is essential for Europe to promote production and consumption paths based on maximising resource efficiency and environmental sustainability.<sup>3</sup> Europe needs to promote eco-efficiency, which includes resource efficiency (using and reusing resources more efficiently throughout our economy) as

1. European Commission, DG Trade, “A common international trade policy for the EU”

2. See for example European Union Institute for Security Studies (EU ISS), “Global Trends 2030 - Citizens in an Interconnected and Polycentric World”, March 2012, pp. 16-17.

3. For more in-depth analysis about the related benefits and needed actions, see Annika Ahtonen and Serban Chiorean-Sime, “Green Revolution: Making Eco-efficiency a Driver for Growth”, EPC Issue Paper No.68, 26.01.2012.

well as eco-innovation (developing and using products, processes and other solutions that contribute to environmental protection or efficient use of resources).

Secondly, as the scale of the resource challenge can easily lead to intensified competition over resources and potentially even conflicts, while aiming to protect EU interests, it is important to promote cooperation and networking across the world. The EU must aim to address the ongoing economic (including competition and trade), politico-diplomatic and security challenges. In the process, closer attention must be paid to improving the quality of global resource governance and strengthening those populations, ecosystems and economies that are most vulnerable to resource scarcity and the adverse impacts of climate change.

## 2. The EU's internal strategy awaits implementation and an external strategy is still under development

Europe has a strong incentive to co-operate in sustainable resource management, both internally and externally. A basic framework for this exists. The Treaty of Lisbon states that the Union shall work for a sustainable development of Europe and also help to “develop international measures to preserve and improve the quality of the environment and the sustainable management of global natural resources, in order to ensure sustainable development”<sup>4</sup>.

In reality, however, the emphasis has been put on promoting a more sustainable economy *within* Europe. Resource efficiency became a flagship initiative under the ‘Europe 2020’ strategy, and the European Commission has published a number of other proposals that support these efforts and build on Member States’ existing commitments, including “Energy 2020: A strategy for competitive, sustainable and secure energy”, a “A Roadmap for moving to a competitive low-carbon economy in 2050”, a “White Paper Roadmap to a Single European Transport Area”, and the “EU biodiversity strategy to 2020”.

While there is a framework for action in Europe, its implementation has been slow due to Member States’ slow buy-in and lack of interest to co-operate. After decades of debate, the EU still does not have a functioning energy market. There is no proper market for secondary raw materials, and the prices of resources do not reflect the true cost of using them. Greater emphasis on recycling could help Europe to secure a sustainable supply of energy and other raw materials, and reduce the impact of volatile prices on its economy, but Member States and public and private actors must be convinced of these benefits. At the same time, the EU must build a bigger market for products and services that contribute to a greener economy.

However, this internal strategy will be useless if it does not tackle the external dimensions of the resource challenge. The EU’s flagship initiative recognises resource efficiency also as a global concern and highlights the importance of cooperation with key partners, including candidate countries and neighbours, in areas such as trade, research and development. It is acknowledged that cooperation could help create a level playing field for industry, encourage sustainable supply of raw materials, and promote sustainable development and poverty reduction in developing countries.<sup>5</sup> Strategies, such as “Tackling the challenges in commodity markets and on raw materials”, which sets out measures that are needed to secure and improve EU access to raw materials, are an important part of this process.

The EU’s external action on meeting the resource challenge builds on two objectives, which are interlinked and should be pursued together: promoting sustainable development and securing EU access to key resources.

4. European Union, “Treaty of Lisbon”, Chapter 1, Art. 10A (2f).

5. European Commission, *A Resource-Efficient Europe – Flagship Initiative under the Europe 2020 Strategy*, COM (2011) 21 final, 26.01.2011, pp. 8-9.

Firstly, sustainable development has become a significant component of the European narrative, promoted via international cooperation. As a result, the EU has tried to pursue a leading role, in international climate change conferences as well as at the “Rio+20” negotiations. However, as long as Member States do not co-operate in meeting the resource challenge internally and the EU fails to demonstrate to the outside world the benefits of following a sustainable growth path, its attempts to parade as a world leader will be without effect.

This role is further undermined by the contradiction between EU priorities and actions, reflected, for example, in the dumping of both legal and illegal waste, including valuable materials, from Europe to developing countries. Until developing countries have the skills and technologies in place to turn waste into energy or to recycle the materials efficiently and safely, these exports and dumped waste will contribute to increasing global emissions and worsen environmental and health impacts outside the EU.

At the same time, possibly more by necessity than on purpose, EU development policy has embedded sustainable development in a number of projects. Support has been given to improve sanitation, fight hunger and encourage sustainable agriculture in a number of areas, notably Sub-Saharan Africa. However, the fulfilment of the EU’s sustainable development goals, including resource management and efficiency, has been difficult, and not only because the recipients have tight control over where the money is spent. Development aid is also affected by budget constraints (due to the economic crisis) and misuse of the EU’s operational and financial tools in the recipient countries, due to lack of transparency, poor involvement of civil society and corruption among local authorities. Internal rivalries and policy compartmentalisation in the EU institutions, especially between the Commission and the European External Action Service (EEAS) are adding another barrier to efficient use of funding.

**“THE EU MUST CREATE A FUNCTIONING EXTERNAL MARKET, WHERE GREENER GOODS AND SERVICES CAN GET FREE AND FAIR ACCESS TO GLOBAL MARKETS”**

Secondly, protecting and securing the EU’s own interests with regard to resources – and products and services that can support a more eco-efficient economy – has become increasingly important as a consequence of the economic crisis, which has had a devastating impact on Europe’s growth and global competitiveness. A good example is trade policy. Although the scope of this paper does not allow a thorough analysis of green trade, trading of products and services with lower environmental impact is an area with enormous market potential. Many European businesses operate on global markets and, to get the best products to scale, they need a level international playing field

for their operations and investments. International agreements can help create more equal conditions for competition and spur international markets for green technologies, products and knowledge. While the work has started, the EU must continue to use available instruments, including trade policy, to create a functioning external market, where greener goods and services can get free and fair access to global markets. This would promote sustainable development across the world and benefit European industries too. At the same time, the EU must work to open up its markets and ensure that it does not limit access of foreign producers on a discriminatory basis.

The EU uses mainly legalistic means to secure its interests amidst increasing competition over resources. As reflected in a number of ongoing disputes, for example with China over rare earths, with Canada over tar sands, and with Russia’s leading energy company Gazprom over supposed breaches of the EU’s anti-monopolistic energy regulations, the EU is fully committed to a rules-based multilateral system. However, when considering development of EU external strategy on resources, it could be questioned whether a purely legalistic attitude is always enough to pursue Europe’s interests and values in the world, especially when dealing with rather assertive, non-Western emerging powers. As demonstrated by the persisting stalemate in WTO trade negotiations, which include a chapter on agricultural products and services, the EU’s dominantly technical approach has been largely ineffective in tackling underlying political concerns in both developing and emerging countries. Coupling the legalistic approach with stronger politico-diplomatic sensitivity and flexibility is needed when multilateralism fails. Also, experiences with both Russia and countries in the Caspian region have demonstrated that policies should not be pursued in isolation. For example, EU foreign policy on energy should not neglect long-term interests, such as the development of an integrated and secure energy market within the EU and globally; or

undermine core values, such as the promotion of human rights, democracy, sustainable growth and the rule of law, if it wishes to maintain legitimacy at home and credibility worldwide.<sup>6</sup>

A number of encouraging signals can nonetheless be spotted in EU foreign and security policy. The European Security Strategy (ESS) identifies competition for natural resources, aggravated by the effects of climate change, as a key global challenge over the next decades.<sup>7</sup> Though less clear and concrete in its policy recommendations, by recognising competition over resources as a largely political and thus governance-related problem, the ESS creates the basis for tackling it through more active and coherent foreign and security policy. Such an approach is evident in the EEAS' and the Commission's combined efforts to strengthen the EU's voice on climate change issues with diplomacy and networking.<sup>8</sup>

The work has only started: the EU's internal strategy for eco-efficiency has yet to be implemented and Europe is still lacking an effective and coherent external strategy which would ensure that all relevant EU policies support sustainable resource management worldwide and that resource-related concerns are considered in the daily conduct of EU foreign policy. Improving global governance, creating markets for resource efficiency and ensuring that the most vulnerable will not be forgotten in the process requires an active and coherent foreign policy which combines the promotion of sustainable development and protection of Europe's vital interests.

## 3. Recommendations for action

### 3.1. Change starts at home<sup>9</sup>

- Public and private investment in greener products and services must be increased. For example, the post-2014 EU budget, which includes the common agricultural policy, research and innovation, transport, energy and regional funding, should reflect the political priority given to green and smart growth under the Europe 2020 Strategy.
- The EU must ensure implementation of existing policies on eco-efficiency. For example, should Member States fail to implement the Energy Efficiency Directive by May/June 2014, the European Commission should set mandatory targets for energy efficiency.
- Leading by example would provide a model for others. The EU must convince others with its own success story that sustainability and growth can go hand-in-hand. This could also help create the international market and legal infrastructure which are needed for promoting eco-efficiency across the world.

### 3.2. Towards comprehensive and coherent external action

- Creation of an inter-service "*Task Force on the Resource Challenge*", with representatives of the Council Secretariat, the EEAS, the European Commission and the European Parliament, under the leadership of the High Representative for Foreign Affairs and Security Policy of the European Commission. Its main task should be to draft a Joint Position Paper that would take a holistic approach to the global and European resource challenge and consider what instruments and financial resources are needed to tackle it. The 2011 Joint Reflection Paper on EU climate change diplomacy could provide a useful basis. The results of the Task

6. Rosa Balfour, with Alyson Bailes and Megan Kenna, "*The European External Action Service at work - How to improve EU foreign policy*", *EPC Issue Paper no. 67*, 25.01.2012, pp. 34-42.

7. European Union, "*A Secure Europe in a better world - European Security Strategy*", December 2003

8. European External Action Service and European Commission, "*Joint reflection paper: Towards a renewed and strengthened EU climate diplomacy*", 09.07.2011.

9. For more information, see Annika Ahtonen and Serban Chiorean-Sime, *op. cit.*

Force could feed into a strategy and guidelines on natural resources, and then be further developed in sub-strategies on specific resources.

- EU policies must also contribute to creating a functioning external market, where greener goods and services can get free access to global markets on fair terms and where the EU enjoys a stable supply of essential resources and raw materials. They must help tackle poor transparency and fragmentation in global supply chains, resource nationalism, weak progress in multilateral trade liberalisation and lack of incentives to increase resource efficiency, which have affected the proper functioning of global commodity chains. As concrete steps, the EU should support Asia Pacific Economic Cooperation (APEC) in its current efforts to boost trade in environmentally friendly goods, co-operate on promoting the use of renewable energies in the MENA region and help resume WTO negotiations in all resource related areas.

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