



CONSULTATION ON THE FUTURE “EU 2020” STRATEGY

With a total turnover of Euro 566 bn, a trade surplus of Euro 39 bn (2008) and a total of 1.2 million employees, the European chemical industry is today a world leader, representing about 30% of world chemicals production. The sector is committed to continue investing, creating wealth and providing employment in Europe, even in economically difficult times. Cefic wishes to constructively dialogue with the European institutions about the further refinement of the EU 2020 strategy and implementing actions thereof.

Cefic position

The transition to a more sustainable, rather than only green economy, is generally essential to ease the pressure on natural resources and the environment resulting from an expanding world population with legitimate claims on a better standard of living. Europe can play a leading role in this respect, but cannot act in splendid isolation, disregarding the new economic realities where nothing can be taken for granted. Europe should not aim at turning its economy into a services economy but instead needs to strengthen its broad, healthy and profitable industrial base covering the entire value chain from base industries to sophisticated end products. Only then will Europe be able to generate the wealth and employment needed to maintain our societal model. Indeed, Europe should not reinvent the economy but should continue to build on its existing successful foundations characterized by strong, interlinked industrial clusters. **For Cefic the number one priority is therefore the strengthening and development of a competitive, connected and more sustainable economy. The other priorities – a more knowledge-based economy and empowering people in inclusive societies – are only possible if the first priority is achieved.**

Cefic endorses the sustainable prosperity objectives of the EU 2020 strategy that will offer opportunities for EU institutions and EU governments to act consistently and appropriately in the global context. Unilateral, isolated policies that create EU-specific additional costs whilst ignoring the global competition exposure, manufacturing and overall trade fabric will inevitably weaken the EU industry and generate a negative investment climate in Europe. Interventionist policies risk distorting competition, endanger profitability and employment of entire value chains, may divert resources to products or technologies without long-term viability. Improved early involvement of the industrial stakeholders and improved impact assessment including benchmarking will mean a move away from business-as-usual for policy makers and all stakeholders and help secure better and more consistent regulation that is also flexible enough to adapt to, and promote successful policy solutions in, a changing world. As regards the chemical industry, there is a roadmap and strategic plan available in the form of the High Level Group report. The new Commission should ensure that the recommendations of the HLG are incorporated in the EU 2020 Strategy and implemented without further delay in close cooperation with the sector as the best way to support the transition process the industry will undergo in the coming decade.

Global context requires changing EU policy making

The new European Commission commences its mandate at a time when Europe is facing tremendous challenges. The economic and financial crisis has hit the EU and its industry in an unprecedented and unforeseen manner and whilst the trough seems to have passed, the road to recovery will be slow and difficult. External demand will remain subdued for some time to come, with other key economic regions simultaneously experiencing economic problems as well. Europe therefore has to build on its own strengths to ensure economic recovery. The Lisbon strategy did not fully deliver on its objectives nor did the COP 15 provide the desired global agreement on climate policy, yet there is not need for isolationist behaviours of Euro-pessimism either. Europe has been successful over the past three decades, improving the functioning of the internal market, introducing the euro and absorbing the enlargement to the East. It would be hard to imagine the disastrous effects the financial and economic turmoil would have had in the absence of the euro.

In the coming decade Europe will however more than ever need strong economic growth to master the various economic, societal and environmental challenges that it is facing. These include accepting tough learnings from the economic crisis, increased pressures on health care and pension systems as a consequence of an ageing population in combination with high public deficits and debts, loss of industrial value chains, climate change and last but not least access to energy and (renewable) raw materials.

More generally European society will need to come to grips with a new world order in the coming decade. A recent report produced by DG Research of the Commission entitled “The World in 2025 – Rising Asia and Socio-ecological transition” highlights some mega trends shaping the global economy. In fact, several of these trends will probably be intensified and accelerated by the ongoing economic crisis. These trends not only pose challenges but also offer great opportunities.

Continuing globalisation means that the place and role of the European industry, including its chemical industry, in the world of 2020 or 2025 will be radically different from the one of today. Given that other areas in the world are growing more strongly, Europe’s share of global chemicals production and of industrial manufacturing more generally will logically continue to decline. There will inevitably be a redistribution of industrial activities over the globe, which is not necessarily a zero-sum game. Ongoing structural change will accelerate and intensify.

Europe remains however an attractive market, with highly skilled labour and innovative capacity. Policy-makers should accompany the structural change process with the right framework conditions rather than try to steer it in a *dirigiste* manner. The private sector will anticipate early and adapt to the changed global realities and provide opportunities for employment and innovation in a favourable business environment. Benchmarking done by independent third parties (= a routine business tool enabling ones’ position in a bigger population of competitors) should become a standard tool for policymakers when assessing domestic policy measures and options.



A sustainable and globally competitive European economy needs to be built on traditional sectors

“Green” is not the same as “Sustainable”. “Sustainable” requires a holistic assessment of ecology, economics and the social, whereas “Green” usually only refers to an assessment of ecology.

It is clear that society will need to use energy and raw materials in a much more sustainable manner, as the present pattern of exploitation and consumption can hardly be maintained in a world of 8 billion people expected by 2025. Production processes, feedstock use, and consumption patterns will need radical change to ensure sustainable development. Cefic thus agrees with the need to gradually move towards more sustainability i.e. more environmentally friendly, socially responsible and more profitable products and processes. This requires development of new processes with an overall lower impact on our environment. In that respect we fully concur with the strategic objectives in the EU 2020 strategy paper.

These developments require the knowledge and competences present in the current European chemical industry and its networks. The industry is at the forefront of that development: it has already reduced its own energy consumption per unit of production considerably. Chemistry and the chemical industry must be allowed to play their role. New approaches will also need to be (co-)financed from current and near future business revenues. The use of ‘market-based mechanisms’ such as the EU ETS or the envisaged CO₂ taxation must not create additional unilateral financial burdens for EU industry thereby removing resources that are essential for investing in a environmentally more sustainable economy. Instead, carbon pricing systems require internationally coordinated, careful phasing-in. Generating EU-specific costs will discourage existing industries and trigger politically induced restructuring, relocation of employment and manufacturing – in other words, the detrimental effects of “carbon leakage” - when EU industry should be the basis for the EU2020 success.

We thus are concerned about aspects of the proposed approach. According to the EU 2020 strategy paper, the shift of the economy has to be achieved by means of targeted regulation, emissions trading, tax reform, grants, subsidies and loans, through public investment and procurement policies. Obviously this approach contains strong bias against the concept of market economy as the guiding principle for European policies. Whilst some steering of the economy is needed, too great reliance on these instruments may lead to support for a planned economy with consequences of market distortions and non-viable products or technologies. The support policies for bio-fuels, with distorting effects on feedstock markets, are a case in point. When creating proper incentives to bring forward genuinely nascent technologies, care should be taken not to damage existing industry. Securing access to competitively priced energy and raw materials is absolutely essential.

Cefic disagrees with the artificial distinction that is made in the Commission paper between “green” and traditional sectors. It is not possible to make such a clear-cut distinction between industry sectors, as existing industries are an integrated part of the value chain that enables the success of green products and technologies. For example, in 2009 the International Council of Chemical Associations (ICCA) published the findings of a carbon



life cycle analysis of the chemical industry. For every tonne of greenhouse gases emitted directly and indirectly by the chemical industry in its production processes, it enables more than two tonnes of emission savings via the products and technologies provided to other industries and consumers: building and insulation materials, agrochemicals, lighting, plastic packaging, marine antifouling coatings, synthetic textiles, automotive plastics, low-temperature detergents, engine efficiency and plastics used in piping. Future improvements in energy efficiency in the home, transport and industry generally, as well as key energy technologies such as photovoltaics, fuel cells and large scale efficient energy storage systems, are likely to depend heavily on products from the chemical industry.

Cefic also would like to recall that traditional sectors such as the chemical industry have a significant contribution to social cohesion through high wages and job security. The industry relies on an effective social partnership, on the European level as well as on the national and company level, which will be crucial for managing the changes concerning workforce, skills and labour market.

Need for an integrated and more forceful industrial policy

The EU manufacturing industry provides around 20% of EU GDP, and the chemical industry's share in that is roughly 10%. The chemical industry is at the start of most value chains, supplying its products to all sectors of the economy. The wellbeing of the chemicals sector and that of the European industry in general are therefore closely interdependent. The chemical industry is particularly export-driven. In 2008, the European chemical industry exported Euro 129 bn worth of chemicals, generating a trade surplus of Euro 39 bn. Another key feature of the industry is that 96% of chemical companies are SMEs, employing about 400,000 people

Stable and predictable framework conditions are the best way to support business and to pave the way for a competitive and sustainable European industry. Sustainability requires a holistic industrial policy. In the past five years, the various pillars of Community policy initiatives tended to stand on their own and efforts in the area of research and innovation were not sufficiently coordinated between the EU level and Member States. At the early stage of designing a new Community initiative, it is essential to mobilise all relevant Commission Directorates-General for the various policy dimensions to integrate. Balanced policy integration must be achieved at the latest when a proposed initiative comes up for final discussion in the College of Commissioners. . Contrary to business-as-usual, the early involvement of key economic sectors such as the EU chemical industry should become obligatory practice and agreed policies should be implemented in full.

Cefic welcomes the conclusion from the December 2009 Competitiveness Council that the use of impact assessments by EU institutions must be improved and extended and that the presentation and quality of assessments must be enhanced so as to allow for better evidence-based decision-making and higher-quality legislation. Proposed legislation should be analysed with regard to previous and related legislations in order to build a consistent and proportionate legal framework. This includes an early and reliable consultation of stakeholders throughout the legislative and regulatory process (including comitology decisions) and the need to assure both implementation and enforcement of legislation. The legislator should pay particular attention to the cumulative impacts on the



external competitiveness of the European industry and to the burden on SMEs. Use of instruments such as benchmarking should become standard practice.

In times of severe economic crisis, Europe's industrial policy should assist the adaptation of industry to structural change. It needs to be supportive rather than imposing new burdens. The situation of chemical SMEs calls for particular attention. These companies continue to experience problems with access to finance. ETS and energy taxation, IED, and increased pressure from globalisation are key challenges for the chemical industry. In order to facilitate modernisation/upgrading of plants, the EU could provide funding via structural funds or via the EIB to chemical SMEs, which would generate a win-win-win situation: stimulus for engineering companies carrying out the work, improved competitiveness of SMEs and improved environmental performance.

Innovation holds the key

As rightfully put in the Commission Working Document, given the challenges that Europe is presently facing, a new approach / strategy is needed where what makes the difference is innovation – innovation as a system tool: innovative ways in education, in bringing research into markets, in business and consumer behaviours. Innovation however does not mean discarding everything else in the current system but finding ways to improve efficiency, to build on existing successes and strengths, to remove unnecessary burdens.

If Europe is to be competitive in this fast-changing world, the EU needs both to maintain a strong manufacturing base and to invest into vibrant new sectors / technologies. A perfect example where these two strands support each other is the chemical industry that is the essential basis for the development of all new, green high technologies as recognised by the preparatory work for the new EC strategy on Key Enabling technologies (i.e. nanotechnology, micro- and nano-electronics, photonics, advanced materials and biotechnology).

The time of purely sectoral or national approaches has therefore passed for Europe – working with and within the value chain and building on the diverse national strengths, in terms of developing innovative technologies and processes, need to become the master process of addressing both short-term problems and long-term strategic goals / challenges.

The chemical industry has already started taking on its responsibilities in defining its skills needs as an input for the national education programmes, in facilitating access to research funding for companies, in developing demonstration projects and in building on the activities of our Sustainable Chemistry Technology Platform (SusChem) to push innovation forward.

Helpful interventions by the public authorities at the EU and national level could include the integration of the various innovation policies, better collaboration between institutions and coordination of their activities, improved public commitment and sharing of risks, harmonisation of funding approaches, providing incentives for and ensuring value chain collaboration or facilitation, support for the cooperation of various Technology Platforms on



addressing identified challenges by providing incentives for innovation plans development, etc.

Political will is needed in the EU to successfully bring new technologies and innovative products to the market and to fully exploit the potential of EU's expenditures in R&D. In this respect, it is the duty of policy makers to initiate measures with the goal to gain acceptance for new technologies and reap its full benefits, thereby taking possible risks into account.

A positive attitude towards entrepreneurship in general needs to be developed and conveyed starting from school.

Ensure access to global markets and to raw materials at competitive prices

For the European industry to be able to benefit from strong growth in other economic regions and from its leading role in eco-technology and sustainability, the EU's external policies must be directed at the opening of markets through dismantling tariff and non-tariff trade barriers. Cefic welcomes the reference to international trade as one of the motors of growth, employment and investment in the EU.

Although the economic crisis has not, as yet, led to strong protectionist trends in third countries, rising unemployment is likely to generate calls for such measures, such as Buy Local, state aids, etc. In this connection there is a risk that green European initiatives for greening economy will be perceived as veiled protectionist actions by third countries. Trade measures to offset competitive disadvantages created by unilateral EU policies should be avoided as they risk leading to retaliatory measures in third countries.

The new Commission should deliver on the objectives set out in the Global Europe communication. It needs to ensure that the final Doha deal provides real market access for European exports in both OECD and emerging countries and should strongly advocate a chemical sectoral agreement. The chemical industry of emerging countries is quickly catching up with Europe technologically while also possessing advantages in terms of energy and labour costs.

In parallel, the new Commission should deliver on bilateral and regional Free Trade Agreements with countries in Asia and Latin America. Such agreements can complement a WTO deal and provide for issues not or insufficiently addressed in the Round, e.g. as regards investment rules, intellectual property protection, export duties and customs procedures. Such agreements should cover all industrial products without exception and within the shortest possible tariff liberalisation periods.

The new Commission should see to it that the 2008 Communication of the European Commission on the Raw Materials Initiative, which provides a holistic strategy for addressing the raw materials issue, is implemented in full. All dimensions of the issue, both internal and external, need to be addressed.

The chemicals industry transforms raw materials into a multitude of new substances and preparations which are essential for use in a very broad range of applications in



virtually all sectors of the economy. The chemicals industry is largely based on oil and gas, but also uses renewable materials such as starch, vegetable oils or ethanol. Availability and cost of these raw materials are for large parts of the industry, together with energy prices, a decisive cost element strongly influencing international competitiveness. Europe has limited resources of the necessary fossil and renewable feedstocks. Accordingly, it is of highest priority to establish in due course functioning energy markets within and around the EU securing:

- reliable access to oil and natural gas (methane) at competitive prices and improved performance of the gas market in the EU by effective liberalisation,
- stable long term electricity supply, including through long term contracts with power generators or increased on site generation in combined heat and power facilities to cover the inherent heat demand for many processes.

To promote the use of renewable feedstock in the chemical industry, the European Union has to remove distortions caused by the Common Agricultural Policy or biofuels policies which deprive the industry of access to raw materials at world market prices, e.g. for bio-ethanol and sugar. These adjustments are necessary to give industrial users access to raw materials at competitive world-market prices rather than the much inflated prices on the protected EU market.

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