

Cefic Views on the EU Commission Industrial Policy Communication Update - A Stronger European Industry for Growth and Economic Recovery (October 10th 2012)

BACKGROUND AND GENERAL REMARKS

The European Commission has released an update¹ of the “Integrated Industrial Policy for the Globalisation Era”, adopted in 2010 as part of the Europe 2020 Strategy.

This new, reinforced Industrial Policy is based on four pillars: **Investment in Innovation, Access to Markets, Access to Capital and Investment in human capital and skills.**

As in other EU2020 communications, the Commission has set a major target to measure its success: it seeks to reverse the declining role of industry in Europe and raise the current level of its 16% contribution to European GDP to **20% by 2020.**

A positive starting point is that the Commission recognises the pivotal role of industry and the European **chemical industry** as a “**strategic sector**” and “**world leader**”, together with pharmaceuticals, automotive, aeronautics, engineering and space.

The Commission proposes a partnership between the EU, its Member States and **industry** to “dramatically step up investment into new technologies” and give Europe a “competitive lead in the new industrial revolution”.

1. THE STRATEGIC ROLE OF THE CHEMICAL INDUSTRY

Cefic welcomes the invitation to this European partnership, and appreciates the strong backing for industry that this communication represents. The chemical industry has, indeed, a key role to play in the economic recovery by maintaining a very strong direct and indirect job base, and by being an enabler of a sustainable European industry and economy. The necessary conditions to enable the chemical industry to play that role are clearly laid out in the Cefic paper “The

¹ COM(2012) 582 final, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2012:0582:FIN:EN:PDF>



Chemical Industry's Priorities in Industrial Policy"², as well as in the "Report of the High Level Group on the Competitiveness of the Chemical Industry".³

The European chemical industry is a leading player in the global economy. And, thanks to its constant process and product innovation and global trade liberalisation, it has achieved a unique position as a global exporter. We are a highly integrated industry in closely-knit value chains, as evidenced by the close proximity between base chemical suppliers (mainly the petrochemical, the chlorine and basic inorganics industries) and the rest of the value chain (intermediates and ultimately finished plastics and materials like detergents, construction materials, coatings, pharmaceutical ingredients etc.). This close integration and the existence of strong clusters provide us with a key competitive advantage in the world.

2. KEY COMPETITIVENESS CHALLENGES REMAIN

Despite the EU Commission's efforts to improve the competitiveness of Industry with this Communication, we see it fails to address sufficiently a number of outstanding challenges that are of high importance for our industry and its value chain.

As stated in Cefic's document "The European Chemical Industry's Priorities in Industrial Policy", we need more consistency in EU policy and in the implementation of the new targets. On the one hand, we have a new target to increase the share of industry in Europe up to 20% of EU GDP, whilst on the other hand new legislation in areas like e.g. energy, climate and resource efficiency have massive impact on the competitiveness and on the whole business environment of European industry. A stronger competitiveness-proofing and fitness check process could make the impacts of EU legislation on EU industry more transparent.

Europe has attempted to claim global leadership in climate change, environmental and renewable energy policies. That has a price: European leadership in the low carbon economy and renewable energy entails electricity, gas and carbon costs that are making it increasingly uncompetitive as a manufacturing region for chemicals and other energy-intensive industries. The growing differences concerning the energy prices in Europe and in other industrialized countries are clearly stated in the Commission's Communication, however consequences from this diagnosis are lacking.

In addition, there are new global developments that will greatly affect our competitiveness. A renewed challenge comes from North America, which with its shale gas and now shale oil

² [http://www.cefic.org/Documents/PolicyCentre/Industrial Policy](http://www.cefic.org/Documents/PolicyCentre/Industrial%20Policy)

³ <http://www.cefic.org/Documents/PolicyCentre/2009-07-HLG-Chemical-Final-report>

development, has drastically improved its competitive position as a chemicals and manufacturing powerhouse.

The emergence of state-owned players is another key element. One example is the Middle East which, with its preferential access to feedstocks, has over the past years created a modern and globally competitive petrochemical industry. Another factor is that China, even though its growth has slowed down somewhat, continues to grow through exports and internal demand. It is therefore highly important for EU institutions to develop a framework for a level playing field at the multilateral, bilateral level.

The increased innovative capability of emerging regions can be seen through the number of patents and technical papers. In order to stay in the game, Europe needs to increase its public and private investments in innovation. Cefic calls for strong attention to this in the European budgeting process, and welcomes the EU Council Conclusions stressing the inclusion of traditional industrial sectors alongside SMEs in the Horizon 2020 and COSME programmes.

The Commission is relying heavily on innovation and a “Third Industrial Revolution”, and on a “Resource Efficient Europe”. These will not happen without the enabling role of the chemical industry. There has to be a globally competitive existing economy as a foundation for any transformation. If this economy does not invest and re-invest in Europe, the transformation will not come with products made in Europe.

3. CEFIC COMMENTS ON THE FOUR PILLARS ADDRESSED BY THE COMMUNICATION

3.1 PILLAR 1 - INVESTMENT IN INNOVATION – PRIORITY ACTION LINES

Cefic endorses the six priority action lines proposed by the Commission (Advanced Manufacturing, KETS, Bio-based products, Sustainable construction and raw materials and Smart Grids), and emphasizes that the chemical industry as a key enabler has an important role to play for their successful development and growth.

- **Advanced manufacturing:** The PPP (Public Private Partnership) proposal SPIRE (Sustainable Process Industries) could play a key role in the rejuvenation of the process industries manufacturing base and in improving the energy and resource efficiency of the chemical industry and its value chain. SPIRE brings together the chemical, steel, cement, minerals and other process industries. The SPIRE initiative is also exemplary on cross-border cooperation and co-operation along the value chain.

- **Key enabling technologies (KETs):** Societal acceptance and public support for innovation will be crucial. For example, in nanotechnology, the chemical industry is ready to deliver. However, continued political support and policy coordination between the EU and Member States Institutions is necessary, with a more balanced discussion around benefits and risks, in order to ensure innovations be effectively brought to the market
- **Bio-based product markets:** Cefic welcomes the reference to the bio-based industries PPP. The chemical industry, in turn, is participating in the development of the necessary standards for bio-based materials. Key chemical processes, along with biotech transformations, are needed for the development of second generation biofuels and innovative bio-products. However, in order to meet the expected growth and job creation targets expressed in the communication, access to bio-based raw materials at global market prices when used as chemical feedstock (e.g. sugar, bioethanol) is absolutely essential, which is not yet the case for Europe.

Overall, the proposed priorities have the potential for new business in the chemical industry as solution provider. On the other hand, the concentration on selected priorities could lead to discrimination against other industrial sectors which are also important for the value chain. Cefic therefore calls for the use of science-based criteria and proportionality in the development of market instruments like eco-design, ecolabels and public procurement.

All of these markets will undoubtedly be an important part of the economy in the long term, but hopes for their short-term economic impact remain to be validated.

To ensure short-term results, the Commission should support in the improvement of the competitiveness of all sectors as a whole.

As to the implementation of the **Priority Action Lines**, we strongly support the establishment of **specialised partnership task forces**, and suggest that the relevant chemical industry experts be invited to participate.

In reference to accompanying measures and principles, Cefic underlines the importance of:

- Member States' smart specialization on the basis of competition and economic principles
- Infrastructure development
- R+D and innovation efforts being coordinated across the EU, with an emphasis on trans-border cooperation.
- The establishment of a horizontal action plan to boost demand for innovative goods and services.

3.2 PILLAR 2: ACCESS TO MARKETS

The communication proposes a number of measures to improve the business environment for EU firms both in the internal and in international markets.

Sectoral Fitness Checks

Cefic welcomes the Commission's Better Regulations programme and specifically the new plan to carry out **Sectoral Fitness Checks**, in order to take an overview of the main policies affecting single economic sectors. We request the Commission to be very ambitious in exploiting synergies and in coordinating and synchronising community policies. According to the Communication, fitness checks will be carried out at first for the aluminum and refining sectors. We especially welcome the proposed fitness check for the refining sector, which is a key supplier to the chemical industry. We regret, however, that the chemical industry is not included in this first group, and ask the Commission to include the chemical industry in the next round of analyses.

Impact Assessments and Competitiveness-Proofing

The Commission's intention to carry out upstream analyses of technical rules (e.g. taxation rules) is strongly endorsed. Competitiveness-proofing is a strong instrument to make imbalances of political EU targets and inconsistencies of legislative measures of different GDs more transparent. We therefore highly welcome the carrying out of **impact assessments and competitiveness- proofing** at the draft stage of all EU and Member State legislation, which can hamper global competitiveness for the chemical industry, such as chemicals regulations, energy policy and tax policy. The proposed industry target could be a perfect reference point to measure the impacts of future legislation on the competitiveness of European industry.

Intellectual Property and Trade Secrets

The European chemical industry supports the Commission's proposed actions, within the internal market and third countries, not only for patents but also trade secrets. Greater protection of these valuable assets of companies, including SMEs, will help their competitiveness and empower them to continue to more confidently invest in research and innovation in Europe.

Trade secrets often represent a substantial portion of a company's value and performance and are essential to a company's growth, competitive advantage and sometimes even survival. A failure to protect trade secrets from misappropriation / theft can jeopardise the survival of a

company as it generates unfair competition by illicitly providing competitors with immediate access to certain technological advances or know-how they may not have had the capability to develop, saving them years of R&D and enabling these competitors to undercut the original company by offering the same product at a cheaper price, due to the absence of any time or costs incurred. As at the moment there is no EU legislation and wide disparities exist in the Member States' legislation, the legal protection of trade secrets needs improving at EU level.

Improving the internal market for goods

The European chemical industry is already taking strong advantage of the internal market. However, there are still national barriers to trade (for example specific National Certifications), in the construction market, and so Cefic welcomes the Commission's plan to produce a **Roadmap for reform of the Internal Market for industrial products**, and is willing to contribute to it.

Market Surveillance

The Commission's plan to adopt a **Market Surveillance package** is highly welcomed. Cefic invites the Commission and Member States to pay special attention to imported chemicals and articles, ensuring that they fully conform to REACH and EU safety, health and environmental standards.

Growth in International Markets

As a highly globalised industry, the European chemical industry relies strongly on an open and non-discriminatory environment for trade. Cefic therefore welcomes the Commission's commitment to consistently apply **competitiveness-proofing in impact assessments** at the start of all trade and investment negotiations, in order to fully understand the impact of Free Trade Agreements on industry and on the EU economy.

3.3 PILLAR 3 - ACCESS TO FINANCE AND CAPITAL MARKETS

The plan to provide public sector support to facilitate access to capital in industry is of crucial importance. Improved short-term financing for innovation and SMEs expected from **the capital increase of the EIB**, to be implemented early 2013, should provide short-term results. It is important to ensure the information on these funds reaches the interested companies in a simple and timely manner and private supply of capital is not crowded out.

In addition, the initiatives geared towards the development of a true **Single Market for Venture Capital** Funds in Europe will support the needed financing options for SMEs and midcaps in Europe.

3.4 PILLAR 4 - SKILLS AND HUMAN CAPITAL

Anticipating and developing the right skills are highly important for competitiveness and innovation in the chemical and related industries.

Cefic welcomes the initiatives laid out in the present communication, especially in the areas such as the development of a “**Quality Framework for Traineeships**”. In our industry, as in most science and technology based industries, early exposure of students to industry is needed, as well as an enhanced cooperation between industry and the academic world.

4. CONCLUSIONS OF THE COMMUNICATION, GOVERNANCE AND GOALS

To flank the major target of 20% industrial contribution to EU GDP by 2020, additional key targets are set: To improve investment levels to over 23% of GDP by 2020; to improve trade in the internal market to 25% of GDP by 2020 (currently at 20%), and achieve 25% of European SMEs being active in global markets.

Cefic agrees with the goal set forth by the Commission in order to strengthen and expand industrialisation and investment, trade and SMEs. We hope that the implementation of the 20% target will lead to a more holistic and horizontal approach to policy-making across the EU Commission in the future.

We welcome the plan to have the **Competitiveness Council** assisted by the **High Level Group on Competitiveness and Growth** to assess progress annually. Cefic is ready to support this group to ensure that industrial policy measures are market- focused and indeed strengthen European competitiveness.

In a similar manner, the chemical industry’s voice needs to be an important component of the **Task Forces on the Priority Action Lines**, who will report to the **Competitiveness Council** on a yearly basis on progress towards investment in innovative and new technologies.

Annex: Top 10 Recommendations from the “European Chemical Industry’s Priorities in Industrial Policy.”

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5. SUMMARY OF CEFIC'S TOP 10 RECOMMENDATIONS

- Europe is an actor in global competition. The European authorities should aim at strengthening the competitiveness of its industry, refrain from initiatives harming competitiveness and – wherever necessary – select the tools least harmful for competitiveness in the pursuit of its policy goals.
- An improved impact assessment process is needed, including more realistic, credible use of modelling with much closer consultation with affected sectors of industry and stakeholders when drafting policy proposals. Competitiveness-proofing to be introduced in all impact assessments on legislative proposals and policy initiatives with significant economic impact
- REACH is the reference legislation for chemicals in Europe. The EU should work towards the goal of achieving a more consistent legislative framework for chemicals. To help achieve better results, a horizontal sectoral fitness-check toolbox such as for the competitiveness proofing exercise could be developed.
- The establishment of a European Innovation Model, aimed at improving time to market and effectively transforming R+D into investment. This includes creating a better societal acceptance for technology and innovation, leveraging and improving European innovation skills, better protection of Intellectual Property Rights and a focus on global competitiveness of European Innovation Projects.
- Support for the Public Private Partnership for the *Sustainable Process Industry through Resource and energy Efficiency* (SPIRE), aiming at the rejuvenation and competitiveness of industrial sectors representing 20% of the total European manufacturing industry.
- Developing the bioeconomy: provide an unrestricted environment for the production and import of bioethanol, sugars and other bio-based building blocks from a sustainable source in and into Europe (to be addressed in the context of the Common Agricultural Policy Reform). Provision of a level playing field with respect to biofuels.
- Pursue Free Trade Agreements with key trading partners, such as the US and Japan, in particular if these are so-called WTO plus agreements that go further in promoting openness and integration than is currently the case in the multilateral negotiations.
- The chemical industry needs energy and resources at globally competitive market prices. Europe should make accessible all possible domestic (like shale gas) and import opportunities through swift exploration and diversification of supply instead of just introducing energy consumption caps. Shifting taxation towards resources would risk harming the global competitiveness of EU industry.
- ETS: Beyond 2020, instead of quick short-term fixes, the framework for emissions trading should become more dynamic, crisis-proof and growth enabling.
- Further investment in transport infrastructure is needed to create efficient freight channels to and through Central and Southern Europe. The EU ambitious interconnection programme (€ 40 bn. over 2014-2020) should also take into consideration the completion of the chemical feedstock pipeline EU network, which is critical for the competitiveness of chemical clusters.