An Industrial Policy for Europe – the view from the chemical industry

On 13 December René van Sloten, Executive Director Industrial Policy with the European Chemical Industry Council (Cefic) presented his views on EU industrial policy at the Kangaroo Group lunch in Strasbourg.

Here below follows a summary of the main points he made during his presentation.

Mr van Sloten referred to the conclusions of the Competitiveness Council of 30 November which are in line with industry's assessment of the Commission's communication "Investing in a smart, innovative and sustainable industry – A renewed EU Industrial Policy Strategy", i.e. an important signal and useful first step towards developing a future-oriented EU industrial strategy. A coalition of some 130 industry associations and BUSINESSEUROPE already provided initial input for a concrete action plan.

Notwithstanding overall good growth results in 2017, he recalled the urgency of a long-term EU industry strategy given the ambitious plans other regions are deploying to promote their industry.

He highlighted the overall contribution of EU industry, accounting for half of Europe's exports, around 65% of research and development investments and providing more than 52 million jobs, one fourth of total jobs in Europe.

As regards the European chemical industry, he stressed its major importance for economic development and wealth, providing modern products and materials and enabling technical solutions in virtually all sectors and value chains of the manufacturing economy. It is an essential **solution provider for the achievement of a competitive, low carbon economy and the circular economy** as well as all other major societal challenges. As such, the chemical industry will be a key contributor to the achievement of the UN Sustainable Development Agenda 2030.

The Industrial Policy challenge for the chemical industry

In many ways, the European chemical industry is highly successful. Traditionally, it has been a world leader in chemicals production – as shown by a consistent export surplus which reached €47.3 billion in 2016. However, the continued success in absolute terms marks a major shift in relative terms when looked at globally: while European chemical sales have continued to grow over the past 20 years, Europe's share of global sales over the same period has declined from 32% to 15%. This decrease is primarily due to declining competitiveness, as opposed to slow-growing destination markets. In 2015, Europe became a net importer of petrochemicals for the second time due to increased imports in this important segment.

This loss in global market share represents a significant opportunity cost of foregone jobs and economic activity that could have been created in Europe. It is evidence of the EU's failure to be a competitive place for new investment at global scale. Investments in new production capacity increasingly flow to other parts of the world because the business case for investing in Europe is becoming increasingly difficult to make.

This leads to the risk of "investment leakage" in the chemicals industry. Nowadays chemicals are produced all around the world , and a larger number of regions is competing for investment.

Recognising the chemical industry's strategic importance for a successful industrial strategy, China, the Middle East and India have all made successful efforts to build up large and increasingly sophisticated production facilities and attract high investments by putting industry at the very top of their political agendas. The same applies to the USA where the recent shift towards 'America First' will inevitably have further strong impacts on their industrial policy.

There are several potential causes for Europe's loss of global market share. Energy and feedstock prices are a critical factor for the competitiveness of the chemical industry. The shale gas boom in the United States has reduced energy and feedstock costs greatly. A clear indicator of this situation is the cost of producing ethylene. Ethylene is the largest volume building block in the chemical industry globally. It is a basic building block for the production of plastics, detergents and coatings amongst many other materials. Making ethylene in Europe is now about two times more expensive than in the US or the Middle East. This is boosting profits abroad and attracting investment, including from European chemical companies: as at December 2016 announced chemical industry investments in the USA amount to US $ 163bn (with 60% from non-US based companies). Likewise, in 2015, approx. €96bn was invested in China. In comparison, EU investment stood at €20.7bn in 2015.

At the same time the chemical industry is undergoing a transformation process to respond to societal needs with respect to climate change, circularity, clean energy and transport, new processing methods and alternative feedstock, and overall increased sustainability. The chemical industry can and will provide solutions for these societal challenges, but the question is whether these will be developed in Europe or in other parts of the world and imported into Europe, with the associated loss of growth and employment opportunities here. However, to meet the EU policy objectives huge investments are required as set out in a recent study of the DECHEMA institute. In a context of increasing competition from other regions we need to ensure that this transformation process can be successfully achieved.

Implications for an EU Industrial Policy Strategy

There is an urgent need for action to devise and implement an EU Industrial Policy Strategy. The warning signs are clearly visible, even if they may be obscured by positive headline figures on European chemical industry performance (+3% growth in 2017). Europe has already missed out on significant potential investment in the sector, missing the opportunity of creating additional jobs and growth.

Given the chemical industry's role of providing the solutions needed to enable the transition to a low-carbon and circular economy, it would be a strategic mistake to disregard the sector simply because it is energy intensive. If EU climate and Circular Economy policies are to create jobs in Europe, it is crucial that the whole value chain enabling those policies is located in Europe.

Therefore, it is important that the EU Strategy recognizes the importance of value chains. Rather than focusing on individual sectors, the Strategy should ensure attractive operating conditions in Europe. To ensure Europe's continued role in the global economy, the measure should be the potential of individual European value chain links to be integrated into global value chains, i.e. European suppliers should be able to compete globally and not just in Europe.

Furthermore, it is crucial that the future EU Industrial Policy Strategy represents a coherent action plan that brings together measures in a variety of policy areas and departmental responsibilities. For an Industrial Policy Strategy to be successful, it must be mainstreamed into all EU policies and must enable the industry to transform, by creating a favourable business environment that stimulates innovation. It should also address a growing feeling among industry that policy makers across the EU no longer value the manufacturing sector as a key contributor to wealth creation.

At the same time, the need for an industrial policy mainstreamed in all EU policies should not be mistaken as an attempt to reduce regulatory ambition. The EU simply needs a policy-making approach that objectively looks for reasonable regulatory objectives and identifies the most realistic and cost-effective way of achieving them, as well as all other stated policy objectives. In short, regulatory objectives that are pursued in ways that harm the achievement of other objectives are unlikely to produce net positive societal outcomes.

At the end of his presentation Mr van Sloten listed some concrete action points:

- Innovation funding under the Multiannual Financial Framework to be increased or at least maintained
- Strict implementation of REACH at the EU borders
- Completion of the internal energy markets and make sure that energy and climate costs are not much out of step with the rest of the world
- Apply better regulation principles consistently, provide for a stable and predictable regulatory environment and apply the innovation principle
- Open markets for EU exporters, secure access to raw materials at world market prices and refrain from protectionism
- Strengthen industrial clusters and related infrastructures

Mr van Sloten thanked the European Parliament for the support it has expressed for a long term industrial strategy and expressed the hope for continued support from the institution.

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