General perspective on competitiveness of the European chemical Industry

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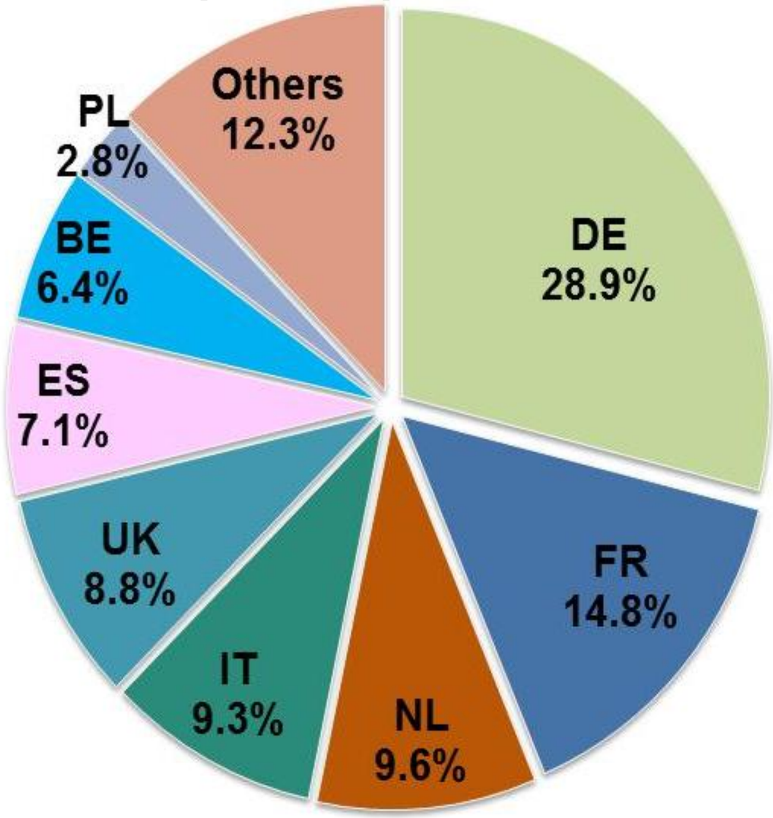
The European chemical industry is key for economic development and wealth

- Contributes to 18% of the world's chemical sales (2012)
- Represents 29,000 companies (96% SMEs)
- Employs 1.1 million people (2013)
- Generates € 558 billion of revenues (2012)
- Creates a trade surplus of € 48.7 billion (2013)

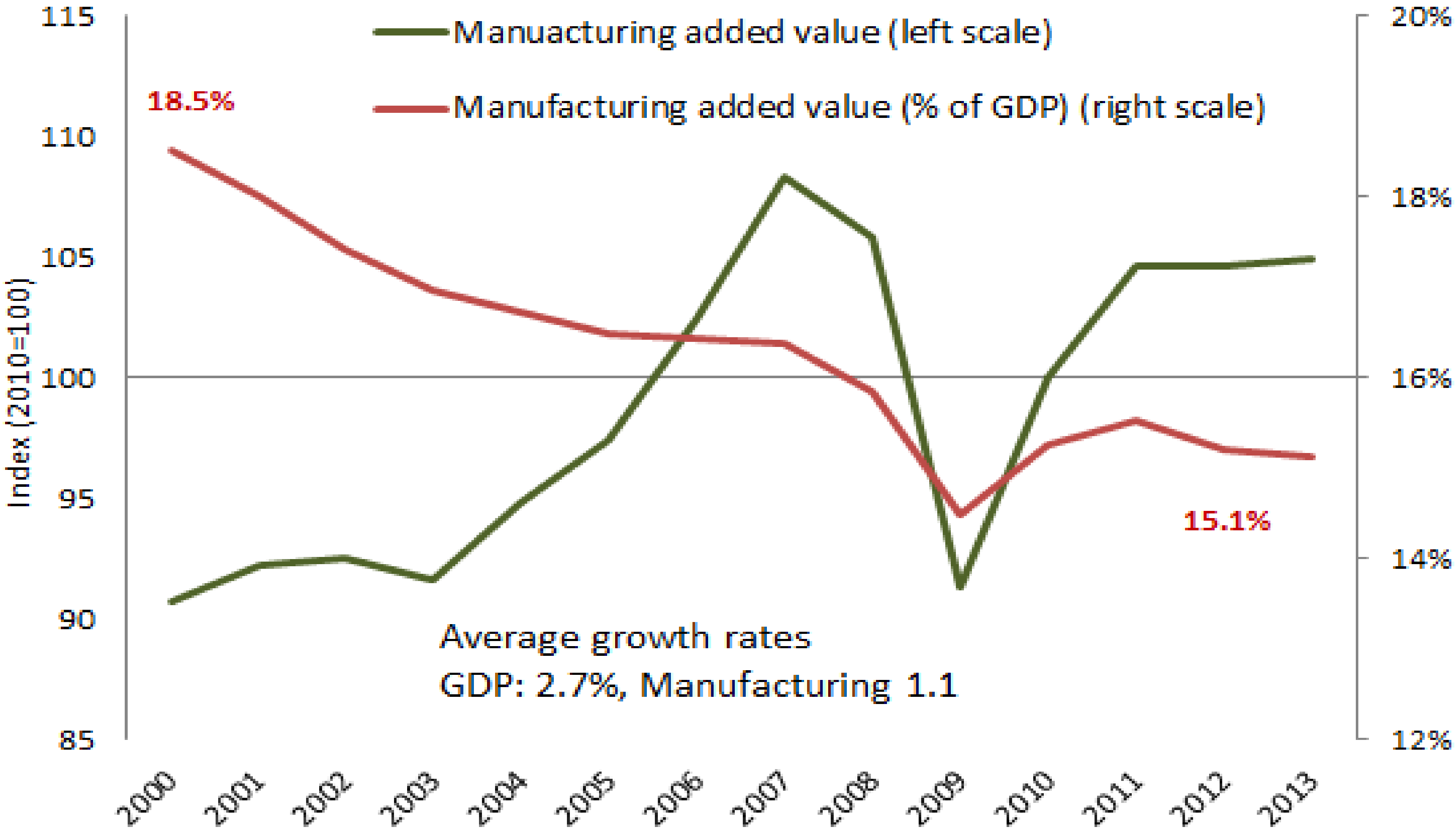
Sales 2012: € 558 billion

(share **%)**



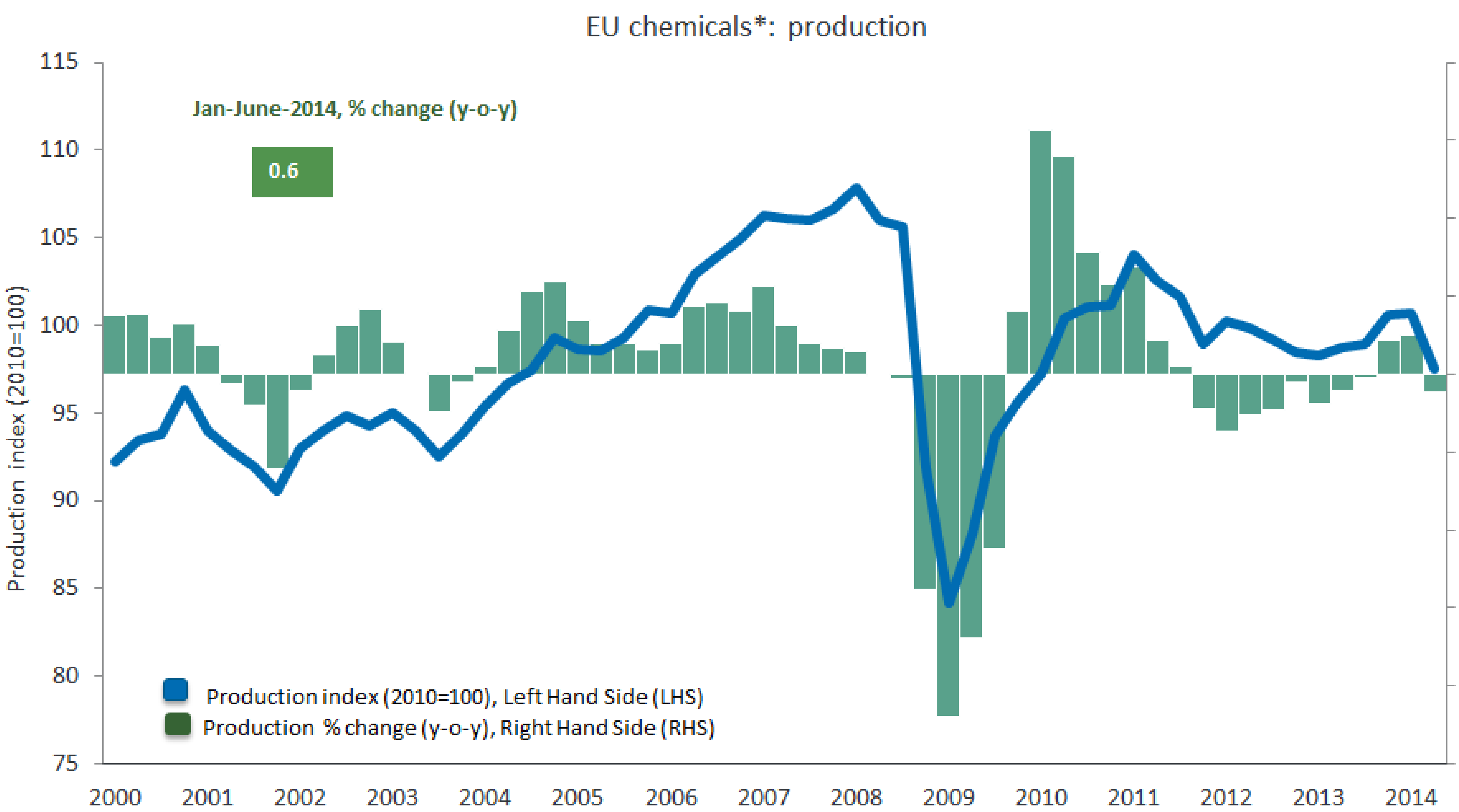
Source: Eurostat and Cefic Chemdata International

EU industrial platform is losing importance in the EU economic activity



The EU ambition is to get back to 20% GDP contribution

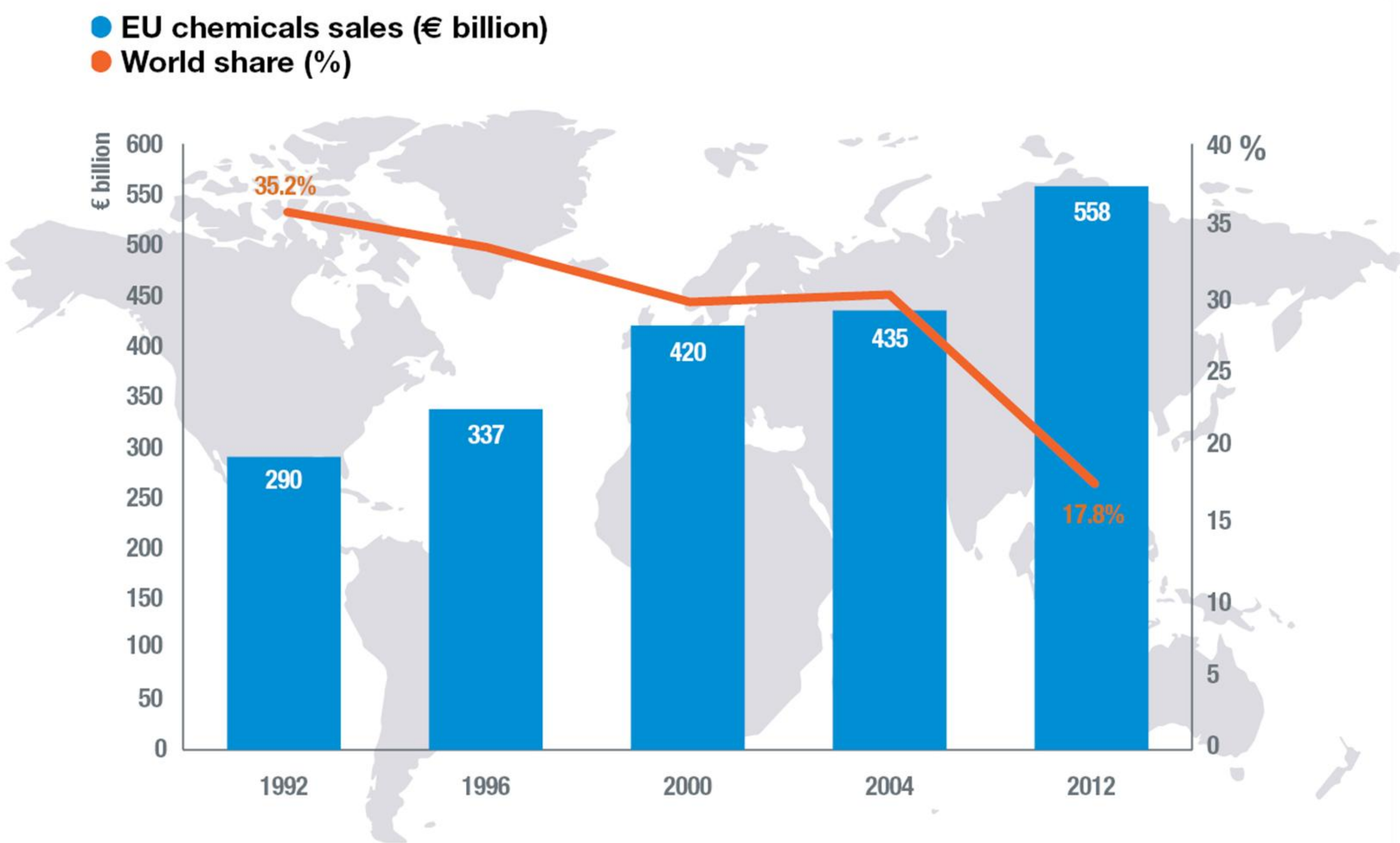
Despite the strength of the chemical sector, current situation gives cause for concern



Source: Cefic Chemdata International, *Chemicals (excluding pharmaceuticals, New Nace Rev2, C20)

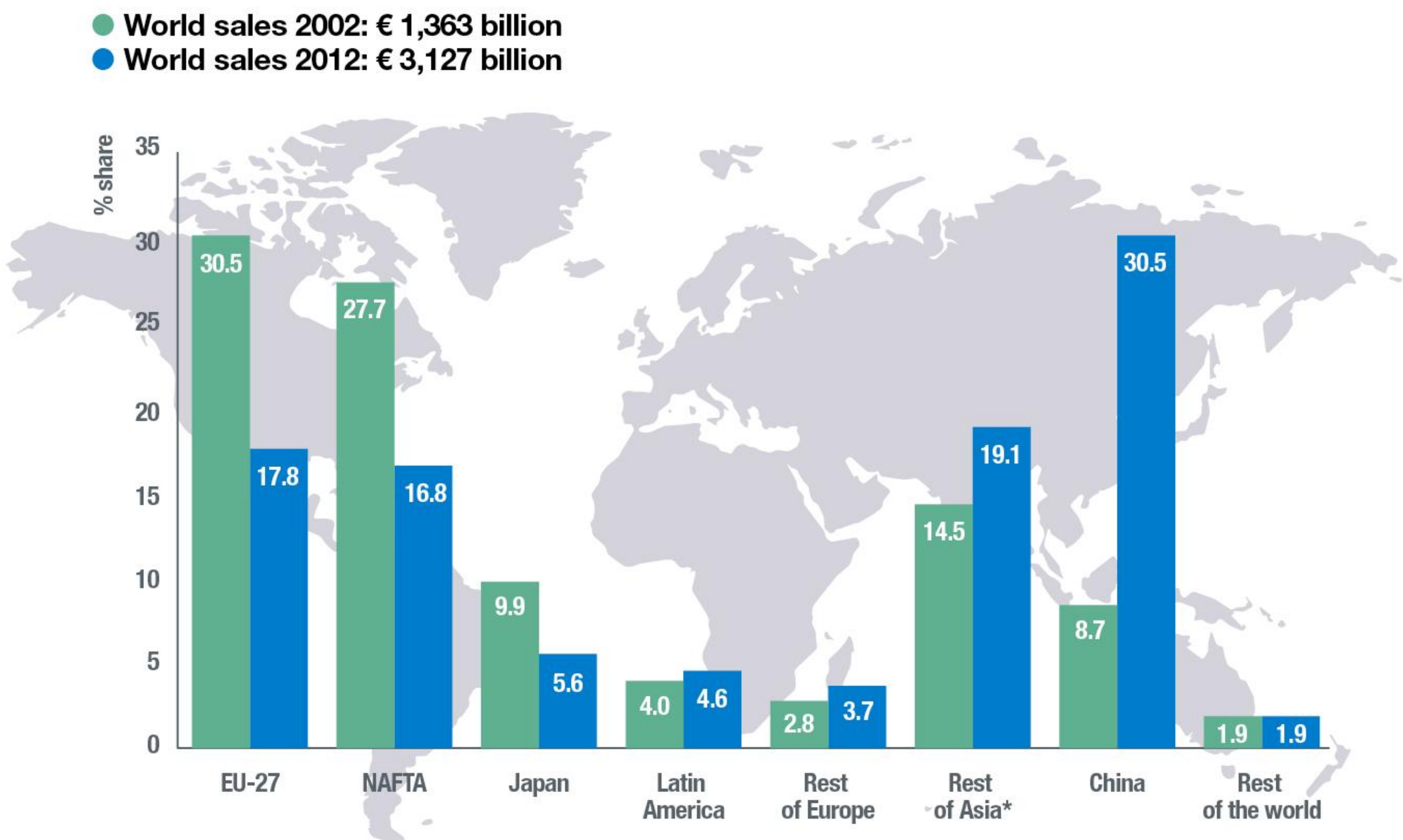
Output remains nearly 10% below the pre-crisis level

EU chemicals sales almost double in 20 years, while its world market share halved



This is a “dilution effect, a trend expected to continue in the future

World chemicals output doubles as emerging markets sales surge

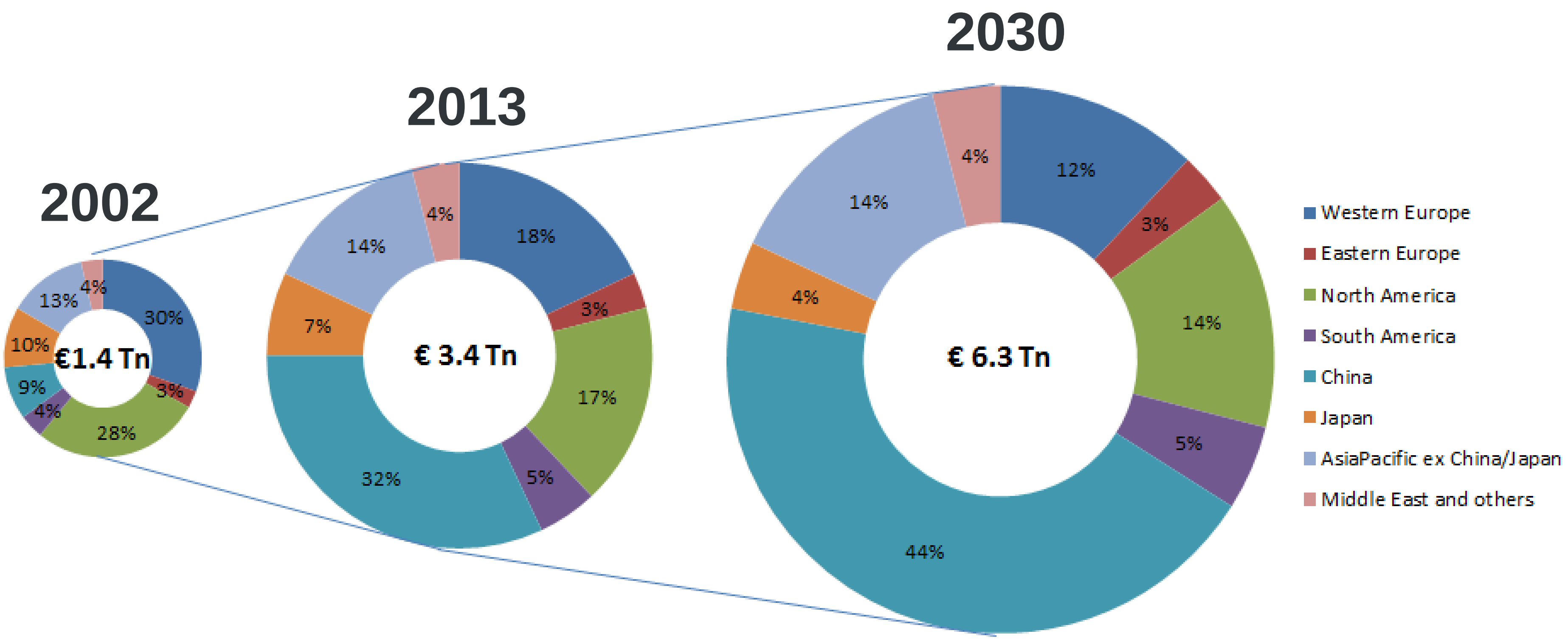


* Asia excluding China and Japan

Growth has been fastest in emerging economies

And this trend will continue

Global chemicals production in value

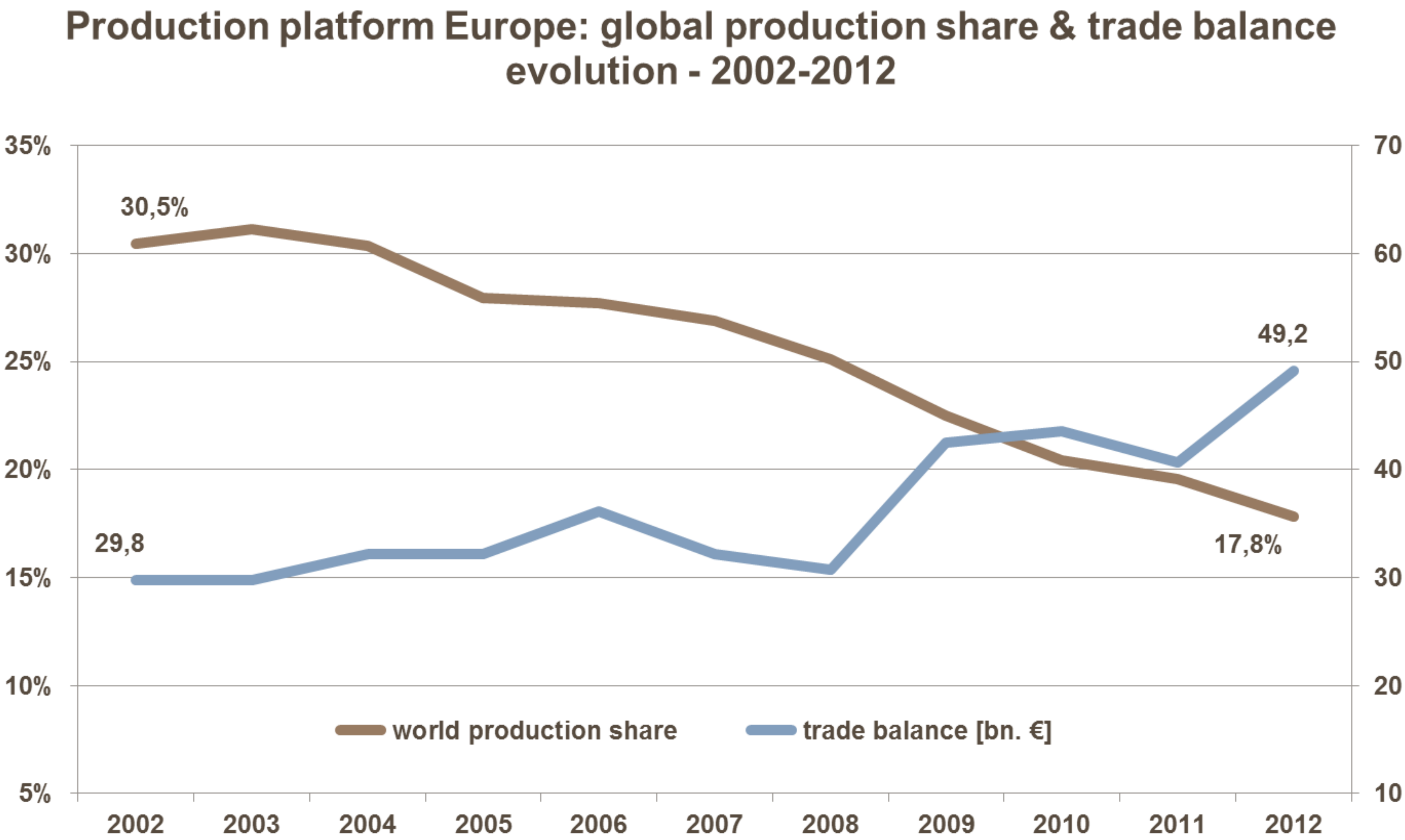


Source: IHS and cefic analysis (for 2002)

CAGR World 3.7 % (2013-2030)

Growth in post-recession Europe remains low, mainly due to mature markets and ageing population

Has the EU chemical sector gained or lost competitiveness over the last 20 years?



Source: Cefic Chemdata International 2013

Europe needs to be much more competitive as an exporting chemical region

- ✓ The downward trend of the sector in terms of its share of GDP within Europe can only be countered by increased external export competitiveness of the sector and industrial policies working towards this end.
- ✓ However, does Europe have a strong and sustainable competitive advantage in the world to remain a key exporting region?
- ✓ The key question is therefore whether the decline in global share is entirely due to the “structure” effect or are we also losing competitiveness?

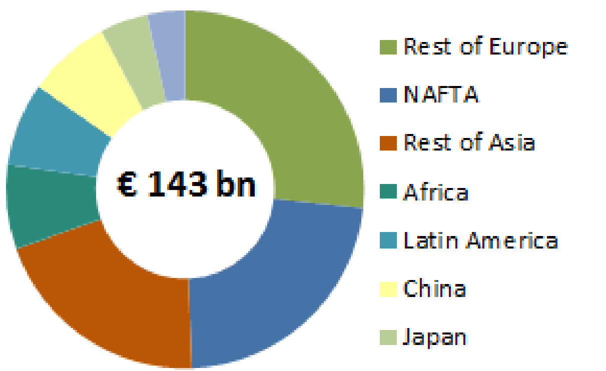
Our industry needs to be more competitive to sustain its existing capacity and grow

EU chemicals production in value (€ 558 billion, 2012)

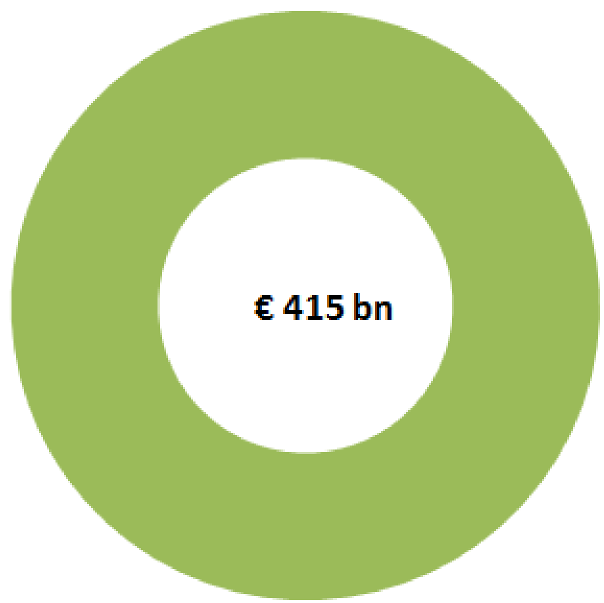
25%

75%

EU export market



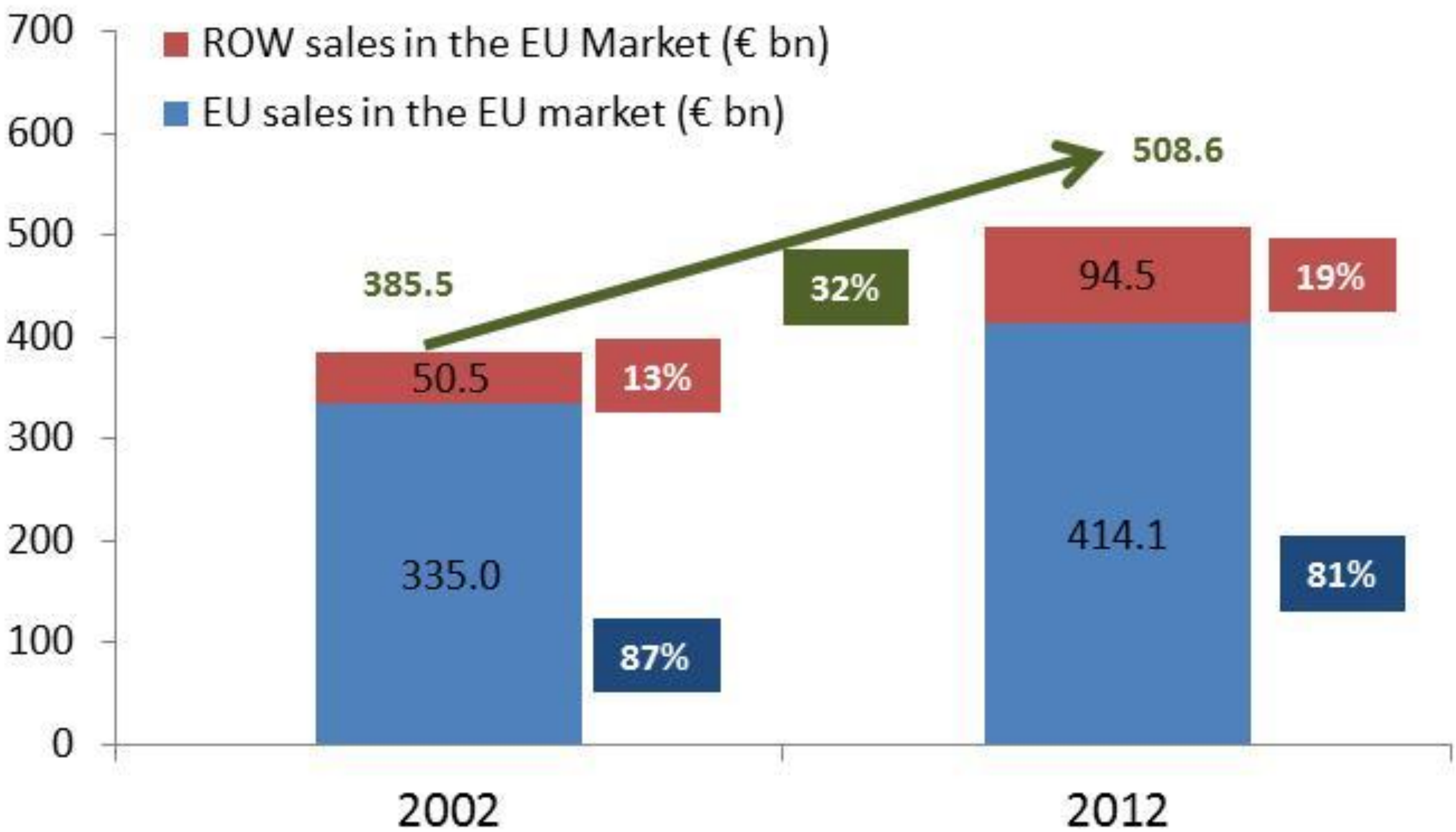
EU market



Source: Cefic Chemdata International 2013

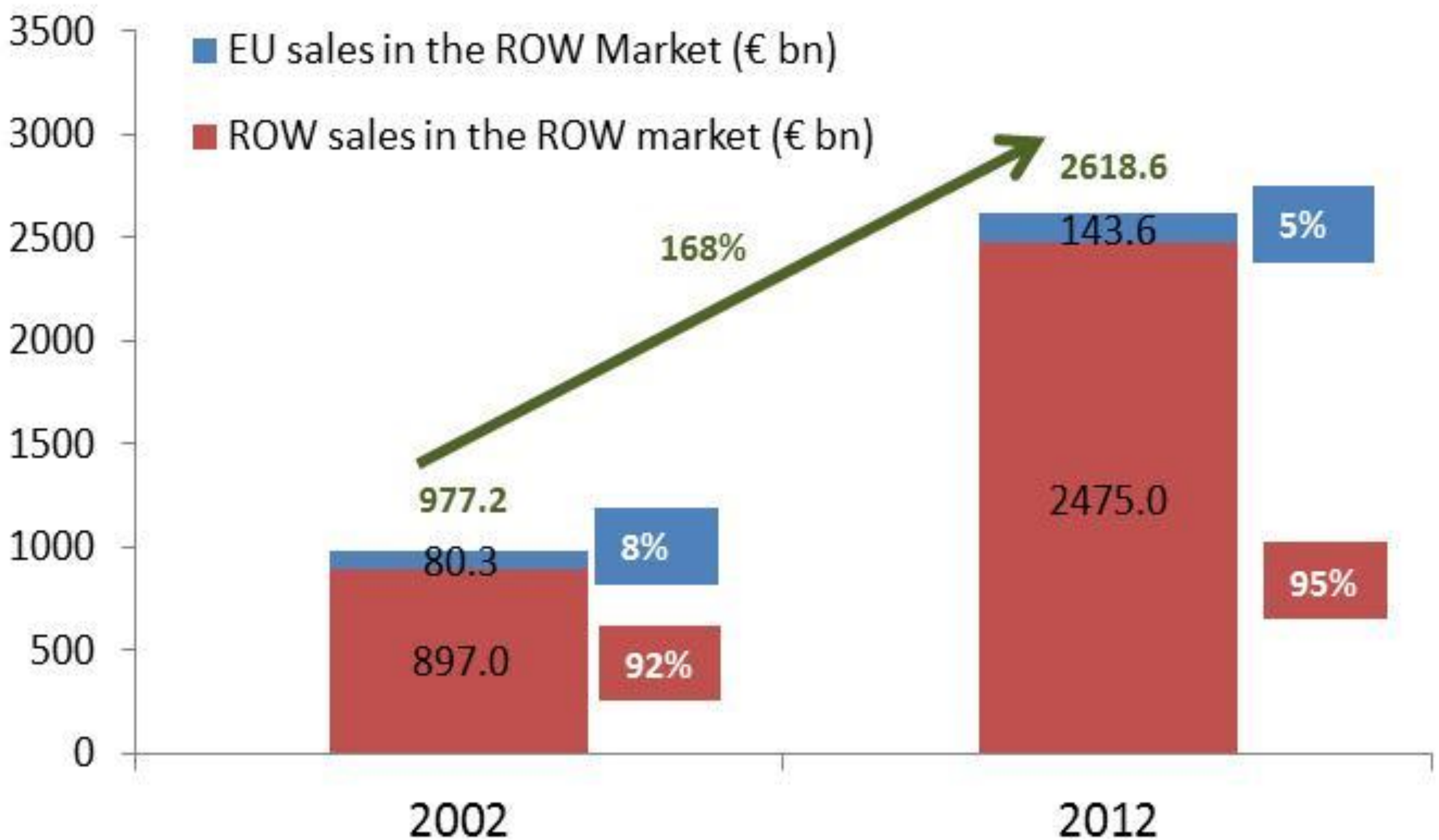
in line with global demand

Chemicals made in Europe are losing share in the domestic EU market



Extra-EU imports grew 3 times faster than EU domestic sales

Chemicals made in Europe are losing share in the Rest-of-World market



Extra-EU exports grew nearly 2 times slower

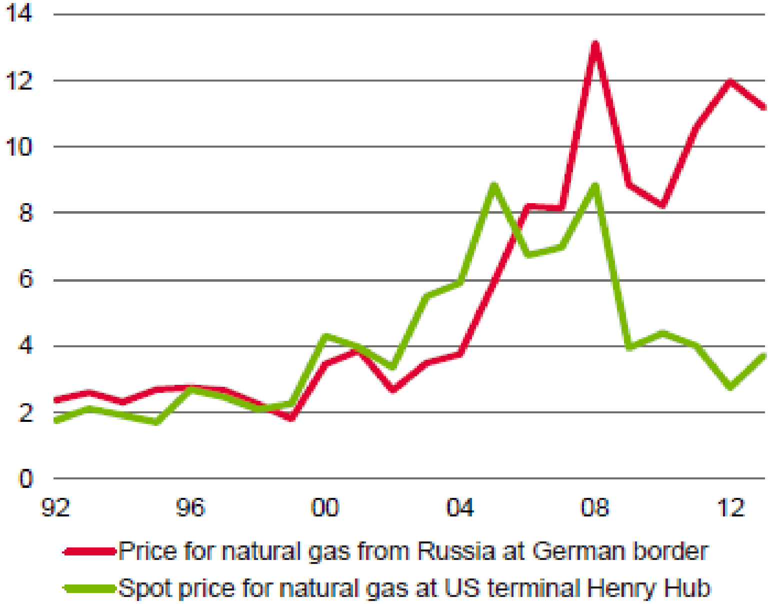
There are several potential causes for this loss in share

- ✓ Advantaged energy and feedstock prices are a clear enabler of competitiveness.
  - ✓ The shale gas boom in the United States has reduced feedstock costs greatly. A clear indicator of this situation is the cost of producing ethylene.
  - ✓ Ethylene is the highest volume building block in the chemical industry globally. It is the foundation in the production of plastics, detergents and coatings amongst many other materials.
  - ✓ Making ethylene in Europe is about three times more expensive than in the USA (thanks to the shale gas boom), or the Middle E.
  - ✓ This is boosting profits abroad and attracting billions of dollars in investment, including from European chemical companies.

Advantaged energy and feedstock prices are a clear enabler of competitiveness

Large gap in prices for natural gas between the US and Europe

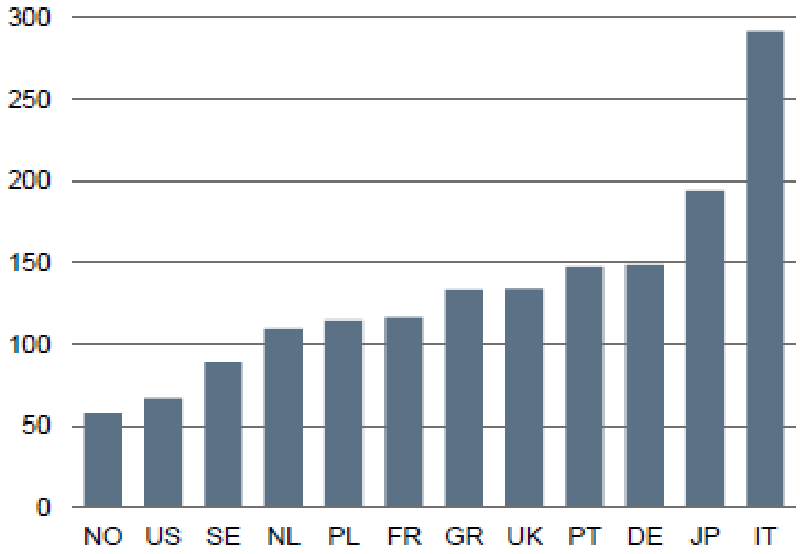
USD per million metric BTU



Source: IMF

Significant differences in electricity prices

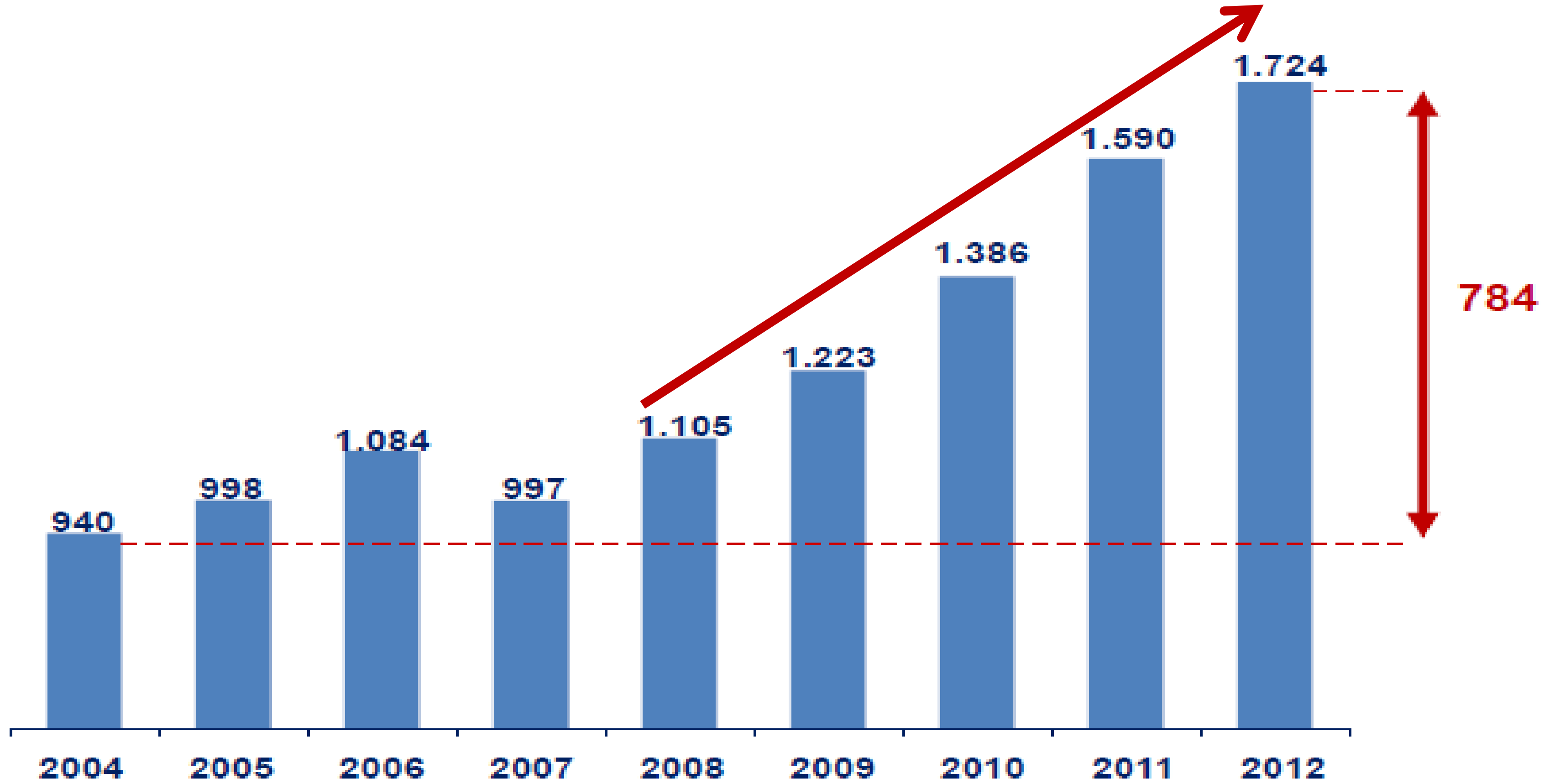
Electricity prices for industry, USD per MWh, 2012



Source: IEA

This is boosting profits abroad and attracting billions of dollars in investment

Cumulative number of EU regulation on HSE is killing the business of chemicals



Source: EU, Directory of EU legislation in force
(Chapter 15 – Environment, consumers and health protection)

Number of EU regulations on HSE, 83% more in 9 years time

Can we remain Competitive?

- ☺ Large **integrated domestic market** with strong customer industry clusters
- ☺ High international **orientation and global networks** to external customer industries
- ☺ **Skilled and motivated workers** and scientists
- ☺ **Constant adaptation** to globalised markets
- ☺ **Strong innovation** efforts will generate new growth clusters: Efficient Energy use, health and new materials which could solve upcoming societal mega challenges

- ☹ High energy and feedstock costs
- ☹ High Regulatory Compliance Costs (eg REACH)
- ☹ Lack of a "Common Industrial Policy" or a "Common Energy Policy"
- ☹ Non-energy raw material availability and cost issues (eg. biobased feedstock, rare earths, minerals)
- ☹ Mature market, ageing population, risk aversion of societies

Key factors shows that the European chemical industry can remain competitive

- General framework
  - Cost aspects
    - Labour costs
    - Feedstock / Energy
  - Innovation environment
    - Education
    - Innovation
  - Market conditions
    - Industry Clusters
    - Infrastructure

Europe is a high cost region, but can compensate this by being innovative and having favorable market conditions.

- Industrial policy framework
  - EU regulatory framework
  - Industrial policies abroad
  - Trade policies

Europe must ensure a level playing field for global competition.

European Industrial Policy

- Main Goal: 20% Industry participation in European GDP
- Mainstreaming Industrial Competitiveness
- Resources for Innovation
  - Horizon 2020 Funds for Priority Action Lines (Key Enabling Technologies, Bio-based Products, Advanced Manufacturing)
  - Facilitate Integration of Manufacturing and Services
  - Structural and Investment Funds available for Regions, guided by Smart Specialisation
- Better Reguation
  - Cumulative cost assessment/ Regulatory fitness check for the chemical industry
- Access to Raw Materials
  - **Acknowledges chemical industry's need to access bioethanol and and other bio-based building blocks at global market prices**
- Maximise potential of EU's internal market
  - Call for further development of infrastructure for gas, electricity and chemical building blocks
- Facilitate access to external markets:
  - Stresses the need to facilitate the integration of EU firms in global value chains
- Access to Finance

What are the priorities of the Juncker Commission?

Industrial Competitiveness

- Better Regulation agenda (REFIT)
- Jobs, Growth and Investment Package (300 Billion in additional public and private investment)
- Mainstreaming Competitiveness in all policy areas
- Aim towards 20% manufacturing participation in EU value added
- Renewed strategy for completing the Single Market for goods and services (eg. people mobility)
- Mobilise Competition policy tools to support Growth and Jobs,

What are the priorities of the Juncker Commission?

Energy and Climate

- Completion of the internal market for energy
- Investment in energy networks, renewable energy and energy efficiency
- Diversify sources of energy imports
- Reaching climate goals on a cost-effective way

What are the priorities of the Juncker Commission?

Trade

- Balanced TTIP (Transatlantic Trade and Investment Partnership with the US)

Environment

- Overhaul existing environmental legislative framework to make it fit for purpose

Innovation

- Greater focus on applied research. Reinforce Industrial leadership