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

The European chemical industry is of major importance for economic development and wealth, providing modern products and materials and enabling solutions in virtually all sectors and value chains of the manufacturing economy and to a sustainable society.

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 €44.3 billion in 2015. But, 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.

Investments in new production capacity increasingly flow to other parts of the world which leads to “investment leakage” in the chemicals industry. 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. Consequently, the EU’s share of global chemicals production is decreasing in several segments.

There are several potential causes for this loss in 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.

At the same time the chemical industry is in transition to respond to societal needs with respect to climate change, 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.

**Implications for an EU Industrial Policy Strategy**

Given the chemical industry’s role of providing the solutions needed to enable the transition to a low-carbon and circular economy, it is important that the chemical industry is taken into account when developing EU climate and Circular Economy policies that are to create jobs in Europe. Today, there is a strong risk that Europe’s transition to low-carbon and circular economies will hurt EU industrial production and benefit producers located elsewhere. Therefore, it is important that the EU Strategy recognizes the importance of value chains and should ensure attractive operating conditions in Europe. To ensure Europe’s continued role in the global economy, the potential of individual European value chain to be integrated into global value chains should be clearly recognised, i.e. European suppliers should be able to compete globally and not just in Europe.

It is crucial that the future EU Industrial Policy Strategy represents a coherent action plan that brings together and streamlines measures in a variety of EU policy areas and departmental responsibilities. For an Industrial Policy Strategy to be successful it must enable the industry to transform, by creating a favourable business environment that stimulates innovation and investment in Europe.

It is in this spirit that we make the following recommendations for an EU Industrial Policy Strategy and Action Plan. Many of them are not new but they are still important. In combination, they would produce a powerful boost to industry competitiveness. And if national policy would follow, the effect will be even larger.

Priority issues and recommended policy actions

1. High EU energy and feedstock costs, compared to other regions, are a particular barrier to investment and are supported by having a fair ETS based on actual production and no tiring, and new a truly functioning well connected liberalized energy-only market and market development opportunities through building renovation measures.
2. Better regulation that will reduce regulatory burden, complexity and unpredictability, will help to maintain EU competitiveness and support investment and innovation.
3. Trade openness ensures an ambitious, balanced, free trade and investment agenda with key trading partners and open markets in general.
4. An innovation friendly environment where chemical industry can develop, test and apply new technologies while at the same time - through the management of risks – ensure protection of the environment and public health as innovation is the single most important driver of societal prosperity and is indispensable for sustainable development and economic growth.
5. Digitization – Chemistry 4.0 is of extreme importance for processing industries as the European chemical industry for their future competitiveness with big data being able to improve manufacturing processes and with less environmental impact through more efficient management of resources, materials and energy.
6. Circular economy - as the chemical industry and its customer industries might be able to significantly contribute to a circular business model, the chemical industry benefits if investment in innovative and economically viable solutions is encouraged, and if policy decisions are based on life-cycle analysis and an overall positive impact of products on resource efficiency. In order to further spur this development, it is vital to have open access to renewable raw materials at world market prices while at the same time recognising that the economy will still heavily depend on fossil resources today and in the future.

**Conclusions**

Certain trends are unmistakably taking place. The shift of manufacturing to Asia and associated higher chemicals output growth there, an ageing population in Europe and the shift of petrochemicals production to resource-rich countries are a few examples. They all point to a declining share of the Europe based chemical industry in global sales.

The EU chemical industry can be a key contributor to energy transition, climate change mitigation and to other EU policy objectives, like the circular economy and sustainability. The industry is constantly adapting to new societal demands and responding to new trends regarding sustainable production. To successfully achieve this transformation, it requires a complete structure, spanning basic chemicals, specialty and fine chemicals as well as consumer chemicals, i.e. entire value chains. However, given the easily tradable nature of many chemical products and the international nature of the sector, this will only be possible if the competitiveness of the EU chemicals sector can be maintained. For these objectives to be realized - and for the EU chemicals sector to maintain its status as a world leader - EU policymakers must put in place a suitable regulatory environment, in which industrial competitiveness is mainstreamed into all other EU policies (including those on energy, climate, innovation and chemicals safety).

Loss of competitiveness – the Ethylene case

A clear indicator of the 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.