6th Congress of the European Chemical Regions

Report of conference and workshops

1st Panel:

The first panel of the 6th Congress of the European Chemical Regions was opened by the President of the ECRN, **Dr. Reiner Haseloff**. In his speech, Mr. Haseloff explained briefly the history of the building where the European Chemical Regions Network has its secretariat offices. Other than these, it includes in its premises the offices of various regional representations to the European Union.

Tony Richmond, Vice-President of the ECRN, was the moderator of this first panel, named *Enabling Solutions – Prospects of the Chemical Industry in Europe – What have we learned from the High Level Group*. It started with the participation of the Vice-President of the European Commission, **Günter Verheugen**.

Mr. Verheugen began by congratulating the initiative and continued by stating some of his views concerning the financial crisis that is affecting the international market nowadays. There is no sense, he stated, to blame a specific country for this situation, and less sense may be found in the nationalization of companies, an action that some countries have been stating as being the only solution for the financial crisis. The uncertainty generated by this situation prevents the economic rationality all over the world. Ideas need to be put together in order to generate the correct policies that serve as solution to this crisis. Until the present moment, the European Union acted strong and coordinately, in his opinion, but it is still too soon to know the results of these actions.

The ECRN is an exceptional example of a forum in which actors of the European dimension, and not only, try to find solutions for contemporary and complex problems. He recognized that the European economic sector is entirely interconnected and that its exposure to international competition as it is today may endanger the quality of what is offered by European producers. An additional element to this situation is the negotiation over the new climate package. The danger of carbon leakage, as a consequence of the heavy costs that emission allocations will probably have, is a point that demands great caution. This danger is complemented with the attraction campaign some developing countries are putting into practice, cheaper production being their major slogan. The delocalization of industries is not the solution, said Mr. Verheugen. In a hypothetical scenario, he states that the developing countries will also need energy to develop the recently arrived industries. This required energy will pollute as it would in any other location of the world. Consequently, the delocalization of the European industries is the same as saying delocalization of pollution. This cannot be admitted since it is the global environmental wellbeing that is in danger in this case. Hence, careful and profound discussions need to be intensified, as it is the case of the HLG. In this group, he recognized, no decisions are taken, but he agreed that this particular discussion is of great relevancy to the future of the Emission Trading Scheme (ETS) and, consequently, to the future of the European industry. This opinion is shared by the European Council.

The chemical industry is seen as needed in the future of Europe. Nonetheless, in a different format than the one it assumes today. Innovation and R&D must be a key target for investment so that the development and adaptation to the climate change may happen. This is something already understood and put in practice by most of the chemical regions that are members of the ECRN. This knowledge needs to be shared, Mr. Verheugen affirmed and underlined that, for this to happen soon, an increased importance should be given to networks (like the ECRN) and to clustering initiatives.

Mr. Verheugen finalized his speech by mentioning that the ECRN will participate in the organization of the last HLG meeting, taking place next year in Ústí nad Labem (Czech Republic).

Further on, **Mr. Haseloff** returned to the podium in order to present his opinion on the HLG importance to the development of the European chemical industry.

He firstly underlined the fact that the ECRN will count, by the end of 2008, with a total of 20 member-regions. This is an important factor, since the chemical industry is the motorizing factor of the European economic dynamics as a whole. Therefore, he showed himself pleased with the encouraging speech given previously by Mr. Verheugen, which pointed out exactly the importance of the chemical sector, since it is connected with every single sector of the European economy for our normal daily life. Mr. Haseloff appealed for responsible policies to arise and he recognized the importance of the ETS negotiations, since they could determine the survival of some European industrial sectors, including the chemicals sector. This should not be the case in his opinion. The climate package and the consequent environment preservation should be studied and done, he stated, but with supportable consequences for the European economy. The quoting system must be gratis, he proposed, in order to maintain the competitiveness capacity of the European industry.

The financial crisis is not contributing for the attraction of investment to the chemical sector. The reason for this is the uncertainty created by the situation of the international financial market, which creates hesitation from the investors' behalf, and, by association, projects are hence being postponed and the dynamic of the sector seriously affected. The European Summit in December will define various aspects of this hard moment, but, until then, the European industry in general should also on an individual basis maintain and reinforce the communication between all its actors. It must continue to see competitiveness as a reality if it wants to survive this period of difficulty. For instance, Mr. Haseloff affirmed that logistical platforms are needed, something already discussed in previous ECRN reunions. As a second point, he urged to the intensification of the discussion on the creation and development of chemical clusters. Also, he mentioned the next and last meeting of the HLG as a propitious context to discuss further solutions.

He finalized his intervention by thanking the ECRN Secretariat for the initiative of assembling the most relevant voices of the European chemical regions in one room. An appeal for cooperation was then made.

Milan Hovorka, Vice-Minister for Industry and Trade, Czech Republic, followed Mr. Haseloff. He started by stating that the role of the chemical industry is an irreplaceable one. The chemical sector

is responsible for the satisfaction of everyone's daily and basic needs. The uncertainty created by the current situation of the international financial market puts therefore in danger its important role.

Mr. Hovorka declared that, fortunately, the Czech Republic has managed to avoid a greater impact of this crisis in the short-term. In the long-term, he said that most certainly the demand will greatly decrease and that the exportation dynamic of the Czech chemical industry will consequently diminish. This was seen as an important point, since the Czech chemical sector depends enormously on the international market demand. The European Union should take action to prevent the further worsening of this situation. It also needs to deeply enlighten its Member-States of the purposes of its measures.

When it comes to the climate package and the sustainable development thematic, Mr. Hovorka believed the European Union must keep in mind that in order to be successful, the competitiveness of the European industry in general must be kept. The free allocations, included in the ETS, must be distributed under a more effective and acceptable identification system of the most relevant European industries.

Mr. Hovorka took this opportunity to demonstrate his displease towards the situation of innovation within the European chemical sector. On one side, he explained, we have the fully-equipped chemical industry; on the other side, the chemical industry in Eastern Europe is still, in some cases, rudimentary and not able to cope with bigger demands if they appear. Networking seems to be the solution in this case, he stated, since communication can help this sector in different countries to share best-practice knowledge. Other than this, Europe needs to be united during the global crisis period it faces. The HLG meetings are an example of this communication, and the next one, happening precisely in the Czech Republic the coming year, should be the one were results appear. Mr. Hovorka took, therefore, this chance to invite all interested parties to participate in the analyses of the HLG results.

Alain Perroy, Director-General of Cefic, started his intervention by underlining the need for rapid decisions to combat the current financial crisis, but these decisions need to be futuristic also looking towards the consequences they may have.

Concerning the ETS matter, Mr. Perroy stated that the delocalization of industries seemed to be unavoidable in some cases. Nonetheless, he counter-answered these ideas with the measures that have been discussed in the HLG meetings. With the help of the HLG and other intelligence sources, the correct decisions may be advanced by the European Union and the European industry may therefore survive. The HLG assumes a holistic perspective, which allows the discussion of various hypothetical solutions.

The current situation of the European industry is not terrible, stated Mr. Perroy, since despite all the developments happening in new platforms all around the world and the catching up of the developing countries, the European industry manages to maintain a considerably good level of competitiveness.

The chemical industry was introduced by Mr. Perroy, for the first time in the conference, as a solution provider. In the first place, the chemical industry in general has been providing daily needs

with adaptations towards the climate changing dilemma. There still is, nonetheless, a lot of space for innovating maneuvers. As a second point, Mr. Perroy stated that the Lisbon Agenda is Cefic's Agenda, and this is the most dynamic agenda in the European context nowadays. Innovation cannot be, he stated to make his previous point clearer, an individual action, but needs to be a collective one in order to actually help the civil society as a whole. Assembling the interests of politics and industry is, therefore, the only solution that allows industry to move forward.

2nd Panel:

After the buffet-lunch break, the 2nd panel was opened. It assumed the format of a workshop and it took place under the thematic of *Climate Change – Challenges and opportunities for the Chemical Industry in Europe* and it had as moderator **Pol Verhaegen**, Vice-President of the ECRN.

The first speaker was **Dr. Hubert Fallmann** (European Commission, DG Environment). Mr. Fallmann started his intervention by reviewing the objectives established by the European Union concerning its climate change policies. The EU assumed to reduce 20% of its emissions before 2020 as an independent goal, and 30% in the context of an international agreement.

The ETS has the main objective of making the industry pay for their emissions, launching an emissions permits system. This may be based either on the auctioning method, which would create great incomes for the EU Member-States, either on the free allowances method, which would grant some industrial sectors free permits to emit as a part of a plan that intends to support the adaption of specific industries to the new system. Some predict that these policies will have a carbon leakage effect on European industry, more or less intensive, depending on the method used to distribute permits. If an auctioning method should be implemented, then all industries must buy permits to emit, hence, an increase of costs would be general to all sectors; if a free allocations system should be implemented, some companies may escape the costs of buying these permits. For this latter, disagreements have been rising from all sectors, since they believe that the planned criteria are not objective enough. Mr. Fallmann considered that discussions like these must be avoided and that the European Commission is analyzing the best way of selecting which sectors should benefit from the free allowances. The criteria must be clear and analyzable, he stated.

The other hypothesis is the one of benchmarking. Studies are being analyzed that prove that the principle of 'harmonized auctioning' – i.e. sectors only need to pay what they pollute avoiding the situation of buying too many emission permits – is the fairest method to the less polluting sectors.

Nonetheless, a carbon leakage effect must be avoided with the signing of an international agreement next year in Copenhagen. All industrial sectors in a global scale should then be obliged to comply with the same rules, a scenario that would decrease the risk of losing competitiveness in the European industry particular case.

He finalized his intervention by stating that the climate package proposal from the European Commission was passed by the European Parliament on 7th October 2008 with only slight modifications to the text; also, the European Council demanded this to be finished by the end of the current year, Mr. Fallmann said.

Ladislav Novák (Association of the Czech Republic Chemical Industry) presented a study in which were explained the impacts ETS and the climate change package as a whole would have on the Czech economy, specifically, on the Czech chemical sector.

Without a transition period – meaning, with no free allocations –, it is predicted that costs to the chemical sector will increase between 300 and 630 Mio. EUR *per* year. Even with the mentioned transition period, the increase of costs will be around the 240 and 400 Mio. EUR *per* year. In this scenario, Mr. Novák affirmed, investment will not be possible in the chemical sector, which would invariably lead to the bankruptcy of the industry in the Czech Republic. The industry will eventually be transferred to another location and leave behind it unemployment.

Mr. Novák affirmed that an action plan has already begun to take form and that it is being built with the collaboration of Cefic.

To conclude his intervention, he transmitted some suggestions and ideas that should be included in the ETS plan: a broader definition of the sectors in need of free allocations should be studied; the free allocations must be confirmed textually; the energetic industries should be target of the same treatment.

Further on, it was the occasion for **Dr. Lodewijk Stuyt** (Wageningen University) to address the audience.

With a presentation entitled 'Addressing Climate Change: Challenges and Opportunities', Mr. Stuyt was direct and started his intervention by stating that more population in a certain area of the globe does not necessarily mean more pollution. To prove this, he presented some dynamic maps (to consult the maps, please access Mr. Stuyts' presentation). In the case of the European chemical industry, the biggest and most important threat to its development is the temperature rising – the equilibrium between heat waves and water showers is disappearing, hence the water is more than ever in the wrong place, at the wrong moment, with the wrong quality. The increased scarcity of water is therefore unavoidable, and with it the importance of water for the chemical sector rises, he rationalized.

As for the opportunities, Mr. Stuyt seemed rather optimistic. This may be a result of the success of a recent initiative, taken by the Dutch chemical sector, of assembling all the dynamics of the chemical sector in the Dutch region of Limburg in one place: the industrial park nicknamed 'Chemelot'. Hence, the cooperation between actors of this sector increased exponentially.

He finally made an appeal for the 'positive worrying'. The European chemical sector continues to be the biggest exporter, by far, and supplier of the world.

Joan Grau (Ecoindustria) studied the impact of the ETS policies and endeavored to transmit the results during his intervention in the 6th Congress of the European Chemical Regions.

To begin with, he presented a great number of figures concerning Catalonia and the evolution of emissions in the Catalonian region (figures available in the presentation). He concluded that, in the last decade, the CO2 emission levels increased in 41%.

The climate package will imply heavy costs to the Catalonian chemical industry. The loss of competitiveness, due to the consequent increase of costs, will be enormous, Mr. Grau concluded. He listed a number of other consequences if the climate package enters into force the way it is presented now: loss of capacity to attract industrial activity; loss of capacity to attract investment; increase of unemployment, among others. In his opinion, the criteria used to determine the cost of emission is not qualitative enough, but too quantitative. In other words, it only looks to emissions *per se*, ignoring the necessity of the production that causes those emissions.

He states that the European Union is acting locally to solve a global problem, something that it is considered by him to be impossible. Costs are being imposed inside the European Union and this is having and expelling effect on the chemical industry; if this intends to be a global solution, that should not happen, Mr. Grau concluded.

The representative of the Italian Chemical Industry Association (FEDERCHIMICA), **Enrico Brena**, presented some figures on the current situation of the chemical sector in Italy.

He continued the idea of Mr. Grau, underlining that an international agreement is needed since the European Union cannot create its own micro-society, in which it can impose extra costs to its industrial dynamic, and expect that the profit-oriented industrial sectors do not relocate to a better scenario. The problem needs to be solved globally, he said.

Further on, he suggested that SMEs should be excluded of such costs, since they do not have enough financial strength to support what bigger companies can support.

He concluded by reaffirming the idea that the chemical industry, if investment is well directed to innovation and R&D, can and must be a solution provider in the climate change battle.

Dr. Peter Botschek (Cefic) gave a review on the European actions towards the chemical industry and of developments happening in the rest of the world that could directly affect the evolution of the chemical sector in Europe.

Concerning the 20% goal until 2020 established by the EU, Cefic has been involved in the negotiations that consider it too strict and intend to change it. This is not the time to endanger the chemical sector in Europe, he stated, since there is a great responsibility the European chemical industries need to comply with in relation to the rest of the world.

On the other side, an unpleasant alternative arises: the developing countries. The costs are lower, hence they attract a considerable number of industrial activity; consequently, unemployment in these countries diminished, helping to increase the national life quality. The consumption of energy also increases in these countries, therefore, also the emissions; nonetheless, it seems that they also attract investment in innovation, which has as consequence the decrease of energy consumption, the decrease of emissions and the increase of production, rationalized Mr. Botschek.

Afterwards, he introduced the chapter of his presentation entitled 'opportunities to the chemical sector', specifically what he called the 'Factor 3'. The 'Factor 3' effect is an idea resulting from a BASF study, where it is shown that for every ton that the chemical industry emits, 3 tons will be saved in a close future by other industries. This comes back to the idea that the chemical industry is an industry of solutions and that some freedom must be conceded in order to develop those solutions. Hence, Mr. Botschek believed that the chemical industry should be considered as a separate industry from the others.

Closing this second panel, **Vianney Schyns** (DSM-SABIC) presented a more profound perspective on carbon leakage and related it with the carbon price signal concept.

He believed that the cost of buying a permit for one single ton will have a chain effect on other European industrial sectors. The carbon price signal concept manages to rationalize the consequences of emission permits price variation. The higher the price, the more a carbon leakage effect will appear to be unavoidable, and therefore the importation dynamics will increase more than that of the exportations, which will eventually start diminishing.

Mr. Schyns agreed that the dynamic benchmarking method – to impose permit obligations – is the best method of those presented as possible by several studies. He justified this by saying that dynamic benchmarking is proportional to the current production. Furthermore, Mr. Schyns refers, also in this context, to the ECRN Maastricht and Tarragona Declarations. He concluded this thought by affirming that, not only carbon leakage must be avoided, but also windfall profits need to be shunned.

He finished his presentation by stating that the 20% objective is very difficult to achieve, in the first place because it uses the year of 2005 as a basis for data gathering. He then appealed for free allocations to the chemical industry.

3rd Panel:

The third and last panel of the 6th Congress of the European Chemical Regions happened under the denomination of *Enabling Solutions – the role of Innovation Clusters in Chemical Regions*. It had **Karl-Uwe Bütof** (Vice-President of the ECRN) as moderator.

The first speaker of this panel was **Andrea Tilche** (European Commission, DG Research). He started by explaining that, despite the current international crisis, the European chemical industry maintains its specificities. Specificities that will make it competitive in comparison to other chemical industries of the world. In the first place, the European chemical industry is interconnected internally and externally, which means that it does not works independent of others, nor it assumes a dynamic that separates dogmatically all its subsectors. In the second place, the organization capacity on regional and local level is another advantage of the European industry in general; only this way innovation and the understanding of investment plans are possible.

The negative points, i.e. the things others possess and the European chemical industry lacks of, is, for instance, low labor costs and raw materials availability. In the first case, European labor is much more expensive than in other parts in the world. In the second case, the distance to raw material producers is an important and definitive factor to the European industrial production. Both of them include additional costs that some countries are able to avoid, Mr. Tilche explained.

Europe develops itself, he stated, with basis on two kinds of networks: the territorial (regional clusters) and the European clusters. Both of them – despite the fact that the first one does not benefit of the same auto-informative capacity as the second one does – are important and possible niches of solutions and innovative competences, Mr. Tilche considered.

The main purpose of a cluster is to impulse innovation. The FP7 funding program demonstrates the importance of this kind of actions by having as a main search priority those who intend to put in practice the constitution of clusters. He gave as an example the SusChem and SusChem+ projects: these were important factors to bring actors and stakeholders in close contact.

Dr. Gernot Klotz (Cefic) followed Mr. Tilche. He began his intervention by saying that clusters do matter as a changing factor. A cluster initiative in the chemical sector might not only change that specific subsector but it will change the chemical sector and the European industry as a whole, giving an optimistic point-of-view on the effectiveness of clusters. The risks technological development may carry – as negative points always exist in any kind of innovation – must be intelligently diminished.

The biggest problem technological development in the chemical sector faces nowadays is the lack of ‘brains’, he said. Agreements with universities and other entities must be put into practice in order to attract a bigger number of people to this sort of expertise. The direct consequence of this would be the increase of confidence the chemical industry would be able to transmit to investors. The best practices must be assembled.

Mr. Klotz made an appeal for quality information and for a bigger understanding of the SMEs position. The chemical industry, not only in Europe but all over the world, may be the answer for a more sustainable development of our economies, being competition and cooperation within this competition a major factor.

He concluded by mentioning that cooperation in the specific case of Europe is of much urgency. Otherwise, the competitiveness the rest of world is expressing will exterminate the European industry in general.

Fiona Soutar, from the ECRN Member-Region Scotland, reserved her intervention to present the results of her experience with cluster management and that of the Scottish chemical cluster.

The chemical sector in Scotland is considered as a priority to the Scottish Governmental authorities. Consequently to such an investment and consequent development of the chemical cluster on Scottish territory, the most relevant chemical producers in the world have concentrated their production in Scotland. Also, various international events of relevance for the global chemical industry are happening in Scotland.

Ms. Soutar further on presented the audience with some figures, which demonstrated the functioning and the evolution of the Scottish Chemical Cluster, and the development factors she considered to be of relevance. For further information on these, please consult Ms. Soutar's presentation.

Lastly, **Andreas Fiedler** (Cluster Mitteldeutschland) introduced the audience to the success of the cluster created and developed in central Germany. It is on this German region, according to Mr. Fiedler, that the most important chemical industrial activity takes place.

He further on explained where this initiative had its origin. It surged from a regional innovation strategy put in practice by the European Union that had as consequence the creation of the Strategy Dialogue Chemistry (the regional equivalent, he explained, for the High Level Group). There, the most relevant stakeholders and actors of the chemical sector met and shared ideas and best practices.

The current situation of Mitteldeutschland Cluster initiative was then explained. Its development and the increase of turnover are bigger than it is in comparison to other regions of the world. On the other side, the expenses on the chemical sector diminished considerably. Mr. Fiedler then gave a list of relevant results: various investments since the 90's; creation and development of 'chemparks'; reinforcement of the discussion between stakeholders and the 'chemparks' themselves on the area of innovation; adaptation of the Mitteldeutschland Cluster to future challenges.

Recently, he stated, the Mitteldeutschland Cluster was delivered a prize for being the most dynamic actor on which concerns the development of solar energy.

Mr. Fiedler finalized his presentation by calling for more funds and for better cooperation with regional, national and European authorities.

After the interventions of the mentioned speakers, a conviviality time was given to the participants, where various conversations took place and the network ambience was created, giving to the 6th Congress of the European Chemical Regions its due closure.

ECRN Secretariat
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