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VCI

Press release

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SITUATIONAL ASSESSMENT OF THE CHEMICAL-PHARMACEUTICAL INDUSTRY 2021

Successfully withstanding fierce headwinds

- Production increases by 4.5 % compared to previous year
- Turnover grows by 15.5 % with a robust increase in producer prices (+ 8.5 %)
- Employment rises slightly to 466,500 jobs
- Forecast for 2022: Production increases by 2 %, turnover by 5 % to EUR 231 billion
- Coalition agreement with positive approaches to energy and climate policy, approval procedures and chemicals strategy

Despite the Coronavirus pandemic and the associated supply bottlenecks, as well as the recent surge in prices affecting energy and raw materials, the chemical-pharmaceutical industry delivered a strong performance in 2021. This successful result extends to almost all product areas:

Production rose by 4.5 % compared to the previous year, and turnover increased by 15.5 % to approximately EUR 220 billion thanks to a solid rise in producer prices (+ 8.5 %), according to the German Chemical Industry Association / Verband der Chemischen Industrie (VCI). Simultaneously, the cost of naphtha alone increased by 70 per cent, and renewable raw materials, metals or minerals were also many times more expensive than in the previous year.

The underlying basis for this result was that the industry's industrial customers continued their recovery course on all continents. Global demand for chemicals – and for vaccines produced in Germany – developed with a correspondingly positive trend. The number of employees increased slightly (0.5 %) by roughly 2,000 jobs, to 466,500.

"Our industry has withstood significant headwind and achieved a remarkable result. This underscores how important a strong chemical industry is for Germany as an industrialised country. Without us, no one gets by; but with us, everyone gets ahead," said VCI President Christian Kullmann.

Forecast for 2022: The VCI also anticipates a positive development in the industry for the coming year. The Chemical Association considers an increase in production of 2 per cent and an increase in turnover of 5 per cent – to EUR 231 billion – to be possible. "Despite various adverse factors, the majority of our

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companies expect to achieve growth, both at home and abroad, in 2022. Especially overseas, they expect increased sales," emphasised VCI President Kullmann.

The VCI's forecast takes into account the results of a recent **member survey.** It revealed that the overriding situation has deteriorated in recent months: 30 per cent of companies are already reporting slight cuts, while 5 per cent are even making significant cuts. There is no shortage of orders, but the bottlenecks in primary products and logistics have worsened. Due to supply chain issues, 35 per cent of companies have had to reduce their production, while 10 per cent have temporarily shut down plants. However, the bottlenecks have consequences above all for the industry's customers: Over 70 per cent of companies can only process orders with delays, while 39 per cent cannot fulfil them at all. According to the VCI, companies do not expect the situation to ease until the summer of 2022.

The rapid increase in gas and electricity prices in recent months is also causing problems for the industry: 61 per cent of those companies surveyed reported that energy prices currently represent a significant hindrance for their operations. Companies are trying to pass on the rising costs to the customers in a timely manner. However, 16 per cent do not see themselves in a position to do so. 67 per cent said they would be able to pass on at least some of the costs. "The situation is likely to remain critical for some time. The majority of our companies do not believe that energy costs will ease significantly in the coming year," explained the VCI's President.

Coalition agreement: first the word, then the deed

With the coalition agreement, the new federal government has presented a host of suitable approaches to transformation, but the real test for this tripartite alliance will be to translate these into political action. Now, after the word must come the deed, emphasised Kullmann. Therefore, the VCI President welcomes the announced abolition of the **EEG levy** at the beginning of 2023, in order to reduce the price of electricity. "It is high time to muzzle this bureaucratic monster," Kullmann emphasised. Above all, small and medium-sized businesses would benefit from this. In the chemical industry, this levy adds up to roughly EUR 1.2 billion per year.

In the view of the VCI, a massive and significantly accelerated expansion of wind power and photovoltaics is also indispensable for achieving the goal of climate neutrality. However, it must be accompanied by the construction of modern gas-fired power plants because of the political push to phase out coal-fired power generation. "We must not jeopardise the security of supply that we need every hour of every day," warned the VCI President.

With more than 120 terawatt hours per year, **natural gas** is not only the most important energy source for the chemical industry, but also an essential raw material: Just under one-third of the natural gas it consumes per year flows into the production plants as raw material. This corresponds to approximately 3.2 million tonnes or 16 per cent of all raw materials used by the industry for organic production purposes. In order to achieve carbon neutrality by the middle of the century, the industry wants to adopt a cyclical approach to the use of carbon. The chemical recycling of plastic waste is an important part of this strategy, along with the direct use of CO_2 from the air. The VCI, therefore, welcomes the fact that the current federal coalition government is taking a differentiated approach to the importance of chemical recycling and wants to include it as a recycling option in the German Packaging Act (Verpackungsgesetz). The VCI views this step as a paradigm shift for climate policy and the circular economy.

For more private and public investment, however, faster and more efficient **approval procedures** are needed. The coalition wants to act here and at least halve the length of time needed for this procedure. “We welcome this very much. Approvals are the driving force for innovation and investment.” The idea that less bureaucracy creates more growth is also proven by a recent study by the institute “IW” on behalf of the VCI. If, for example, a company could be incorporated in Germany one day faster than at present, according to one of the results of the IW’s analysis, this could trigger roughly EUR 2 billion in additional direct investment.

The VCI also welcomes the fact that the German government wishes to play a constructive role in the debate on the **EU chemicals strategy.** “It is good and right that the coalition wants to focus on data, figures, facts and on the scientifically prudent principle of risk in this topic,” said Kullmann. “We support the goals of the sustainability strategy for chemicals. But these must be designed in such a way that they are practicable and capable of being planned for companies – especially for our SMEs – and can be implemented in a resource- and cost-efficient manner. Few things are worse for business than uncertainty. We, therefore, need a clear and solid transitional framework.”

The VCI represents the economic policy interests of more than 1,700 German chemical and pharmaceutical companies and the German subsidiaries of foreign corporations vis-a-vis the country’s political apparatus, the authorities, other sectors of the economy, the scientific community and the media. In 2020, the industry turned over almost EUR 190 billion and employed around 464,000 people.

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