

PRESS RELEASE

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- *Chemical business in the 1st half-year 2014: Production +3%, sales +2% / good domestic situation / further rise in employment*
- *The German chemical industry supports the transatlantic free trade agreement / TTIP brings a positive thrust in employment, remunerations and company profits / USA is the most important foreign market and production location for the German chemical industry*

Chemical companies are doing good business

Things are moving upward for the German chemical industry. Mainly the domestic business with industrial customers improved noticeably in the 1st half 2014. But orders for chemicals were back on the increase from the European neighbouring countries too. There was a rising demand from abroad in particular for specialty chemicals and pharmaceuticals. All this resulted in a good capacity utilisation of 85 percent for production plants, so the German chemical industry association Verband der Chemischen Industrie (VCI). In total, the production went up by 3 percent against the 1st half 2013.

VCI President Karl-Ludwig Kley assesses the situation of Germany's third largest industry: "The mood is good in our industry. The rising domestic demand brings full order books. Also in the EU – our home market – business is picking up. Our companies are confident that this development is going to last in the 2nd half 2014." According to Kley, the recovery of the chemical business is also driven by the demand from the USA and Eastern Europe. By contrast, there are hardly any growth impulses from Asia and South America.

Forecast: For the overall year 2014, the VCI maintains its forecast of a 2 percent increase in chemical production. With only slightly falling prices (-0.5%) the VCI expects sales to improve by 1.5 percent to ca. 193 billion euros.

German chemical industry - Figures for the 1st half-year 2014

Employment: There was a further rise in employment in German chemical companies. In a comparison with the previous year, the number of employed went up by 0.5 percent to currently 440,000 staff.

Sales: With a clearly higher production volume, German chemical industry sales expanded irrespective of falling prices (-2%): from January to June 2014, total sales amounted to 98 billion euros and were 2 percent higher than in the 1st half 2013.

Domestic sales increased dynamically. In the period under review they added up to 40 billion euros and were 3.5 percent above the level of the previous year. Because of the good situation of industry, imports of chemicals into Germany rose by 4 percent. However, foreign sales went up only slightly by 1 percent to 58 billion euros.

TTIP: A chance for the chemical industry

VCI President Karl-Ludwig Kley emphasised: “A free trade agreement with the USA is no cure-all for weak growth in Europe. For this, the EU should do its homework – for example, in the energy and climate policy.” All the same, TTIP could bring noticeable impulses for the economy – in the chemical industry and beyond. These impulses would reach the citizens as individuals too. The chemical industry expects impulses from three effects: tariff reduction, reduction of non-tariff trade barriers, and stimulation of the overall economy. Kley: “For these reasons, we need an ambitious agreement. But there can and there must be no compromise to lower the protection standards.”

Regulatory cooperation with a long-term approach would be the decisive advantage and a basis for lasting impulses for the chemical industry. Kley: “This is where TTIP could bring entirely new perspectives. It would be desirable to establish a permanent process where the possibilities are explored for an approximation of rules and regulations in the medium to long run.”

According to the VCI’s own calculations, the chemical industry in Germany would clearly benefit from TTIP. Potential effects for this industry: 2,000 new jobs, a production plus of 2 billion euros, and extra value creation of 600 million euros. Kley explains: “To go by experience, out of this higher value creation 70% fall to the share of new jobs and remunerations while higher company profits account for 30%. Consequently, the largest part would reach the employees.”

Tariffs are already low in trading with the USA. In the chemical sector the highest tariff rates are – depending on the product group – zero, 5.5 or 6.5 percent. Kley: “Given the enormous trade volume, even low tariffs cause high costs.” Back in the year 2010, some 140 million euros were paid to the US Treasury for exports from German chemical companies alone. Kley comments: “These costs are perfectly unnecessary; we could use the money for really meaningful investment.”

Furthermore, Kley underlined the following: “So-called **non-tariff trade barriers** are the major perspective.” According to a study by the research company Ecorys, here the possible savings potential is up to ten times higher than for tariffs. This is about the harmonisation of rules and regulations, the mutual recognition of standards, and possibilities to avoid duplication. Harmonisation would be possible, for example, in the classification and labelling of substances: The Globally Harmonized System (GHS) of the United Nations already provides worldwide applicable regulation. But the implementation of this framework agreement differs considerably between the various countries. Substances should be labelled with

the same warnings and symbols. Then, repacking and relabelling would be no longer necessary. Kley: “This would bring better safety and reduce the costs.”

Another advantage of TTIP would be a **stimulation of the overall economy**. As an “industry for industry”, this would benefit chemistry in particular.

According to the Ecorys analysis, the German chemical industry would rank among the winners of an ambitious free trade agreement – irrespective of the shale gas boom stateside. Kley gives some details: “US companies are clearly at an advantage where energy-intensive productions are concerned. But the US companies supply their basic chemicals mostly to emerging markets while German chemical businesses export mainly specialties and pharmaceuticals to the strongly growing US market. If tariffs and bureaucracy and regulatory costs can be lowered, TTIP would strengthen our competitiveness in specialty chemistry – also vis-à-vis third countries.”

The German chemical industry is already closely intertwined with the US economy. On par with the Netherlands, the USA is the most important foreign market: In 2013 the German chemical industry exported goods worth around 15 billion euros. The surplus amounted to over 4 billion euros. The USA is also the major production location outside Germany. The output of German subsidiaries (26 % of production) is almost three times as high as their output in China (9 %), the second important location abroad. German chemical companies employ ca. 70,000 staff in their US plants. Roughly 40 % of all foreign fixed asset investments by German chemical companies go stateside – tendency rising. Kley: “Against this backdrop, we are convinced that TTIP will stimulate the chemical business.”

The VCI represents the politico-economic interests of over 1,650 German chemical companies and German subsidiaries of foreign businesses. For this purpose, the VCI is in contact with politicians, public authorities, other industries, science and media. The VCI stands for over 90 percent of the chemical industry in Germany. In 2013 the German chemical industry realised sales of more than 190 billion euros and employed around 438,000 staff.