PRESS RELEASE
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1st half-year 2013: stagnating production and sales / industrial policy in election programs: more shadow than light

Winning the future with a strong chemical industry

The 1st half-year 2013 brought a mixed picture for the German chemical industry: stronger exports made up for weaker domestic business. In particular, trends were favorable for exports to other European countries. But all in all, production and sales stagnated at the level of the 1st half 2012 in Germany’s third largest industry. This was stated at the press conference of the German Chemical Industry Association (VCI) in Frankfurt.

Assessment by VCI President Karl-Ludwig Kley: “This can be explained, given the situation in the euro zone. The German chemical industry is even doing relatively well, as compared with our competitors in Europe.” However, he points out that chemical production in Germany is currently still 3 percent below the pre-crisis level 2007, or even 6 percent if pharma is excluded. Kley: “Therefore, we cannot be entirely satisfied.”

Forecast: Irrespective of the subdued business situation for the German chemical industry in the 1st half 2013, there is as much optimism as there is pessimism in the expectations of the companies. Nobody thinks that the German economy is sliding into recession. Against this backdrop, the VCI maintains its forecast of 1.5 percent growth in chemical production for the overall year 2013. Decisive factors from the VCI’s viewpoint: slightly improving domestic business, rising exports to neighbouring countries in Europe, and higher overseas exports.

Employment: The employment growth of the past 24 months came to a halt in the 1st half 2013. The number of jobs in German chemical companies remained at the level of the previous year. At present, ca. 434,300 staff are working in this industry.

Sales and prices: With stagnating production volumes and stable prices, total sales in the German chemical industry amounted to 90.8 billion euros, i.e. there was no sales increase against 2012. Domestic business dropped by 1.0 percent to 35 billion euros, because industrial customers ordered fewer chemicals. Foreign sales improved by 0.5 percent to 55.8 billion euros.
In the 1st half 2013 the situation relaxed somewhat on the raw materials markets. Prices for raw materials and energy were slightly lower due to the weaker global economy and higher raw materials production. Therefore, the former price increase for chemicals did not continue.

**Exports and imports:** Exports – this term includes foreign sales by chemical companies, re-exports and exports of chemicals by other industries – rose by 4 percent to 82.2 billion euros in the period under review.

Exports to North America fell by 2 percent. But this was attributable solely to special factors in the pharma business. In all other chemical sectors, an increase by 4 percent was achieved in exports to the NAFTA region.

It is encouraging that chemical exports to other European countries rose by 6 percent from January to June 2013. VCI President Kley sees this as "a positive sign which, however, does not mean that we can already relax – as far as the home market for our industry is concerned."

In the period under review, imports of chemical products were worth 54.1 billion euros and thus 0.5 percent lower than one year earlier.

Like in the past, the foreign trade balance of the chemical industry remains strong. With 28.1 billion euros in the reporting period, the chemical industry made another important contribution to Germany’s export surplus.

**Industrial policy: identify problems and find pragmatic solutions**

From the VCI’s perspective, the election programs of the big political parties do not provide sufficient answers for improving the competitiveness of this country. VCI President Karl-Ludwig Kley warns against standstill in industrial policy in the next legislative period. “I am particularly worried about four aspects: lack of planning in the energy policy, excess in the fiscal policy, cluelessness in the health policy, and lack of courage in the research policy.” Kley also criticizes the emphasis in the political concepts: “Perhaps elections can won with slogans like fair distribution and security. But we cannot win the future with them. We can only win the future with a strong industry generally and with a strong chemical industry.”

The *Energiewende* (energy turnaround) is the largest joint project in this country since the rebuilding of East Germany. Instead of tight project management with a market economic attitude, so Kley, the public administration is relying on a planned economy for implementing the Energiewende – with “political
inconsistencies, fighting about competencies and an ideological patchwork approach” which cause exploding costs. This is to the detriment of German industry in international competition. “A dangerous situation for a strongly export-dependent country like Germany.” Kley calls for a restructuring from scratch of the Energiewende, as soon as possible after the formation of a new federal government. He believes that readjustments in just a few points of electricity pricing are not enough to effectively put a break on costs. Furthermore, the VCI President wants a European solution: “An Energiewende 2.0 needs to be integrated in the European single market – national go-it-alone initiatives are useless.” Kley is clearly negative about ongoing considerations to increase the wealth tax. In terms of industrial policy, he thinks that the debate about once more changing the inheritance tax (last reformed in 2008) is “grotesque” – meanwhile the family-owned and owner-managed businesses have learned to cope with the 2008 solution. “We must not return to the situation as it was before. I am urgently calling upon all political parties to shape their fiscal policies with a good sense of proportion and with industrial policy expertise. Arbitrary action loaded with ideology does not help anyone.”

**Health policy:** Kley wants politicians to strengthen Germany as a location of the pharmaceutical industry. Medical-technical progress does not come for free. With an outlay of up to 1 billion euros for the development, licensing and market introduction of one single medicine with a new active substance, appropriate pricing by manufacturers is essential for the medical innovations of the future. Kley underlines: “Germany has lost its nimbus as the pharmacy of the world. But we want to prevent that our country comes to depend entirely on the pharmacies of others.” According to Kley, the German pharma industry is still strong enough to play an important role in the world market – but obviously, the pharma industry needs a sound economic basis at home.

**Promoting innovation:** With its research & development spending of around 9 billion euros most recently, the chemical-pharmaceutical industry ranks among the most research-intensive sectors. Suitable framework conditions are needed so that ground-breaking new products and materials can come from Germany also in the future. Therefore, Kley is demanding innovation-friendly rules under fiscal law and in the patent legislation. The general innovation climate is equally important. The societal environment in Germany should reward creativity and a spirit of research instead of restraining them.
Kley: “So long as we respond right away with rejection to the theoretical risks of new technologies, we put shackles on our competitiveness.” Chances and risks need to be weighed responsibly, but so far this is not discernible in Germany for plant biotechnology, nanomaterials or fracking. This needs to change.

The VCI represents the politico-economic interests of some 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 2012 the German chemical industry realized sales of more than 186 billion euros and employed ca. 434,000 staff.

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