PRESS RELEASE

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Framework conditions for start-ups improve

Chemical and pharmaceutical research continues its growth course

- New record: research expenditure has increased to approximately 11.8 billion euros
- Immense R&D intensity: more than 5 per cent of turnover is invested in research
- Strong competitive pressure: we must continue to strengthen Germany's position as a location for innovation
- Chemical start-ups: good ideas, insufficient growth financing
- Graphics: www.vci.de/infografiken

2018 has been a top year for research in the German chemical-pharmaceutical industry with companies spending approximately 11.8 billion euros on research and development (R&D). With this, Germany's third biggest industrial sector has, once again, invested more than 5 per cent of its turnover in R&D. This is shown by the latest research figures which the German chemical industry association - VCI presented in Frankfurt. For the current year, the VCI predicts that the industry's R&D budget will reach the 12 billion euro mark. In an international comparison, Germany remains the fourth biggest chemical and pharmaceutical research location after the USA, China and Japan.

There is, however, also a downside. With view to the new figures, Thomas Wessel, Chairman of the VCI Committee for Research, Science and Education, says, "In the mid-term, it is becoming increasingly difficult for Germany to defend its good position as a location for research and production. Many industrial and emerging countries support the innovative strength of their businesses as a pre-requisite for growth and prosperity. China, in particular, has a considerable expenditure for research. In only 17 years, the People's Republic has managed to become the number two of the international research locations in the chemical industry after the USA."

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Wessel therefore thinks, “German chemical and pharmaceutical companies face a two-fold pressure to act. On the one hand, they need to assert themselves in the worldwide increasing competition and, on the other hand, they must use their expertise to find answers for important social and ecological challenges. At the same time, they need to bring their research findings to the market quicker than previously.”

Chemical start-ups require more help in the early phase

With regard to this development, Wessel says, “We need to promote talented founders and inventors to strengthen Germany’s position as a place for high-tech industry.” Chemical start-ups, in particular, are, as agile and fast players in innovations, able to advance new ideas quicker and stimulate competition for the best solutions for customers and users of chemical products. “However, weak points such as too much bureaucracy, insufficient growth capital and a lack of infrastructure and start-up mentality make it harder for young innovative start-ups,” explains Wessel. He therefore suggests a noticeable reduction in bureaucracy as well as a simplification in the funding programmes. Possibilities here could, for example, include a faster assessment of applications and credit checks customised to start-ups.

In the German venture capital market, investments in young chemical companies only play a small role. From 2015 and 2018 on average only 0.3 per cent per annum of all risk capital investments in Germany went to chemical start-ups. Venture capital funding shouldn’t therefore only be orientated to digital fields, continues Wessel, but should also cover the needs of young innovative companies which develop materials and active substances and have considerable capital requirements due to long development times. “Highly promising ideas shouldn’t fail due to a lack of money for the growth phase,” underlies the Chairman of the VCI Committee for Research, Science and Education.

However, suitable framework conditions need to be created to promote innovations and this applies to all chemical and pharmaceutical companies irrespective of their age. Wessel describes the planned introduction of tax incentives for research for all companies at the beginning of next year as setting the right course for the necessary additional innovation impetus. “If the funding is properly and feasibly realised, it will lead to more jobs and greater value creation in the long-term,” he emphasises. This includes those awarding the contracts receive the tax incentives as they carry the entrepreneurial risk of the research. This is particularly important for small and mid-sized enterprises as contract research is of considerable significance to them. At the same time, it is necessary to gradually increase the tax incentives for research. The currently suggested funding of 500,000 euros per year per company will encourage businesses to invest more in R&D but only to a limited degree.

In addition, Wessel recommends a cross-departmental innovation policy coupled with the High-Tech Strategy 2025. Likewise, sufficiently financed funding programmes with a broad technological orientation are also required to maintain the level of research in Germany. Wessel also views an innovation check in the legislation in Germany and Europe as being necessary. This can assess the impact of existing and future regulations on new products and processes.

The VCI represents the politico-economic interests of around 1,700 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 2018 the German chemical industry realised sales of 203 billion euros and employed ca. 462,500 staff.

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