

PRESS RELEASE

3 December 2019

Annual stocktaking 2019 of the German chemical-pharma industry

Weaker result for chemistry in a difficult environment

- Production -7.5 percent, sales -5.0 percent against the previous year
- Employment increase to 464,800 staff (+0.5 percent)
- Forecast 2020: production +0.5 percent, sales +0.5 percent
- Industry wants to secure the future through more innovation, digitalisation and sustainability
- The political course could boost investments

2019 was a difficult year for the chemical-pharmaceutical industry. Sales of Germany's third largest industry fell by 5 percent to 193 billion euros, according to its national association Verband der Chemischen Industrie (VCI).

The global economic downturn and the trade disputes between China and the USA adversely affected the industry's foreign business both overseas and in Europe – while the domestic demand for chemical products from industrial customers declined. As a result, total production fell by 7.5 percent. However, this figure is strongly influenced by a special statistical effect in the pharma sector of -16.5 percent. For chemistry excluding pharma, a production drop by 2.5 percent was recorded. Volumes were lower in all sectors, with the exception of consumer-related products such as detergents and personal care products (+1.0 percent) as well as inorganic basic chemicals (+1.0 percent).

Irrespective of the weak situation of chemistry, the number of staff rose slightly (+0.5 percent to 464,800). This is the highest level of employment since 2001, so the VCI. Exactly 50,000 additional jobs have been created in the industry over the past nine years.

Forecast 2020 – VCI President Hans Van Bylen states: “At present, our member companies do not expect their business to improve in the next months. The weak economic momentum will continue well into the coming year. Foreign markets are also unlikely to provide any strong impetus for a trend reversal in the chemical industry.” For 2020, the VCI thus anticipates only a slight production increase by 0.5 percent for the chemical-pharmaceutical industry, with expected growth

relying on the pharma sector (+2.0 percent). At stagnating prices, the industry's total sales should climb by 0.5 percent to ca. 194 billion euros.

Securing the future – What our industry is doing

VCI President Van Bylen emphasises that the industry wants to step up its efforts in the fields of innovation, digitalisation and sustainability – to be prepared for economic fluctuations or adverse political framework conditions (such as trade conflicts) and to secure its future at the location Germany. With currently 12 billion euros per annum, the industry already holds a top position in **research spending** both nationally and globally. The expenditure is to climb even further: The VCI assumes that the real rise in R&D investments will average 2.5 percent per annum in the long-term average. Furthermore, in the future the industry will have to deal more closely with its customers' requirements and intensify cooperation, in order to develop individual solutions for more sustainable products for them.

Therefore, the industry also bets on **digitalisation**. Van Bylen: "Digitalisation offers great potential for our industry." The analysis of big data and the use of artificial intelligence increase the chances of finding substances with new or improved properties many times over. Qualified staff are needed to fully utilise this potential of digitalisation for research and production. An important part of the digital qualification takes part in the companies themselves. Last year, the chemical industry was among the first industries in Germany to introduce an optional qualification "Digitalisation and networked production" for the technical career of "Chemikant" which requires formal vocational training.

The VCI President underlines the following: "Our industry consistently drives forward the sustainability of products and processes, in order to safeguard our future viability. We are expressly committed to **climate protection** and act accordingly." Since 1990, the chemical industry has reduced its greenhouse gas emissions by almost 50 percent. Now it is facing the challenge of achieving greenhouse gas neutrality by 2050. A recent study shows that it is technologically possible for the German chemical industry to bring about greenhouse gas neutral production by 2050. To this end, the companies need to invest 45 billion euros in a new generation of plants. Furthermore, companies require enormous amounts of electricity from renewable energies at much lower prices than today, so that the transformation of processes can succeed.

Also, major progress in the changeover of the **raw material base** and circular economy are needed for the goal of greenhouse gas neutrality, so the VCI stresses. The use of CO₂, a higher share of biomass and recovery of plastic waste, e.g. by means of chemical recycling, are planned to almost fully replace the fossil basis in the production of basic chemicals by 2050. At present, the industry uses over 90 percent of fossil raw materials. By 2050, this share could drop to merely 6 percent.

Boost investments – What the public administration should do

From the VCI's view, shorter approval procedures, lower company taxation and reduced bureaucracy costs are important to set a political course for more investments. The VCI finds that there is a need for action regarding all three location criteria:

The duration of **approval procedures** for industrial plants has continuously increased due to the growing amount of documentation to be submitted by the companies. For example, currently the approval procedures by the competent authorities under the immission protection legislation rarely take 6 months and frequently up to 24 or 36 months. A survey of the federation of German industries BDI in this country's industry reveals that the processing duration has increased by up to 100 percent over the past 10 years. The VCI President points out: "This trend must be stopped and reversed to improve the attractiveness of the industry location Germany in international competition."

This problem is closely linked with the reduction of bureaucratic obstacles. The companies are struggling with rising **bureaucracy costs**, even though the three bureaucracy reduction acts were intended to have the opposite effect: In fact, the Regulatory Council Council (NKR) recently notes in its report that since 2011 the existing costs for fulfilling the obligations under laws and regulations have climbed by roughly 5 billion euros for German industry. One-off compliance costs have even risen by over 12 billion euros, half of which are attributable to regulation from Brussels. Van Bylen: "Therefore, we support the initiative by the EU Commission's President to reduce here, too, the burdens on companies caused by bureaucracy."

Since the tax reform 2008, Germany has developed into a high-tax country for companies because of stealthy tax increases and, in particular, tax cuts in many countries inside and outside Europe. At 31 percent of the assessment base, the **tax burden** is high for German companies in the global comparison and has the opposite effect of what is desired by the fiscal policy. VCI President Van Bylen emphasises: “Reforms towards an internationally competitive tax level must not be postponed any longer. In the end, lower tax burdens on companies benefit everyone. More investment, more innovation and more employment – and thus higher tax revenues overall.”

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 more than 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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