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**Statement to the press by Mr Kurt Bock,**

**President of Verband der Chemischen Industrie (VCI),**

**20 July 2017 at the half-year press conference in Frankfurt**

(Check against delivery)

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## **I. Business situation of the industry**

Ladies and Gentlemen:

The 1st half-year 2017 developed positively for the German chemical industry. The industry's sales rose significantly. The economic environment in Europe supported the upward trend. The upswing continued in most European countries, thanks to the lasting effect of the special factors of cheap oil, weak euro and low interest rates. Consequently, industrial production gained in speed – together with a growing demand for chemicals.

However, regarding volumes there were still little dynamics due to a further drop in petrochemical feedstocks. Production in the German chemical-pharmaceutical industry climbed by 1.5 percent in the 1st half 2017. Capacity utilisation was good at ca. 87 percent.

So far, potential negative economic effects of the forthcoming Brexit and the new direction of the US economic and trade policy have not made themselves felt in the indicators.

Production developments by sectors

Developments were positive in all sectors, with the only exception of organic basic chemicals.

Trends were mixed in **basic chemistry**. Production expanded by 3 percent for manufacturers of inorganic basic chemicals. Polymer production – which includes both plastics and man-made fibres – improved by 2.5 percent in the period under review. But the production of petrochemical feedstocks fell by 3.5 percent.

The good situation of industry in Germany and Europe brought brisker business for **fine and specialty chemicals**. Production went up by 1.5 percent from January to June 2017.

Consumers were in a buying mood in the initial six months of the year. This also benefited our manufacturers of **consumer-related products**: The production of soaps, detergents and cleaning agents or cosmetics expanded by 1.5 percent.

The demand for **pharmaceuticals** remained robust, with manufacturers achieving a production increase by 3.5 percent.

### Producer prices

Because of good capacity utilisation and rising oil prices, producer prices went up by 3.5 percent in the 1st half 2017. The developments for raw material prices:

- In the 1st half 2017, the price of **crude oil** (ca. 52 dollars per barrel) was 34 percent higher than one year ago.
- During the same period of time, the price of **naphtha** also increased by over 30 percent to 428 euros per tonne.

With good capacity utilisation and growing demand, chemical companies realised price increases for many basic products.

### Sales

Rising producer prices and slightly higher volumes brought a major sales increase for German chemical and pharma companies. In the 1st half 2017, sales climbed in total by ca. 5 percent to 96.9 billion euros, equally relying on the domestic demand and the export business.

- Domestic sales improved by 4.5 percent.
- Foreign sales even went up by 5 percent. The export share of the industry remains unchanged at 61 percent. Alongside business in Europe, sales to North America and Asia increased considerably too. By contrast, the persistently difficult situation in Brazil has a dampening effect on business in Latin America.

## Employment

Compared with the previous year, employment in the industry rose by 0.5 percent to 449,300 staff.

## Outlook

At present, business sentiment is generally good in the industry. In view of strongly rising sales, the current situation is assessed as positive. For the 2nd half-year, too, companies are expecting good business to last.

Especially for all markets important to the German chemical industry, companies are anticipating stable economic growth well into the coming year. This applies not only for Europe but also for our most important trading partner: the USA.

## Investment

The confidence of the industry is reflected in planning for fixed asset investment in Germany. In the current year 2017, the companies want to increase their investments in production plants and machines to roughly 7.5 billion euros. This record figure corresponds to a rise by 6.7 percent or around 470 million euros against 2016.<sup>1</sup>

Also foreign investments<sup>2</sup> of the German chemical industry are climbing again in the present year, going up by 5.8 percent to 8.4 billion euros. It is noticeable that in 2017 Europe's share in foreign investments grows to 27 percent, compared with just under 22 percent in the previous year.

## Forecast for the overall year 2017

Against the backdrop of the economic developments in the initial six months and with a stable outlook, we are raising our forecast for the overall year 2017: Now we are assuming production growth in our industry of 1.5 percent (previously: 1 percent). With prices increasing by 3.5 percent, sales should rise by 5 percent to 194 billion euros.

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<sup>1</sup> Domestic investments of the industry in billion euros: 2015: 7.14 | 2016: 7.03

<sup>2</sup> Foreign investments of the industry in billion euros: 2015: 8,6 | 2016: 7,9

## II. Industrial policy expectations to the political parties in the run-up to the German federal elections 2017

Germany is doing well at the moment, especially in an international comparison. The encouraging development of the labour market and tax revenues<sup>3</sup> that will continue to rise also in the future give the public administration much scope for action for the next legislative period. Now this favourable situation should be used to maintain and enhance the competitiveness of the location Germany and to make this location fit for the future. The investment deficit needs to be overcome.

Regarding the federal elections, we call upon all political parties to strengthen the location Germany by way of good industrial policy – as all measures for more social justice, better education and more internal security should be financed without additional public debt. Strong and globally competitive industry is a major prerequisite for this.

Industry is of eminent economic importance for our country: With just under 23 percent, its share in value creation is almost twice as high as in the USA, France or Great Britain. As an employer<sup>4</sup> and a tax payer<sup>5</sup>, industry decisively contributes to stability and prosperity in Germany.

The present legislative period brought some encouraging starting points with the sector dialogues of the Federal Ministry for Economic Affairs and with the “Alliance Future of Industry”. But apart from that, hardly any concrete progress has been made in the past four years for more competitiveness and a better innovation ability. Now the speeches praising the importance of industry and election promises should be followed by deeds. We need more substance in the industrial policy, with the goal of really strengthening the location Germany.

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<sup>3</sup> +120 billion euros compared with 2017 for the federal government, German federal states and municipalities to 2021, according to the Federal Ministry of Finance (BMF)

<sup>4</sup> 6.1 million direct employees in industry

<sup>5</sup> Total of corporate taxes 2015: well over 123 billion euros (18.3% of tax revenues)

## Political fields of action

From the VCI's perspective, these are the most important fields where the course should be set in the next legislative period:

### ► **Cap energy costs and bring climate protection in an international framework**

Due to the rising EEG charge, German industry pays top prices for electricity in an international comparison. Especially small and medium-sized enterprises, which do not benefit from burden easing, pay ever higher costs. A genuine cost brake through "more market" is urgently needed in the energy transition, or *Energie-wende*. At the same time, alternative funding of the further expansion of renewable electricity generation should stabilise the EEG charge for consumers and faster bring it back to zero. Planning must become more reliable for industry, so that energy-intensive companies return to higher investments. This is not complaining for complainings sake, as is shown by the fact that production – particularly of energy-intensive petrochemicals – is constantly falling in Germany.

Here our proposal for the new funding system: From 2019, new wind and solar power plants should be funded from the federal budget and not through the EEG charge. Existing plants would be exempted from that step.

German industry contributes to climate protection with its innovative processes and products – which reduce emissions in our industry and among our customers – and also through emission trading. With the given reduction factor, the latter reliably cuts greenhouse gases in the EU. Therefore, it is superfluous to lay down specific reduction targets for the industry under a national climate protection act. National go-it-alone action merely causes further unnecessary cost burdens for companies, without benefiting the environment.

### ► **Enable innovation and support life sciences**

More investments are needed in research and development. The goal should be to raise in Germany the share of R&D spending in GDP from currently 3.0 to 3.5 percent. Project funding by the public administration needs to be expanded for this, with award procedures becoming less bureaucratic and open to a wide range of technologies. More project funding is called for e.g. in our industry, in order to fully use the immense potential of life sciences. The incoming federal government should support both basic research and applied science in this future-oriented field. Also indispensable are adequate reimbursement for innovative medicines and a setting where modern plant protection is possible.

In this connection, I am urgently asking the political parties not to condemn right from the start the new molecular biological methods collectively called genome editing so that they cannot be put into practice in Germany. The value of genome editing is enormous for research, medicine, crop breeding, food and industrial production. Here, politicians in Berlin and Brussels can give an example to show that they are willing to integrate an “innovation check” as a binding element in the impact assessment of legislation.

Another important lever to increase research intensity is the introduction of fiscal incentives for research and development. This can create more innovation incentives for companies in an unbureaucratic manner and result in new knowledge. Furthermore, fiscal incentives are no one-way street. They can bring welfare gains for the overall economy, as is emphasised by various studies and expert bodies. Meanwhile, there is broad consensus among most political parties on the benefits of fiscal incentives for research. After several failed efforts in the political arena, the next attempt to introduce fiscal incentives for research should be successful directly after the elections – for all research-oriented companies, no matter whether large or small.

#### ► Invest in education

Industry needs excellently qualified scientists, engineers, technicians and skilled workers. Good education – especially in nature science subjects – is a prerequisite for this. More staff and better funding should be available in schools and universities, in order to improve the quality of teaching. Taking the GDP as a yardstick, the education spending in Germany is clearly below the OECD average.<sup>6</sup> Also where the absolute public spending per citizen on education measures is concerned, Germany ranks on one of the lower places in an international comparison. A country with a low ranking in education cannot permanently hold the role of world champion in innovation – but this is what we need to do if we want to maintain the strength of the location Germany.

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<sup>6</sup> OECD average 2013: 5.2% of GDP; Germany 4.3%

## ► Make available modern infrastructure

It is essential to keep up the ability to perform of Germany's transport infrastructure. The substance of streets, bridges and locks is in danger; railway lines are overburdened. The VCI has identified some 60 priority improvements<sup>7</sup> in the direct surroundings of chemical sites. From our viewpoint, these should be tackled as soon as possible.

Chemistry 4.0 depends on fast data connections to the internet. Broadband expansion needs to advance much more rapidly, also geographically: as the basis for the digital transformation of industry and for new business models. 70 percent of all industry jobs<sup>8</sup> are in rural areas. Many of our "hidden champions" are small and medium-sized chemical enterprises. They total around 1,900 businesses and are often located outside the large urban centres. Just like their customers and suppliers, they too need high-performance connections to the internet if they want to keep up with their competitors in India and China also in the future.

Ladies and Gentlemen:

Politics concern all citizens, because political decisions impact us all. The VCI will contribute to as many staff as possible from our industry casting their votes in the forthcoming federal elections.

With the "Chemistry Navigator" we do not just want to encourage our employees to turn out for the elections. We also want to enable them to learn already in the run-up to election day about the industrial policy positions of the political parties and the association regarding eight topics of special importance to chemistry – because industrial policy is easily neglected in election campaigns, even though it has major impacts on companies and jobs.

The Chemistry Navigator is an internet-based information tool. It is neutral where party policies are concerned, it does not give any election recommendations, and it can be used anonymously. This online offer from the VCI will be available from mid-August.

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<sup>7</sup> VCI position „The most important transport infrastructure projects for the chemical industry“

<sup>8</sup> Source: BDI (Federation of German Industries), June 2017

In the next legislative period, the incoming federal government can set the course for a better ability to innovate at the location Germany. A positive environment for innovation and investment – combined with efficient regulation – will release forces that noticeably mobilise Germany's overall economic performance. This benefits each individual citizen.

This is also underlined in an analysis by the research institute Prognos<sup>9</sup>. This analysis was carried out additionally to the joint project on the development of our industry to 2030. Good industrial policy with the measures that I have just explained would clearly stimulate the gross domestic product<sup>10</sup> and industrial production (compared with the basic scenario). In our industry, investments and research spending would increase significantly while energy consumption would drop.

Conclusion: In their efforts to win the trust of citizens and to assume the political responsibility for this country in the next legislative period, none of the political parties should forget the following: Industrial policy is the policy for Germany's future.

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<sup>9</sup> The German chemical industry 2030 – update 2015/2016, alternative scenarios (June 2017)

<sup>10</sup> Change against basic scenario in %: GDP +2.6, industrial production +3.0; chemistry: investments +9.9, R&D spending +7.0, energy consumption +5.4