Translation / Original: German

Statement to the press by Dr. Karl-Ludwig Kley,
President of Verband der Chemischen Industrie (VCI),
11 July 2013, Frankfurt

Winning the future with a strong chemical industry

(Check against delivery)

Business situation of the German chemical industry in the 1st half-year 2013 and outlook for the overall year

Ladies and Gentlemen:

The 1st half-year 2013 was mixed for the German chemical industry. Exports improved while business dropped in Germany. Exports made up for the weaker domestic business.

Production and sales stagnated at the relevant level of 2012. Thus the expectations, as we had forecasted them for our member companies, did not come true. 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, we prefer growth to stagnation. Our production is still 3 percent below the pre-crisis level 2007, or even 6 percent if we exclude pharma. Therefore, we cannot be entirely satisfied.

With 84 percent on average, capacity utilization of our plants was good. But production increases were recorded only for medicines, polymers and consumer chemicals. The level of the 1st half-year 2012 was not maintained in the other product segments.
Here the figures for the various sectors:

**Business situation in the chemical sectors**

Petrochemicals production fell by 2.5 percent from January to June. The output of inorganic basic chemicals dropped by 1.5 percent. An increase by 2.5 percent over the previous year was achieved only for polymers.

Weak business in Europe put a strain on fine and specialty chemicals where a production decline by 2.0 percent was recorded.

For chemicals close to consumers, the production level of the 1st half 2012 was exceeded by 3.5 percent.

Pharmaceutical production rose by 3 percent in the first six months of 2013.

**Prices**

The situation on the raw materials markets relaxed in the period under review. Given the weaker global economy together with higher raw materials production, prices for raw materials and energy dropped slightly. Our selling prices were practically unchanged.

**Sales**

With stagnating production volumes and stable prices, sales did not expand in the German chemical industry and stayed at 91 billion euros.

Domestic sales by German chemical companies fell by 1.0 percent to 35 billion euros. By contrast, foreign business improved by 0.5 percent to 56 billion euros. More orders were received from European neighbouring countries. It remains to be seen whether this trend can be sustained.

**Exports and imports**

Exports rose by 4 percent to 82 billion euros. This figure includes foreign sales by chemical companies as well as re-exports and exports of chemicals by other industries.

For the first time in a while, overseas exports showed a downtrend (-1.0 percent), due to the weakening of the economy in Asia and Latin America.

Exports to North America dropped by 2 percent. But this was attributable solely to special factors in the pharma business and does not change our positive
assessment of the North American market where exports from all other chemical sectors increased by 4 percent.

In the 1st half 2013, exports to other countries in Europe were encouraging (+6.0 percent). This is a positive signal which, however, does not mean that we can already relax.

Industrial customers in Germany ordered fewer chemicals. This is reflected on the import side too: from January to June 2013 imports of chemical products totalled 54 billion euros and were thus 0.5 percent lower than one year earlier.

Like in the past, the foreign trade balance of the German chemical industry remains highly positive. In the period under review, our industry contributed 28 billion euros to Germany's export surplus.

**Employment**

As was anticipated six months ago, the employment growth of the past two years did not last in the 1st half 2013 – due to the persistent economic uncertainty. The number of jobs was constant in the German chemical industry, i.e. there are 434,300 staff at present.

**Outlook for the 2nd half-year 2013**

Even though the chemicals business as a whole is assessed as subdued generally, our member companies are rather satisfied with the economic situation. They see their current position mainly positively.

But there is ambivalence in the look ahead: business expectations of chemical companies can be called "neutral", concretely: there is as much optimism as there is pessimism for the months to come. Most companies think that the chemicals business is unlikely to pick up in the 2nd half 2013. On the other hand, nobody believes that the German economy is going to slide into recession.

Slight growth in 2013 might be recorded in Europe, after falling industrial production figures over two years. Therefore, we assume that the German chemical industry might achieve a minor plus in the 2nd half 2013, both in Europe and domestically.
Growth in Asia and South America is unlikely to regain its former dynamism quite so soon. We think that there will be a “soft landing” in China. With a stimulation of domestic consumption, China should get back to stable growth.

Irrespective of the fiscal cliff, we are positive about prospects for the economy in the United States. The expansive monetary policy and the investment boom triggered by cheap shale gas are the drivers of the US economy at the moment. We cannot say whether this upswing will last. This could be seen if the monetary policy is tightened in 2014. But it can be assumed that the monetary policy will continue to be used as a stimulant of economic growth.

German chemistry will continue to benefit from the overseas demand which, however, will be less dynamic than we had projected back in December 2012.

For the overall year 2013 this general picture can be outlined for our industry:

- Slightly improving domestic business,
- rising exports to European neighbouring countries,
- slightly higher overseas exports.

**Forecast for the overall year 2013**

This means in figures: for the overall year 2013 we maintain our forecast that chemical production will increase by 1.5 percent. Producer prices are unlikely to rise on the annual average. Thus, chemical industry sales should go up by 1.5 percent to 190 billion euros.

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

Ladies and Gentlemen:

With the forthcoming federal elections and in the hot phase of the election campaign, it is no longer possible to make any lengthy statements on topics of a fundamental nature. Therefore, I would take this opportunity to make just a few observations on the industrial policy.

Figuratively speaking, industry is the pulse for Germany’s prosperity and growth. At the meta-level, this recognition has arrived in politics – but, unfortunately, it has not fully arrived at the practical level.
Concrete steps of progress were rare over the past years. One positive example are the rules on short-time work (Kurzarbeitergeld) which prevented a dramatic worsening of the labour market in the crisis years 2009 and 2010. Another positive signal was – and is – the spending by the German federal administration on education and research. Since 2006, this spending has risen by 55 percent to currently 14.5 billion euros.

I cannot emphasize it enough: the most crucial element was the implementation of the “Agenda 2010”. It has decisively contributed to improving the competitiveness of our country and to securing jobs.

Such positive initiatives need to be further driven forward. Standstill in industrial policy would be a step backward for our country. A practice-oriented industrial policy needs to be at the very top of the agenda in the next legislative period. Not ideologically motivated debates about distribution – the so-called Verteilungsdiskussionen.

Unfortunately, a look at the political party programmes shows more shadow than light. 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.

The Energiewende (energy turnaround) is the largest joint project in our country since the rebuilding of East Germany. Unfortunately, at the moment the Energiewende also appears to be the most botched project.

Instead of tight project management with a market economic attitude, the public administration so far relies on a casual planned economy – without a plan. Inconsistencies, fighting about competencies and an ideological patchwork approach cause mainly one thing: exploding costs.

This is highlighted, in particular, by the renewable energy sources act (EEG). The EEG allocation (EEG-Umlage) is likely to rise from 5.3 cents at present to more than 6 cents in autumn. For 2014, we must expect another rise to roughly 7 cents. It should be noted that the EEG alone costs us 20 billion euros per annum already now.
Out of this total, the chemical industry is currently shouldering 800 million euros, with a increase to probably over 1 billion euros in 2014 – additionally to normal electricity prices. Here, I am only talking about the extra costs due to the EEG. This is money which needs to be earned first.

Over 90 percent of chemical businesses pay the EEG allocation. The vast majority of the over 1,650 VCI member companies – mainly small and mid-sized enterprises – are not exempted from the EEG allocation.

Every further cost increase reduces our scope for entrepreneurial action. Our position in international competition is worsening. This is a dangerous situation for a strongly export-dependent country like Germany. At the very least, it is not a situation that can be watched calmly. And it is not a situation where politicians can limit themselves to the earlier mentioned “Verteilungsdiskussionen” and ignore the rest.

There is only one answer to the cost-madness of the EEG: we need to restructure the Energiewende right from scratch. Readjustments in just a few points – like putting the break on electricity prices – are not enough. We need to put the break on costs generally. Priorities must be set for targets and measures. Subsidies should be reviewed, and this means all subsidies. A difference must be made between what is desirable and what is feasible.

Here, we need a European solution. An “Energiewende 2.0” needs to be connected with the European single market – national go-it-alone initiatives are useless or bring nonsensical results. This clearly emerges from the interactions between the EEG and the EU Emissions Trading System (ETS).

With ETS, Brussels introduced in 2005 an instrument intended to limit CO₂ emissions and created a market for “pollution rights” – with the costs to be included in industry prices.

But then, Germany with the EEG stimulates not only the expansion of renewable energies but also sees to a reduction of CO₂ emissions in energy generation. The effect: CO₂ is reduced diligently in return for the costly “Einspeisevergütungen” (pricing system promoting energy from renewables). Energy suppliers were very glad about this and put their surplus ETS allowances on the market.

The grotesque outcome: Quite logically, CO₂ prices come under pressure. Brussels and the German environment ministry claim a market failure of ETS – and create backloading. With this, CO₂ prices are to rise again so that industry pays another time for all this.
Let me sum up briefly. The public administrations have introduced two regulatory tools that stand in contradiction to each other, and now they are looking for someone to foot the bill: namely, industry.

The Energiewende can be achieved only with industry and with chemistry – not against them. The Energiewende would be a Potemkin village without the products from the chemical industry. It is a well-known fact that a Potemkin village cannot be sustainable.

At the moment, our energy policy is a train to nowhere. After the formation of the new federal government we will urgently need a concrete timetable which makes energy not only clean but also reliable and affordable. Otherwise, we are heading right to a dead-end track internationally.

The lost sense of proportion – like in the energy policy at present – is observed in the fiscal policy too.

Tax revenues are going up to ever new record marks and likely to reach over 700 billion euros in 2017. Regardless of this, discussions are lively about tax increases. Where is the limit to this – with the recognition that one cannot simply keep distributing but that funds must be earned first? At the moment, we have no revenue problem. We have a spending problem. Here is the starting point for further efforts – instead of yet more tax increases.

The debate about wealth and inheritance taxation might be understandable as part of election strategies, but it is grotesque in industrial policy.

Wealth and inheritance tax – this sounds like the Robin Hood principle: take from the rich and give to the poor. But where those who are said to be rich have tied up their assets in family-owned companies, Sherwood Forest is a complicated place. Here, too, I am calling to revive good common sense. First of all, Robin Hood took a very good look at his victims. He did not act blindly.

Inheritance tax was reformed only in 2008 – so that only a severe attention deficit can be the reason why politicians want to deal with it once again so soon. 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.
Therefore, I am urgently calling upon all political parties to shape their fiscal policies with the right sense of proportion and with industrial policy expertise. Arbitrary action loaded with ideology does not help anyone.

With the keywords arbitrary action and ideology, let me move on to the health policy.

Listening to the public debate, one might get the impression that the chemical-pharmaceutical industry is the proverbial coffin nail in the costs of the German health system. It is conveniently forgotten or overlooked that here, too, this industry is part of the solution – not of the problem.

The importance of this industry to the national economy is only one feature in the whole story. Its significance in medicine is the other. Today, innovative medicines cure diseases which were not or only inadequately treatable in the past and caused high consequential costs.

Obviously, 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. This provides the financial basis for the medical innovations of tomorrow. There is no other way of saying this.

Politicians need to strengthen Germany as a location of the pharmaceutical industry. Germany has lost its nimbus as the pharmacy of the world. But we should prevent that our country comes to depend entirely on the pharmacies of others. The German pharma industry is still strong enough to play an important role in the world market – and obviously, the pharma industry needs a sound economic basis at home.

In Germany, we have no time for ideological in-fighting in the research and innovation policy, either.

With its research & development spending of around 9 billion euros most recently, the chemical-pharmaceutical industry ranks among the most research-intensive sectors in this country. The right framework conditions are needed so that ground-breaking innovations can come from Germany also in the future. Obviously, this means innovation-friendly rules under fiscal law and in patent legislation.
But mainly, I am concerned about the innovation climate in Germany. Our researchers and scientists are passionate about shaping the future. For this, they need to feel that they have their place right in the middle of our society – in a societal environment which rewards creativity and a spirit of research instead of restraining them.

This includes for our society to accept certain risks. Research is the controlled going beyond known borders – needless to say, that careful consideration must be given to the risks too. This “going beyond borders” needs to be possible or we will stagnate as a society. So long as we respond with rejection to the theoretical risks of new technologies right from the start, we put shackles on our competitiveness.

Chances and risks need to be weighed responsibly, but so far this is not discernible for plant biotechnology, nanomaterials or fracking. This needs to change.

Research is exciting, research is creative and, in some cases, research is also controversial. But research is always necessary if we want to find new answers to the questions of our time.

Ladies and Gentlemen:

As you can hear, I do worry. Especially in the fields of energy, tax policy, health and innovation promotion, the party programmes bring more questions than answers.

Perhaps elections can be 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.

This is where I regain my natural optimism. I am confident that many of the points I have addressed in my speech will be tackled and solved after the elections – in a pragmatic way and for the good of our country. At least, this is what I hope.

We in the chemical industry offer our cooperation to all political stakeholders who want to take our country to a good and sustainable future.

Contact: VCI Press Dept. Phone: +49 69 2556-1496 E-Mail: presse@vci.de