EU 2019 to 2024: Benefit from the potentials of a strong Union

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EU Mandate 2014 to 2019: Contrasting results

Chemical and pharma industry: Giving impulses to Europe and the world
EU 2019 to 2024

**Benefit from the potentials of a strong Union**

*Europe is moving the emotions like hardly ever before. It is increasingly accepted that only together the EU Member States have the best prospects of defending their political and economic interests with confidence vis-à-vis China, the USA and Russia. The chemical and pharmaceutical industry is committed to a strong European Union. The industry gives concrete recommendations on how the EU can hold its own with a sound industrial policy in an increasingly multipolar world.*

For many decades, the success story of the European Union has been characterised by peace and growing prosperity. This is closely connected with the single market and its fundamental freedoms. However, the challenges are growing in view of global changes. Under the leadership of President Ursula von der Leyen, the new EU Commission wants to get the European single market in shape for the future. The chemical and pharmaceutical industry sees this as a strong push for a revamped European industrial policy.

The innovative strength of industrial companies based in the EU is another success factor for the European Union. This emphasises that the industry should continue to be understood as part of the solutions for many economic and political challenges. Especially the chemical industry with its innovative products and technologies has a key role in value chains and can provide answers to many questions – particularly in environmental and climate protection.

The industry depends on a future-oriented and courageous industrial policy so that it can keep using its ability to find solutions in Europe also in the future – while successfully driving forward the ecological, economic and social dimensions of sustainability. EU Commission and Parliament should use the next five years to

- interlink the industrial and climate policies
- speak for open markets and fair competition globally
- encourage scientific curiosity and research
- drive forward sustainability through a circular economy and digitalisation

**THE CHEMICAL INDUSTRY AS A TRAILBLAZER IN CLIMATE PROTECTION**

*Energy consumption, absolute*  
*Greenhouse gases, absolute*  

The chemical industry proves: Growth and climate protection are not mutually exclusive. Production has increased by almost 70 percent since 1990. All the same, absolute energy consumption and greenhouse gas emissions have dropped considerably.

**AT EYE LEVEL WITH OTHERS**

Gross domestic products in billion US $, 2017; source: World Bank

The EU’s economic strength can match that of China and the USA. This shows: By closing ranks, the Member States can hold their own compared with large national economies.

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**#JazuEuropa**

The German chemical and pharma industry underlined its pro-European position in the run-up to the European elections 2019:

- [www.vci.de/jazueuropa](http://www.vci.de/jazueuropa)

In the new legislative period, the industry maintains its commitment to a strong European Union.

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Industrial and climate policy

Pulling together in one direction

Chemistry gives important impulses in almost all industries on the road to greenhouse gas neutrality. As the chemical industry is inherently energy-intensive and thus impacted by both industrial policy and climate policy decisions, the objectives in these political fields should complement each other in a meaningful manner.

The new Commission wants to lead the European Union to climate neutrality by 2050. The goal, as part of the “Green Deal for Europe”, is only two investment cycles away. Therefore, the EU Commission should now state how it wants to set the political foundation by 2024 in such a way that the ambitious objectives can be reached. In detail, this is about the following:

Expand Better Regulation
- Initiatives such as the Innovation Principle and the “One-in, One-out” Principle as well as the competitiveness check are smart tools. They make it easier for companies to develop marketable, climate-friendly products from research.

Safeguard energy and raw material supplies
- The chemical industry needs comprehensive access to affordable, renewable energies and raw materials. Therefore, the EU should further strengthen market coupling and the expansion of supranational electricity and gas grids. The forthcoming reform of the European gas market, which aims to increase the use of renewable gases, is also important.

Continue emission trading
- EU emission trading ensures that industry and the energy sector reach the climate targets – at the most favourable market price. New approaches such as an EU-wide CO₂ tax would only be thinkable as an alternative. An extension to other sectors is also seen in a critical light. As effective greenhouse gas reduction in the transport and building sectors is much more expensive than in the sectors covered, the former would have to be regulated separately.

Strengthen investments
- The EU climate targets are ambitious and cost around 260 billion euros per annum. The “Green Deal” wants to raise the 2030 target to minus 55 percent of greenhouse gas emissions. In order to mobilise the massive investment needs, the EU should develop promotion strategies for the technologies of the future, adapt state aid law, more strongly focus on greenhouse gas emissions. In order to mobilise the massive investment needs, the EU should develop promotion strategies for the technologies of the future, adapt state aid law, more strongly focus the budget on investments and speed up approval procedures.

Focus on greenhouse gas neutrality
The chemical industry is facing a comprehensive transformation on its way towards greenhouse gas neutrality by 2050. This is possible technologically, but it is associated with very high costs and an extremely high demand for electricity from renewable sources.
- www.vci.de/klima2050

With the help of new production technologies, the German chemical industry can almost completely reduce its greenhouse gas emissions by 2050 (= “greenhouse gas neutrality path”). Besides new processes, above all in basic chemistry, this calls for a permanently low price of industrial electricity and large amounts of emission-free electricity from renewable sources.

In the “reference path”, production would go on with today’s technologies while efficiency would further increase through continuous investments. The “technology path” assumes a limited availability of investment funds and electricity. In this scenario, a maximum reduction of 61 percent can be achieved.
Global environment

Speak for open markets and international rules

In a globalised world, many political and societal challenges can only be solved globally. Therefore, the EU should always look beyond its own horizon instead of relying on isolated solutions – even more so as European industry is engaged in international competition.

The EU should work together for stable economic relations, a liberal and rules-based world trade order within the framework of the World Trade Organization (WTO) and for a de-escalation of international trade conflicts. In an increasingly difficult global environment, it is important to pursue a self-confident EU trade policy. This means in concrete terms:

Conclude trade agreements
- Multilateral rules are essential for stable trade relations. The WTO rules serve to strengthen growth and prosperity worldwide. In line with these rules, the EU should also seek bilateral trade agreements. The free trade agreements with Japan, Vietnam and the South American Mercosur countries are important steps. After a Brexit, the EU should conclude soon an agreement with Great Britain.

Continue the dialogue with the USA
- The decades-long and proven partnership with the USA is strained by protectionist measures. Conforming with WTO rules, the EU should ward off plans that are contrary to European interests. Should the WTO dispute settlement mechanism become unable to function, the EU should create alternative enforcement instruments. At the same time, mutual trust should be strengthened by means of an intensive dialogue and joint projects.

Further develop the China strategy
- China has ambitious geopolitical and industrial policy goals. The EU should face this development with confidence by achieving better market access in China for European companies and by insisting on better protection for the intellectual property of European investors. Furthermore, Europeans should be strengthened in their competition with China on third markets.

Drive forward regulatory cooperation
- Cooperation with other countries should be strengthened. This applies for the USA and China as well as for important emerging markets and developing countries.

Engage in global climate protection negotiations
- Climate protection should be tackled together with international partners. The goal must be to introduce a worldwide CO₂ pricing system. If this is not feasible, it should at least be pursued at G20 level. This is the only way to prevent distortions of competition to the detriment of the EU industry. Unilateral extra burdens intensify the trend towards foreign investments going to other regions without cutting a single tonne of CO₂.

CO₂ carbon border tax
Europe wants to become the first greenhouse gas neutral continent by 2050. This would bring high costs for industry. There are considerations to offset additional costs for EU producers through a CO₂ carbon border tax to help local companies compete with Asia and America. This idea seems charming at first glance. However, it should be borne in mind that the amount of bureaucracy and the legal risks would be relatively high. Moreover, there would be the danger of such a mechanism causing trade conflicts.

Extra-European trading becomes ever more important

After China, the EU is the world’s second largest producer of chemicals. In 2018, the EU chemical and pharma industry realised a total global turnover of 878 billion euros. This success is increasingly based on exports to all corners of the globe. Therefore, strengthening good trade relations worldwide is becoming ever more important.
Innovation

Promote research and scientific excellence

In efforts to find solutions to the global challenges of the future, there is a worldwide race for innovative materials, healthcare, energy storage, new forms of mobility and biotechnology. The European chemical and pharma industry still ranks among the drivers of many developments and thus also triggers innovative value chains. However, international competition is getting fiercer.

In an international comparison of research locations, Germany in particular has a leading position. In order to enable companies to hold their own in increasingly fiercer competition, the new Commission should boost this innovative strength. This includes:

Give priority to innovations
▶ The 9th EU Framework Programme for Research and Innovation (“Horizon Europe”) can significantly contribute to Europe’s industry unlocking its potential for innovation. For this purpose, the programme must be well-funded and not be played off against agricultural and regional budgets. Sufficient consideration should be given to the requirements of industry.

Enshrine the Innovation Principle
▶ New EU initiatives for legislation should strengthen innovation. This approach should be legally enshrined: as a supplement on equal footing with the precautionary principle. Furthermore, the legislator should make decisions on the basis of facts only.

Strengthen patent protection
▶ Patent protection is the prerequisite for research investments and should be strengthened. Therefore, supplementary protection certificates should enable manufacturers of medicines and plant protection products to extend their patent terms also in future. The patentability of plants and animals produced with the help of technical methods must remain safeguarded for the time to come.

Use the potentials of biotechnology
▶ Biotechnology offers immense opportunities to drive forward healthcare as well as climate and environmental protection. Currently, it is particularly important to create a future-proof legal framework for gene editing.

A competitive bio-economy
Bio-economy is of central importance for the sustainability strategy of the chemical-pharmaceutical and biotechnology industry in Europe. In order to fully utilise its economic and ecological potentials both nationally and internationally, the framework conditions for bio-based value chains and networks should be attuned to each other under the innovation, industrial and trade policies, and obstacles should be eliminated.

This means in particular:
▶ Reliable regulation of raw material supplies for industrial biotechnology
▶ Rapid European approval procedures for biotechnical processes and products based on natural science
▶ Much faster market access

This is the only way to develop and expand an internationally competitive bio-economy in Europe.

INNOVATION COMPETITION IS GETTING FIERCER
Shares in worldwide internal research spending in chemistry and pharma, in percent; sources: Chemdata International, VCI

The EU28 ranks second worldwide as a research location for chemistry. However, its share in the global research and development spending is falling significantly. By contrast, emerging economies are catching up – above all China.

<table>
<thead>
<tr>
<th>Country</th>
<th>2010</th>
<th>2018</th>
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<tbody>
<tr>
<td>USA</td>
<td>41.9</td>
<td>43.0</td>
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<tr>
<td>EU28</td>
<td>24.7</td>
<td>21.7</td>
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<tr>
<td>Japan</td>
<td>16.6</td>
<td>11.6</td>
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<tr>
<td>China</td>
<td>5.9</td>
<td>5.6</td>
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<tr>
<td>Korea, India, Brazil, Russia</td>
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Industrial value networks have the strength to develop solutions for sustainability and climate protection. Therefore, a circular management style is an important component in chemistry: It gives consideration to the entire life cycle of products and looks into perfectly new cycles that go far beyond waste recycling. The fact that the circular economy is now gaining speed also has to do with digitalisation – because digitalisation is the core of the new world of industry. The EU Commission, too, should take up the circular economy approach and support industrial value networks and digitalisation.

In circular management, carbon is recovered at the end of a product cycle. Chemical recycling can make an important contribution to this, supplementing mechanical recycling. Waste is first converted into feedstock from which new products are then obtained. Current realisation efforts include, for example, processes of pyrolysis, gasification and solvolysis. Furthermore, energy recovery makes it possible to “run carbon in circles” in the form of CO₂. Already now, it becomes clear that the transformation to a circular economy is a complex undertaking. Policy-making should support it in the following ways:

**Openness to all methods**
- Both mechanical and chemical methods effectively contribute to the circular management of carbon and thus to recycling. The decisive point is which method is the most viable overall in ecological-economic terms. For example, where the mechanical recycling of plastic waste reaches its limits, chemical methods should be recognised and applied. Efficient energy recovery should be possible, too.

**Scope for innovations**
- Only in a research-friendly environment can companies advance the development of new processes – e.g. for innovative plastics which further optimise complex fields of application and do not unnecessarily burden the environment.

In the described setting, digitalisation can contribute to success – because it enables the analysis of big data which leads to more precise processes, so that new innovation leaps can be expected. This is key to giving impetus for even more resource efficiency. Therefore, the following aspects are decisive:

**Promote digitalisation**
- In order to develop new business models, companies depend on fast and secure data exchange. This includes infrastructure expansion as well as an efficient IT security network between public authorities, businesses and research facilities. Moreover, public authorities must be able to respond fast to crises.

**Complete the single market**
- Regulatory barriers between EU markets must be removed and the cross-border flow of digital goods and data should be facilitated. Europe needs a single digital market to keep up with China and the USA.

**Shape data protection**
- Companies must be able to drive forward individualised and big data-based solutions. This requires harmonised agreements on the General Data Protection Regulation which are adapted to the needs of industry and enable an international data exchange in a legally sound manner. This applies, for example, to the use of standard cloud and software solutions.
EU Mandate 2014 to 2019

Contrasting results

During the term in office of the “Juncker Commission”, 338 ordinary legislative procedures were completed. There were 580 such procedures between 2009 and 2014. That shows that the past legislative period focused on key policy areas. But what does this mean for a general stocktaking? What has been achieved?

Milestones achieved

- Broad Action Plan for the Circular Economy
- Investment Plan for Europe (“Juncker Plan”)
- Progress in the Energy and Climate Union
- Cyber Security Package
- European Battery Alliance
- EU-wide Framework for Investment Screening
- Paris Climate Agreement
- Free trade agreements with Canada, Japan and Singapore
- Decisions for trade agreements with Mercosur and Vietnam
- Agenda for Better Regulation

Work remains to be done

- Develop a well-coordinated and far-sighted industrial policy strategy
- Take into account the economic and technical realities in the “race” towards climate policy goals
- Give due consideration to the concerns of energy-intensive industries and to the complexity of value chains
- Intensify the negotiations for trade agreements with the USA, China and India; conclude rapidly a trade agreement with the UK after Brexit
- Do not “miss the boat” in the technologies of the future and in cutting-edge research
- Give the European budget an orientation to innovation and investment

In the legislative period 2014 to 2019, there was a trend of symbolic policies, inter alia, in the approach to plastic waste and the white pigment titanium dioxide. Discussions and decisions were not always based on scientific facts. One of the consequences is that the EU remains in some fields far from realising its potentials in the industrial policy. This is all the more serious as the ambitious climate goals can be achieved only if the relevant companies are highly competitive and innovative.
Chemical and pharma industry

With their innovative products and technological novelties, European and German companies of the chemical-pharmaceutical industry enable progress far beyond the borders of Europe and their own sectors. With this, they contribute to a sustainable development worldwide and safeguard prosperity and jobs at their locations.

The industry in Europe

Europe is the second largest chemical industry location in the world after China. The companies provide employment for 1.8 million persons and generate sales of some 878 billion euros annually. Their sales outside the EU amount to over 335 billion euros. The chemical industry is the fourth largest producer in European industry overall and thus contributes significantly to the prosperity of society in Europe altogether.

The industry in Germany

Germany is the largest producer of chemical-pharmaceutical products inside the EU. With a share of 26.6 percent in sales of the EU28, the German chemical industry ranks first in Europe.

Job engine

- Around 462,500 people work in the chemical-pharmaceutical industry in Germany. Additionally, there are around half a million staff at suppliers and service providers. Furthermore, German companies create roughly 115,000 jobs in other European countries.

REACH: together towards the goal

The highest standards for product safety apply in Europe – and this is how it should remain. It is important to keep the associated costs and workloads as low as possible, so that international competitors do no prevail with less regulated products. The EU chemicals regulation REACH governs the registration, evaluation and authorisation of chemicals. Around 97,000 registration dossiers for some 22,600 substances have been submitted. In order to further improve their quality, companies are checking their dossiers in cooperation with the European Chemicals Agency (ECHA) according to an action plan and adapt them where necessary. They would recommend the following for public policy:

- No restructuring of REACH
  - It is important to have a stable environment where REACH can be implemented step-by-step. This is the only way to create scope for new innovations.

- Bring REACH in a user-friendly shape
  - In order to clarify uncertainties and misunderstandings, the procedures should be easier and more efficient.

- Give consideration to SMEs
  - Smaller companies appreciate straightforward procedures and simpler safety data sheets as well as a contact person at ECHA.

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