

## Summary competitiveness messages

### Main messages:

- The EU chemical industry is an essential driver for achieving the EU's key objectives regarding jobs, economic growth, investment and a competitive low carbon economy
- Competitiveness challenges continue to increase primarily due to high energy costs relative to other regions and a burdensome EU regulatory environment. Indeed, after years of high energy costs, despite the sharp recent decrease, significant differential remains compared to other regions and will worsen when energy costs will surge again.
- Energy, climate and innovation policies play a major role in shaping chemical industry competitiveness
- ETS must be seen in the context of a competitive, global industry and the need for balanced international sharing of emissions reduction efforts
- Ambitious, balanced, free trade and investment agreements are crucial
- The industry needs access to energy and (renewable) raw materials at competitive prices
- We need to improve the quality of regulation, both in terms of adoption process and content. Particular attention should be devoted to reducing excessive burdens under existing legislation, in order to keep cumulative costs under control
- Global demand for chemical products is predicted to double by 2030 with much of this growth being in Asia. Therefore, the question for policymakers is: "What part can EU legislators play in helping to ensure chemical products are continued to be produced in the EU?"

### 1. The European chemical industry (ECI) is a solution provider and enabler for the key EU objectives of jobs, economic growth, and investment; and will be indispensable for the achievement of a competitive, low carbon economy

- The ECI is one of the few European manufacturing sectors that is still truly a world leader. There are over 29,000 chemical companies in Europe, 96% of which are SMEs. The industry directly provides some 1.2 million jobs, and indirectly supports many more. In 2015, ECI sales were worth € 519 bn; with a € 44.8 bn trade surplus.
- Chemical products provide solutions for all major societal challenges (food, water, energy, environment, climate change etc.). For every tonne of CO<sub>2</sub> emitted by the chemical industry, the products created by the industry help save CO<sub>2</sub> emissions of 2-3 tonnes, since the ECI is an enabler of innovation in downstream value chains.

### 2. However: The ECI is losing market share in a rapidly evolving global market

- Loss of export competitiveness on global markets, and increasing import pressure, has reduced ECI market share from 32% in 1993 to 17% in 2014. The decrease is primarily due to declining competitiveness, as opposed to slow-growing destination markets.
- In 2014, Europe became a net importer of petrochemicals for the first time due to falling exports (notably to the US) and increased imports (notably from Asia and the 'rest of Europe').
- The Juncker plan aims to support strategic projects in the EU, however, investment decisions for the chemicals sector are based on flow of capital and comparisons of rates of return at a global level.
- Evidence of investment leakage is already present: as of July 2015 companies have invested approx. € 130 bn in chemical investment in the USA (with 60% from non-US based companies). Likewise, in 2013, approx. € 67 bn was invested in China. In comparison, EU investment stood at €18.6 bn Euros in 2014.

### 3. High EU energy and feedstock costs, compared to other regions, are a particular barrier to investment

- While the chemical industry produces essential inputs to address climate change and other challenges, its production process is energy and resource intensive. It needs reliable supplies of energy and feedstock at competitive costs. EU Chemical industry has no vested interest in where that energy or feedstock comes from. Energy prices are not competitive with those of our main global competitors, and EU energy and climate policy is only pushing costs higher.
- Energy costs in the EU are not competitive with those of our main global competitors, and energy and climate policies, even with legitimate goals, have an impact on costs.
- To avoid additional burden, a reformed ETS has to remain a market-based mechanism for reducing industrial emissions at the lowest cost possible for society. The overarching objective of the ETS reform should be to ensure that undertakings at risk of carbon leakage receive full, free allocation of allowances up to benchmark levels of carbon efficiency and, provided they meet those levels, are able to grow in the EU without incurring additional carbon costs. Allocation mechanism should be dynamic, based on actual production. Sufficient free allowances should be reserved and made available for production, investment and growth of EU manufacturing industries.

#### 4. Regulatory burden and unpredictability reduces industry competitiveness

- While there are several areas of burdensome EU regulation which negatively impact competitiveness, a particular concern is REACH and associated chemicals legislation which, through the unpredictability, uncertainty, complexity and cost burden of its practical implementation acts to deter investment within the EU.
- While Cefic supports REACH and does not foresee any change to the regulation body text as part of the REACH Review process, implementation of the legislation needs to be improved and simplified to help maintain EU competitiveness and support investment and innovation.

#### 5. Ensuring an ambitious, balanced, free trade and investment agreement with the US, TTIP (EU-US FTA) and open markets in general

- One key policy pillar is a strong commitment to free and fair trade that focusses not only on the removal of tariffs, but also on so called “21<sup>st</sup> century” issues. Much remains to be done in opening up markets, preferably through WTO or via regional/bilateral free trade and investment agreements, i.e. EU-Japan, EU-Mercosur, EU-GCC, EU-US, EU-China.
- Cefic supports an ambitious and balanced free trade and investment agreement with the US. This agreement should lead to elimination of all chemical import duties with longer phasing for a limited list of sensitive tariff lines, simple and flexible rules of origin, access to US energy and feedstock, increased regulatory cooperation, and an effective investor/state dispute settlement process that safeguards the right to regulate while respecting the legitimate rights of investors. As regards regulatory cooperation on chemicals under TTIP, the EU chemical industry does not pursue harmonization or mutual recognition, but sees scope for enhanced cooperation while upholding REACH.

#### 6. Circular economy

- The chemical industry is a champion of industrial symbiosis as all chemical plants integrate byproducts into their production processes. Scaling this up to the level of the entire manufacturing sector is a significant challenge. EU innovation funding could add real value in this area. For the circular economy to achieve its aims, policy decisions must be based on life-cycle analysis and the net impact of products on overall resource efficiency being positive.
- Cefic is calling on the Commission to encourage investment in innovative and economically viable solutions, rather than imposing regulatory burdens that could undermine competitiveness. The developing bio-economy in Europe could provide a big opportunity for the EU chemical industry. In order to further spur this development, it is vital to have free access to renewable raw materials at world market prices. In this regard, import duties should be suspended for key renewable feedstock like bio-ethanol, palm oil and sugar processed by the chemical industry.

#### 7. Better Regulation

- Cefic supports the Commission’s Better Regulation policy. Creating a clear, consistent and predictable regulatory environment that effectively delivers on policy objectives at the lowest cost is key to stimulating investment, job creation and growth in Europe. To further improve the quality of the EU regulatory framework, Cefic invites the Commission to:
  - a) **make burden reduction more tangible under REFIT.** The Commission’s work should be driven by concrete objectives to reduce the cumulative burden from existing legislation. Our vision is to maintain high levels of health, environmental and social protection but to reduce the cost to achieve them
  - b) **systematically appraise the impact of regulation on innovation.** Ex-ante impact assessments should describe how policy options, legislative proposals and implementing decisions impact innovation processes, including technologies in the ‘innovation pipeline’ while ex-post evaluations should assess existing EU initiatives’ impact on innovation
  - c) **extend the Better Regulation policy beyond the traditional law-making procedure.** EU rules are increasingly adopted outside the legislative procedure, in the form of guidance documents, EU implementing and delegated acts, which often have significant impacts on industry. Existing Better Regulation tools and guidelines should be adapted to the diversity of EU rule-making, to ensure impacts are fully considered and affected parties are being heard in time.

**The EU chemical industry can be a key contributor to climate change mitigation and to other EU policy objectives. However, given the easily tradable nature of chemicals goods and the international nature of the sector, this will only be possible if the competitiveness of the EU chemicals sector can be maintained. For these objectives to be realized - and for the EU chemicals sector to maintain its status as a world leader - EU policymakers must put in place a suitable regulatory environment, in which industrial competitiveness is mainstreamed into all other EU policies (including those on energy, climate, innovation and chemicals safety).**