

**DICIDA-UK Declaration to
the Follow Up Conference of the High Level Group on the Competitiveness of the
Chemical Industry in Europe, in
Usti 16 & 17 April 2009**

Introduction

DICIDA-UK is a network that provides a forum where Local Authorities and public sector agencies in areas with a concentration of employment in the sector can join forces in the work to secure a safe future for their communities. The aims of the DICIDA-UK network are:-

- Ensure that National Government and European policies and programmes assist the continued growth of the chemicals industry in and across Member States; and
- Enable local regions to cope with the economic, social and environmental issues created by the challenges of growth and change.

Members of DICIDA have collaborated to bring together their views to the Follow up Conference and to contribute to the drafting of the ECRN Usti Conference Declaration. Logos of member organisations are included at the end of this paper.

Financial Crisis

Most sub sectors of the chemical industry are experiencing some negative impact from the current financial crisis as decreased demand filters through the supply chains. Currently the hardest hit companies are those in the construction and automotive supply chains. Companies are reducing their workforce or restricting production to reduce costs. Regions are concerned about this retrenching and focus on cost reduction and would prefer an approach that concentrated on the exploration of new opportunities through innovation and upskilling.

Chemicals are vital to a vast range of supply chains and are needed to retain a European manufacturing base. It is essential that Europe supports its manufacturing base rather than placing an over reliance on the finance and service sectors, and to do this it will need a vibrant chemical sector.

For regions where there are integrated chemical clusters and high levels of interdependency between companies, there is concern that all companies that are essential parts of these complex supply chains continue operating and contributing to the clusters. To assist in maintaining and where possible growing the EU's chemical sector, DICIDA in collaboration with the European Chemical Regions Network would request that measures are taken to:-

- Support the provision of affordable credit insurance to facilitate ongoing trade;
- Increase availability of overdraft facilities and bank loans, particularly to SMEs;
- Provide funding to retain highly skilled workers during temporary shutdowns and to upskill the current workforce;

- Increase tax credits for innovation;
- Make more funding available to increase innovation collaboration between academia and industry.

Skills

An ongoing problem for many chemical regions is the age profile of the current workforce in the sector. In most European chemical regions there is a high percentage of the workforce who are over 50 years of age. A sustained effort is needed to encourage young people to study science, technology, engineering and mathematics (STEM) and to pursue a career in the sector. Unfortunately, this is at a time when companies are minimising costs through staff reductions, by freezing recruitment and not offering apprenticeships. To ensure the survival and eventual growth of the sector in the EU, after the current downturn, increased effort is needed to ensure a workforce with the right mix of skills will be available. Attraction of people into the industry will also need to include actions to improve public perception of the sector.

DICIDA-UK believes that the following suggestions would assist:-

- Financial incentives should be offered at EU and Member State level so that underutilised staff are offered additional training during this downturn period, rather than being made redundant or placed on short time working;
- We need to encourage sufficient young people to choose to study STEM subjects;
- Assistance needs to be offered to companies to retain and take on more apprentices, so that the European industry will have sufficient key skills to remain competitive when the global financial situation improves;
- More support is needed to forge links between schools and colleges and the industry.

Energy

The chemical industry is an energy intensive sector that uses energy in its processes and as a raw material/feedstock. Costs of energy must be competitive with that offered outside of Europe if future investment is to be attracted. At the moment this is not the case and energy costs are currently more favourable in other countries. Security of supply is also an ongoing issue that needs to be addressed. One option is for energy to be generated on site, but companies considering inward investment or even upgrading of existing plant, can often buy energy cheaper outside of the EU, so there is no incentive to invest. The situation can also be compounded by limited storage capacity. Increasing storage capacity would assist some EU operations to purchase more of their energy requirements when prices are lower.

Concerns exist about insufficient capacity in the longer term (post 2020) and decisions need to be made now to address potential shortfalls. When products from the sector are the basis for much of the consumer goods that modern society demands, then migration of companies to outside of Europe will have a knock-on effect on the whole of the manufacturing sector. Secure competitive priced energy is the basis needed to ensure the future competitiveness of manufacturing in Europe, but efficient and effective use of energy is also of major importance. Companies need to embrace every known means to

reduce energy consumption and innovate to improve production processes and alternative sources of energy. DICIDA-UK would like to suggest the following future actions:-

- EU Energy Policy needs to address security of supply at a competitive price;
- Support is required for some EU Member States to provide additional gas storage facilities, to improve the capacity to buy and store when prices are cheaper;
- Greater reductions of waste and increased recycling needs to be achieved in generation and use. This could be achieved by facilitating the exchange of best practice and through increased innovation;
- More work needs to be undertaken to increase the use of renewable energy sources;
- Further investigation is needed into industrial biotechnology as a source of platform chemicals.

Innovation

The chemical sector operates in a global marketplace and to remain competitive it must increase its capacity and speed of innovation, so that, at the very least, it matches that of other countries in the world. At the moment the rate of innovation, the number of spin-off companies and innovative start-up companies is lower than that of many countries that the industry is competing against. The EU needs to invest in increasing and speeding up innovation in products and processes and to encourage cross-fertilisation of ideas across sectors and inbetween academia, research organisations and companies. New products need to be brought to the market quickly and new processes need to be adopted as soon as they become available, if the EU is to compete globally.

Particularly for smaller companies, the expense and complicated processes of securing intellectual property and patent rights, prevents investment of time and resources in innovating. There will be a natural reluctance to invest time and energy in the development of new processes and products, if the innovators are unable to protect their investment. Higher security levels are also needed to protect innovation and prevent global freeloaders. Innovation will be key to recovery for the eventual upturn of the economy. DICIDA-UK in collaboration with other European chemical regions wants to assist in the process of increasing innovation and suggest that the following is required:-

- Encouragement is needed for companies to be able to refocus from short-term financial concerns to long term innovation;
- An innovation culture needs to be fostered;
- Improved linkages are required between companies, academia and research institutes;
- Less complex and expensive means of protecting processes and products need to be developed, particularly for SMEs;
- More needs to be done to secure intellectual property and patent rights;
- New models of technology transfer need to be developed.

Logistics

Although there are some good levels of interconnectivity within many chemical clusters, there remain several logistical problems for the sector. Road networks throughout the EU are becoming more congested and increased investment is required to divert traffic off the road network. There are pronounced differences in the capacity for non-road transport within Europe. To improve the logistics capability within the EU, DICIDA in collaboration with ECRN, would like to see policy that will improve the following areas:-

- Increased rail links and connectivity between chemical companies and ports;
- Increased expenditure to relieve road congestion around chemical parks\clusters.

Climate

High levels of investment have taken place in recent years to improve the energy efficiency and reduce the emissions from many of the industrial facilities in chemical regions. The sector is energy intensive and with the rapid rise in energy costs, efficiencies make economic as well as environmental sense. Within the EU, companies have made significant investments to comply with regulations aimed at reducing the impact on climate. Unfortunately, other countries do not insist on the same standards.

What is perhaps less well appreciated is the contribution that the chemical sector makes to reducing energy use and emissions and to alternative sources of energy, in the wider community. Without the chemical sector it would not be possible to manufacture double glazing units, many forms of insulation, solar panels, wind turbines etc. etc.

For the EU chemical sector to reduce its own impact on climate change and for it to continue and improve the contribution it makes to reducing the impact from other industries and individuals; DICIDA-UK would like to recommend the following actions:-

- International climate agreements need to be agreed to avoid ‘carbon leakage’ of the industry to non-EU countries that have less stringent climate-change controls;
- Agreement on an international emissions trading scheme (ETS) also needs to be agreed soon. ETS companies emission permits need to be allocated on the basis of industry benchmarks. In the current economic climate there also needs to be free allocation of the permits;
- Energy intensive industries do need special consideration when policy is being determined; this should include recognition of the contribution made by the sector to the production of products that assist in reducing climate change;
- Promotion and support is needed to assist companies to implement energy efficiency projects and to investigate and where appropriate develop on-site renewable energy production.

Trade Policy

Global trading is vital for the chemical industry, so trading systems need to be fair and all levels of protectionism, require eradication. This needs to be combined with increased levels of enforcement of EU import rules such as REACH. Materials can be, and are, sourced from all around the world, with the manufacture of chemicals in developing countries increasing markedly in recent years. This also opens markets for chemicals that are manufactured in Europe, particularly as development within these countries leads to increasing affluence. Some of the inherent price competitiveness of producers in these countries is due to the lower labour and regulatory costs, but some is also due to restrictive trade policies, including dual pricing of raw materials, import tariffs and export subsidies, and restrictive import policies. It is expected that the transfer of manufacturing will continue to move to these newer production states, with other developing nations anticipated to enter the marketplace.

Whilst welcoming the development of these emerging economies DICIDA in collaboration with ECRN colleagues, would recommend that:

- The EU strives to negotiate a fresh round of trade talks aimed at removing import and export tariffs and importation quotas, so making truly free trade across the globe more achievable;
- The elimination of tariff barriers is linked to the removal of dual pricing for raw materials that produces an unfair advantage to home-based producers in both their own and export markets;
- Countries be encouraged to rigidly enforce Intellectual Property rights to ensure innovation is allowed to flourish in all parts of the world;
- Careful consideration is given to regulatory changes, including carbon management, to ensure that EU competitiveness is not decreased compared to other global producers;
- The EU supports developing countries in the uptake of measures to protect human and environmental health.

