



ACHEMA 2006 Economic Press Conference

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'European and global economic situation of the chemical industry'

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The spoken word prevails

Ladies and gentlemen,

It gives me great pleasure to present to you the European and global economic situation of the chemical industry here in Frankfurt at the Dechema Economic Conference.

Reading about the financial performance of chemical companies in newspapers and magazines, one might get the impression that our industry is doing not too bad and that our future looks fine.

Is that really the case?

For the short term one could have this feeling, even if 2005 was disappointing. According to our economic outlook forecast of end 2005, output growth in 2005 indeed was expected to grow by only 1.6%, compared to 2.6% in 2004. The reason for the slowdown in production growth in 2005 was that external demand for chemicals was less dynamic due to a deceleration in global economic activity. Unfortunately domestic demand in Europe could not compensate for the fallback in foreign demand. High crude oil prices (57 USD/bl) had put pressure on private consumption. The various chemical sub-sectors were impacted to differing degrees by the weaker economic situation in 2005. The year 2005 showed a sharp increase in the production for basic chemicals, especially petrochemicals and inorganics production. By contrast, after having performed very well in 2004, specialty & fine chemicals activity decreased as a consequence of weaker global demand, intensive international competition and cost increases (e.g. oil prices).

Looking ahead, the chemical industry expects better business developments in Europe in 2006. Encouraging signals from business and consumer confidence and more export opportunities should contribute to a recovery of the domestic economy. For 2006 as a whole, Cefic expects a modest production increase of 2.3% (excluding pharmaceuticals). Most chemicals sectors will take benefit from this improvement.

Ladies and gentlemen,

if you look at the 'Facts and Figures' published on our website, also structurally our industry appears to be in good shape.

Let me give you some key figures demonstrating the strength of our industry:

With a share of about 32% of global chemicals production (excluding pharmaceuticals), the EU 25 is the largest chemicals producing area in the world, generating a turnover of about € 420 billion in 2004;

In that same year, the EU 25 was also the world's leading exporter and importer of chemicals, generating a trade surplus of € 35 bn (excluding pharmaceuticals).

Why then does Cefic consider that the long-term competitiveness of the industry needs to be secured? (Slide 2: The importance and leadership of the European chemical industry)

Yes, we are the world leading chemical producing platform today. As demonstrated by our Scenarios 2015 study, however, the future success of the sector cannot be taken for granted. Some trends are unmistakable: for example, chemical output growth on average is lagging behind total EU industry growth; economic growth in the EU is less vibrant than in other parts of the world and we have an ageing and sometimes even declining population in Europe; investment is flowing to areas where raw materials are plentiful or where demand is stronger.

At the same time, the EU chemicals sector faces challenges ranging from increasing costs, intensifying competition, changes in legislation, and a variety of issues relating to entrepreneurship and innovation. Europe risks losing ground in virtually all these areas; maintaining or improving the competitiveness of Europe's industrial sectors needs to be balanced with the current focus on environmental, public health and consumer protection regulations.

Does a "winning" Pacific basin necessarily imply a 'losing Europe? Not necessarily so in my opinion! Let us not forget that we have a huge internal market in Europe with 450 million people, the potential of which is not yet fully exploited.

The 450 million European citizen are counting on a performing and high-tech industry to contribute to their prosperity, well-being, comfort and health.

What we need is a common understanding of the challenges ahead, of the framework conditions required for industry to be prosperous and strong and able to face the global competition. We welcome the strong renewed focus of the European Commission on industrial policy, including sectoral policies. This coincides with the priority of current Cefic President Peter Elverding to improve the business environment of the European chemical industry. There is, therefore, a unique window of opportunity to address issues of concern to the chemical industry and to charter a sustainable route into the future.

The Cefic Scenarios 2015 study identified a number of key drivers that determine the competitiveness of the chemical industry and which can be positively influenced by both industry and authorities.

These drivers are innovation, image and reputation, international trade, regulation, energy and logistics. All these areas need to be steered in the right direction, jointly by industry and authorities.

Let me now comment on some of these drivers.

1) Regulation and costs

Regulation in general – not only programmes such as REACH - is a key factor generating adverse effects on the competitiveness of the EU chemical industry. Europe continues to tighten its environmental regulations, putting domestic producers at a comparative disadvantage. Legislative initiatives demonstrate insufficient coherence and add to the industry's cost burden. The implementation of legislation at national level is divergent. This is especially problematic for SMEs which often lack sufficient capacity to absorb legislative obligations. The EU chemical industry (excluding pharmaceuticals) is mainly made up of SMEs, of which there are an estimated total of 26 000 in the EU (slide 3: Number of enterprises and sales by employment size-class). We therefore welcome EU initiatives relating to impact assessment and better regulation.

Ladies and Gentlemen, as regards REACH I would like to say a few words about this draft regulation – probably the biggest issue the chemical industry had to deal with – which is now entering the 'second reading' phase in the EU parliament

After an intense discussion period in the European Council the British presidency tabled a compromise proposal in December 2005 resulting in a political agreement on REACH. It included some important elements to make this masterpiece of chemicals legislation more workable. Cefic welcomed the huge efforts of all involved parties to find a more appropriate way to reflect the nature of industry interaction in complex supply chains and the limited resources of SMEs to cope with the REACH requirements.

Even though this Council compromise had been generally described as being a balanced approach to achieve the political objectives of REACH, we although have however to address some major issues which need further thorough analysis and careful consideration to avoid misleading implications for the competitiveness of European based companies operating in a global competition.

Assuming that the second reading in the European Parliament and the final negotiation with the Council will deliver a REACH system which keeps all three pillars of a sustainable economy in balance, there is still a big challenge ahead of us in preparing all involved parties for the REACH implementation.

In this respect, Cefic has identified an urgent need for standardized support tools and coordinated support for companies across the globe. A REACH service unit under the umbrella of Cefic will therefore be launched soon to facilitate industry cooperation covering helpdesk functions, consortia management and registration/authorization support.

REACH will stay with us and the onus is mainly on us to turn REACH into a success story to regain stakeholder confidence in our industry and our products and to make REACH an integral part of a sustainable development process.

So far for REACH, let me now return to the key drivers;

2) Another key driver is energy

The chemical industry is energy-intensive. The EU chemical industry consumes roughly 12% of the total EU energy demand. Therefore, reliable physical access to affordable energy is crucial to the European chemical industry in its competition with other regions. Energy is a main cost factor for energy-consuming production processes, but also for processes where oil and gas serve as fundamental feedstock. The effective liberalisation of gas and electricity markets within the EU is still far from completed, resulting in diverging prices within the EU and in higher prices compared to other regions. Negotiated electricity prices have doubled over the past four years. Cefic therefore welcomes the fact that the chemical industry is participating in the High Level Group on Competitiveness, Energy and the Environment which started a few months ago and will hopefully produce recommendations that will improve this situation.

Last but not least I would like to remind you that in its Communication on Industrial Policy of last October the European Commission announced the setting up of a specific High Level Group on Chemicals. Cefic has been calling for such a High Level Group for several years, analogue to similar initiatives for other European industrial sectors such as aerospace, pharmaceuticals, automotive and textile industry. The common objective of all these initiatives is to unify stakeholders' efforts to achieve the Lisbon Agenda. I am convinced that the High Level Group on Chemicals will allow us to focus attention on the needs on the European chemicals industry and to identify policies that will allow us to remain a world leader in the longer term.

Worth mentioning also is SusChem, the European Technology Platform for Sustainable Chemistry. It unites a wide variety of stakeholders interested in chemistry, industrial biotechnology and chemical engineering research.

SusChem was initiated jointly in 2004 by Cefic and EuropaBio and financially supported by the European Commission. It aims at defining R&D priorities, timeframes and budgets in a number of strategically important issues with high societal relevance.

Ladies and gentlemen, as you will appreciate, our industry is facing huge challenges. I am convinced that we can shape the future and that our industry will remain strong and vibrant in the future. That will enable us to continue providing valuable contributions to sustainable development and remain a vital source of new applications in other sectors of the economy.

Thank you for your attention.

Alain Perroy

Cefic Director General

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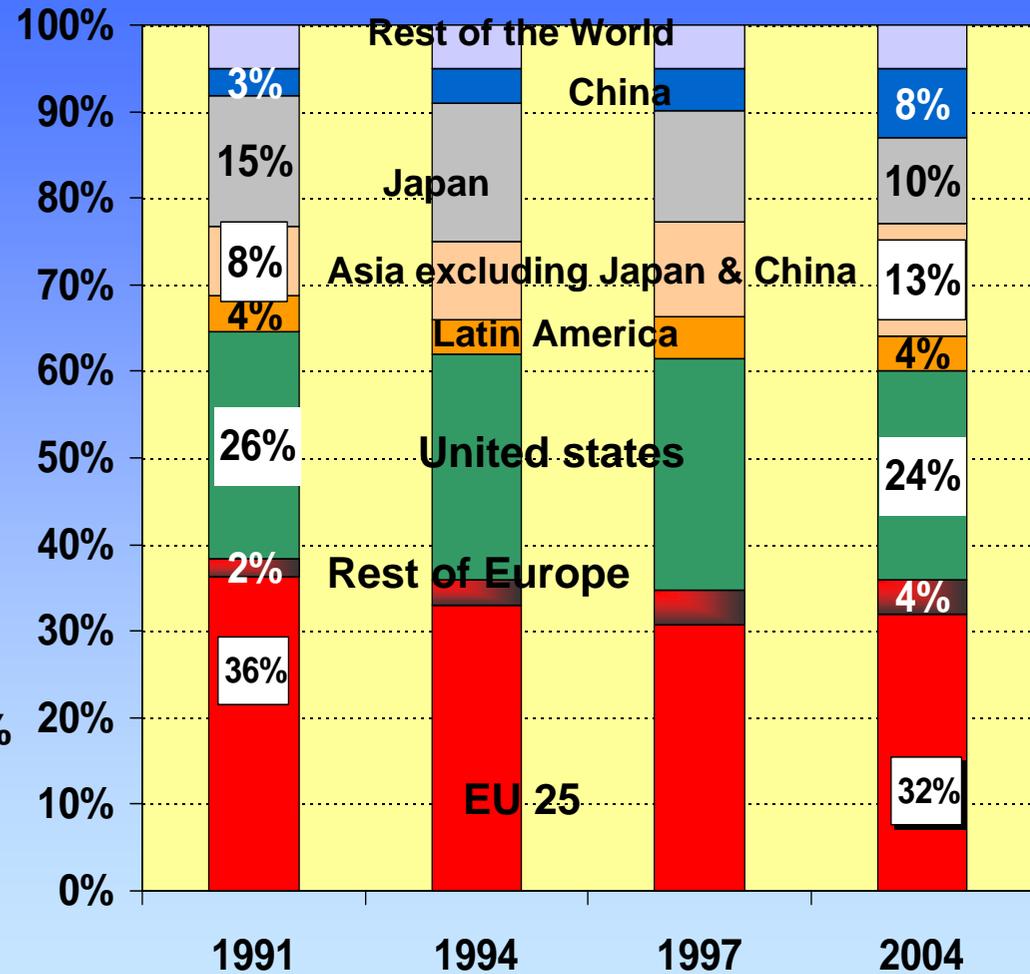
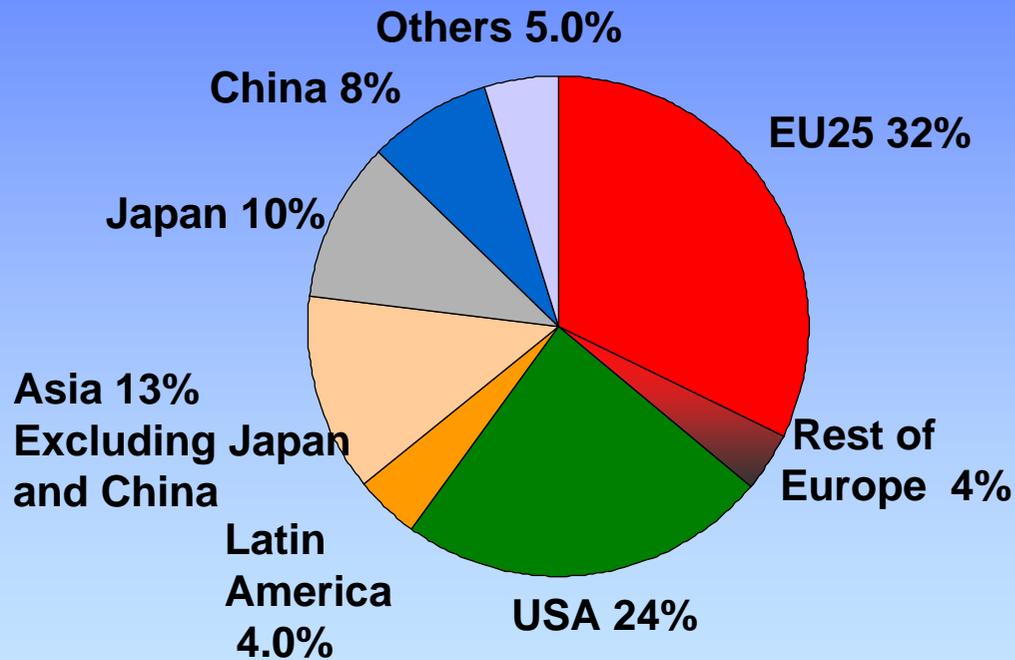
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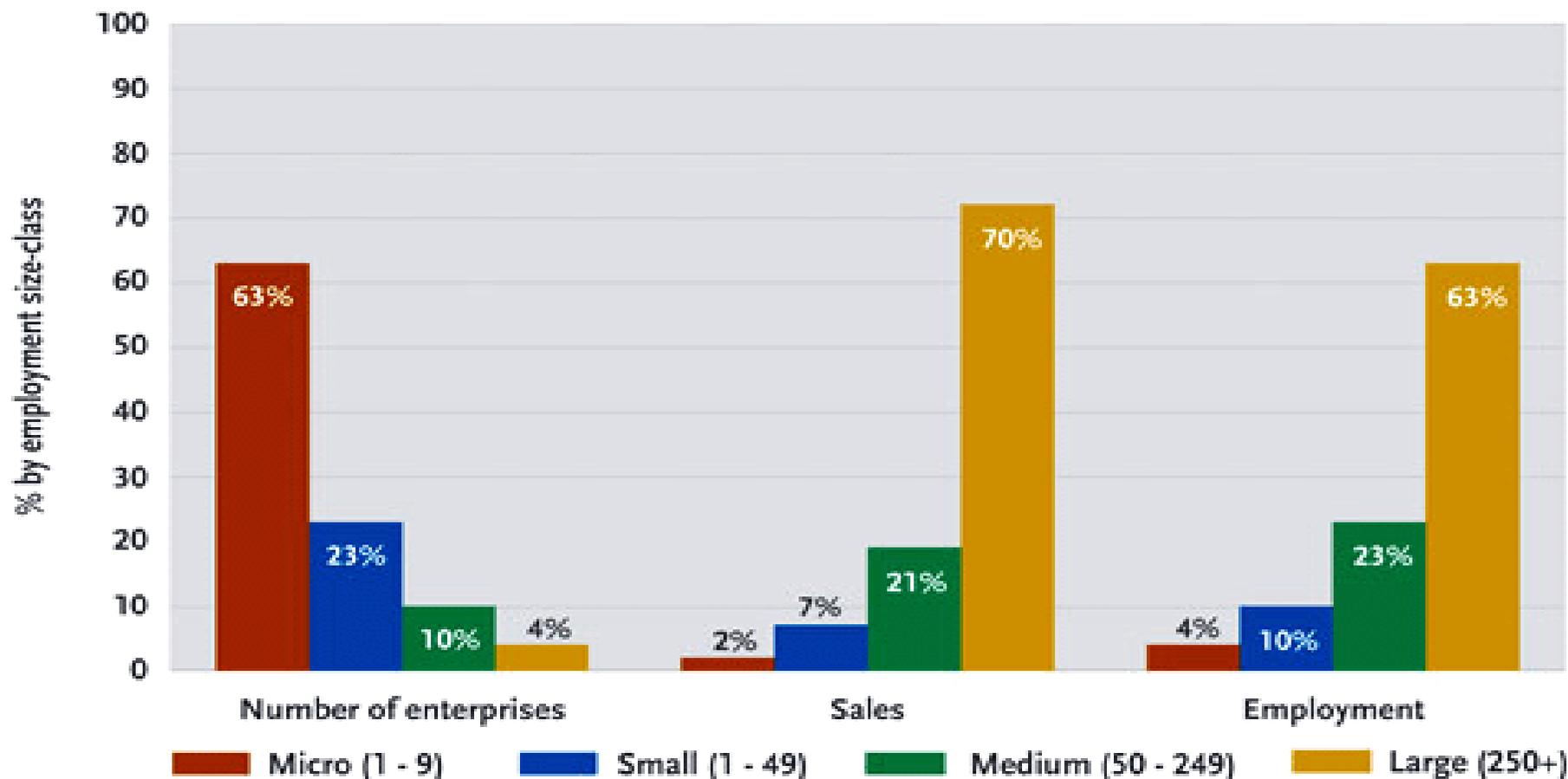
European Chemical Industry's leadership ?

Breakdown of world chemicals production (excl. Pharmaceuticals)
2004 = 1.304 Trillion €



Evolution of shares of world production

Number of enterprises & sales by employment size-class



Sources: Cefic and Eurostat
* Excluding pharmaceuticals