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Article

Speeding up European Reform: A Master Plan for the Lisbon Process

CESifo Forum

Provided in Cooperation with:

Ifo Institute – Leibniz Institute for Economic Research at the University of Munich

Suggested Citation: Schwanhold, Ernst (2005) : Speeding up European Reform: A Master Plan for the Lisbon Process, CESifo Forum, ISSN 2190-717X, ifo Institut für Wirtschaftsforschung an der Universität München, München, Vol. 06, Iss. 2, pp. 44-45

This Version is available at:

<https://hdl.handle.net/10419/166224>

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ERNST SCHWANHOLD

President, Competence Centre Environment, Safety and Energy, BASF AG, Ludwigshafen; Former Minister of Economic Affairs, Energy and Transport, North-Rhine Westphalia*

Ladies and gentlemen,

thank you very much for the opportunity to contribute to the panel discussion today as a representative of the chemical industry. To reach the ambitious target of becoming the world's most dynamic and competitive economy by 2010, it is necessary for all the driving forces of the European economy to work together.

Nearly all the aspects of the Lisbon process have already been addressed so I won't stress them again.

As I am representing the chemical industry, I will touch on some issues of importance to us.

Growth is shifting to Asia

Should we be concerned about our industry's competitiveness in Europe?

Today, our industry faces intense competition from Asia in commodity products and from countries with a low-cost feedstock base. This has recently been confirmed by the European Chemical Industry Council's study "Horizon 2015: Perspectives for the European Chemical Industry". According to this 2004 study, Asia-Pacific countries, and China in particular, will be accounting for an increasing share of global chemicals production: The region's rate of industrial production growth exceeds much of that of the rest of the world. Another factor is the dynamic development on the electronics, textile, construction, leather and plastics markets, which are very important end-users of chemicals. The emerging countries are making great efforts to become global leaders in these sectors.

* Not present in person.

In view of this, we are calling for an international competitive framework within which industry can flourish. The European chemical industry needs to be able to compete on a level playing field, both inside and outside the EU.

Better Regulation is needed in Europe

For the chemical industry in Europe, one of the factors most relevant to its future competitiveness is the regulatory environment. Here I can say that the EU has already made progress regarding the number of regulations.

Particularly when it comes to social policy and environmental protection, Europe is "world class": In the past ten years more than 500 EU environmental legislative acts have been adopted. Companies often have the impression that they will never be able to keep up with the constant flow of new rules.

An excellent opportunity to achieve better regulation is the proposed new chemical policy REACH (Registration, Evaluation and Authorisation of Chemicals).

REACH, as it stands now, will have far-reaching implications for the European chemical industry and downstream users and their ability to innovate. EU chemical legislation is already the most stringent in the world. Regulatory compliance costs and bureaucracy will result in higher production costs.

In particular, downstream users are unlikely to be able to pass on higher production costs to their customers, as existing WTO rules allow imports of cheaper products and articles manufactured outside the EU. This uneven playing field reduces the competitiveness of European companies, and they are likely to be forced to relocate certain production lines outside the EU.

SME's will be hardest hit, especially the several thousand companies in the fine and specialty chemicals sector, a factor confirmed by a KPMG study in May 2005.

Stifling innovation by threatening to impose bureaucratic legislation such as REACH is not the way to inspire confidence in Europe's future business.

Sustainability is mandatory in decision making

Since the first industrial revolution, the chemical industry – especially in Europe – has always played a key role in economic and social development: It underpins a high standard of living and quality of life for an increasing number of people and is the key to sustainable development. In my opinion, European policy too often favours environmental and consumer protection at the expense of industrial policy! But sustainability, ladies and gentlemen, has three pillars; it is not just about ecology. Sustainability is also a matter of generating wealth and providing employment for the people in Europe. I would like to point out that I am not questioning the importance of environmental and consumer protection. These are matters everyone in our industry takes very seriously. We are committed to *Responsible Care* and *Sustainable Development*. But at the same time we are also aware that social cohesion and environmental ambitions are only possible in a growing economy.

I would like to end by summing up:

1. A new European industrial policy is needed, creating a favorable framework for the global competitiveness of the manufacturing industry.
2. We call for a new understanding of regulation: supporting companies in turning innovation into profitable products.
3. We also need European legislative processes, ensuring a proper balance between the three pillars of sustainability.

Thank you for your attention.