Polska

What kind of strategy should the chemical industry adopt to deal with the challenges faced by the European economy?

2015-11-03 11:43:51

The chemical industry is an important branch of the Polish economy. It is responsible for 11-13 percent of Poland's total manufacturing output and employs more than 230,000 workers. However, the potential of the Polish chemical industry is far from fully utilized, while European climate policy and the TTIP agreement on establishing a free trade zone being negotiated between the European Union and the United States pose challenges for which the Polish chemical industry must be ready.

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Theoretically, from the point of view of the Polish economy, Polish chemical companies have great opportunities for development. Their 11-13 percent share in industry is much less than corresponding figures in countries that are Poland's closest neighbors. In the Czech Republic and Slovakia, the figure is over 15 percent, and in Germany it is more than 20 percent. This indicator is especially significant as the chemical industry is widely seen as a potential driving force of the entire economy. Chemical industry products can be found in almost every area of life from agriculture to the automotive sector to the cosmetics industry.

This untapped potential is also demonstrated by the negative balance of trade that the Polish chemical industry has recorded for many years, with the deficit in the trade of chemical products standing at around 6 billion euros. That means there is a lot of room for improvement.

In practice, however, exports by Polish chemical companies and their share in total national production cannot be increased without taking into account the conditions imposed by the European Union. The Polish chemical industry has not been able to make the most of its potential over the last several years because it has predominately focused its efforts and expenditure on adapting to environmental and energy conditions, on meeting environmental standards, and on catching up with its European competitors in terms of technology. This has limited its opportunities to invest in new, large installations.

Challenges ahead

The Polish chemical industry has always offered high quality products praised on international markets. Today we can see the first signs of positive developments in the trade balance. As the sector undergoes consolidation, the negotiating position of Poland's largest companies is growing. But there is another challenge on the horizon for the chemical industry in Poland and in Europe as a whole in the form of the free trade agreement being negotiated between the EU and the United States—the Transatlantic Trade and Investment Partnership (TTIP).

This puts European industry in a difficult situation in which it would have to fend off competitors with access to energy resources that are several times cheaper than in Europe. The chemical industry is particularly vulnerable here because, by its very nature, it is highly capital-intensive and dependent on sources of raw materials.

Meanwhile, thanks to the shale gas revolution, natural gas in the United States today costs half or a third of that in Poland, and U.S. corporations are free to operate without the kind of stringent restrictions related to carbon dioxide emissions that their counterparts in the European Union face.

Reshoring in the U.S., offshoring in Europe

As a result, for several years we have been dealing with completely different processes in industry on the two sides of the Atlantic. In the United States, so-called reshoring is increasingly visible, based on a return of industrial production to the United States. In addition to cheaper gas and energy in general, this is due to several other factors, including rising labor costs in developing countries (in China, the wages of factory workers grew at an annual rate of almost 20 percent from 2005 to 2010), lower transportation costs due to the proximity of the large American market, and the availability of new, more efficient technologies. Despite ongoing automation, in 2014 a record 60,000 jobs were created in U.S. industry, compared with 12,000 in 2003.

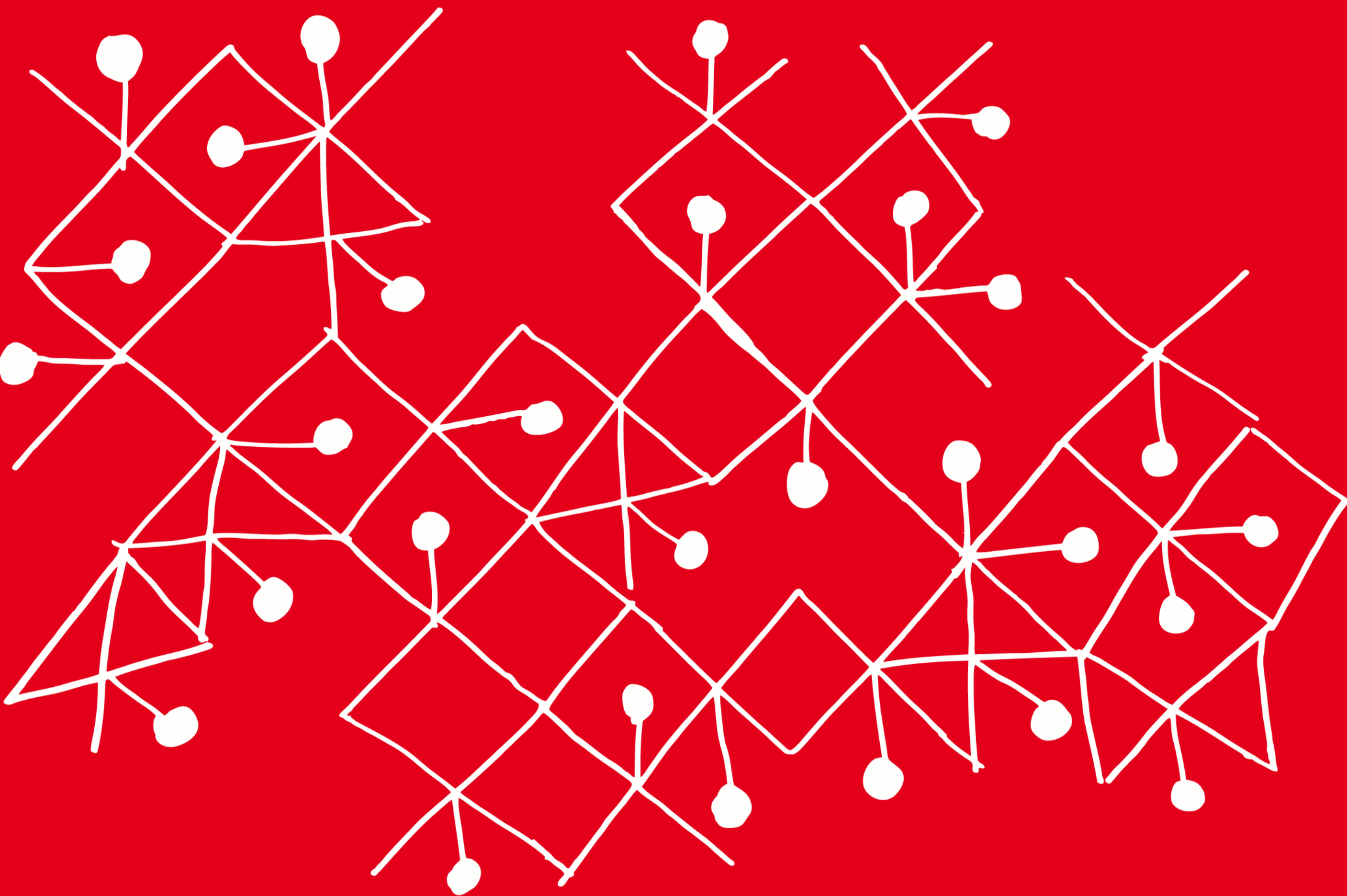
This was due to not only reshoring, but also investment by foreign companies on the U.S. market. Among the investors in the United States were companies from Europe, where in the face of the climate and energy package and the dominant idée fixe of eliminating coal from the European Union, we are faced with continued offshoring and industry escaping to other regions of the world.

The TTIP agreement can only exacerbate these discrepancies and put the Polish chemical industry, in particular, in a complicated situation. This is because the Polish chemical industry is less affluent in terms of capital and has fewer opportunities to diversify gas supplies than its Western European competitors.

To prevent this from happening, Central Europe Energy Partners (CEEP) have from the beginning been pushing for the TTIP agreement to be comprehensive so that it creates a free trade zone also in terms of European industry’s access to raw materials, including cheaper American gas, while maintaining transition periods, for example in the case of tariffs on chemical products. Otherwise, this agreement could be advantageous to only one of the parties.

Expanding European infrastructure in terms of gas connections, particularly in Central Europe, is becoming all the more important in this context. This is necessary to enable the Polish chemical industry to receive natural gas supplies from different markets thanks to projects including the construction of the North-South Corridor joining up energy markets from the Baltic to the Adriatic and the Black Sea.

Source: The Warsaw Voice



INNOWACYJNA GOSPODARKA
NARODOWA STRATEGIA SPÓJNOŚCI

MINISTERSTWO
ROZWOJU

UNIA EUROPEJSKA
EUROPEJSKI FUNDUSZ
ROZWOJU REGIONALNEGO

Projekt jest współfinansowany przez Unię Europejską ze środków Europejskiego Funduszu Rozwoju Regionalnego