



## Greens/EFA Briefing on Study by Arthur D. Little

### "New Proposals for Chemicals Policy:

### Effects on the competitiveness of the Chemical industry", April 2004

commissioned by the Committee on Industry, Research and Energy of the European Parliament (ITRE)

#### Arthur D. Little under contract by German Industry Association before and during the ITRE study

Arthur D. Little (ADL) has been contracted over the last three years by the German Industry Association (BDI) to make several studies to assess the "Economic Effects of the EU Substances Policy". The first one was published in December 2002, the second one in August 2003, and a third one was to be published in April 2004 (see Literature Reference 6 of the ITRE study). The ADL study for ITRE was commissioned in study in July 2003 and published in April 2004. As such, ADL was working simultaneously on the same issue for BDI and for ITRE. There seems to be a serious conflict of interests that should have disqualified ADL to do the study.

#### Scaremongering language and scaremongering results of ADL base study for BDI of 2002

Their first base study published in December 2002 was done on the basis of the White Paper on REACH. It used three scenarios, which were given the titles "Clouds", "Storm" and "Hurricane", to assess the potential impacts on jobs and gross value added for the manufacturing industry and for the whole German economy. ADL predicted production losses for the German manufacturing industry of between 1,4% and 20,2%, a reduction of gross value added of the entire German economy due to REACH of between 0,4% and 6,4%, and job losses between 150,000 for the scenario "Clouds" and 2,35 million for the scenario "Hurricane".

#### Strong Methodological criticism of ADL study for BDI by leading German institutes

The ADL base study was discussed in detail by a panel of independent experts from inter alia leading German economic institutes that were brought together by the German Federal Agency for the Environment (UBA) in February 2003<sup>1</sup>. In July 2003, the German Advisory Council on the Environment (SRU) - the highest independent advisory body in Germany on environment matters - published a position paper, in which they assessed the ADL base study<sup>2</sup>. Both of them stated that the ADL study is fundamentally flawed in its methodology, mainly for three reasons: it ignores the positive effects of REACH, it is based solely on industry information with cost estimates that are systematically too high, and it is based on a static model that does not account for the dynamics of the economy, e.g. substitution possibilities or technical progress (i.e. estimated withdrawals or phase-outs of substances lead to a collapse of the entire subsequent production chain and thereby create enormous consequences).

Quote from UBA press release: "*...the forecast made in the ADL study about national economic gross value added and job losses is methodically unsound and therefore not applicable.*"

Quote from SRU press release: "*The underlying models have fundamental methodological weaknesses in that they systematically over-estimate the economic impacts.*"

Further points of criticism in general are: testing costs three times higher than normal market prices, tiered approach over 11 years is disregarded, far cheaper computer modelling techniques to assess chemicals as an alternative to animal tests are not considered.

<sup>1</sup> see <http://www.umweltbundesamt.de/uba-info-presse-e/presse-informationen-e/pe00603.htm> for press release,

see <http://www.umweltdaten.de/uba-info-presse/hintergrund/stoffpol-e.pdf> for summary results

<sup>2</sup> see [http://www.umweltrat.de/english/edownloa/presrele/Presse\\_Reach\\_Juli2003\\_engl.pdf](http://www.umweltrat.de/english/edownloa/presrele/Presse_Reach_Juli2003_engl.pdf) for press release,

see [http://www.umweltrat.de/english/edownloa/statemen/Stellung\\_Reach\\_Juli2003\\_eng.pdf](http://www.umweltrat.de/english/edownloa/statemen/Stellung_Reach_Juli2003_eng.pdf) for detailed statement,

### **ADL continues to use same methodology in supplementary studies for BDI, and in ITRE study**

Despite this heavy criticism, ADL continued to use the same methodology in their first supplementary study for BDI on the basis of the internet proposal of May 2003. That study was published in August 2003. It predicted a reduction of 4,7 % gross value added for the whole German economy, and a loss of 1,735,000 jobs in Germany alone - somewhere between "Storm" and "Hurricane". The same methodology was used for the ITRE study.

### **ADL figures 1000 times higher than those of the European Commission**

In the ITRE study, ADL found a potential decrease of gross value added of 10.6% for the German manufacturing industry and of 12.6% for the EU15 manufacturing industry as a whole. According to ADL, the total gross value added of the EU15 manufacturing industry is 1.3 trillion € (or 1329 billion €). 12,6% of that equal 167 billion € ADL does not indicate in the study whether these are one-off costs, whether they occur every year over 11 years, or every year for an indeterminate period of time. In the hearing in ITRE on 31 August 2004, they stated that they would expect this production loss to occur for around 20 years. That would result in a total decrease of gross added value of 3340 billion €

In comparison to that, the Extended Impact Assessment estimated total costs of REACH for the chemical industry and downstream users to be between 2,8 and 5,2 billion € over 11 years, or 250 to 470 million € per year over 11 years<sup>1</sup>. In other words, compared to the figures of the Commission, the effects of REACH as predicted by ADL are around 1000 times higher than the costs given by the Commission.

### **Selective quoting**

ADL presents a study by the Joint Research Centre on the impact of REACH on innovation in the chemical industry. They literally copied and pasted the executive summary of the JRC study. However, they dropped the following sentence from the executive summary in their presentation: "*However, the attempt to foster innovation can clearly be seen in the current REACH proposal, and the resulting potential benefits are widely under represented in the ongoing discussion, which merely concentrates on the direct financial impact on the chemicals industry.*"

### **Wrong presentation of Commission study**

ADL describes a study done by DG Enterprise on a "Microeconomic Model to assess the Economic Impacts of the EU's New Chemicals Policy". According to ADL, the Commission study found "*whole costs for the industry of introducing REACH will amount to €5.1 billion to €7.5 billion*". However, the Commission study gives lower figures of €2.8 billion to €5.2 billion overall costs<sup>2</sup>.

### **Copying from BDI reference study**

All of the recommendations in the ITRE study are identical in content and almost identical in form to the recommendations of ADL in the study done for the BDI in 2002 (see comparison in Annex).

The suspicion of this simple copying arose from the following recommendations in the ITRE study of ADL meant to be of European scope: "*The fundamental aim of European legislation must be to achieve a practical reform of the EU substances policy and so minimise the negative consequences for German industry.*" (own emphasis added)

In the summary of the ADL study for BDI from 2002<sup>3</sup>, the following is said: "*The fundamental principle of European legislation has to be a workable design for the EU substances policy in order to minimise the negative consequences for German industry.*"

The last recommendation of the ITRE study is the following: "*To limit the negative effect on the competitiveness of German industry, the EU should strive to achieve standard regulations for substances worldwide.*" (own emphasis added).

In the summary of the ADL study for BDI from 2002, the following is said: "*To limit the negative influence on the competitiveness of the German industry, the EU should aim for globally harmonised legislation for substances.*"

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<sup>1</sup> [http://europa.eu.int/comm/enterprise/reach/docs/reach/eia-sec-2003\\_1171.pdf](http://europa.eu.int/comm/enterprise/reach/docs/reach/eia-sec-2003_1171.pdf)

<sup>2</sup> [http://europa.eu.int/comm/enterprise/reach/docs/reach/effects\\_new\\_chem\\_policy-2003\\_11\\_17.pdf](http://europa.eu.int/comm/enterprise/reach/docs/reach/effects_new_chem_policy-2003_11_17.pdf)

<sup>3</sup> <http://www.bdi-online.de/>

## Annex: Comparison of the recommendations of two studies by Arthur D. Little

<p style="text-align: center;"><b>Economic Effects of the EU Substances Policy</b></p> <p style="text-align: center;">Summary of the BDI Research Project</p> <p style="text-align: center;">31 October 2002</p>	<p style="text-align: center;"><b>New Proposals for Chemicals Policy: Effects on the competitiveness of the Chemical industry</b></p> <p style="text-align: center;">Study for the Committee on Industry, Research and Energy of the European Parliament</p> <p style="text-align: center;">April 2004</p>
<p style="text-align: center;"><b>Excerpts from "Recommendations"</b></p>	<p style="text-align: center;"><b>Excerpts from "Conclusions and Recommendations"</b></p>
<p>The fundamental principle of the European legislation has to be a workable design for the EU substances policy in order to minimise the negative consequences for German industry.</p>	<p>The fundamental aim of European legislation must be to achieve practical reform of the EU substances policy and so minimise the negative consequences for German industry.</p>
<p>Among other things, this means:</p> <ul style="list-style-type: none"> <li>• The <b>expenses</b> and the <b>costs</b> of the procedure have to be kept to a minimum in order to limit the burden on industry. At the same time, the goals of the White Paper should not be lost sight of. Among other things, it is desirable to <ul style="list-style-type: none"> <li>- limit the number of required tests,</li> <li>- reduce the internal and external administration effort,</li> <li>- limit the costs of maintaining registrations,</li> <li>- allow wide use of existing information.</li> </ul> </li> </ul>	<p>This means among other things:</p> <p>The <b>time demand</b> and <b>cost</b> of the system must be kept as low as possible to limit the burden on industry without losing sight of the objectives of the White Paper. The aims should be, e.g.:</p> <ul style="list-style-type: none"> <li>– to limit the number of necessary test</li> <li>– to reduce administration costs both within companies and externally</li> <li>– to limit registration maintenance costs</li> <li>– to take account of existing information as far as possible</li> </ul>
<ul style="list-style-type: none"> <li>• The number of specific uses requiring registration may be reduced e.g. by the introduction of <b>exposure categories</b>.</li> </ul>	<p>The number of registered uses can be limited, for example, by introducing <b>exposure categories</b>.</p>
<ul style="list-style-type: none"> <li>• Testing and evaluation of substances should be orientated at <b>concrete risks</b> and the measures already taken. This is to optimise utilisation of testing resources. An orientation based only on intrinsic properties of substances or production volumes cannot be recommended.</li> </ul>	<p>Testing and evaluation of substances must be directed towards <b>specific risks</b> and guided by existing measures to use test resources optimally; exclusive orientation towards intrinsic substance properties or production quantities cannot be recommended.</p>
<ul style="list-style-type: none"> <li>• <b>Time</b> that is required for the procedure (provision of information/data, processing by the authorities) up to the planned production or use of substances should be kept short. They should not delay the market entry of new products.</li> </ul>	<p>The <b>time periods</b> required by the system (information/data generation, processing by the authorities) before the intended manufacture or use takes place must be kept short. They should not delay the market entry of new products.</p>
<ul style="list-style-type: none"> <li>• <b>Authorisations</b> should be risk-orientated, ideally based on general authorisations for specific types of uses.</li> </ul>	<p><b>Authorisations</b> should be risk-based, if possible in conjunction with positive lists for categories of use.</p>
<ul style="list-style-type: none"> <li>• Process and product know-how of companies has to be fully protected. Any disclosure should involve affected companies.</li> </ul>	<p>The <b>process and product knowledge</b> of companies must be optimally protected – disclosure must be made with the participation of the affected companies</p>
<p>To limit the negative influence on the competitiveness of the German industry the EU should aim for <b>globally harmonised legislation</b> for substances.</p>	<p>To limit the negative effect on the competitiveness of German industry, the EU should strive to achieve <b>standard regulations</b> for substances worldwide.</p>