

## REACH – What does it cost?

REACH – the political initiative for improved chemical control in the EU – has caused heated debates over many years. While there is a broad consensus on the need for safer handling and more efficient control of chemicals, the controversy over the financial implications of new measures is intensive. Chemical manufacturers foresee rising costs and unemployment, while environmentalists predict large savings plus benefits in human health and the environment. This fact sheet presents some of the most frequently cited arguments, and gives a perspective on the financial debate.

The content of REACH has gradually changed since the strategy for new controls was introduced in the 2001 White Paper. The chemical manufacturers' fears and their influence made the Commission moderate the original proposal considerably before delivering a law draft to the parliament and council in October 2003. Therefore, previous studies reflected the costs and benefits of tighter regulations compared to the recent diluted studies. The studies are based on the White Paper, the May 2003 draft proposal from an Internet consultation and the law proposal.

The extent of the studies also differs. Some only predict the direct costs for producers and importers, while others reflect direct and indirect costs for chemical users and society as a whole. The benefits of a more effective system, e.g. reduced costs for disease related health-care and liabilities are largely ignored in the industry-sponsored studies. In studies that do estimate social and environmental benefits, it is shown that these savings largely outweigh the predicted costs for implementation of REACH.

The chemicals that are currently on the market will be put into the REACH system over the next 11 years, and the costs have been estimated for this time frame. After this 11-year period, only new chemicals will be introduced to the system.

### The impact assessment of the October proposal

For the October proposal the Commission presented an impact assessment. The estimates of direct and indirect costs as well as savings made by implementing REACH are shown on next page:

Direct costs for chemical producers for testing and registration costs over the next 11 years €2.3 billion

Costs for downstream users over the next 11 years (including costs passed on from the chemicals sector to downstream users) €2.8 – 4.0 billion

Possible health benefits over the next 30 years €50 billion

**Comment:**

The October proposal includes fewer obligations and restrictions for the chemical industry, consequently, it will not protect human health and the environment as efficiently as previous proposals.

The turnover of the EU chemical industry was €417 billion<sup>1</sup> in 2000. This means that cost for implementing REACH would be 0.05% of the industry's annual turnover. The turnover of downstream users in EU is estimated at least €425.5 billion<sup>2</sup> and the costs for complying with REACH would match up to 0.09% of the annual turnover.

If we instead look at the benefits for this proposal, the Commission mentions a figure of €50 billion. This figure is based on an estimate from The World Bank that chemicals and chemical pollution cause between 0.6% and 2.5% of diseases in developed countries<sup>4</sup>. Based on these figures, the Commission calculated that if REACH could reduce diseases by 0.1% this would save society €50 billion over the next 30 years. This economic gain on health improvements would outweigh the cost of implementing REACH many times over.

**The costs and savings of the White Paper and the May draft**

In the White Paper the commission estimated direct costs for the chemical industry at €2.1 billion<sup>5</sup> over 11 years. The Commission followed up with another study for four possible scenarios based on the White Paper, each with different obligations to register chemicals. The direct costs were estimated at €3.6 (1.4–7) billion<sup>6</sup> over 11 years and indirect costs at €14 – 26 billion<sup>7</sup> over 18 years.

In May 2003 the Commission published a draft proposal on their website for consultation. For it they estimated direct costs at €12.6 billion<sup>8</sup> over 11 years and estimated the cost savings for an expected reduction of occupational related cancer at €18 – 54 billion<sup>9</sup> over 30 years, due to the implementation of REACH. The benefits for other occupational sicknesses and public health were not estimated.

**Costs in perspective**

On average, REACH is estimated to cost 0.05% of the chemical industry's turnover. What do costs of this size mean for the chemical industry? The table below shows a comparison with other costs for the chemical industry.

Cost Factor	Fluctuation in % of Turnover
Energy costs 1996-2000 <sup>3</sup>	2.6 – 3.4%
Environmental Expenditure 1996-2000 <sup>3</sup>	1.9 - 2.9%
REACH October proposal	0.05%
Fluctuation of World Market Prices (Exchange Rate Fluctuation) 1999-2002 <sup>3</sup>	+/- 20 Percentage points

**Comment:**

The highest costs are estimated for the May proposal, yet these costs are still less than 0.3% of the chemical industry's turnover. Of all the proposals, the wording in the White paper offers the highest protection for human health and the environment, but the actual benefits are not estimated.

The fact remains that 23% of employees in Europe ie 32 million people, are exposed to carcinogenic substances at work.<sup>10</sup> If the reality of future chemical legislation is the May proposal, the amount of occupational related cancer can be reduced, saving the community €18 – 54 billion. The benefits of reducing other diseases were not estimated, but it is obvious that stricter legislation will save more money in the long term, directly and indirectly, than weak legislation.

### The chemical industrial predictions

The Commission diluted their proposals because of studies presented by the chemical industry. The Federation of German Industries commissioned Consultancy Arthur D. Little to study the economic consequences of the original White Paper and the later draft proposal. In a similar study, the French Chemical Industry Association and the French government jointly commissioned Consultancy Mercer Management to estimate the impact the implementation of the White Paper would have on the French economy.

The Arthur D. Little study predicted job losses of up to 2.35 million and 6.4% loss of the GDP in Germany.<sup>11</sup> The supplement study predicted losses of 1,735 million work places and a 4.7% loss of GDP for the Internet review draft.<sup>12</sup> The Mercer study predicted costs of between €29 – 54 billion for French industry over a period of ten years, plus a total job loss of up to 670,000 people and up to 3.2% loss in GDP per year.<sup>13</sup>

#### **Comment:**

*The methods used and the extrapolations made in the Arthur D. Little report were strongly questioned by independent economic experts.<sup>14</sup> The French chemical industrial association kept and still keeps the methods used for the Mercer report confidential.*

However, while most estimates of the direct costs are below 0.1% of one years GDP in the EU, both these studies have inflated these small numbers to yield final impacts of roughly 3 – 10% losses of GDP in Germany and France, in effect a “multiplier “ of at least 30 – 100 times direct costs. There is simply no evidence that advanced industrial economics are hypersensitive to minor administrative costs to this extent.

#### **Overestimates – a trend**

It is a trend that the costs for implementation of environmental regulations are over-estimated. Overestimates are often made because it is forgotten that markets cut costs through innovation. For example the industry predicted the costs for the amendment in the Clean Air Act in US 1990 at \$51 – \$91 billion per annum, but the EPA estimated that in 1996 the actual costs were US \$22 billion per year.<sup>15</sup> Furthermore, it is now proven that the socio-economic savings for cleaner air with fewer health problems have been 5 – 7 times bigger than the implementation costs.<sup>16</sup>

### Conclusions

The benefits for wildlife and the environment have not been calculated in any of the studies. Surely 0.05% of the chemical industry’s annual cost is a small price to pay for better protection of wildlife and human health?

The Commission has calculated the costs for contaminated soil in Europe and these might give an indication of potential costs that can be avoided through future prevention. It has been found that there are around two million sites with

## Less than a bar of chocolate!

The estimated costs for the chemical industry to implement REACH are €2.3 billion. This corresponds to around 50 cent per EU citizen per year – or less than the cost of a chocolate bar.

contaminated soil in the EU. For instance, in 1990 the costs associated with polluted industrial sites in the Netherlands were estimated to €23 billion:

The simple fact is, that the benefits of REACH far outweigh its implementation costs. Estimates of earlier environmental regulations have often been overestimated because innovation is not calculable. Equally importantly, these costs are relatively small compared to other chemical industry outlays. It is obvious that strong legislation will give greater socio-economic savings compared to weaker regulations. The Commission has bowed under pressure from the chemical industry and weakened its proposals on the basis of questionable industrial economic calculations.

It is vital that politicians realize that REACH will not be the burden it has been predicted to be. It is now up to the European Parliament and the Council to improve REACH, to give us a legislation that really protects humankind and the environment.

*For more information please visit our homepage: [www.chemsec.org](http://www.chemsec.org) or read additional fact sheets.*

*The International Chemical Secretariat (Chemsec) is a non-profit organization dedicated to work towards a toxic free environment.*

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*The Secretariat is a cooperation between four environmental organizations in Sweden; SSNC, WWF, FoE and Fältbiologerna.*

