

## **Euler Hermes report: In the face of growing competition, German chemicals industry invests abroad**

- In 2015, foreign investment by German chemicals companies was six times greater than investment spending in the domestic market
- Profit margins rose by 0.5 percentage points to 12.6% due to lower oil prices and a favorable euro-dollar exchange rate
- Competition is growing: U.S. chemical production is four times cheaper than in Europe
- The German chemicals industry should take advantage of favorable conditions to invest in energy efficiency, research and development.

**HAMBURG -- 30 JUNE 2015** – The uncertainties surrounding Germany’s energy policy have affected the country’s chemicals industry. Economists at Euler Hermes, the leading credit insurer, forecast in their current industry survey that German chemical companies will increase their foreign investment by 17% in 2015 -- a rate nearly six times greater than the projected 3% increase in domestic investment spending.

The gap between foreign and domestic investment will widen even further in 2016, with a 9% increase abroad and only a 1% increase in Germany. Meanwhile, the environment for Germany’s third-largest export sector is currently extremely advantageous due to low oil prices and a favorable euro-dollar exchange rate.

### **German chemical companies should take advantage of the favorable investment conditions**

“German chemical company profit margins will rise by 0.5 percentage points to 12.6% in 2015,” said Ludovic Subran, chief economist for Euler Hermes. “In 2009, profits rose by 7%. The recent increase clearly shows that German chemical companies made the right decision by investing in research and development. They significantly increased energy efficiency to compensate for the otherwise competitive disadvantage of high energy costs. Meanwhile, they also invested in even greater specialization and increased market share in specialty chemicals, which are less price-sensitive. German firms have thereby maintained their position as the sector’s global export leader. Of course the competition is not sitting still and German chemical firms should not rest on their laurels or they will quickly find themselves having to catch up. Instead they should take advantage of the increased maneuvering room made possible by the current favorable conditions in order to reinvest the increased profits.”

### **Natural competitive advantage: U.S. chemicals production is four times cheaper than in Europe**

Low oil prices mean the cost to produce chemicals in the United States is four times cheaper than in Europe. Moreover, depending on the subsector, the use of gas as an energy source and oil as a feedstock accounts for up to 85% of the overall operating cost for petrochemicals, clearly illustrating the natural competitive advantage enjoyed by U.S. companies. They have taken full advantage by investing approximately \$150 billion in ethylene production facilities, creating jobs (for the first time since 1999) and steadily expanding exports over the past several years. Chemicals exports now account for 12% of the U.S. total. In 2015, the sector once again ranks among the winners, as Euler Hermes is forecasting a \$15 billion increase in 2015, placing it number one, ahead of machinery and food exports.

### **German chemicals exports are growing, but slower than the U.S. competition**

Exports by German chemicals companies are also growing, by around €8 billion, albeit at a slower pace than those of the U.S. competition. The German firms nevertheless benefit from an outstanding market position in the premium segment.

“German chemicals companies also benefit from a highly developed export network established early on and maintained over many years,” said Olaf Lipinski, head of the Information & Grading division at Euler Hermes. “They are the global leaders, since no other country delivers to as many international markets. The high production quality and premium positioning are no coincidence. The Germans focus on research and development, and extensive after-sales services, to remain competitive despite significantly higher energy prices. The production facilities are highly integrated, enabling them to recycle by-products and thereby contribute to profits, instead of generating additional costs. In addition to making productivity enhancements at their domestic facilities, many German chemicals companies have already built up a



second pillar by investing in foreign plants. In the past three years, German companies have invested €8 billion in new facilities in the United States alone.”

**The report on the success factors of the U.S. and German chemicals industry (English version) is available online at:**

<http://www.eulerhermes.com/mediacenter/Lists/mediacenter-documents/Economic-Outlook-global-trade-1215-feb-march15.pdf>

**The complete Euler Hermes report on the German chemicals industry (German version) is attached and available online at:**

<http://eh-reports.de/bestaetigung-download.php>

**The summary report on success factors (German version) is available online at:**

<http://www.eulerhermes.de/mediacenter/Lists/mediacenter-documents/euler-hermes-studie-welthandel-rezepte-zur-exportfoerderung.pdf>

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