Press release

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Euler Hermes: Chemical companies in Europe and the USA racing neck and neck

- European chemical companies investing more abroad than at home – especially in the USA
- Europeans in a good position – but not immune to a collapse in demand
- Neck and neck: Europeans catching up due to falling feedstock prices, again on par with US companies
- Key to success: investment in innovation and added-value solutions, further specialization

PARIS - 27 OCTOBER 2016 – European chemical corporations have made substantial acquisitions in recent years, investing far more abroad than at home -- the USA often being the country of choice. One reason for this is lower feedstock and energy prices in the United States and the resulting competitive edge. European companies are also seeing competition from Asia, but remain well positioned. This is the conclusion reached by Euler Hermes, the worldwide leader in trade credit insurance, in its recent study on the chemical sector.

Sector's good positioning especially dependent on the downward slide of primary commodity naphtha

"Chemical companies in Europe are still profitable and, despite the continuing stagnation in sales, have posted stable operating profit margins of around 10% in 2016," said Ludovic Subran, chief economist at Euler Hermes. "Sector risk is fairly low overall. However, this comfortable situation is due mainly to the downward slide of naphtha, the feedstock predominantly used in Europe. Prices have fallen by around 60% since 2013, allowing chemical companies to offset their stagnating sales."

However, this should not disguise the industry's heavy dependence on global demand.

No resting on laurels: global trade shows signs of weakness, knock-on effect of Brexit uncertainty

"European chemical companies should not rest on their laurels," said Marc Livinec, author of the report. "It is definitely practical and in some cases even crucial, to buy essential materials at much lower prices. But a short-term reliance on low energy costs offsetting the uncertainties around Brexit's possible consequences for the sector, or weak global trade, could misfire in the long term. The bleak global trade outlook is squeezing growth in European production, which at +1.3% in 2016 and 1.1% in 2017 is not exactly rosy. Despite their size, even European chemical companies are not immune to slowdowns."

The situation of Europe's market players is also closely linked to that of their main customers' industries: construction, automotive and electronics. If one segment falters, the pressure immediately increases.

USA: Shale gas bonanza creates tectonic shift in the chemical industry

Long term however, competition from U.S. chemical companies is a key factor in terms of expectations and risk development.

"Chemical companies in the USA are still benefiting from a strong tailwind," said Subran. "Unlike the Europeans, they do not use crude oil-based naphtha to manufacture the basic building block – ethylene - but ethane, which is impacted by gas prices. The shale gas revolution is therefore a real bonanza for the Americans, a tectonic shift in the chemical plates as it were. As a result, gas prices are twice as low as in Europe and up to three times lower than in Asia. This gives the U.S. a competitive edge. By the next decade, U.S. firms are poised to reap the benefits of their production facility investments. European companies would be wise to start gearing themselves up for this now."

Backing the right horse: racing neck and neck again due to R&D

German companies have already been backing the right horse in recent years by investing in research and development, and through further specialization.

"Companies have proved often in the past that the European chemical industry is capable of coping with difficult situations," added Livinec. "U.S. companies were far ahead for years. Local market players tried to keep up at least to some extent by making substantial efficiency improvements. The collapse in oil prices has given them a much needed reprieve and they are fighting back in a neck and neck race. To take home the prize, they need to further specialize regardless of feedstock prices and to make targeted investments – not in upstream production but in downstream processing and services with significantly higher value-add. This could give them the edge they need."

In specialized chemical segments, innovations are already making the difference, far outweighing commodity costs. As a rule, products with higher-end technology deliver bigger margins, e.g. consumer chemicals, which are used in hygiene and cosmetic products.

For the full Euler Hermes study "Europe's Chemical Sector: Low production costs and healthy profits challenged by global demand and U.S. competition" go to:
http://www.eulerhermes.com/economic-research/blog/EconomicPublications/europe-us-asia-chemicals-industry-report-sep16.pdf

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