German and European Chemical Producers Expect Marginal Growth, But Face Headwinds Due to Increasing Competition, Feedstock Cost Disadvantages and Business Climate Pressures

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Chemical Industries Exit Recession; Germany Shows Slight Optimism, But Concerns Mount Over Increasing Competition

BERLIN--(BUSINESS WIRE)--With Germany taking a slight lead, Europe’s chemical industry is slowly exiting the global economic recession. However, despite expected marginal growth, concerns are mounting for industry leaders, who face increasing competition, feedstock cost disadvantages, a difficult business climate and aging infrastructure.

The outlook for the German and European chemical sectors will be among the key topics to be discussed on day two of the IHS Berlin Forum, hosted May 12-14, by IHS Inc. (NYSE: IHS), the leading global source of critical information and insight.

German chemical industry executives are concerned about the potential loss of business to more competitive regions, but, in general, they still have a slightly more optimistic outlook than the rest of European chemical operators, according to John Page, vice president of consulting at IHS Chemical. “This optimism is largely because the German economy is one of the strongest economies in the region,” he said. “Germany has a much larger and more robust manufacturing base than the rest of Europe, and their facilities are more up-to-date from a technology standpoint, than the rest of Europe. Most companies expect the German chemical business to pick up in the coming months, in part due to increasing domestic demand.

“IHS Chemical forecasts an overall increase in German chemical production of 2 percent for 2014, so we are talking about sluggish growth here, but it is growth,” Page said. “German chemical prices are likely to drop slightly, by about 0.5 percent, but we expect chemical sales to rise to €191 billion in 2014. Despite an expected increase in domestic demand for chemicals, however, very little is going to change in the foreseeable future regarding the German chemical exports.”

Germany, Page said, has historically exported capital goods around the world. To date, with strong demand for these goods in China and elsewhere, the German economy has held up based on these exports. However, going forward, the export outlook for Germany is not as strong. German exports to countries in Europe such as Greece, Italy, Spain, Portugal and Ireland have declined due to these countries’ anemic economies.

While the European chemical industry continues to recover from a long and painful recession, it is doing so at a modest pace, and unlike German producers, not all other European chemical producers can expect much uptick in domestic demand to brighten their outlook, said IHS.

The European production of chemicals is likely to see a 1.5 percent increase in 2014 with a modest rise in exports. However, the industry still faces a bit of a competitive headwind as it endures higher costs than other, more competitive regions such as North America or the Middle East. These regions are leveraging the advantages of lower feedstock costs made possible by the region’s shale gas boom. Additionally, European chemical producers are increasingly facing a more stringent regulatory and tax environment. At the same time, the industry is saddled with an aging infrastructure that is quickly falling behind the technological curve and the advancements being adopted by other global competitors.

“Over time, the European chemical industry has seen a gradual change in its fortunes, with growing costs and a competitive market with many players,” said Michael Smith, vice president at IHS Chemical. “Faced with uncompetitive energy prices and stagnating demand, European chemical companies must adapt quickly or suffer the consequences,” he said. “They will face continued tough competition from Middle Eastern, Chinese and, increasingly, US producers benefiting from cheap energy and feedstocks.

“With an increased import pressure from the United States for vinyls and caustic soda, for example, some players will choose to exit the market in the mid-term,” Smith added. “Additionally, we expect the closure of some steam crackers in Europe as well as further merger and acquisition activity during the next five years as the industry readjusts to the less favorable market dynamics for much of its chemical products. This could bring some major change to the industry in Europe, but also globally in terms of joint ventures, such as the approved joint venture of the European chlor-vinyls businesses of INEOS and Solvay, which will improve the healthy competitiveness of the combined operations in Europe, but also place a major global player in the European market,” Smith said. “It is good to see that the European Commission’s proposed ner.
commitments are aimed at avoiding higher prices, which would negatively affect businesses and customers in Europe."

Despite the regional challenges, some companies are making new investments that show signs of positive growth in the European and German chemical sectors. IHS ChemicalWeek reported 6 May 2014, that Dutch specialty chemical company AkzoNobel, held its official inauguration for a membrane-process chlorine plant at the Höchst industrial park near Frankfurt. The project involved an investment of €140 million and included conversion of a mercury-cell chlor-alkali facility and a capacity expansion of 50 percent — to 250,000 metric tons per year of chlorine and 275,000 metric tons per year of caustic soda. At a briefing for journalists before the ceremony, Ton Büchner, CEO, and Werner Fuhrmann, board member/specialty chemicals, put the investment into context and spoke about the company’s strategy. Büchner said that AkzoNobel is on course to meet its previously announced 2015 targets, which include a 9 percent return on sales and a 14 percent return on capital employed, to be achieved through restructuring, cost reduction and organic growth.

According to IHS Chemical forecasts, West European demand for chlorine will decline slightly. West European chlorine demand is expected to decrease to around 8.56 million metric tons (MTT) 2018 from 8.7 MTT in 2013, IHS Chemical said. Since not all of the producers will convert their production units from mercury to membrane technology, West European chlorine capacity will also decline, from 11 MTT in 2013 to 9.7 MTT in 2018. Chlorine is well known for its uses as a bleaching agent and disinfectant, but it is also essential in the manufacture of other chemicals, including polyvinyl chloride and for other plastics’ production.

On a global basis, however, chlorine demand is forecast to grow from 64.5 MTT in 2013 to 74.3 MTT by 2018, with Northeast Asia being of course the most dynamically growing region, IHS Chemical said.

In the case of caustic soda, between one and two million metric tons of production capacity in Europe could be lost by 2018, and the European vinyls business also is expected to undergo major changes, IHS Chemical said. The price of ethylene is expected to fall given weak downstream markets and decreasing oil prices, while ethylene demand in Europe is not expected to improve much in 2014. The situation is similar for propylene, noted IHS Chemical.

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Attendance & Registration

The IHS Forum, Berlin 2014 is being held at the InterContinental Hotel Berlin from 12-14 May. Further information and delegate registration is available at http://ihsglobalevents.com/forum/berlin2014/.

Media Accreditation

Members of the press can register for a complimentary pass to the IHS Forum in Berlin by sending an email with name, title and outlet details to press@ihs.com.

Agenda

A full agenda and additional information can be found here: http://ihsglobalevents.com/forum/berlin2014/agenda/

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Language:

English

Contact:

IHS Inc.
Rowland Barran, +44 20 3159 3718
Rowland.Barran@ihs.com
or
Press Team, +1 303 305 8021
press@ihs.com

Ticker Slug:

Ticker: IHS
Exchange: NYSE