

The European Chemical Industry's New Normal

Brexit is Only One of Numerous Issues Companies Have to Cope With — Not Just in the United Kingdom

Despite general relief over the last-minute Brexit agreement, the British chemical industry and its EU partners are entering into a new era of business and trade relationships. In addition, the Corona crisis is putting pressure on companies and accelerates major paradigm shifts that are underway and need to be dealt with in other areas such as environmental and climate protection. A trusted adviser to major companies with a chemical industry background, and a Global Expert with the World Economic Forum, Paul Hodges, chairman of New Normal Consulting, amongst others, reflects on the issues the post-Brexit chemical industry must tackle and the business scenarios for the — hopefully soon-to-begin — post-Covid era.

CHEManager: *With the EU being the most important marketplace for UK chemical companies the post-Brexit EU/UK Free Trade Agreement represents a mixed bag for the chemical industry. Does the agreement provide a predictable trading environment?*

Paul Hodges: I think there are two key issues with the agreement—one connected with future UK-EU trade,

and the other connected with its rationale. Incidentally, it isn't actually a Free Trade Agreement, FTA, which would have taken years to negotiate. Instead, it's a very modest Trade & Cooperation Agreement, TCA. It's not as bad as "No Deal" would have been, but it is a very thin deal.

What is your assessment of the post-Brexit market situation?

P. Hodges: In terms of today, it is clear that UK-EU chemical trade is already suffering in a number of important areas. One obvious area is transport, where companies are suddenly having to complete large amounts of new paperwork and are suffering from major delays at the border. Rules of Origin have suddenly also become very important. Companies are having to check the origin of their raw materials with their supply chain partners, and then needing to assess whether enough value is added in the UK to avoid tariffs being paid.

And then, of course, there are the problems created by the new border between Great Britain and Northern Ireland down the Irish Sea—which have already led to supermarket shelves emptying in the North, and companies effectively having to treat Northern Ireland as a separate state within their SAP system.

There is also the wider question. This is the first trade deal in history that actually increases trade barriers, rather than reducing them. And the reason for this is that the politics of Brexit proved more important than the economic impact. The TCA reverses



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the trend towards free trade that has dominated my working life. We have effectively gone back to the pre-globalization world of the 1970s, with different interest groups fighting to gain the lion's share of the economic cake for themselves—rather than working together to try and increase its size.





What does Brexit mean in terms of regulatory cooperation particularly with regard to the chemical industry's compliance with the EU's REACH regulation?

P. Hodges: The simple answer is that it's very bad news. The UK currently intends to diverge from EU REACH by developing its own UK REACH next year. This may well lead many exporters to withdraw products from the UK market, if they don't make enough profit to justify the time and costs involved in re-registering them. In turn, this will end up reducing the number of chemicals on the UK market and increasing the prices of those that remain.

Can you predict or estimate the economic or financial impact the Brexit will have on the chemical industry?

P. Hodges: Brexit essentially creates a vicious circle. It increases the costs

and difficulties of doing business from the UK with the EU. And the benefits it is supposed to create are largely mythical. The UK Chemical Industries Association estimates the cost of building the UK REACH database alone at £1 billion. And the total damage from Brexit in the first few years will be many times this figure. The FTAs so far agreed are simply rollovers of existing EU deals. The idea that joining the Asia-Pacific free trade area can replace the business lost with the UK's neighbors in the EU is simply laughable. Plus, unfortunately, companies now have to consider political risk in their calculations for the first time since the 1970s, which will create uncertainty and damage future investment.

In addition to the Brexit challenges, the Covid-19 pandemic will leave its mark on the industry for years, if not forever. Which issues have been

uncovered, accelerated, or provoked by the corona crisis?

P. Hodges: Obviously the pandemic has put the industry under great pressure. But we have survived the test with flying colors and proved not only that we are resilient, but that we are a critical force for good in society. One doesn't hear people complaining about plastic or big pharma in the way that they did a year ago. But at the same time, the pandemic has accelerated paradigm shifts in a remarkable way. People now like plastic, for example, but they want it to be recycled. And having been able to breathe clean air and see a clear sky during the lockdowns, they don't want to go back to where we were in terms of pollution generally.

Which of these issues have the potential to transform the industry or

the way companies do business in the future, thus resulting in a 'new normal'?

P. Hodges: We see six key paradigm shifts now underway. Demand patterns have changed and broken the inertia surrounding work and home-based routines. Travel, leisure, construction, real estate and other industries will likely never be the same again, as people's priorities have shifted. Global supply chains have proved fragile and unfit for purpose, and so will have to be reshored—as President Biden is also now arguing in the USA. This move to reshoring in turn enables a third paradigm shift, as it makes no sense to reshore on the basis of outdated technology. Instead, companies have the opportunity to reduce costs and improve safety, quality and reliability by

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Every answer
starts with
asking the right
questions.

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We are also moving toward an era of energy abundance, where the concept of cost-advantaged feedstock is no longer a critical success factor for business. And, of course, the next decade will see rapid progress towards a circular economy as part of the Green Revolution now underway. Plus, we are all becoming aware that the world of work is changing. We are moving on from debating work/life balance to the broader question of how and where we work.

Global supply chains have proven fragile during the pandemic, not only because of the lockdowns around the world, but also due to volatility in demand patterns. Will this question the accomplishments of globalization?

P. Hodges: Globalization was right for its time when the global population was expanding very rapidly. But with today's aging populations, sustainability is now replacing it as the key driver for business. Older people don't need a lot more "stuff"—instead they need to be able to do more with less.

Issues like environmental pollution or climate change have been around for decades but the industry tackled them quite hesitantly. Now, we are seeing increasing public pressure to curb greenhouse gas emissions and plastic waste. What are the key challenges for the chemical industry on the path to become a problem solver rather than being a polluter?

P. Hodges: Our industry is on the threshold of a dramatic transformation. It is equivalent to the one that took place in the 1960s when farsighted managements, such as my own at ICI, decided to create new pharma divisions, and to replace existing coal-based chemical production with oil and gas-based feedstocks. In turn, these bold moves led to decades of profitable growth around the world. Today we have similar opportunities ahead of us in terms of the move to personalized medicine in pharma, and to use recycled feedstocks in chemicals.

In pharma, for example, advances in genetics and biotech mean that treatments will increasingly be tailored to individual patients, opening up whole new avenues of opportunity. The broader chemicals market is similarly mov-

ing into a new era, with today's waste sites likely to be transformed into full-scale recycling centers. And, of course, COP 26 later this year will likely see the EU, China and USA moving ahead with new vigor on climate change and introducing carbon border taxes to reduce CO₂ emissions.

Establishing a circular economy and reducing or reusing waste streams or making its feedstock base sustainable should be the industry's self-interest. Will the EU Green Deal offer enough stimulation—or be the catalyst—for the industry to embrace the paradigm shifts necessary?

P. Hodges: I had the privilege in the summer of being an expert advisor to the World Economic Forum's chemicals CEO Task Force on 'Building back better' after the pandemic. This concluded that we needed to engage with value chain partners, governments and start-ups to build an ecosystem that drives the next wave of innovation. We also argued that the time was right for a new wave of corporate and public venturing to accelerate the process of bringing the necessary new technologies to market as quickly as possible.

What will be the benefits for early movers?

P. Hodges: The EU Green Deal has a powerful financing concept behind it. The companies who embrace this opportunity will gain first-mover advantage in their chosen markets. And this will enable them to capture the 'sweet spots' in the new value chains that will be created, replicating the approach taken by companies such as Apple and others in choosing where to compete in the value chain.

The chemical industry is an innovator and enabler of sustainable technologies. What is needed to advance new technologies faster to market-ability?

P. Hodges: The plastics industry is a good example. I was very encouraged at the end of last year to see the detailed route map established in the Sustainable Plastics Strategy developed by CEFIC, Plastics Europe and the Convertors Platform. This focused on the nitty-gritty of what needs to be done today, to move us to where we need to be tomorrow. I think it is an excellent template, and in conjunc-

tion with the WEF report, it really covers all the key areas that need to be addressed.

There is also a mixture of 'carrot and stick' involved. 'Business as usual' is no longer viable, given that refineries are closing all round the world as electric vehicles replace gasoline/diesel. So, the naphtha needed to produce virgin plastic will have probably disappeared within 10 years.

You worked in the chemical industry for nearly two decades and have been advising chemical companies for the past 20 years. Did you experience a situation similar—even in parts—to the one today any time during your career?

P. Hodges: I'm actually feeling very young today, because the environment resembles the excitement I felt when joining the industry back in 1978. As new graduates, we were given a lot of scope to make a difference, and of course my career developed rapidly as globalization took off in the 1980s.

The critical issue was that thanks

"The next decade will see rapid progress towards a circular economy."

to the post-War baby boom, the world population had already more than doubled from 2.5 billion in 1950 to over 5 billion in 1990. So, demand really took care of itself. Instead, we focused on the supply end of the value chain—offshoring to new markets such as China and India, and building bigger and better chemical plants to reduce unit cost. But all good things come to an end. The issue is that population growth today is now no longer due to new babies being born, but to people living longer.

With sustainability now replacing globalization as the key driver for our industry, we therefore need to return to being demand-led again. This means a renewed focus on better understanding customer needs and how these will develop in the New Normal world. This will be a similarly exciting journey, offering great career opportunities to those who take part.

So, in brief, what will the Chemical Industry's 'New Normal' look like if

we travel one, two or three decades into the future?

P. Hodges: The New Normal is a world where it pays to look forward 20 or 30 years to the likely endpoint, rather than focusing on all the twists and turns that will take place on the way. A valuable Gates Foundation-funded study in *The Lancet* last year gives us the perspective we need to do this, given my assumption that the New Normal means we are now reverting to being demand-led.

The critical takeaway from the Study is that by 2050, the global population will be close to peaking at around 9 billion. And almost all countries will have an aging population, with many facing outright population decline. This paradigm shift is already underway in Europe and the USA, and is set to impact China and most other major economies over coming decades.

In turn, this means we have to adjust to a very different landscape for demand, as older people have very different needs from when they were young. They are no longer setting up home for the first time and having babies. Instead, they are a replacement economy, and their incomes are likely declining rather than increasing as they move into retirement.

In turn, this creates an opportunity for us to develop more service-based business models that don't depend simply on the value of the molecule we are manufacturing. The New Normal is the perfect opportunity to do this, as we are inevitably going to have to develop a whole range of new products and services to meet the new needs created by this major transformation. I'm thinking here about basic areas such as food supply, healthcare, housing, mobility and water supply, as well as the digital economy and other key areas of demand.

And who will be the winners and the losers of that transformation?

P. Hodges: The 'losers' will inevitably be those who decide to stick their heads in the sand and pretend that tomorrow will somehow end up being the same as yesterday. The 'winners' will instead be those who take up the challenges created by the demographic transformation now well underway. They will need to be flexible and risk tolerant, as the way ahead is likely to be bumpy at times. But those managements who embrace an action orientation, alongside a focus on stimulating creativity, will power ahead.

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CEFIC Urges Strong EU Industrial Policy

Following a decline of 2% in 2020, European chemical production is forecast to pick up by 3% in 2021, before growth rates taper off slightly in 2022, but output in that year should still land 2% higher against 2021.

In a preliminary look at industry figures for 2020, the European chemical industry council CEFIC said that while these “green shoots” prove that the chemical value chains are among the most resilient in Europe, the longer-term economic outlook “remains highly uncertain,” due to the ongoing Covid-19 pandemic and its knock-on effects.

The entire EU manufacturing sector has been hit hard by the pandemic, said the industry association’s director general, Marco Mensink. This led to a decrease in overall manufacturing output, including chemicals, of 8% last year – even if the burden was eased somewhat by increased demand for chemicals used to produce public health supplies.



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Overall capacity of the chemical industry in the EU27 dropped by about 6% year-on-year in 2020, and sales were €34.8 billion below the January to November 2019 level. Exports decreased by €7.4 billion (4.5%) in the same period, figures show.

Supported by the multi-billion European Recovery Plan package, the EU’s industry can move forward fast, the CEFIC chief executive said. But chemical producers will need the right framework conditions to remain competitive during the transition to

a greener economy. This is especially important, Mensink said, if the industry is to stem the “massive investment” the Green Deal will require.

In the transition, CEFIC urged that “Europe must show its leadership in innovating and deploying competitive new technologies for delivering a climate neutral, circular and digital transition, whether it is chemistry for solar panels, wind turbines, batteries, building insulation, medicines or chemical recycling technologies.” To do this, it will need a workable industrial policy that will ensure sustainable economic growth and new jobs.

To secure the required investment and maintain the European chemical sector’s export success story, Mensink said CEFIC expects the Commission’s new industrial policy strategy to provide the markets and conditions for industry to become more sustainable, more competitive globally and more resilient. (dw)

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WeylChem: New Website to Match Ambitious Business Plans

The WeylChem Group, a global leader in Custom Manufacturing of Specialty Chemicals and supplier of a wide range of care chemicals, advanced intermediates and reagents for diverse applications, has launched its new website.

- An investment into hastelloy multi-purpose equipment for mid-sized volumes of customized products at Lamotte, France,
- Increased manufacturing capabilities of bleach activators and bleach catalysts,
- Continued development of new Care Chemical products, incl. 5 product launches in 2020/2021,
- Planned implementation of ERP-software: SAP S/4HANA.

To match this ambitious business plan, WeylChem recently relaunched its corporate website: www.weylchem.com.

The new site offers visitors a completely new structure and design, with a clearer focus on the Group’s products and services, intuitive navigation, simplified interaction options and the ability to get in touch with the best contact for each product or service.

With an improved user experience, visitors can more efficiently explore the WeylChem Group’s diverse offering across four business segments:

The company started a strategic transformation towards a more customer-centric approach in 2019. At the core of the Group’s plan is a focus on improving its service offering with specific investments and meet the growing demand for its specialized services and expertise. Investments have included:

- A new HALEX plant at Allessa, Germany,
- A new production facility for aromatic ring chlorination in Frankfurt-Höchst, Germany for advanced intermediates,

Custom Manufacturing, Innovation Services, Care Chemicals, and Advanced Intermediates.

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