

# Industry match-ups



Germany versus France

European football championship 2016



Sector playing field: chemicals industry  
Match preview

4:5\*

\* Comparison of Atradius credit risk situation/business performance outlook for the industry  
(Ranking from one ball (very poor) to five balls (very good))



## Squad performance for the tournament – check

### German chemicals industry

2015	2016f	2017f
1.7	1.7	1.5
1.2	1.7	2.1

1.9
high

### French chemicals industry

2015	2016f	2017f
1.2	1.5	1.5
1.7	2.0	2.3

1.5
high

Country  
GDP growth

Chemicals sector valued  
added growth (%)

Average chemicals sector growth  
over the past 3 years (%)

Level of competition

Sources: IHS, Atradius

### Solid team performance despite lower turnover in 2016

The German chemicals industry is the largest chemicals industry in Europe and the fourth largest in the world. Of the about 2,000 companies that produce chemical products, more than 90% are small and medium-sized enterprises (SMEs) with less than 500 staff members. Unlike in other industries, chemicals SMEs are often customers, not suppliers of large chemicals companies.

2015 was a rather subdued year for the industry due to the economic slowdown in many major emerging markets. According to the German chemicals association VCI, chemicals production decreased 0.7% in 2015, while turnover decreased 0.4%. Producer prices decreased 2.8%, and with more sluggish sales, falling raw material prices had to be passed on to customers. In 2016, the VCI expects production to increase 1% and turnover to decline 1%, as producer prices continue to decrease. Increased international competition forces chemicals businesses to immediately pass on lower commodity prices to customers.

However, most German chemicals companies remain generally satisfied with their business situation. Given the persistently low oil price, most companies still do good business, even with decreasing sales. Generally, German chemicals and pharmaceuticals businesses have robust equity, solvency and liquidity. Profit margins are expected to remain stable

### Successful like the 'Equipe Tricolore', but facing strong competition

The French chemicals sector has proved to be resilient in recent years, despite subdued growth rates of the French economy. According to the French chemicals association UIC, French chemicals production grew 0.9% in 2015, and generated a trade surplus of EUR 7.3 billion.

In 2016, a production growth of 1% is expected, supported by increased investments, low oil and natural gas prices, a benign EUR/USD exchange rate, and low interest rates. However, the more subdued global growth outlook acts as a break on additional expansion.

Given that the chemicals sector's export share (mainly in Europe) amounts to more than two thirds of overall sales, French businesses are in strong competition with other international players, especially with US chemicals businesses that benefit from lower energy prices. Other issues for the French chemicals industry are high labour costs and stricter regulation than in most other countries. That said, the industry has benefitted from comparatively low electricity prices and the lower exchange rate of the euro against the US dollar.

The danger of losing competitiveness has clearly led to some strategic restructuring measures by French chemicals businesses, such as focusing on core business activities and diversification of activities towards specific segments with higher margins (painting, ink, glue, essential oil).



## Players to watch

### Germany

- The production of polymers and inorganic chemicals recorded growth in 2015.



### France

- In order to improve their margins, smaller companies continue to focus on niche markets, investing in research and development and developing additional services for technical support of customers.
- Specialty chemicals are expected to increase 1.5% in 2016 after registering 9.9% growth in 2015. The good performance of this segment is due to increased demand for paints, essential oils and lubricants.

- 
- Manufactures of consumer chemicals and petrochemicals recorded production decreases of more than 3% each in 2015.





## Major strengths and weaknesses

### German chemicals industry

Motor for innovations/high R&D investments/high expertise

Restructuring and concentration process well advanced

Strong market position/large number of highly specialized businesses



### French chemicals industry

High share of export sales

Concentration of a few global players

Electricity cost lower than the European average

Dependency on oil and energy prices

High dependency on global economy due to high export rates

Competition especially from China and the US



High labour costs

Burdensome legislation

Competition especially from China and the US



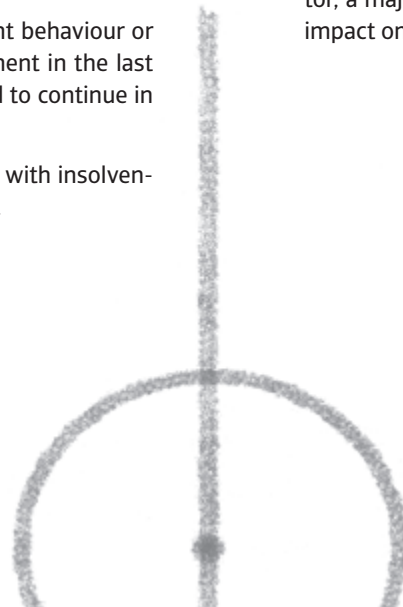
## Fair play ranking: payment behaviour and insolvencies

### German chemicals industry

- The German chemicals sector's payment behaviour has always been better than average with no notable payment delays.
- Payments take, on average, 45 days – even fewer for domestic payments, as most chemicals products are exported to destinations with longer payment terms than the domestic market.
- There has been no change in payment behaviour or increase in notifications of non-payment in the last six months and this trend is expected to continue in the coming months.
- The insolvency environment is stable with insolvencies expected to remain at a low level.

### French chemicals industry

- The volume of protracted payments and non-payments is expected to remain low.
- The industry is characterised by a low level of insolvencies. It is expected that the number of insolvencies will decrease further in 2016.
- However, given the value chain structure of the sector, a major player's insolvency would have a severe impact on suppliers.



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