Press Release

Euler Hermes: German chemical industry faces increasing competition from Asia

- Germany's chemical industry is number one in Europe with just under a third of market share
- Globally, Europe and Germany are losing market shares due to increased competition from Asia, especially China
- German chemical companies still well positioned thanks to efficiency improvements and energy savings, with most achieving double-digit growth in profit margins
- German companies increasingly focused on growing specialty chemicals market

HAMBURG - 24 APRIL 2014 – According to the findings of the latest sector report by Euler Hermes, the global leader in trade credit insurance, German chemical companies are still number one in Europe and the sector's global leader in terms of exports, with a 29% market share in 2012.

Their lead however is dwindling away: At 11%, Germany's market share of global chemical exports means it is only one percentage point ahead of the US (10%) and 3 ahead of China (8%). The global market share of Chinese companies is growing at lightning speed and has tripled since 1992, while Germany's chemical sector is steadily losing ground, down from 16% in 1992 to 11% in 2012. As Germany's third largest industry employing a total of 436,000 people, chemical companies are well positioned with consistently high profit margins, although the country's lack of natural resources and rising energy prices are creating problems for the sector.

Energy prices and raw material costs weigh on the sector, but companies still posting high profit margins

"The country's lack of natural resources means that German chemical companies are totally dependent on the world market prices of fossil and mineral resources," said Thomas Krings, Chief Risk Officer at Euler Hermes Germany. "Rising energy prices also present a huge challenge. In recent years however, companies have successfully held their own in the price war by means of ongoing efficiency improvements and massive energy savings. They are reporting solid increases in sales and in most cases even double-digit growth in their profit margins."

The announced continued exemption of most chemical companies from the EEG reallocation charge provides additional planning security for this energy intensive sector, whose annual energy consumption is around 50 terawatt hours (TWh) – more than four times the annual production of Germany's most efficient nuclear power plant.

Growing competition from China: German chemical companies focus on specialty chemicals

"The sales increases are due first to the innovative strength of Germany's market players and second to specialization and the harnessing of synergies through close cooperation between individual firms in Germany's big chemical centers," said Krings. "But competition from Asia, and China in particular, is growing. If they are to withstand this competition and continue to be successful, German chemical companies really need to focus systematically on specialty chemicals, as this sector is slated for strong growth in future."

Specialty chemicals to see dynamic growth over the coming years

Experts believe that the specialty chemicals sector will see dynamic growth over the coming years, particularly when it comes to high tech products that are only produced in small quantities but have big profit margins. In 2011 these specialty products accounted for 54% of the global market, and this figure is forecast to rise to around 58% by 2020. Mass-produced chemical products on the other hand will lose ground in future, with experts predicting a fall in their market share from 46% in 2011 to 42% in 2020. Additionally, mass production will increasingly be concentrated in countries with abundant natural resources and low energy costs.

Medium-sized companies make up 80% of the German chemical market, leading groups 20%
On the back of this specialization strategy and a continued increase in energy efficiency, Euler Hermes predicts a 14% rise this year in the profit margins of the German market leaders (Tier 1 manufacturers), which together account for around 20% of the market in the country, while 80% of the companies in this highly diversified sector are medium-sized companies. They too are expected to grow their profit margins by approximately 12% from 2013 to 2014. In terms of increased sales, their predicted 4% increase may even put them ahead of the big groups, which according to the Euler Hermes survey will see a 4% drop in sales.

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Media Contacts

Euler Hermes Deutschland AG, (Hamburg)
Antje Stephan **-** +49 (0)40 8834-1033
antje.stephan@eulerhermes.com

Euler Hermes Group Media Relations
Remi Calvet – +33(0)1 84 11 61 41
remi.calvet@eulerhermes.com

Publicis Consultants
Romain Sulpice +33 (0)1 44 82 46 21
romain.sulpice@mslfrance.com

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The 1,500 employees of Euler Hermes Germany are based at its headquarters in Hamburg and in other offices. More information: www.eulerhermes.de