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Implementation of REACH in the New Member States

Part two: Business Case Studies in Selected New Member States

(EXECUTIVE SUMMARY)

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A. SUMMARY

A.1 Specialty Chemicals

In general, NMS, in comparison to the EU-15, have less specialised production of fine and specialty chemicals and account for a relatively small share in the value added of the chemical industry. In this respect, the impact of REACH is expected to be relatively less important in the NMS. However, since many producers of the non-basic chemicals in NMS do not have the scale of production and a relatively secure market position as being the case for their counterparts in EU15, they could face more difficulties and be more sensitive to REACH.

A detailed examination of the specialty chemicals sector has been carried out in the three selected countries for the case study, i.e. the Czech Republic, Poland and Estonia. The evolution of the sub-sector appears to be similar in the Czech Republic and Poland. In terms of turnover the specialty chemicals production has grown much faster than the chemical sector as a whole and such growth has been even more pronounced in terms of value added. In comparison, specialty chemicals contribute 38% and 24% to the total turnover of the chemical industry in Poland and the Czech Republic respectively.

In both countries, export and import of specialty chemicals increased with export increase much faster than import. Despite this growth there is still a trade deficit in specialties in both countries that amounts to 27% of total chemicals trade deficit in the Czech Republic and to 23% in Poland.

Data show that the chemical sector and specialty chemicals in particular in Estonia have stagnated and there has been very slow development in production and productivity. The specialty chemicals sub sector takes a prominent position within the chemical industry (50% of sector's value added). Trade with eastern non-EU countries plays a dominant role in this country, especially for specialty chemicals (74% export to non EU countries).

Trade with non-EU countries may be particularly affected by REACH. Regarding imports, the need for registration of imported raw material and the potential lack of necessary information from the supplier might force the importers to switch to EU suppliers. Regarding exports, the price increases of chemicals after registration might lower their competitiveness on markets outside the EU. Thus, due to its much larger share of exports to non-EU countries and stronger reliance on raw material imports from outside the EU, Estonia may be more affected by the implementation of REACH.

A.2 Business case study in selected New Member States

While valuable information has been generated in the course of this work, considerable care has to be taken in evaluating the findings in order to avoid any broad-based conclusions in relation to the capacity or otherwise of the general body of enterprises in the new Member States to cope with REACH. In particular, the limitations of the exercise linked to the time constraints and the difficulty of identifying suitable firms willing and capable of early participation, the difficulties in pursuing a full supply chain analysis due to issues of confidentiality and which precluded the involvement of downstream users, and the particular characteristics of the participating firms which mainly produced high volume substances, do not allow these results to be regarded as representative of the experience in the new Member States.

A.2.1 Impact on competitiveness

The case studies carried out in this study included 15 companies. Amongst these were 7 manufacturers of substances, 2 importers, 5 formulators and 1 downstream user. As the data of the downstream user entered the analysis at a very late stage, no thorough analysis could be carried out for this company. Chemical companies interviewed and industry associations of the new member states fear that the implementation of REACH might increase the competitive pressure on them. The main concerns expressed by them are:

- Companies expect increasing cost through testing and registration, without being able to pass the costs on through of the supply chain.
- Some companies expressed the worry that potential withdrawal of substances under REACH would result in a reduced number of suppliers. This might lead to increased dominance of the remaining suppliers and consequently, price increases may exceed the actual REACH cost.
- According to the industry associations many SME, use large numbers of chemicals, often in low volumes, and serve profitable niche markets. These companies are considered to be vulnerable to REACH because they can not anticipate or avoid decisions from suppliers regarding substance withdrawal.
- One of the key concerns of the companies is the administrative efforts required by REACH. Companies, may have difficulties to find additional resources to implement REACH. According to industry associations this might be particularly a problem for SME: As their markets are small and competition is generally high, the formation of consortia, which is one of the important cost reduction measures envisaged in REACH, may not be easily achieved. On the other hand, branches of multinational companies, although classified as SMEs, are thought to be able to manage REACH.
- It is expressed that REACH might result in competitive advantages for EU15 companies and may eventually drive local companies out of business. This reflects the currently experienced competitive pressure from their EU15 counterparts.

In the frame of this study, for the 7 manufacturers, whose product portfolio comprises 419 substances, a vulnerability analysis was carried out, calculating NPV for 29 substances and price increase after REACH for 8 imported raw materials. The volume bands for these substances are as follows: 0-10 tons: 1 substances, 10-100 tons: 10 substances, 100-1000 tons: 5 substances, more than 1000 tons: 21 substances. One of these substances, with a negative NPV, resulted to be vulnerable. This one, a polymer, is used in one of the selected preparations. A further five¹ non-polymer substances were non-profitable in the data reporting year and hence regarded as vulnerable to REACH. For one company the one-off cost of registration represented 9.6% of the profits.

With regards to the 5 formulators, for 12 preparations, which were composed of 137 substances, vulnerability analysis based on NPV and price increase estimation was carried out. Substantial increases in raw material costs could be identified in a few cases. These cases lead to price increases between 0.03% and 2% for the 12 analyzed formulations in a full pass-through scenario. Additionally, sufficient suppliers for the analysed input substances are available, accordingly no raw material shortages can be expected. For some preparations a refreshment or reformulation of the product may become necessary. A preparation supplier was found to have significant impact on its profit margin, a decrease of 58% due to substance price increases.

¹ Three in Estonia and two in Poland

Two importers were analysed in this study, whose import portfolio comprises 148 substances, out of which 102 are imported from eastern non-EU countries. Due to scarce data availability, an analysis of the product portfolio could only be carried out for the Estonian importer. Compared with the substance manufacturers and formulators, the company appears to be more affected by REACH. Analysed data show that REACH registration total one-off registration cost represents up to 80% of the company's total one year turnover. The extent of the effect could not be analysed in detail, however, a few important findings are worth to discuss. It was shown from the analysed sample that the raw material price level in eastern non EU countries is on average 35 % below the cost of material of EU origin. Under REACH, the importer would need to invest in registration in order to maintain its non-EU imports. The analysis showed that after registration under REACH less than 50% of the imported substances assessed from non-EU countries are still cheaper than those of EU origin, thus continuous trade of those substances can be maintained by the importer. The rest of the substance would have a higher price than that on the EU market, thus the importer may need to switch its supply to EU origin (price increase between 40% - 70%). In both cases the price is expected to increase with impacts on profit margins and, as whole, changes of the supply network may be expected.

No interviews with downstream user clients of the selected formulators were carried out in the context of this study.

A.2.2 Impacts on the product portfolio

In the quantitative analysis of the case studies only a small number of the 29 analyzed substances have been identified as vulnerable having a negative NPV. Whether production of these substances will be phased out under REACH by the individual manufacturing company will depend on the NPV criteria and other factors such as cost pass on and alternatives for cost reduction, e.g. entering consortia for registration and sharing of test results, which have not been analysed.

As mentioned, importers are expected to be affected more than manufacturers due to the fact they tend to have a broader range of products in the lower tonnage band. Their situation is aggravated by the fact that the suppliers of these substances might not be able to provide them with all information which is required for registration under REACH. This implies that REACH may result in importers modifying its product profile to limit the cost of registration, e.g. mainstreaming product portfolio. Consequently, this may reduce the number of suppliers per substance on the market.

A.2.3 Impacts on innovation

In the interviewed companies in Poland and the Czech Republic, the R&D budget stays far below 1 % of turnover. In the Estonian average companies spend around 2.7 %. Average in EU-15 is a share of 5 to 8 %, according to CEFIC.

The analysis of the case studies revealed that in a limited number of cases, prices for substances would substantially increase through REACH, in particular in the case of imported raw materials. However, raw material availability was in none of the cases endangered, though would be subject to substantial price increases of 40-60%.

However, it turns out that the capacity for R&D and innovation in the chemical sector as a whole is limited in the NMS when compared to the EU-15. In the single market, this is a strong competitive disadvantage in itself, and might also hamper the implementation of REACH.

A.2.4 Impacts on HSE management

The standard of the HSE management seems close to that of the EU-15. This was primarily a consequence of the implementation and enforcement of the Chemicals Acquis, which is fairly complete. All companies stated that neither big efforts nor excessive costs were necessary for compliance. IT aided management systems for bookkeeping and tracing of chemicals are quite common, although not 100% available. Company's units for the classification and labelling scheme of substances and preparations, as well as the management of SDS are well staffed. Responsible staffs have to handle far lower numbers of SDS per person than in EU-15 companies.

Considering the cooperation along the supply chain of chemicals, the situation is similar to that of EU-15 companies. Support of downstream users of chemicals by the manufacturers of that preparation is business as usual. But regular contacts of substance suppliers with downstream users in the manufacturing sectors are rare. The establishment and maintenance of such cooperation, which is not driven by the operational business, is one of the new challenges coming up with REACH.

The number of testing laboratories is regarded as appropriate for the implementation of the current chemicals legislation. Nevertheless it can be foreseen that the need for testing of the phase-in substances under REACH cannot be met with the current number of GLP certified laboratories.

A.2.5 Ability of companies to cope with REACH

The analysis confirmed that the knowledge about REACH in the companies of the NMS is fragmentary. The priority for preparatory activities for REACH in the interviewed companies is low. The reason is not the lack of strategic foresight, but the lack of time and resources due to other more urgent challenges which they face, for example, the ongoing privatisation, the restructuring and modernisation of production, the efforts to comply with the Environmental Acquis, and the dramatically increasing competition with EU-15 companies after accession, which absorb much of the companies' management capacity. The question of relocation to other countries or withdrawal of processes and products was not an issue for any of the interviewed companies. Companies have not yet assessed impacts of REACH on their own company, nor have they developed strategies to cope with the foreseeable changes of the future chemical regulation regime. None of the interviewees were able to draw even a rough picture of company's approach to identify substance uses and to perform exposure assessments and risk characterisations at downstream users.

After implementation of the Chemicals Acquis, in principle the starting point for REACH implementation seems to be at a common level between EU-15 and NMS companies. But, the lack of experience, low innovation capacity, a general competitive disadvantage, combined with increasing competitive pressure from the EU-15, and the ongoing effort for implementing the heavy investment directives under the Environmental Acquis might be drawbacks for the implementation of REACH in the New Member States.

A.2.6 Business benefits of implementation of REACH

The designed benefits of REACH in terms of environment and health are generally acknowledged by the interviewed companies. Business benefits were thought to be possible by many but not considered important to the company and the accompanied administrative burden of REACH implementation is thought to outweigh the potential benefit. Out of the 13 visited manufacturers, ten companies recognise the need to improve information exchange along the value chain and half of them consider the implementation of REACH could benefit in this respect. Four companies, including all the interviewed manufacturers in Poland, do not see any benefit of REACH. The business benefits of REACH

implementation are mostly thought to be better credibility and image of companies, as well as risk prevention though the availability of more detailed information on substances used in the production.