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Responsibility And Credibility

Checking In with Fecc President Edgar E. Nordmann on the Future Business of Chemical Distribution

Everybody in the Chemical Distribution industry knows his face: Edgar E. Nordmann, president of the European Association of Chemical Distributors (Fecc). Nordmann, a trusted opinion leader with sound business knowledge and refined cultural skills, fights tirelessly for the interests of his industry and its stakeholders without ignoring their social responsibility. A driving force behind the Fecc European Responsible Care (RC) Programme and a convinced supporter of the use of third-party verification systems for the RC programs, Nordmann is also a strong supporter of the European chemicals legislation, REACH. The honorary consul general of Malaysia in Germany for almost three decades is also an expert in European-Asian economic relationships. Michael Reubold spoke with Edgar E. Nordmann in the run-up of the Fecc Annual Congress 2013 in Hamburg and asked him about his opinions on all these topics and his view of the future of chemical distribution.

Edgar E. Nordmann, president, Fecc

Distribution & Logistics: Mr. Nordmann, almost three years into your mandate as president of Fecc, would you draw a preliminary balance of the goals you had and the results you achieved?

E. Nordmann: The last three years have been very exiting for Fecc. Not only did we totally restructure our office in Brussels under the newly elected board and with Dr. Uta Jensen-Korte as the new director general at the helm, but we also became much more efficient. Fostering our relationship with Cefic management and the relevant EU institutions has also been priority. We were represented on a high level in all, for us, important decisions concerning our industry.

We developed our vision and our mission statement as our guidance for our work until 2014. We can truly say that we are a highly recognized and visible association by all our relevant partners.

In October 2009, Fecc and Cefic launched the Fecc European Responsible Care program for chemical distributors, which you have since been actively promoting. What progress has the initiative made?

E. Nordmann: As it is widely known, I strongly believe that the joint European Responsible Care Programme is now stronger. But with a number of national programs in some EU countries, which have existed for quite some time, it is not so easy to establish the very well-balanced European program. At Fecc, we are concentrating on those countries that either do not have any program in place or where there is no industry association. Our work is mainly to assist individual companies or distribution associations that wish to implement the Fecc European Responsible Care Programme. In 2011 and 2012 we received over 15 applications to the program, coming mainly from subsidiaries of our members located in Eastern European countries. The Spanish and Portuguese distributors associations have also based their RC program on the Fecc's.

An important aspect of this program – and a personal concern of yours – has been that companies applying for the program undergo independent third-party assessment in order to verify the compliance against Responsible Care requirements.

E. Nordmann: It is well noted in the distribution industry that I favor an agreement with third-party verification systems – TPV. I consider it my main duty to convince and encourage associations and companies to use TPV because it gives our industry improved credibility with our numerous stakeholders, including European institutions and local government authorities. Without TPV it is my strong belief we will face even more regulations at EU as well as from local governments. My endeavors to promote TPV are still intact, and as long as I am part of this industry, I will continue to fight for it.

Responsible Care/Responsible Distribution – RC/RD – in partnership with TPV systems has been truly successful in the Americas. In Brazil for example, the RC/RD program with TPV has just been chosen and recommended by the government as the master plan to be followed by other industries. In the United States, Canada and Brazil, it is a requirement for membership in the relevant associations and in many cases necessary to obtain

access to a large number of producers.

On another note, it is definitely better to be proactive than wait for further EU and government legislation. In essence you will see me acting as a convinced supporter of the use of TPV for the RC programs.

REACH has been and still is one of the most important legislative actions for the chemical industry and its stakeholders in the EU. What do you think of the status quo and the recent review of REACH by the European Commission?

E. Nordmann: I am also a strong supporter of REACH. The first phase of introduction has been successfully implemented – albeit at very high costs – and we, as Fecc, are now actively involved in the second phase of implementation. However, I believe that together with all stakeholders, we need to find solutions to reduce the enormously high financial burden on our companies. The chemical distribution industry in its majority comprises SMEs – small and medium-sized enterprises – and you can really not say that REACH is particularly SME-friendly, for both manufacturers and distributors. It may be interesting to note that SMEs were and are the main focus of all European countries and the EU Commission for economic development in the region.

In a globalized world, do you think that national or regional legislations such as REACH will hinder competition?

E. Nordmann: Maybe in the short term, but in the medium and long term it's definitely an advantage. Whereby I, like with RC/RD, have a preference for regional agreements. We now see an accelerated process in the United States and China, who are working on the development or revision of their chemicals legislation. In this sense it is definitely an advantage for European companies, as we have now years of experience meeting the requirements that these types of legislations entail.

What do you see as the most critical future challenges for chemical distributors and what will be success factors for chemical distributors to cope with these challenges?

E. Nordmann: The success factors for chemical distributors will be, as we have seen in the past years, an ever-increasing demand for productivity and efficacy, diversification in the product range and a large customer base, but it certainly does not end there.

> *"We need to find solutions to reduce the enormously high financial burden on our companies"*

Can chemical distributors secure future business success by focusing on specialty chemicals, niche markets or value added services?

E. Nordmann: As through the national associations Fecc represents the industry's SMEs, I consider we have to be specialized in a number of different industry segments, while being able to take away from customers and suppliers what they deem not to be in their main focus – without setting aside specialty chemicals, niche markets and value added services.

If there would be one role model of a chemical distribution company that guarantees business success in the future, what could it look like? Do chemical distributors have to better adopt megatrends important to their principals and customers, and do they have to implement corporate social responsibility strategies?

E. Nordmann: A successful business model also includes the so-called megatrends: corporate social responsibility, corporate governance and risk management policies – and last but not least sustainability. Although business success can never be guaranteed, we can't forget there are too many factors that we hardly have a chance to influence as individual businesses. The more important it becomes to have strong European and local associations, like Fecc.

I find the Global Compact a good example and guidance for the future, a platform of the United Nations that convenes companies together with UN agencies to encourage businesses worldwide to adopt sustainable and socially responsible policies and to report on their implementation. Their goals, based on 10 principles and action plan give you an interesting insight on how the future of business could look.

You are honorary consul general of Malaysia in Germany and an expert in European-Asian economic relationships. What can European leaders learn from the Malaysian success story?

E. Nordmann: Having been the honorary consul general for the last 29 years, I have witnessed Malaysia's very positive and fast transformation, going from a developing to an advanced developed country, with a sound base and strong financial grounds. I believe Malaysia will most probably be an industrialized country by 2020.

The main drivers of success have been the political stability, sound economic policies, careful transformation – from an agriculture-dominated to an industrial country – based on their local products and the high degree of acceptance of new technologies and their further development. A satisfactory and accepted tax system, balanced budgets and high level of education both basic and advanced, have also been key elements for the advancement of the country.

What do European chemical distributors have to pay attention to when setting up businesses in Asia or establishing business relations with Asian companies?

E. Nordmann: Asia is as diversified as Europe is from Norway to Sicily, from north to south and east to west. The best advice is certainly to enter Asia but act locally. We will probably see five big economic – and partly political – players: South Asia (Pakistan, India, Bangladesh and Sri Lanka), Southeast Asia – and here the ASEAN countries with over 400 million people – China, Japan and Korea.

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Old Game – New Rules?

Chemical Distribution in the Age of Volatility

Ups and Downs of Today's Economy – What sort of road lies ahead for the chemical distribution industry in Europe? In the short run it will be determined by the current, increasingly fragile state of the economy.

Günther Eberhard, managing director, DistriConsult

As Q1 results are being analyzed, differences between industry sectors (i.e., applications) and geographic regions become apparent. As a consequence, the question "How is your business doing?" could elicit statements of great disappointment and concern or quite upbeat answers, such as, "Not quite as good as last year, but overall surprisingly well." This article tries to describe and analyze some of the factors that influence the state of the industry today, as high levels of volatility are a persistent characteristic of the industry's economic environment.

Evolving Business Requirements

From the customer perspective, distribution today is confronted with ever more short-term ordering patterns and reduced shipment sizes, as customers only buy their raw materials, ingredient and additives once they have the order of their customers on their desks. They are no longer prepared to keep large stocks and expect their suppliers to do this job for them. The reasons could be cash constraints because they have to put up with longer payment terms themselves, lack of bank credit facilities or just that everybody has learned to focus on the management of net working capital. Since producers are not prepared to keep extensive stock positions either, distributors have to act as the buffer. This can be a marketable service element, but one needs to be careful to reflect the associated cost adequately in the product pricing.

Suppliers are also regularly analyzing their channel management strategies. On top, M&A activities in the chemical industry, such as the acquisition of Cognis by BASF or Rhodia by Solvay have triggered changes during the integration phase, which can also be felt in the distribution sector. While the majority of the resulting restructuring steps pertain to the strategic posture of the combined entities and their direct sales channel, some ripple-on effects have caused rather significant changes in the selection of distribution partners, leading to the discontinuation of even longtime relationships.

The resulting staffing adjustments and the "unfreezing" of established positions create significant downstream effects and movements. Nothing can be taken for granted anymore, and distributors need to continuously prove that they make a relevant contribution to the value creation along the whole chain.

Core Vs. Periphery

In the large distribution markets in Europe, such as Germany, France and the U.K., the industry is mostly moving sideways, discussions with distributors and reports from industry associations suggest. Demand has held up so far, but prices have come down somewhat over the last 12 to 15 months, so that overall turnover figures show some decline and margins can and will get under pressure. Many companies are looking at ways to become more efficient in what they do and are making structural adjustments.

On the southern periphery, distributors in Spain and Portugal have been buffeted by the overall economic weakness in their home regions. Certain industries, such as construction, have come to almost a standstill. The more adventurous and financially strong distributors are increasingly turning to Northern Africa, i.e., the Maghreb region or countries in Central and South America for new business opportunities. The former region is attractive, as it is growing nicely in some industries, albeit from a low base. The latter is an area into which a lot of cultural and historical business links exist. This is certainly not an option for everybody, but some companies are benefitting from these opportunities.

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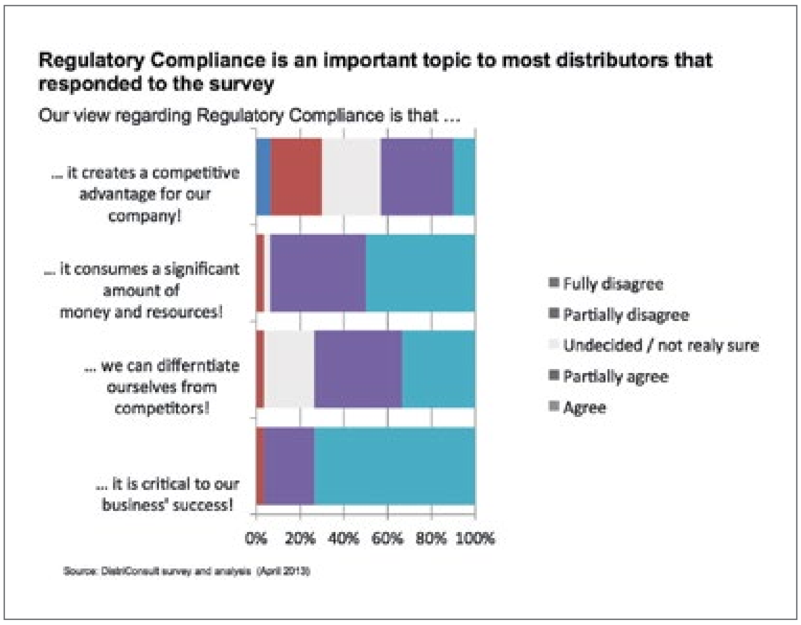
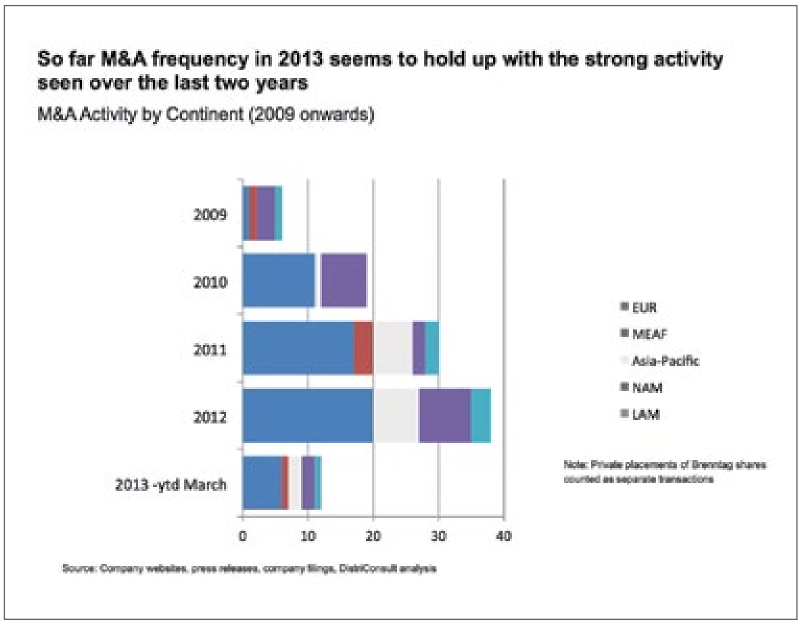
Regulatory Compliance/ REACH

Regulatory compliance is absorbing more and more management time at distributors. DistriConsult has recently completed a survey that brought up some interesting results. It covered a broad range of companies from EU and non-EU countries. In their responses, 69% of the participants said that they have assigned accountability for the respective strategy and its implementation to a member of their management team and that they have set aside a specific budget position for regulatory compliance. Regulatory compliance was delegated to a department within the organization by 26% of participants. Only a small minority (6%) sees this as a purely operational issue. When it comes to information on the subject, suppliers are normally seen as important sources of information, followed by trade associations.

Regulatory compliance is seen as critical to business success. It also consumes a significant amount of money and resources. Asked whether this subject would create a competitive advantage and a means of differentiation, the respondents were not so sure.

As the second wave of REACH registrations is coming to its deadline at the end of May, more and more news pops up about producers discontinuing the marketing and sales of certain products in Europe, as they don't see it as being economically viable to amortize the cost for registration and subsequent collection and evaluation





of information. For lack of data, let alone a systematic survey and evaluation, these snippets are only anecdotes so far. But there appears to be an issue developing, which will quite likely become more pronounced by the time the third wave registration deadline in 2018 cuts in. This may seem far away, but the threat of a further – and in our view significant – reduction of product variety will have an over-proportional effect on distribution, as the smaller-volume products then affected are the realm of the indirect channel.

M&A Activities Go On

M&A activities in the chemical distribution industry continued to make headlines in the first months of 2013, as these transactions are a major growth driver for many companies. In Europe the transactions over the last few months were mainly done by smaller or medium-sized privately held distributors. The rationale appears to be expansion of geographic coverage, such as Alsiano's recent acquisition of Interplast, or Krahn Chemie's purchase of ICH Benelux. A move to enhance industry coverage was Biesterfeld's acquisition of compatriot Küttner to bolster the presence in rubbers and elastomers.

Outside of Europe, Brenntag has been active in the U.S. with the purchase of Altivia, a distributor of water treatment chemicals, and Lubrication Services. Private equity owned IMCD made add-on acquisitions in South Africa, buying Chemimpo, and in India, where the company acquired Indchem International. These large players seem to have turned their focus to other continents where they are either not yet represented as well or where they expect attractive growth opportunities.

Don't Get Stuck in the Middle

This author has long argued that size matters in chemical distribution, to maintain critical mass and cope with an ever-increasing fixed cost burden. This appears to be going even further, in the sense that companies must make sure they really grow their presence to make sure not to get stuck in the middle. They must either be big enough for a broad and comprehensive geographic coverage of large parts of Europe's core industrial areas or they must concentrate on an application specialization in certain industries that allows them an expert approach with high focus. Only then can smaller companies stay competitive and remain on the leading edge of the industry.

Have the Rules Changed After All?

In our view the rules have not changed so much. But the game has gotten more dynamic, if not to say aggressive, as market volatility remains high and visibility low – upstream as well downstream – all along the value chain. Both suppliers and customers are looking to their cost position and try to make sure they are getting good value for their money. Distributors have to make sure they are not getting squeezed on their margins and hence may ultimately find themselves in an unsustainable position. Strong and responsive companies with professional staff will be able to manage the situation and even benefit from it. But marginal players may find it increasingly difficult to maintain a defendable position in an ever more competitive and volatile market environment.

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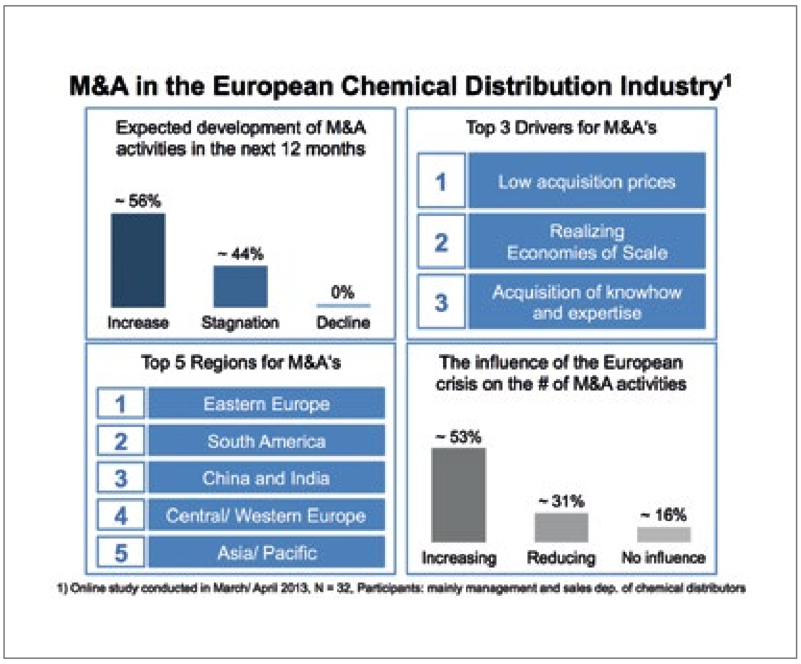
Mergers and Acquisitions as Value Lever

M&A Activity in Chemical Distribution Likely to Increase in the Next 12 Months

Chemical distribution as an integral part of the chemical value chain becomes increasingly important for the chemical industry. Its growing importance can be attributed to two major aspects: The distributors of chemicals have a distinctive access to the market – because of their high proximity to the (final) customer – and they increasingly offer additional services.



Having acknowledged the value of chemical distribution, chemical manufacturers (so-called principals) sell more than 10% of their chemicals (specialty chemicals and base chemicals) to downstream market participants via chemical distributors. The distributors were able to greatly benefit from the positive market environment and the overall growing chemical industry in recent years. This positive development was accompanied by an increasing number of M&As in the chemical distribution industry. In particular the big players were hungry for acquisitions – nearly weekly significant M&As on a national or global scale were announced. These big players (partially stock listed) were busy acquiring companies to further boost their already substantial growth.

Now the leading questions with respect to M&As are: What is the status quo of M&As in the chemical distribution industry (in Europe) and how will the number of M&As evolve in the upcoming 12 months? What are drivers for M&As in the industry and how does the smoldering crisis in Europe affect the industry? Do chemical distributors concentrate their M&A activities on certain European regions only?

To go further into these questions, Grosse-Hornke Private Consult launched the short survey "M&A in the European Chemical Distribution Industry" in March and April. The key results of the survey are explained and discussed here.

Matthias Hornke,
partner,
Grosse-Hornke
Private Consult

Market Demands Still Promote M&As

In the next 12 months, 50% of the study participants (N=32) expect a growing number of M&As; the other half of the participants anticipates stagnation. This development is, among others, justified by the growing expectation of the customers of chemical distributors to offer at least coverage of the European markets. Especially the more local or very specialized market participants with a limited coverage of the market face the problem of critical profitability.

Besides the argument of growing customer expectations with respect to a full (European) market coverage of chemical distributors, the already well-advanced consolidation of the principals is perceived as another reason for the expected increase of M&As in the industry. Yet another aspect supporting this trend can be seen in the recent legal development. Small companies are not capable of handling the ever-changing national and European legislations for safety, health and environmental protection (e.g., REACH) and the respectively triggered investments.

Low M&A Prices Attract 'Bargain Hunters'

Declining demand in southern European countries burdens especially the local and very specialized chemical distributors but allows financially strong, diversified companies to negotiate advantageous M&A prices. Hence, more than 60% of the study participants indicate that low acquisition prices through economic disadvantages are seen as a major driver for new M&As.

However "bargains" in terms of purchase prices still require a profound integration and a realization of synergies. Sometimes "bargains" can mask the follow-up costs of the integration, putting the overall success of the M&A at risk. Therefore a substantial evaluation of the target especially with respect to market coverage, served customers and products offered is still required.

Although the agricultural chemistry industry is not suffering from excess capacity and extensive market price competition opposed to, e.g., the automotive or the building chemistry industry, buyers should focus not only on the purchase price of an acquisition but also on the total costs of the M&A.

Strong Cross-Border Activities

Study participants indicated that overseas markets would offer even more potential for M&A activities as they perceive European markets to be saturated and negatively influenced by the European crisis. In contrast to Europe, participants predict strong M&A activities in South America, Asia/Pacific and particularly in China and India. An increasing internationalization of the principals (and their products) will reinforce such a development. Barriers for cross-border M&As include cultural barriers, legislation and market particularities that are underestimated by the buyer.

M&As as a Way to Sharpen the Value Proposition

In their comments, study participants pointed out that M&A activities and potential targets have to be evaluated in the light of the market structures. While big, international players (Tier 1 chemical distributor) with a diversified product portfolio lack proximity to customers, the pan-European distributor (Tier 2) and the local or niche supplier (Tier 3) that are closer to the customer lack the compensating effects (i.e. risks mitigation) of a diversified product and customer portfolio. It is thus advisable to align the M&A activities to the market structures and to focus on the value proposition offered by the target. Consequently the key to the success of the M&A lies within the strategy and due diligence phase of the M&A process.

M&A as a Challenge for Management

In case of M&A activities, the management of a chemical distributor has to make considerable efforts to ensure the success of the acquisition besides meeting the challenges of the daily business. The management contributes to the success by selling the M&A story to the customers and employees while ensuring the continuity of the business. In addition, management has to plan and perform further activities of the integration, e.g., the revision of the product portfolio, internal and external communication, training of employees, etc. The comments of the study participants revealed a need for stronger support of management in acquisitions.

Overall it can be said that M&As (again) become a strategic option for the chemical distribution industry to face the challenges of the markets in Europe. Financially strong market participants interested in acquisitions are advised to constantly screen the market for promising targets. Low acquisition prices and low financing costs for M&As can support the extension of the product portfolio and the realignment of the strategic value proposition – even beyond Europe.

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STATEMENTS

Market Trends

The M&A situation in the Chemical Distribution Sector

Birger Kuck, CEO, Biesterfeld

You can in the last few years observe an increasing market consolidation. Suppliers and customers optimize their contacts and concentrate on selected partners. To reduce efforts and optimize costs in the supply chain, suppliers use their distributor as a development and technical service partner for their mutual customers. Distributors grow together with their suppliers and act for them pan-European. For this reason M&A is as important as organic growth. With our newest acquisition of Küttner and our joint venture with Biesterfeld Nordic, we continue this path.

Axel Sebbesse, CEO, Krahn Chemie

We assume that consolidation will continue in the coming years. While in the past, this process was driven primarily by private equity owned companies, the rising potential for portfolio conflict is making it extremely difficult for private equity companies in Europe today to make worthwhile acquisitions. In view of this situation, traditional distribution companies are increasingly coming to the fore, many of which are still family-owned and owner-operated. And it is these companies that are set to drive forward consolidation in Europe, not least because smaller family-run companies will often fail to find a successor. Moreover, we are also seeing a clear trend toward specialization among market players, with companies increasingly focusing on individual sectors. Whereas in the past, a distributor will have covered a range of different industries, it will in future have to focus on specific business segments in order to prevail in the long term. At Krahn Chemie, we have done just this. Among our core segments is the paint and coatings industry, which in turn was what motivated us to buy the Dutch ICH Group at the beginning of the year. Our company strategy clearly stipulates in which areas we want to grow organically, and in which through acquisitions. We are therefore set to continue our activities with regard to acquisitions and, as such, will actively contribute to market consolidation.

Dr. Peter Manshausen, managing director, Caldic Deutschland Chemie

The chemicals distribution industry is still very much diversified in terms of regions and product specialization. In order to stay attractive to potential principals thus maintaining a profitable growth, size of the distribution business matters more and more. Particularly the success of the price-driven commodity business is very much dependent on economy of scale from the perspective of procurement, on local stocks in close proximity to the big consumers, low freight costs, high throughput and high automation. Taking a look at the landscape, autonomous regional growth gets difficult because of the big number of established regional players and legislative hurdles. Therefore selected mergers and acquisitions are a healthier way to create growth becoming a pan-national, Pan-European or a global distributor.

Heinrich Klüwer, partner, Barfeld & Partner, management consultancy for M&A and executive search, Mülheim/Ruhr, Germany

I don't see reasons that the M&A trend will significantly change in the near term. On the one hand, we have big global players, which are linked to the capital market or are in hands of financial investors. Growth targets and ROIs above average are crucial for this kind of shareholder and require more than organic development. Acquisitions are a must. On the other hand, large to medium-sized distribution organizations are also looking for growth opportunities. The motivation to look for a specific acquisition target may differ from acquirer to acquirer, e.g., improve supplier network, enlarge regional coverage, allow for synergies on the cost side, etc. Acquiring the "right" target is more important than just buying a "big" one. Tailor-made deals will be required.
A short look back over the last three years confirms the trend to smaller targets. In 2011, we witnessed about 20 major acquisitions worldwide. More than 50% of the acquired companies reported annual sales above € 50 million. In 2012 and Q1 2013 the share of deals of this size dropped below 30%. During recent years 50% of the transactions were done in Europe; the other half was shared between the Americas and the Far East, including India. Europe is still an agile marketplace for M&A activities. Acquisition targets that are on the market these days come mainly from Spain, Italy and Turkey rather than from countries like Germany, France and from northeastern Europe, where the consolidation process is much more advanced.
Implying a rampant appetite on the buy-side, one has to admit that potential targets become less and less available the higher the consolidation process in a country has progressed. Beyond Europe, growth areas like the Far East and South America seem to be already on the radar screens of the big players.

Distribution 2.0

How the Chemical Distribution Industry Continues to Evolve

Christian Westphal, CEO, Ter Hell & Co.

When trying to assess changes within the chemical distribution market, one can outline and distinguish three central issues: business setup, adaptability and regional structure.

Business Setup

The original one-size-fits-all concept has become an outdated business model. Well into the 1990s it was commonplace for both producers and distributors of chemicals to act as generalists. The European production landscape at the time was dominated by about a dozen large-scale producers, with a product portfolio spanning a major stretch of the chemical value chain; from oil and gas, basics and specialty chemicals, to pharmaceuticals and even into consumer products such as magnetic tapes – monoliths such as BASF, Bayer, DuPont or Hoechst come to mind.

In regard to distributors, the market consisted of a rather homogeneous, well-established group of players; their respective portfolios consisted of a range of standard products used in various applications. The distributors at the time were rather undefined in their core product offerings, opportunistically incorporating any number of new products from producers into their portfolio. This more often than not led to a confusing piecemeal without a clear direction.

Twenty years onward, both the producer and distributor landscapes have changed considerably. Issues such as volume shifts, diverging levels of technical assistance, stringent storage conditions for products into many industries, the need for product testing and sampling, and other individual services heightened the level of complexity, forcing a concentration of activities. Furthermore, new market entrants (both producers and distributors), with exceeding performance in one core competency, have also made a generalist approach less practicable. A general observation of both producers and distributors is that they have streamlined their activities considerably.

On the whole, producers and distributors that offer a clearly defined set of complementary products and services are superseding the original generalist with a wide-ranging product portfolio, reducing complexity and unnecessary costs and simultaneously increasing service and customization aspects. Focus is the name of the game.

Adaptability is a Key to Success

Until recently, many distributors enjoyed "historically grown" long-term relationships with their suppliers, with or without formal agreements. Many of these connections were built on long-lasting friendships. While the perpetual motion of these activities undoubtedly makes life easy for principals as well as their distributors, these preordained agreements can also lead to complacency.

Today it is much more common for suppliers to end long-term agreements with their distributors in order to do business with another distributor, perceived to be more suitable for their strategic goals and regional endeavors. There is nothing to be said against this, provided expectations and performance assessments are clearly communicated. Distributors must learn to accept this paradigm shift and should make sure they do not take things for granted. Constant communication with the principals on all levels of the respective organizations is more crucial than ever.

Regional Structure

The regional scope of activities must be wider. In the past it was common for the majority of distributors (and some producers) to remain within their respective geographical region. In case a distributor was active in more countries, business was predominantly conducted through a head office location (the famous German "Stammhaus"), utilizing subsidiaries in extreme cases as sort of translators and local representatives. The same can be said for producers using local distributors more for overcoming linguistic, operational or legal barriers than for projection of their general business philosophy and marketing strategy.

This approach has become somewhat outdated, as the requirements of, and the understanding for, the customers have advanced considerably. Both producers and distributors have come to the understanding that the international markets are just too heterogeneous to cater to them in a uniform way. A closer look suggests that the state of any given national or regional economy greatly influences parameters such as the product portfolio, logistics (including delivery terms), level of technical service offered, financing alternatives, market research and regulatory compliance.

Depending on the maturity of a given sales region (country), the services offered by distributors vary significantly. During the first phase of a market's development, a country slowly opens itself to international trade. Here the focus lies on simply making products available, mainly through imports. Many aspects of the business can be described as opportunistic, as regulation is often still very basic.

As the market matures, many moves become more focused and strategic. Customers become increasingly demanding, international standards with regard to SHE (Safety, Health and Environment) are prescribed and subsequently policed. Countries such as Brazil, China or Turkey come to mind as they managed to develop their markets with high growth rates and have evolved toward being the current and future big players on the global scale.

In more saturated markets, differentiation becomes essential. Certain service elements, such as application-specific laboratories, are added, while other tasks are outsourced or bundled off to specialists, particularly related to logistics.

To minimize complexity and the necessity for more than a few intermediaries at the maximum, suppliers search for partners with a broad international setup that can simultaneously cater to regional or application industry-specific needs.

These regional and industrial differences have led to an increased importance of distributors as an intermediary, not only from the perspective of producers but also from customers in regard to the services rendered. Intermediaries in turn thrive by bundling the distribution rights for various producers.

While it is still true that producers can predominantly cater to their key accounts directly, the strength of local distributors is that they can meet the individual needs, requirements and demands of a given population of small and medium-sized customers. These encompass issues such as warehousing and small-volume logistics to ensure product availability, just-in-time deliveries and market penetration. Other important aspects in the supplier-distributor relationship are active communication, regular reporting and the minimization of financial risk resulting from the regional proximity of distributors to their customers and diligent debtor monitoring. Strong, professional and well-managed distributors make up a good "credit risk" from the perspective of suppliers.

Distributors have noticed that the regional coverage in combination with detailed market/industry knowledge has increasingly become a make-or-break issue in regard to obtaining the distribution contract from suppliers and the business order from customers. As vital as this characteristic is, only Brenntag comes to mind as being a truly global player. Others such as Univar, IMCD or Azelis are also significant in size, but still have to make up for partial continental or regional underrepresentation.

This has led many distributors to increase the velocity of international or even transcontinental acquisitions, despite this being a risky undertaking. Attractive targets have already been purchased or are simply not for sale, and price expectations can be out of touch with reality. Not only has this expansion route become increasingly costly and time-consuming but also very unpredictable in its outcome. Others have found it easier to just open a subsidiary in the respective region.

Conclusion

These developments have redefined the landscape in which we now find ourselves and operate. Companies have to learn to adapt, but the transformation is a substantial task and one that must be done with patience, perseverance and persistence. Family-owned and managed companies, such as the Ter Group, enjoy being able to make strategic decisions when opportunities arise and long-term investments are seen for what they are – namely a further milestone toward guaranteeing the longevity of the company for future generations. This strategic mindset, coupled with the foresight of the Ter Group employees, has enabled us to adequately focus, streamline and augment our scope of activities within Europe. Through investments in subsidiaries, testing facilities and warehousing capabilities, we pride ourselves in offering our suppliers and customers a comprehensive portfolio of expertise and in-depth support capabilities.

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Distribution In Emerging Markets

Companies Should Listen to the Locals as They Expand Across the Globe

Trading Uncertainty for Untested Markets – The chemical distribution market is undeniably being challenged by uncertainty surrounding the current economic conditions, in Europe and other regions. Despite this demanding situation, Fecc's outlook on the sector remains positive but vigilant. As the chemical industry continues to follow the globalization trend, international trade issues and emerging markets play an increasingly important role within the companies' business strategies.

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Markets and regions such as India, Russia, Brazil and others from Asia and the Middle East offer various opportunities to increase business potential for distributors.

"The distribution industry in these markets is being fueled by acquisition of local companies and new distribution agreements with regional producers. We expect these opportunities to bring increased growth to our industry in times of economic stagnation in Europe," said Franz Saif, sales director at BTC Europe and Fecc's International Trade Committee chairman.

Industry Expands Geographic Reach

Having a well-established network in central and much of Eastern Europe, the chemical distribution industry is testing new waters by delving into business possibilities in Turkey, South Africa, Ukraine and other former Soviet countries.

"We are carefully observing the local market habits and together with local people developing the business," said Pavel Kratochvil, executive vice president at Barentz. "Within the Barentz Group we always look further, knowing that each region may lose its emerging attraction. This is why we are now very present in the Middle East and setting up businesses in African countries, where we see huge potential for further development."

The negotiation of new free trade agreements (FTA) and economic partnerships between the EU and countries in Latin America, Asia and other regions will open more doors further for the industry.

'Humility And Respect'

Taking advantage of these opportunities requires companies to be prepared to face unique local challenges. When entering any emerging market, distributors will encounter not only the usual business and financial demands, but also cultural and social differences.

Kratochvil explained these cannot be ignored: "Regardless where you enter, in which country, the most important rule is to enter with humility and respect for local habits, local people and the local market rules and to adapt your business plans or business model to that. It is a challenge to enter emerging markets, but if you want to be successful in the long term, you cannot ignore local culture. Through our experience in emerging markets we have learned to follow local rules and listen to what the locals have to say."

Cultural and social complexities aside, distributors looking to do business in any emerging market should carry out a thorough preparatory process that includes asking themselves, as Kratochvil highlights, questions such as, "How does the country or region fit in the strategic plans of the sales division? Is there sufficient growth potential? Is your product portfolio adequate for distribution in the market? At Barentz we also make sure that we have the necessary local knowledge, people with the right experience and good connections to customers."

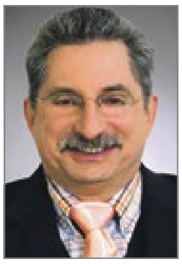
Understanding what these challenges mean, and more importantly, identifying the right strategic options is key to thrive in this new competitive environment.

"Fecc has an expert committee on international trade, that not only monitors the trading environment in the emerging markets, but also researches and identifies relevant market challenges and opportunities for our members," said Dr. Uta Jensen-Korte, Fecc's director general.

The committee regularly produces fact sheets containing macroeconomic and chemical-related data in emerging markets, provides regulatory and compliance information and invites experts who give presentations for the members on how to facilitate business in these regions.

"At Barentz we see Fecc's preparation of all kinds of market and economic analyses, reports or studies about specific markets as great added value for Fecc members," Kratochvil said.

Dr. Uta Jensen-Korte, director general, Fecc



Franz Saif, sales director, BTC Europe, and chairman, International Trade Committee, Fecc

Pavel Kratochvil, executive vice president, Barentz

Transcending Trade Barriers

The Fecc committee looks at various trade barriers, how these are likely to affect distributors in emerging markets and how they can be tackled. Focus is currently being given to the negotiation of the EU and US trade and investment partnership, free trade agreements with Colombia, Peru, Thailand, Singapore, Korea and Japan, among others. Agreements such as these should open new markets for goods and services, increase investment opportunities and facilitate trade.

"By closely studying the agreements, Fecc aims to provide assistance to our members to make the most of the market potential arising from such FTAs," Jensen-Korte said.

Knowledge of the various market trends and opportunities is only one side of the coin, as Saif explains it: "Fecc is working on attracting distributors from the emerging markets to become members of the association, as knowing a local distributor might be a key factor to entering into these markets."

To foster cooperation within the industry, Fecc regularly offers networking occasions to its members. Activities include workshops on topics, such as distribution agreements and country-specific committee meetings. Recent meetings have focused on Turkey and the Maghreb with Russia and China in the pipeline.

The European chemical distribution industry is working hard to position itself to stay ahead of the game, anticipating and preparing for a variety of scenarios. Although there is no single formula for success, Fecc and its members constantly adapt to drive sustainability, growth and innovation in the supply chain.

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The Fight Against Terrorism

EU Requires Obligations from More than Just the Chemicals Industry Itself

Whereas the existing control regimes, such as for dual use substances or chemical weapons, can be understood against the background of the Cold War or state terror, the focus of a new EU regulation is religious or politically motivated terrorism. The new regulation places the responsibility on the chemicals industry, chemical trading and the complete delivery chain – right down to the supply of the end-user.

Ralph Alberti, executive director VCH

Regulation (EU) No. 98/2013 on the marketing and use of explosives precursors was published at the beginning of February. It applies to 15 substances or mixtures listed in two annexes, which contain the substances in defined concentration limits. Together with the Fecc (European Association of Chemical Distributors), Verband Chemiehandel e.V. has campaigned for practicable concentration values. Unfortunately, this has not been achieved in all cases. The most prominent example here is nitric acid: Mixtures containing it already fall under the regulation at concentrations of merely 3%.

New Licensing System

The regulation affects, first of all, the supply to the private end user, i.e., its focus is a business that to date was not primarily covered by the control regimes, such as the retail sector. A so-called licensing regime is envisaged. This means that the products concerned, as a basic principle, may not be supplied to members of the general public or in other words private consumers, or imported, owned or used by these persons, unless they have obtained a corresponding license from the authorities. No decisions have yet been made as to whether, and to what extent, these licenses are valid across national borders. Also, the prerequisites for obtaining such a license have not yet been defined. Furthermore, discussions continue as to what extent the supplying party may actually rely on this license. The registration regime, which has proved its value over time in Germany, is only foreseen for limited exceptional cases. The regulation contains a nonwaiver clause for registration systems that existed before March 1.

Questionable Labeling Obligation

Furthermore, the regulation requires that the products in question must be labeled with a reference to their distribution restrictions if they are made available to members of the general public. All economic operators must ensure that this labeling is carried out if they intend to make restricted explosives precursors, or products containing those, available to a member of the general public. The addressee of this regulation is clearly stated as being primarily the retailer or any other economic operator that supplies the general public. This is problematic for the simple reason that, as a rule, retailers will not know the exact composition. Also, the labeling obligation is at least questionable for the following reason: In particular with mixtures, such as cleaning agents, first the notification on the label may attract attention to the fact that the product could possibly be suitable for illicit purposes. Early on in the regulatory process, attention was drawn to both the above problem situations. Unfortunately, it was not until now, in the course of the work on the implementation of the regulation, that these problems have been perceived as such. Now in the discussions, proposals are being made to pass this labeling obligation further up the supply chain. Furthermore, the type of labeling is completely undecided as well. Here, without a definitive guideline in the regulation, there will be diverging concepts of member states, so there are fears that there will be different systems in the internal market.

Open Extension Of Application

A further point that could lead to different regulations throughout the market is that the member states are granted the possibility of extending or amending the annexes by adding further substances or changing the limits of concentrations for mixtures. This would allow the consideration of special country-specific factors, however, for the companies affected, this involves a certain legal uncertainty – in particular if they are active internationally. The main effect of such an open scope of application, though, would be contrary to the declared target of the regulation of improving the free movement of goods in the internal market.

Unforeseeable Consequences

The possibility cannot be excluded that those (retail) traders that are affected will discontinue articles or have their composition changed in view of the fact that the regulation causes more bureaucratic burden, legal uncertainty and probably even differing regulations in different member states. In the end, therefore, the whole supply chain is affected and also challenged to find possible alternatives.

B2B Trading Affected

The regulation also affects business-to-business trading. There are both indirect effects from the regulation and also direct effects because, as a basic rule, every suspicious transaction regarding the substances and mixtures listed in the annexes must be reported – independently of whether this was a sale to a member of the public or to another business. Originally, even a more further-reaching obligation had been proposed that involved reporting all suspicious transactions independently of whether the substance was listed or not. This would have meant that the companies, although without corresponding evidence, would have to continue to monitor their product portfolios with a good detective's nose for possibilities of misuse and subsequent criminal activities. It proved possible to stop this proposal after it was recognized that this was taking things too far and would also be simply asking too much of the affected companies. Here, only trustful cooperation with the authorities can lead to a result that satisfies justified security needs and at the same time takes appropriate account of commercial interests.

Summary And Prospects

Above and beyond the existing control regimes for economic operators, the new regulation involves the whole supply chain right down to sales to the private end-user. Therefore, the actors in the supply chain must be prepared to deal with a completely new concern and if necessary create the required structures. The aim of a regulation as a legal instrument is to create the greatest possible degree of uniformity and to improve the free movement of goods within the internal market. This regulation will certainly not meet these goals. Finally, we must monitor to what extent and in which way the member states make use of the numerous derogation possibilities. The regulation comes into force on Sept. 2, 2014.

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STATEMENTS

Business Strategy

Full-Service Distributor vs. Specialized Niche Player

We believe that full-service distribution is the strategy for the future. Our proactive and well-resourced sales and marketing approach is designed to offer customers a full-line solution along the value chain – not just products. Brenntag focuses on extensive customer contact to fully understand the range of needs, and customer interaction is underpinned by our highly qualified employees and well-invested application centers. Brenntag has teams of specialists in every industry segment capable of operating locally and globally. Full-service distribution also includes operational excellence in each step of the supply chain and the capability to share knowledge throughout our market-leading, global network in order to provide the best, total value to customers.

Karsten Beckmann, COO, Brenntag Europe

The market is splitting up: On the one hand, we have the commodity market, characterized by logistic requirements and price sensitivity. On the other hand, the specialty chemicals market is becoming more and more service-oriented. Expected and required are technical service and advice, application support, formulation and lab work, and specific chemical expertise. Biesterfeld Spezialchemie takes part in the permanent process of design and development and further assists to develop market intelligence, and identifies new markets and trends. Suppliers are reducing the numbers of their distributors whereas the demand from customers for a "one-stop-shop" increases. To follow this trend we have created different business groups and provide specialists for each kind of industry and every market segment. This means that we are a full-service distributor focused on specialty chemicals. Here we see our future for further growth.

Dr. Nicole Hamelau, managing director, Biesterfeld Spezialchemie GmbH

Sustainability as "License to Operate"

Sustainably Managed Supply Chains are Increasingly Important for Chemical Logistics

Seen from a logistical perspective, there are sectors of industry that differ from most of the others by virtue of their specialized requirements. One of these sectors is the chemical industry in which the term "chemical logistics" was coined to reflect these specialized needs. Bundesvereinigung Logistik will be turning the spotlight on chemical logistics this year in a focused and differentiated way by staging the first Forum for Chemical Logistics. Dr. Sonja Andres spoke with Dr. Robert Blackburn, Board Member of BVL and President Information Services & Supply Chain Operations at BASF, regarding that which differentiates logistics in the chemical industry – and BASF in particular as a global player – from general logistics as well as about future trends in the field of chemical logistics.

Distribution & Logistics: Dr. Blackburn, in your opinion what distinguishes chemical logistics from logistics in other sectors?

R. Blackburn: Chemical products require specific handling, tracking port and regional or national border clearing processes. This is for example valid for hazardous goods. Therefore, the benchmark for chemical logistics and providers in our space is simply higher. Whereas the capability and reliability of handling large volumes are paramount when it comes to delivering classic bulk chemicals to customers, additional complexity in customer-tailored services and support are required in the customized chemical products and functional materials and solutions segments.

What does the chemical industry expect from logistics and its logistics partners?

R. Blackburn: It is critical to have committed partners who are familiar with the specific handling and tracking requirements in our industry, like temperature and moisture requirements, and associated classifications. In a highly competitive area like classic chemicals, we need standardized and highly efficient logistics services. In the customized chemical products and functional materials and solutions segments we require agile, flexible supply chain solutions tailored to meet our customers' specific needs. Logistics providers need to address all three segments and as such are more important value-adding partners in the supply network. They provide concepts and services extending beyond transport and storage – order picking, for instance. They also have the necessary equipment, such as heated tankers and special containers for maritime or inland waterway transport.

Do you see any need for action with regard to structures and processes on the two sides of this partnership?

R. Blackburn: One of the major challenges ahead will be to find qualified personnel with suitable training in handling chemicals in an appropriate way. One example from the point of view of shipping companies in maritime chemical transport is that chemical product containers are tricky to handle. As I said before, chemicals tend to be goods requiring great care and attention in handling, which may result in delays that can impact delivery reliability if not performed with care and operationally excellent processes.

Dr. Robert Blackburn, Board Member of BVL and President Information Services & Supply Chain Operations at BASF

Chemical companies used to take an extremely skeptical view of the outsourcing of logistics services. Do you think this has changed now?

R. Blackburn: Global competition puts us under immense pressure to not only be the most effective and reliable supplier of highly innovative products; it also requires maximized efficiency and measurable productivity gains every year! As such, we want and need efficient solutions from professional partners on the logistics services provider front. An ongoing primary research study being performed by Bundesvereinigung Logistik indicates higher levels of outsourcing in chemical logistics than in the logistics sector overall, in particular for bulk logistics and freight transport.

Cooperation with external partners is accepted practice using standard procedures in virtually every area of logistics these days. In my experience, most chemical companies see little financial sense in maintaining all the special equipment they would need for a transport fleet of their own. The exception is warehousing, where outsourcing levels are only in the order of 25%, according to the BVL research study.

The simple fact is that everything that is not closely involved in the production and loading process can be out-tasked; provided that professional partners offer effective, efficient solutions and that the necessary infrastructure is in place.

The chemical sector's structure is highly globalized, with production locations in all corners of the globe. This naturally also calls for global logistics concepts. How does BASF handle this challenge?

R. Blackburn: BASF is a company that believes deeply in doing its' homework on an evergreen basis and working with partners who do the same. Currently in my division, which includes our Supply Chain Operations, our team is in the process of taking the next step in our operational excellence program by repositioning ourselves to best serve our increasingly globalized customer base. BASF's global operations require an extensive intercontinental supply network, including specific supply chains, starting in Europe and extending to all parts of Asia Pacific, North and South America. These vast intra- and interregional supply and production volumes are handled through multi-mode transports based on experience built over time and highly sophisticated models.

We are where our customers are. We strive to be our customers most reliable and innovative local supplier, like next door if you will, wherever our customer needs us to be. That is our expectation of ourselves.

We will continue to increase the effectiveness and reliability whilst ensuring delivery efficiency and sustainability of product flows. As such, processes must deliver more transparency and be easier to manage. Leveraging our proactive risk management, we offer the ability to respond directly and effectively to disruptions in our supply network – our partners must do the same. Emerging markets such in Eastern Europe, ASEAN and Latin America, where product flows are set to increase, require a different focus and agility than more mature markets. The onus is also on logistics service providers to make the necessary investments for their chemical industry customers, and that includes investing in parts of the world that are lacking the infrastructure to handle our joint growth potential.

What are the most important current trends in chemical logistics?

R. Blackburn: Enhancing traceability and safety throughout the supply chain is about improving on an already strong performance and introducing consistently high standards on a global scale.

One clear trend is sustainability, which is firmly rooted in BASF's "We create chemistry" strategy. Sustainability ultimately is the basis for the chemical industry's "license to operate", and the industry has enhanced sustainability over the last 20 years by developing solutions to use natural resources more efficiently. Examples include better automotive catalysts, lighter-weight vehicles, more efficient insulation materials, and crop protection products that are even more effective and can thus be applied more sparingly.

Another aspect to sustainability is talent. As a key industry in Germany we must focus on attracting young talents who see sustainability as a basic value and primary decision-making criterion. We also need to invest in and retain existing mature talent to remain competitive – we simply do not have the luxury of losing excellent experience to retirement too soon.

We are also seeing a trend towards full service in chemical logistics, which involves extensive integration of logistics service providers in the value chain. Out-tasking is on the increase, as already mentioned, and service providers are increasingly investing in their customers and making required up-front investments in infrastructure. Out-tasking is also partly driven by the 'war for talents' – and yes, that 'war for talents' has long arrived right here in our home country Germany.

One of the biggest challenges in the logistics industry over the coming years, as has long been the case in the IT industry, will be to find qualified staff to stay ahead of the competition, and chemical logistics is no exception to that trend.

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Forum for Chemical Logistics: Trends, Cooperation and Innovation

Forum Chemical Logistics
June 12-13, 2013

The first Forum for Chemical Logistics of Bundesvereinigung Logistik (BVL) will take place in Ludwigshafen on June 12 and 13. The title is "Trends, Cooperation and Innovation". At first glance, in the chemical industry the challenges look the same as those in all other sectors. However, it requires the deeper look this Forum will offer to see many of the challenges need more creative solutions. At the same time, ever-growing requirements in terms of agility and flexibility have wide-ranging impacts on what is already a complex sector; this does not only concern obvious factors such as specialized transports and hazardous goods. It is important to emphasize just how varied and specific the many different logistics activities are in industries like beauty care, nutrition or agriculture. The ongoing migration of basic production capacities is changing the nature of networks of supply chains. The increasingly diverse geographic make-up of value added activities means that the chains are becoming longer and that managing these supply networks is a more complex process. The trend towards out-tasking is on the increase but the specific characteristics of chemical logistics may mean there are limits to how far it can go. This needs to be reviewed and discussed in a deeper way.
Accordingly, nine presentations and a panel discussion will focus on topics ranging from the growing importance of the supply network and individual supply chains in the chemical industry to the question "Logistics service providers - cost cutters or partners?". The kick-off presentation will be held by thought leader and business leader Dr. Robert Blackburn, Member of the BVL Board and President of Information Services & Supply Chain Operations of BASF Group. Attendees will hear about the findings of the BVL "Chemical Logistics" research study and have the opportunity to take part in plant tours. The full program is available on the Internet at www.bvl.de/fcl.

STATEMENTS

Business Strategy

Full-Service Distributor vs. Specialized Niche Player

The chemical distribution market is subject to ongoing consolidation. The big players in the industry often look back on a three-digit number of acquisitions of distributors primarily in the area of industrial chemicals. In 2013, this development is expected to increase, after that in 2012 a rather cautious attitude was observed. It seems more important to specialize the medium-sized distribution structure in the core areas and thus focus on specific industries. Accordingly, not only specialization but also professionalism is a key component for sustainable growth. It's important to offer high quality in the core business areas and a good service, including system diversity. The industries expect not only one component but are looking specifically for the system provider with a complete package. Growing complexity of regulatory changes also increases the requirement for expertise of the provider.

Jürgen Rietschle, managing director, Bodo Möller Chemie

The markets will continue to provide opportunities for both specialized niche players and full-service distributors. The different value propositions satisfy different customer needs, and the markets will continue to have a demand for both. Key, however, will be to decide which strategy to apply and not to try to be both specialized niche player and full-service distributor at the same time. Only few companies have the competencies and capabilities to profitably offer the services and personalization of a niche distributor while being a full-service provider.

Christopher Erbslöh, CEO, C.H. Erbslöh

Pure Chemical Transport Cost Benchmark

Freight-Price-Index Benchmarking for European Chemical Land Transports

In most companies the major part of logistics costs are transport costs. Therefore, well conducted negotiations with service providers can lead to enormous cost reductions. But how can a transport purchaser know if his negotiated prices correspond to market prices and his competitors do not pay less for the same services? Tender responses of logistics suppliers may show different price levels but the decisive difference in freight prices is due to negotiating skills that can't be measured.

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Participating companies cover around 80% of European market share

Therefore, Fraunhofer Center for Applied Research on Supply Chain Services SCS has developed a benchmarking methodology that indicates on the one hand an absolute freight rate index and on the other hand freight rate developments for German and foreign transport lanes. The market index represents the average market price of all participants. Thus, all relevant transport lanes in Europe are included in the benchmark. Fraunhofer proposes the following possible business segments:

- ☐ Bulk Tank
- ☐ Bulk Silo
- ☐ Packaged Goods: FTL, LTL (2 and 7.5to)
- ☐ Rail

Lina Heeg, Project Leader, Group Processes, Fraunhofer Center for Applied Research on Supply Chain Services SCS

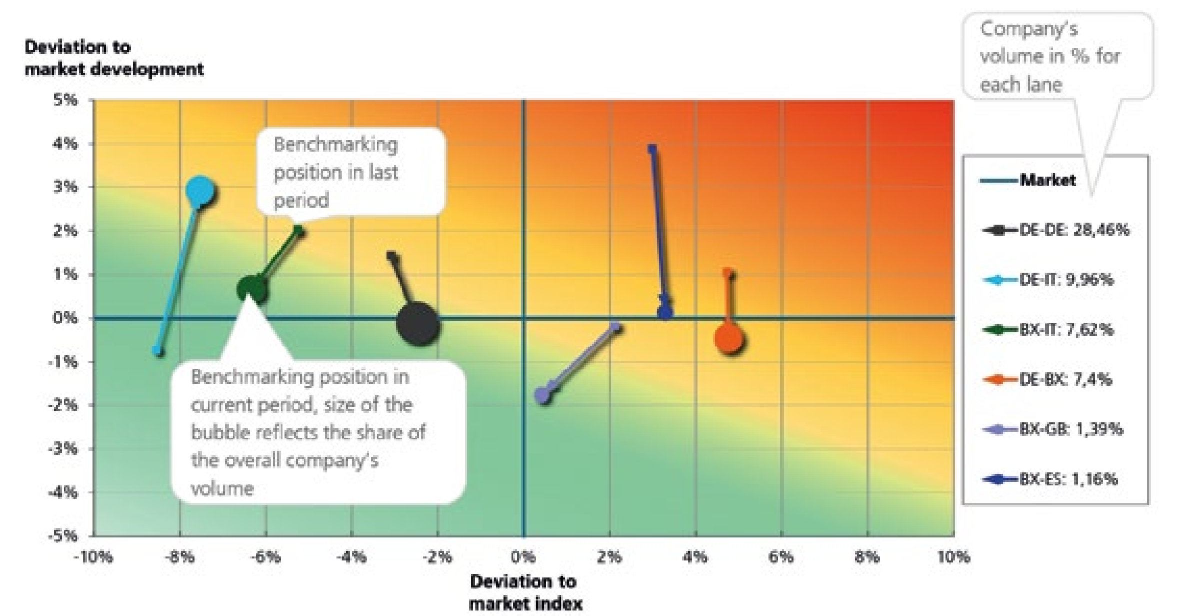
Within the business segments different indices are calculated for dedicated and non-dedicated as well as intermodal and road transports. Especially for chemical transports there are quite a lot of specific transport requirements that have to be considered within a benchmark, otherwise a meaningful benchmark is not possible. Therefore a definite freight rate definition is necessary. Fraunhofer works closely with the participating companies in order to improve and enlarge the benchmarking scope.

For all business segments mentioned, a benchmark for more than 250 transport lanes is possible. Transport lanes are country to country routes, e.g. Germany to France or France to Switzerland, etc. Thus, companies are able to compare their company specific freight rate level to market. For reasons of anonymity for all participants of the benchmarking group, results are shown if a minimum number of companies are guaranteed. Fraunhofer's methodology takes all relevant cost drivers into consideration such as additional requirements in case of hazardous goods, dedicated and non-dedicated transports, transport volumes as well as weight and type of goods. The aggregated and anonymous freight rate benchmark has already existed since 2005. Participating companies receive benchmarking results twice a year. Currently the benchmarking community consists of 18 companies that cover around 80% of the European market share.

The aim of the benchmark is to provide a profound understanding of the market situation that guarantees a company a competitive advantage in purchase negotiations.

Summary Report: This chart includes all information.

The portfolio chart shows the company specific absolute freight rate position and the development of freight prices within one chart. The 0%-horizontal line is the market index line (of absolute freight rates) and the vertical line shows the market development line. On the right, every country-to-country position with its transport volume is shown. The size of the bubbles represents the transport volume of the company on the specific country-to-country lane and shows the company's position in the current survey whereas the source of the development line is the position in last period.



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Fraunhofer's benchmarking methodology and results

Fraunhofer defines the relevant transport lanes with every company in a one-on-one meeting. The companies are provided with data gathering sheets by Fraunhofer in which they have to fill in their transport costs, transport volumes and additional information for their tours. Fraunhofer then reviews all data together with the participating companies and neutralizes tour data of different lengths. Neutralization is important in order to compare different lanes. Therefore, only high quality information is imported into the database, which automatically calculates the results specific to each company. The companies receive their specific results twice a year. The "Detailed Report" includes all country-specific results whereas the "Summary Report" represents more general and market-based changes.

On-going benchmark development

Thanks to a steering committee consisting of Fraunhofer, five participating companies and an antitrust lawyer, the benchmark is in continuous development. At the annual meeting of all participants in Frankfurt, improvements are defined by all members and implemented by the steering committee over the course of the following year.

Antitrust lawyer assistance – a key requirement

Legal compliance is an absolute must for Fraunhofer SCS. Also, for the participating companies legal compliance is extremely important because of purchasing competition. Therefore, an antitrust lawyer is present at all meetings and checks all documents in advance. Fraunhofer organizes an annual meeting in which all participating companies take part. The cartel lawyer assists in the annual meeting as well as in the task force meetings in order to monitor antitrust regulations. Furthermore, the antitrust lawyer provides legal advice for the summary and detailed report.

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STATEMENTS

Legislations

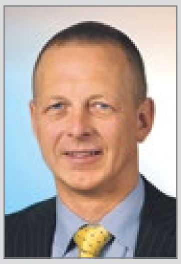
Effects of REACH, CLP and GDP on the Chemical Distribution Business

Robert Späth, CEO, CSC Jäklechemie

REACH is still a bureaucratic monster with a vast variety of expected and unexpected negative effects. For example, the problem of missing standards for the distribution of extended safety data sheets still remains unsolved in spite of the many projects working on this subject.
In the meantime, we face the first substances entering the authorization process, and nobody knows so far how to handle an authorized substance in the right way.
Additionally there are more and more substances on the candidate list, and every time that happens we have to screen our portfolio to adjust all the documentation and estimate the impact for our business.
CLP – Classification, Labeling and Packaging – is closely linked to all this, and always good to put some extra detail on top of that, like slight changes in the size of the U.N. number on the labels, for example. Such a slight change causes additional cost in the supply chain that nobody expected before.
The REACH legislation started with some idealistic ideas to improve the safety of chemicals. But in my opinion this regulation and its side effects will contribute more to a deindustrialization throughout Europe than to better health for the public in the long run.
Facing the economic crises in the EU we have to keep this in mind before setting up the next project to propagate common welfare in Europe.
The GDP – Good Distribution Practice – directive is another subject that complies only with a certain part of the distribution business to get better-controlled supply chains in the pharma sector in correspondence with the GMP – Good Manufacturing Practice – guidelines. It is too early to calculate the effects of this regulation, but I do not see any serious negative ones. As long as a regulation is able to really imply more security and better controls, this will support the proper acting players in the market, and that effect is a positive one.

Thorsten Harke, president, Harke Group

Whereas we do neither see a great positive nor negative effect of GDP for our business, the effects of CLP will already be more on the negative side. Besides for the additional efforts for relabeling of products and revising safety data sheets, this is also due to the partial upgrading of products to higher dangerous goods classes, with the resulting consequences for packaging, storage and transport, which causes higher costs while lowering the demand.
The most negative effects we see, however, are from REACH. Already the administrative costs for managing the REACH regulation, surveying applications and quantities for each substance separately, as well as in preparations and the communication within the supply chain, including exposure scenarios and the handling of safety data sheets of hundreds of pages for up to thousands of products are enormous. Adding up to those additional costs is the fact that some products will simply not be offered for the European market by overseas producers anymore, as the European market shrinks in its size and attractiveness anyway, whereas other markets are growing, and they hence do not consider it worthwhile investing in high costs for selling in Europe anymore. This means either the distributor as importer has to take over the high financial risks and costs of the REACH registration by himself, in world markets, which are increasingly unpredictable and highly volatile, because of, for example, government-driven "currency wars," or he will lose the product and with it its turnover all together.



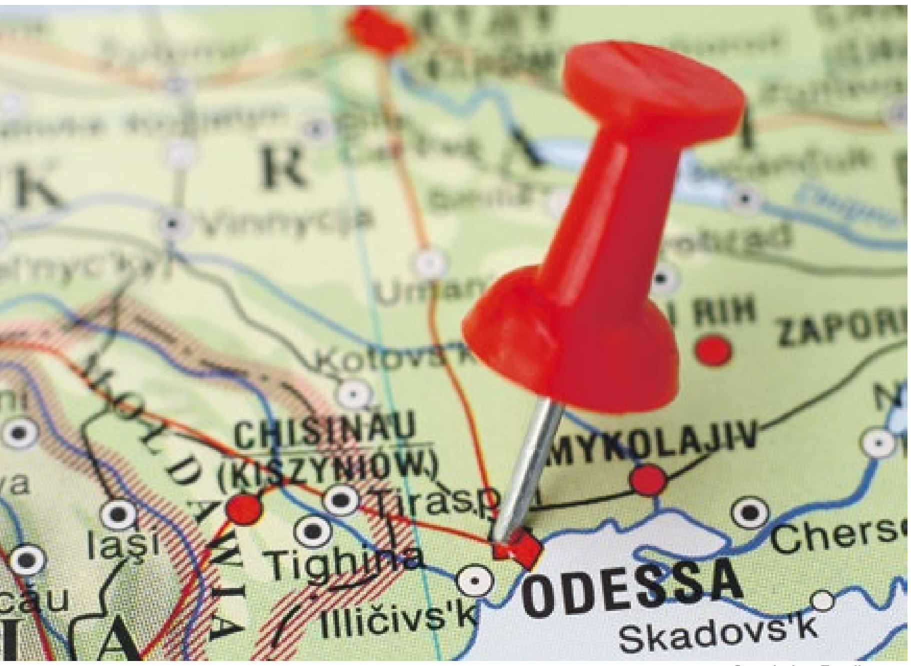
Dr. Bernd Soyke, managing director, Penta Chemikalien

We surely will realize positive effects through CLP, which is harmonizing the labeling of hazardous materials. However, REACH is heavily increasing the share of bureaucracy within our business. Furthermore the high registration costs will significantly decrease the producer alternatives.
GDP in our view is a consequent deduction of the GMP rules for the distribution segment. Thus it appears that distribution has an increasing importance in the value and quality chain of life science products.

Logistics in Times of Cracking Frontiers

A Glance at Central and Eastern European Logistics Infrastructure for the Chemical Industry

The political changes in the heart of Europe at the end of the 1990s brought back former border regions and infrastructure-disadvantaged territories in the middle of Europe. The integration of the Central Eastern European (CEE) countries into the European Union influenced and changed the border regions in particular and freed them from their shadow image. In short, the rarely connected western and eastern European networks need to grow together. In this context, the network of the chemical industry in CEE countries can be used as a good example to show how networks react to disruptive events and how difficult it is to merge separately evolved networks.



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Background for Logistics Optimizations

Before World War II, almost all the countries in the region had an industry policy with a national focus. This resulted in national supply chains and networks as well as a low internationalization level of the production system. World War II led to the division of Europe into two parts; this caused a decline of the few international supply chains that had existed in the region. The few old cross-border supply chains were discontinued, and politically optimized logistics systems were established. In the 1990s after the fall of the Iron Curtain, the political correctness wasn't needed anymore and new supply chains were built up over time.

Bulk chemical investment cycles can last up to 50 years, and there were a lot of political changes in the last hundred years in Europe. Still, there is much more trade between Germany and its western European neighbors than with its eastern European partners – especially if one takes a look into trade volumes of chemical products.

Logistics Requirements

A closer look at the logistical requirements of the chemical industry reveals a second explanation about the chemical production capacities in CEE. The further upstream the production is positioned in supply chains based on crude oil, the closer the production facilities have to be to an international seaport, major waterways or a pipeline for direct supply – because the first steps in the chain can run efficiently only in big production batches and facilities. Logically, the big cracker capacities in Europe are situated either at the seaside or at big rivers like the Rhine or the Danube. These facilities are connected on the import side with the transportation system of international (inland) waterways to import the crude oil, and on the export side these locations are mostly connected to a pipeline system with their customers (e.g., ethylene pipelines). The more specific the products get, the smaller the production batches get, the less a connection to the mass-transportation systems like inland waterways or railway is needed. But it is also obvious that the next production steps should be located somewhere between the previous steps and customers (e.g., the automotive industry). In addition there is need to take advantage of economics of scale to find appropriate locations.

Options For Development

The disruptive events in the region on one hand and the logistical requirements on the other hand explain easily why there are few chemical production sites in CEE. How can these circumstances be changed? First, as always, in the chemical industry things are changing quite slowly because of the huge investment sums and the long investment circles. To change the supply network of the chemical industry in Europe there has to be a change in one of the two ends of the supply chain or in the logistical transportation network itself.

First, changes on the supply side could be the widely discussed replacement of crude oil, e.g., natural gas from non-renewable sources like the shale gas production at the moment in the U.S. or from renewable sources like decentralized produced biogas from organic sources. Pipelines can easily transport natural gas and a well-established pipeline network for natural gas is running currently in Europe, e.g., from Russia to Germany. The replacement of crude oil in the future chemical supply chain could change the network totally.

Second, changes on the demand side can be stated already with the construction of new car production facilities in CEE. About 20% of the produced cars in the European Union are built in the Czech and the Slovak Republic as well as Poland. Twenty years ago these production facilities didn't produce many cars and didn't source any material in the western part of the European Union. The increase of the demand for products in the CEE countries could change the network totally.

The third possibility to strengthen CEE's chemical industry is to invest massively in the infrastructure and especially in the railroad networks and inland waterways. Twenty years after the fall of the Iron Curtain, the highway network isn't finished by far. Some good examples in the east-west direction need to be completed by a lot of axes in the north-south direction to establish a strong highway network. Some of them are planned as Pan-European corridors.

A close look at the freight railway network in Europe, especially in CEE, reveals that more investments and more time are needed. Almost all the planned projects concerning railway networks focus mainly on passenger transport. The special needs of freight railway networks are considered merely secondly.

A closer look at Western Europe reveals a lot of investment, e.g., at the

River Rhine, but it is missing a lot of cooperation between the countries and counties. There is not much free railway capacity on the left or the right bank of the River Rhine. Projects that should increase transportation capacities, like the Betuweroute, do not continue in Germany. The strengthening of the railway infrastructure in Switzerland led to massive infrastructural problems in Italy (Region Novara) and in Germany (Baden Württemberg). The increase of shipments on the River Rhine by shifting transports from street or rail adds much value. This requires infrastructure investments for barrages or deepening of the River Rhine in order to continue shipping in low water. However, planning as well as cooperation between relevant regions can already forecast effects of these infrastructural improvements into the location planning.

If the fastest way by train from Frankfurt to Prague is by taking the Deutsche Bahn Express Bus, nobody needs to wonder about the situation of freight trains. The situation on the second mass transportation system in CEE – the inland waterway – is even worse. Furthermore, because of mountainous areas in the middle of CEE, missing investment for years, and the absence of big and straight rivers like the River Rhine, transport by inland waterway is and will stay a niche product. The status quo of improving the infrastructural network in CEE will mean that most of the transports, if suitable, will continue to use road transportation. For industries that require mass transportation, the single alternative for efficient supply remains either railway or waterway. There is no realistic future in CEE as long there is no real understanding of the need for mass transportation.

Collaboration Is Required

The described region has had a changeful history, which hasn't been peaceful; a lot of prejudices have been set up. These circumstances influenced the different trade relations in the region. With the enlargement of the European Union, the whole region has the chance to move together as a real European center that can trade with its neighbors unobstructed for the first time in history.

The stakeholders in the region, including governments, and companies private and public, should cooperate more intensively than today. Thereby they can establish a strong logistics network, which (not just) serves the industries in the region, including all relevant modes of transportation for the chemical industry into a conjoint planning process. This could improve the forecast for economic development for the CEE region. As a result, Europe could see a new industrial core area with a dynamic economy, which wouldn't have to avoid comparisons with other boom regions in the world.

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Chemical Products in International Groupage Transport

Coatings Producer Rembrandtin Relies on Logistics Expertise from Dachser

The Austrian company Rembrandtin Lack, a subsidiary of Ring International Holding, supplies anticorrosive protection coatings and road markings to customers throughout Europe. Around 70% of the products are exported. To manage its European logistics, Rembrandtin needs a service provider with a full-coverage presence in Europe that combines standardized processes with flexibility and specialized industry expertise – and has found it in Dachser Austria. The branch office is supported by the competent specialists and chemical know-how of Dachser's centralized Chem-Logistics industry solution.

Standard and Customization

Rembrandtin's management placed particular importance on the mix of standardized processes in Dachser's European network and flexible, individual customer solutions. In its day-to-day activities the medium-sized company uses Dachser's products with defined transit times and services, above all saving time and money for communication and planning. Rembrandtin operations manager Wilhelm Michel: "We utilize Dachser's Entargo products Targospeed 10 and Targospeed 12. These enable us to meet most of our priority demands as standard and without additional communication with Dachser's scheduling department."

On the other hand, to ensure a truck with road marking paint can be on site at 6 a.m. from one day to the next brief individual coordination by phone and e-mail is needed. Here, too, Dachser's European network of 169 own branch offices in 21 countries offers the necessary flexibility.

Recipe for Success

With a combination of centralized and local competence Dachser meets the needs of internationally operating chemical companies like Rembrandtin. 150 local dangerous goods safety advisers in the branch offices and sales-oriented Chem-Logistics managers in several European countries back up the teams of the central dangerous goods management at the company's head office in Kempten and the Chem-Logistics industry solution.

Regular in-house training is a top priority for Dachser. When handling chemical products stringent safety standards apply, and the demands made by the chemical industry on logistics providers are accordingly high.

"Numerous laws and directives governing the transport of dangerous goods and the storage of hazardous substances have to be followed to the letter," says Steve Heidner, central dangerous goods safety adviser at Dachser. "To this end we have developed a central in-house guideline that details transport prohibitions for certain dangerous goods, as well as risk evaluations." Only after careful inspection dangerous goods are being authorized for transportation and hazardous substances for storage. "It is, after all, our job to ensure that the same high safety standards are applied everywhere in Europe," Heidner concludes.

"At our customers' request, we are happy to put our locations to the test," explains Michael Kriegel, head of Dachser's Chem-Logistics department. "On the basis of SQAS assessment, the European Association of the Chemical Industry, Cefic, has developed an extensive questionnaire which serves as the basis for evaluation by an independent assessor. So far 16 Dachser locations have achieved nearly perfect results."

Safe Storage of Dangerous Goods

In Europe Dachser provides safe facilities for the handling of dangerous goods. Dedicated warehouses are specially equipped for the storage of chemical products, including the dangerous goods warehouse in Pilisvörösvár near Budapest with a storage area of around 7,000 m² and the state-of-the-art dangerous goods warehouse opened in Ploiesti, Romania, in 2012. Both sites meet Council Directive 96/82/EC (Seveso II) on the control of major accident hazards involving chemical substances and limitation of their consequences.

Expansion of International Network

For paints and coatings manufacturer Rembrandtin, logistics will continue to play an important role in the future. One reason for this is that customers are tending to order fewer goods at a time, but they are placing their orders more frequently. At the same time, they demand high delivery reliability because they no longer build up large safety stocks. As Rembrandtin aims to intensify its focus on business with specialized solutions for niche markets, its logistics partner's international – and intercontinental – network is set to gain even more importance. Therefore, with 347 profit centers in 37 countries worldwide Dachser is the ideal logistics partner for the expanding chemical company.

www.dachser.com