International trade policy
It's time for the EU to deliver.

Brexit
Keeping up good relations to Great Britain.

Climate Neutrality
LANXESS pursues a convincing strategy to reach its ambitious goal until 2040.

Global Trade
New opportunities for growth and cooperation with the United States and China.

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Editorial

Ladies and gentlemen,

As 2020, this most challenging of years, draws to a close, I consider it nothing short of a miracle that, not twelve months after the outbreak of the coronavirus pandemic, a number of vaccines are already ready to go (or just about to be approved). It is incredible what science and the pharmaceutical industry have achieved here. The speed with which researchers all over the world set to work on developing a vaccine is simply amazing.

And now I hope that we will see similarly miraculous results once efforts get under way to administer the vaccine. One thing’s for sure: We must not let up! To me, the ability to vaccinate lots of people very quickly seems to be the key to, first, saving lives and, second, returning to normality in our personal and professional lives. Make no mistake: The vaccination drive will be the nation’s top priority for the year 2021.

All those involved – the government, states and municipalities, health professionals, industry and logistics companies – have to work together effectively, efficiently and in harmony. The last thing we need is to hobble ourselves with conflicts of competences or complicated bureaucracy. With our logistical and organizational experience, we in the world of business are ready and willing to offer help in whatever way can.

On the agenda: ensuring business is up to the task

So as this year draws to a close, we are happy to say that companies in Germany have learned how to deal with the pandemic in a responsible and conscientious manner. Employee protection concepts, hygiene rules, new standards – all of these were implemented in a very short space of time. And now we need a proper planning horizon for the economy, focusing on reducing the risk of “yo-yo shutdowns” for business and society.

Huge dedication and effective solutions helped us through the crisis

LANXESS has weathered the crisis relatively well, an achievement we attribute above all to the spirit and solidarity of the LANXESS team. We successfully overcame myriad new challenges. In addition, thanks to its products and know-how, the chemical industry has provided active support during this pandemic, for example through the provision of disinfectants.

The coronavirus has also stimulated creativity. Digitalization has made significant advances. Connecting instead of traveling, utilizing digital tools, developing new formats for staying in touch with you – many things have become the new normal. And I’m certain we will experience this in other areas too.

All this together makes me confident that we will be able to achieve miracles again in 2021. I wish you a good start into the new year.

And I wish you and your families the very best of health – and urge you to look to the future with confidence!

Yours,

Matthias Zachert
Chairman of the Board of Management, LANXESS

»Make no mistake: The vaccination drive will be the nation’s top priority for 2021.«
Global trade

Cooperation and future viability

Companies – like LANXESS – that engage in transatlantic operations are now hoping for a revival of the free trade agreement and good conditions for climate-friendly business.

Europa and the USA: strong relations
The USA has always been an attractive market and location for German companies, and transatlantic trade has continued to grow over the past few years. After machinery and motor vehicles, chemical products rank third among German exports to the USA and first among products imported from the USA to Germany. For the German chemical industry, the USA is the most important market outside the EU.

Lively market for protection products and more
Since 2017, LANXESS has significantly expanded its operations in the USA. When it acquired Chemtura, the specialist for flame-retardant and lubricant additives, LANXESS took on 2,500 employees along with 20 locations in 11 countries. Today, LANXESS generates 23 percent of its sales in the North America region.

Although sales fell in pandemic-dominated 2020 by 7.3 percent compared with the previous year, this was actually the smallest decline compared with other regions where LANXESS operates. Consumer protection products like disinfectants enjoyed especially strong sales, which is why LANXESS is looking to expand production capacities for its Oxone™ monopersulfate compound in Memphis, Tennessee, by around 50 percent by 2022. Oxone™ monopersulfate is an active ingredient used in disinfectants against, for example, COVID-19 and epizootic disease like bird flu, and also plays a key role in the electronics and paper industry.

What the two trading partners want
Overcoming global challenges like the COVID-19 pandemic and climate change in a fact-based and cooperative manner is high on the agenda of any company engaged in foreign trade. According to a survey conducted by the American Chamber of Commerce in Germany (AmCham) among its members, these are the most pressing issues:

1: Free trade agreement: 63 percent of respondents want to see the free trade agreement revived by the incoming U.S. government
2: Healthcare reforms (54 percent); 16 percent want to see financial incentives for overcoming the COVID-19 pandemic and more money for vaccine research
3: Investment in infrastructure (48 percent)
4: Expansion of renewables (45 percent)

Talks concerning the Transatlantic Trade and Investment Partnership (TTIP) have been at a complete standstill since 2017. Toward the end of the Obama–Biden administration in August 2016, the negotiating partners had not reached an agreement for any of the 30 chapters in the deal. Since the global challenges have become even more acute in the meantime, the TTIP is likely to remain an ambitious project.

Good news: common targets, common standards in climate protection
Joe Biden has already recommitted to the Paris Climate Agreement. He is striving to make the USA climate-neutral by 2050. For companies, this means:

› investment opportunities in renewables – the transition is already under way;
› major advances in emission-free road transportation – some states are already encouraging this;
› better conditions for energy-efficiency projects;
› stimuli for the currently stagnating construction industry through building modernization projects and the subsidization of sustainable construction;
› more resources for an improved water infrastructure and treatment – a key area of business for LANXESS.

Despite protectionism and the coronavirus crisis, says Markus Russ from AmCham Germany, Joe Biden’s more diplomatic style is much more conducive to bringing about these urgently needed results.

* Nine-month comparison; as at November 2020

LANXESS locations
1 Baytown, Texas
2 Burgettstown, PA
3 Bushy Park, SC
4 Chardon, OH
5 Charleston, SC
6 East Hanover, NJ
7 El Dorado, AR, South Plant
8 El Dorado, AR, Central Plant
9 El Dorado, AR, West Plant
10 Fords, NJ
11 Gastonia, NC (HPM)
12 Gastonia, NC (URE)
13 Greensboro, NC
14 Little Rock, AR
15 Mapleton, IL
16 Memphis, TN
17 Neville Island, PA
18 Perth Amboy, NJ

German exports* to the USA: chemical products among the top 3

After machinery and motor vehicles / vehicle parts, chemical products rank third among German exports to the USA and first among products imported from the USA to Germany. Both countries are extremely important trading partners for each other. Trade has continued to grow over the past few years.

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* 2019, in % of total exports (as per Standard International Trade Classification); source: GTAI, "Wirtschaftsdaten kompakt," 2020
How important are better transatlantic trade relations for LANXESS in the U.S.? The United States today is a net exporter of chemicals, thanks to shale-gas related chemical investments over the past decade. Furthermore, U.S. trade policy sets the tone for trade with the rest of the world and plays a decisive role in enabling the American chemical industry. At LANXESS, we, along with the U.S. chemical industry, are strong supporters of free and open, rules-based international trade. Transatlantic trade is particularly robust, and Europe remains one of the U.S. industry’s largest foreign markets. The further reduction or elimination of barriers to transatlantic chemical trade will promote growth and job creation, and enhance competitiveness on both sides of the Atlantic. For the U.S. chemical industry, are strong supporters of free and open, rules-based international trade, enabling the American chemical industry.

What are your sales expectations? We see strong demand for consumer protection products of all three BUs, especially for disinfectants. We recently announced a 50 percent higher production capacity at our Memphis, Tennessee facility. It produces Oxone monopersulfate, which is a key active ingredient for disinfectants. We continue to see strong demand for biocides where the recent acquisition of IPEL has actually helped us to gain share in some major U.S. coatings customers. Demand for ion exchange resins continues to be strong. So is the demand for Saltigo products imported from Germany. We expect a high level of demand in all of the BUs in this segment even after the pandemic.

How does LANXESS in the U.S. contribute to the company’s climate-neutral-2040 goal and how could the new U.S. administration support a climate-friendly economy? Globally, LANXESS has made the bold plan to be climate neutral by 2040. As a region making up roughly 28 percent of Group sales, the Americas region will play a role in achieving this goal. We will focus on Scope 1 and 2 of the greenhouse gas emissions (GHG), which includes sources that are owned or controlled by the company, and emissions that result from the generation of electricity, heat or steam purchased by the company from a utility provider. With the help of our PTSE colleagues, we have already started looking at the GHG footprint of our manufacturing sites and we just commissioned a study to help us understand in which sites we should focus our efforts first. Climate neutrality and sustainability are also key topics with our U.S. policy makers and will become more of a focus for the new Administration taking office in early 2021. I think we can expect policy makers to be out in front with legislation focusing on energy and environment, circularity and sustainability, and regulations to support these initiatives.

What is your greatest wish in regard to European-American relations? With U.S. President Joe Biden the European-American relationship is set to enter a new era. With USD $136 billion in exports, the U.S. chemical sector is one of the country’s largest exporting industries. Promoting a more predictable trading environment should help to rebuild trust and increase trade in both Europe and the United States. Although the transatlantic relationship may grow with the new Administration, a lot will also depend on Europe. One wish would be for a strong partner with whom the U.S. can restore multilateralism, and who can continue to withstand the challenges posed by China and Russia. We must resolve issues together, especially issues of climate change, energy security and economic growth – and, above all international trade. At the very least, it is my wish – and, I would expect that Europe and the rest of the world also would expect – a U.S. partner who seeks diplomacy and understands that more can be achieved with international collaboration rather than with unilateral actions.
A stronger presence

China will continue on its path of economic growth – despite the coronavirus pandemic. Europe is hoping to see a recovery in 2021 and seeking to strengthen its position in the partnership.

China – the world’s second-biggest economy – was the first to be hit by the pandemic and, like many states in the Asia-Pacific region, is emerging from the crisis more quickly and strongly than others, the International Monetary Fund (IMF) stated back in the middle of October. According to its forecast, real gross domestic product (GDP) in China will increase by 8.2 percent in 2021. The figure for 2020 is expected to be just 1.9 percent. For comparison, the IMF expects the eurozone and USA to have suffered a decline in GDP of 6.0 percent and 4.3 percent respectively in 2020, with relatively moderate growth of 5.2 percent and 3.1 percent respectively predicted for 2021. The upswing in China is likely to stimulate the German economy too. China has been its most important trading partner since 2016, although Germany imports more than it exports. The chemical industry alone accounts for more than 10 percent of exports. China is home to around 5,000 German companies, with 90 percent of them producing locally.

LANXESS in Asia: ready for the industries of the future

For LANXESS, the entire Asia-Pacific region is a key market and contributed 23 percent of sales to the total comprehensive income in 2019. In a nine-month comparison with the previous year, however, sales fell by 9.9 percent between January and the end of September 2020. In China, LANXESS operates production facilities at eleven locations and conducts research at seven development laboratories into new products and improved processes. LANXESS, which is seeking to achieve climate neutrality by 2040, is setting high environmental standards in China too. In September 2019, for example, the company opened a new high-performance plastics plant in Changzhou, equipped with powerful, state-of-the-art mixers with low energy consumption as well as efficient wastewater, exhaust gas and dust treatment systems. The facility was designed with future markets in mind. In the automotive industry, lightweight materials are becoming increasingly important for new modes of transportation, while the electrical and electronics industry is seeing increased demand for high-quality, flame-retardant, easy flowing and easy-to-process plastics.

Breaking down barriers

Although, with a trading volume of around one billion € every day, the EU and China are important strategic markets for each other. This relationship is not without its difficulties. The trade dispute between the USA and China is a major burden. The same applies when it comes to attitudes concerning the sharing of technical know-how and respect for human rights. The German Chamber of Commerce in China sees market access restrictions and complex regulatory frameworks as the main problems for its members, limiting the growth potential of German companies in China, and stresses the need for the investment protection agreement. This agreement is designed to increase market access and create fair competitive conditions, break down barriers to investment and reduce the role of state companies.

Through the EU-China strategy, the European Commission and High Representative outlined the three goals of its China policy back in March 2019: The EU is seeking to strengthen its partnership with China to promote shared interests at a global level; explicitly promote more balanced and reciprocal conditions in its economic relations with China; and strengthen its internal policies and industrial base in key areas to maintain its prosperity, values and social model over the long term.

The EU is pushing for China to reach its emissions peak before 2030, in line with the Paris Climate Agreement. And China is to help reform the World Trade Organization in terms of subsidies and forced technology transfer.

Free trade pact cements commitment

The EU’s standing will depend on the strength of unity of its member states. While the EU was twice forced to postpone the planned EU-China summit due to the pandemic, the Asia-Pacific nations cemented their strength in the middle of November by signing up to the Regional Comprehensive Economic Partnership (RCEP), see box, the biggest trade bloc in history. Its 15 members – and China above all – are seeking to overtake the EU in terms of economic might.

RCEP: a huge success for China

The Asia-Pacific Regional Comprehensive Economic Partnership, which was signed on November 15, 2020, is the biggest free trade agreement the world has ever seen.

- 15 members, including Australia, China, Japan, New Zealand and South Korea
- Economic area: 2.2 billion people
- The agreement covers (among other things) tariff reductions, recognition of standards, rules for intellectual property, investments and public contracts
- India is not a member

German exports* to China: chemical products among the top 5

After machinery, motor vehicles / vehicle parts and electrotechnical products, chemical products rank fourth among German exports to China. Both countries are extremely important trading partners for each other. Trade has continued to grow over the past few years.

* 2019, in % of total exports (as per Standard International Trade Classification); source: GTAI, “Wirtschaftsdaten kompakt,” 2020

21,9% Machinery
14,0% Miscellaneous
12,2% Electronics
10,6% Chemical products
8,5% Measurement and control technology
5,3% Other vehicles
4,7% Miscellaneous
25,2% Vehicles / machinery parts
11,4% Electrotechnology
6,9% Measurement and control technology
What are the greatest challenges and opportunities for LANXESS both in China and in the Asia-Pacific region?

Asia-Pacific has just entered into a new era. By signing the Regional Comprehensive Economic Partnership (RCEP), China and its partners are creating the world’s largest regional free trade area covering a third of the world’s population and of global GDP. China is already the largest chemical market in the world and has been projected to account for 50 percent of chemical production by 2030. Finding the right approach to build a sustainable presence in China is both one of the greatest challenges and opportunities that every chemical company in the world faces today. It is a task that we at LANXESS tackle with great endeavour.

Which socio-economic trends and which regulations in China, for example concerning more safety and sustainability in the construction of buildings, are driving the demand for which of LANXESS’ products?

China has successfully grown a vibrant middle class over the past decades. This middle class is driving internal consumption. This in turn leads to a demand-driven restructuring of the chemical industry. As a result, we see increasing demand for localized grades based on local innovation capabilities. LANXESS is responding to this trend by building a new APAC Application Development Center in Shanghai, which is planned to start operations mid of this year.

What do you think are the most important lessons learnt from the COVID-19 pandemic in China? What implications has the COVID-19 pandemic for your sales, your stakeholders, and what has happened to protect LANXESS’ employees?

We were the “first responders” when the pandemic hit Wuhan back in January last year. In a very short time, we established a comprehensive emergency response to protect our people based on clear cut policy decisions and transparent communications. We are glad that to date we have not recorded any COVID-19 infection cases throughout the region. Business implications vary from country to country. Due to China’s quick policy response, life in the country right now is almost as it was before the crisis. Domestic demand has recovered and has driven our business nicely due to our well balanced product portfolio.

In which way does LANXESS in China contribute to the company’s climate-neutral-2040 goal and how does the Chinese government support the transformation towards a climate-friendly economy?

Sustainability has always been a focus for us when building out our footprint in China. Already back in 2004, our Wuxi site was awarded the title “Environmentally Friendly Company” by the State Environmental Protection Administration. The same site was visited in 2007 by China’s Premier at the time, Mr. Wen Jiabao. More recently, our newest site in Ningbo has received national governmental recognition for its environmental performance. In addition, our Qingdao site participates in the new LANXESS water stewardship program, which pilots on optimization of water consumption.

What do you expect from the new U.S. administration in regard to Chinese–American trade relations?

As a globally operating company with business activities on all continents, we believe in free trade and wish for a stable geopolitical environment. Both China and the USA are important markets for us in terms of sales and production. This is why we monitor closely the relations between the two countries and hope to see further healthy development of a sustainable global economy.

Ming Cheng Chien, President and Chief Executive Officer of the LANXESS Group in APAC, is banking on innovation and multilateralism to drive growth in the Asia-Pacific region.
Europe needs to step up a gear

It’s time for the EU to deliver on trade policy with its most important partners, says Anno Borkowsky, member of the LANXESS Board of Management.

For the German chemical and pharmaceutical industry, the USA and China are by far the most important trading partners outside Europe, while Great Britain is one of the biggest partners outside the EU. These are just two of many reasons why the chemical industry is hoping for initiative, determination and success from the EU in its efforts to promote free trade. The following are also important factors:

- Chemical companies have global and highly complex supply chains. Hard-fought trade disputes can have a severe impact on supplies and sales.
- The availability of system-relevant goods must be ensured, as the coronavirus crisis has demonstrated. This is why we wholeheartedly support the EU’s proposal to the Ottawa Group of WTO members to facilitate trade in healthcare products. These include the elimination of tariffs on pharmaceutical and medical products as well as a regime for global cooperation in health crises that covers aspects such as import and export restrictions, tariffs and transit.
- This drive by the EU also includes improving WTO rules for trade in essential goods.

Green light for diplomacy

The coronavirus pandemic, however, has merely further highlighted the inaction surrounding the European Union’s trade policy. By signing up to the world’s largest free trade agreement, which has been under negotiation for years, and jointly strengthening the World Trade Organization, the EU and China should achieve results with their investments.

In the event of trade disputes, this provides defined procedures for reaching lasting solutions, which, in our view, always take precedence over harsh steps like punitive tariffs that disrupt supply chains. And with the incoming US government, all the instruments of diplomacy will once again be available to us. The EU should definitely not pass up this opportunity. Negotiations surrounding the Transatlantic Trade and Investment Partnership (TTIP), which have been dormant for years, still involve a great deal of detailed work. After all, the free movement of goods is by no means just about reducing customs duties, but also about the mutual recognition of standards and procedures. This means an enormous reduction in costs for companies active in foreign trade.

Acting swiftly and with precision

Numerous trade wars, not to mention Brexit, have highlighted the harmful impact of national unilateralism on the international exchange of goods, making focused, close negotiations conducted with a sense of mutual respect all the more urgent – right now!

LANXESS supports efforts to cultivate deep and strong future relations with the United Kingdom of Great Britain and Northern Ireland after Brexit. LANXESS is getting ready to ensure that the transition (UK) after Brexit will be as smooth as possible.

“Or our preparations are aimed at ensuring the continued production and supply of goods and services to customers on both sides of the English Channel,” says Ralf Krüger, EMEA Region Head at LANXESS.

Trade in chemicals: ideally with zero duty and zero quotas

The EU and UK have built up close economic relations over the past few years. “It’s in the interest of both sides to ensure that we maintain these,” says Ralf Krüger. For the chemical industry, an ideal deal would have ensured the following:

- Free flow of chemicals – with zero duty and zero quotas – for all bilateral trade in chemicals
- Harmonized customs procedures
- Cooperation rules for chemical management
- EU-UK data transfer
- Continued freedom of movement for skilled personnel
- UK’s future participation in Horizon Europe

LANXESS is working on fostering its good trade relations with the United Kingdom.

European chemicals policy: preventing divergence

It’s clear already that the EU and UK will be subject to two different regulation systems for chemicals following the end of the transition period. Avoiding regulatory divergence should have the very highest priority, specifically for the following reasons:

- The EU is embarking on a comprehensive reform of its chemicals legislation system as part of the newly unveiled chemicals strategy for sustainability.
- This could potentially cause divergence among the various regulatory conditions.

“Were are adamant that any changes to the laws, procedures and ratings relating to chemicals should be made in close coordination with the UK.”

Ralf Krüger, Region Head EMEA, LANXESS

Anno Borkowsky is a member of the Board of Management of LANXESS AG. He was also recently appointed to the Board of Management of the European Chemical Industry Council (Cefic).

You never really leave

You never really leave
LANXESS Board of Management member Anno Borkowsky has been appointed to the Board of Management of the Brussels-based European Chemical Industry Council (Cefic). Cefic supports the Green Deal and the European Union’s ambition to become climate neutral by 2050.

Green Deal: The chemical industry wants to be part of the solution

Borkowsky describes the Green Deal as a huge challenge for the council’s members. “I hope that we get the time to reconcile sustainability with competitiveness,” he said. Certain products offering significant benefits in terms of sustainability, for example, are not in fact readily recyclable. The chemical industry is working hard on finding innovative solutions. Borkowsky emphasized the importance of a science-based approach to the handling of potentially hazardous substances.

For its “Climate Neutral 2040” strategy and its first major, associated projects, LANXESS received the “Sustainability Heroes” award in the category “Carbon Footprint.”

Leading the way to climate neutrality

The jury justified its decision by stating that LANXESS sees it as a social duty to eliminate as far as possible its greenhouse gas emissions and is the world’s first chemicals company to publicly declare its mission to achieve climate-neutrality by 2040. What makes this goal especially commendable is that it will be achieved through a range of technical innovations.

In addition, MSCI ESG Ratings – the world’s leading provider of sustainability analyses – has raised LANXESS’s rating from BBB to A in response to its climate strategy, highly compelling principles of corporate governance and comprehensive chemical safety measures. And LANXESS is also once again on the “A List” in the “climate” category as rated by the international climate protection initiative CDP, putting it in the top five percent of the around 5,800 companies assessed.