



FEDERCHIMICA
CONFINDUSTRIA

The role of foreign-owned chemical companies in Italy



2018

Foreword

Companies with foreign capital are a relevant pillar of Italian chemical industry. Data shows their important and positive role not only for the sector, but for the Country as a whole : they produce and carry out research in Italy, generate significant activity in local economy through purchases and investments and – being part of large international groups – have access to Best Practices from all over the world regarding training, safety and social responsibility.

The case of chemistry is interesting also because it anticipates the evolution of manufacturing as a whole. As a matter of fact there is no significant difference between foreign branches and national companies as foreign owned activities are in every respect part of Italian chemical industry and the two typologies are getting more and more similar. Italian sites of foreign groups have been specializing and a major part of production (often more than 75%) is devoted to export. Actually more than 60% of the whole chemical production value realized in Italy refers to foreign owned companies or to national groups also producing in foreign countries.

Companies with an international profile are a sensitive thermometer of competitiveness and their top managers represent authoritative and passionate witnesses able to compare Italy with other national frameworks. Companies' assessment identifies some factors as dampening opportunities of investment and growth. The most critical aspect regards uncertainties connected with regulation and its application. On the other hand, chemical industry in Italy proves to enjoy significant factors of competitiveness in terms of quality of high-skill human resources, organizational flexibility together with a unique and advanced manufacturing basis.

In the end, as in a global market what is relevant is not nationality of capital but nationality of productions as well as of research activities and management of global businesses, Italy has in the chemical industry, i.e. in a technological sector, strong competitive capabilities and high potential.

Paolo Lamberti
Federchimica President

A survey involving top managers of foreign capital companies

Present study was based on deep analysis of a wide range of available statistical datasets from different sources: Istat (Italian Statistical Office), Eurostat (EU Statistical Office), Reprint (database built by ICE, Italian Trade and Investment Agency, and university Politecnico di Milano), Cerved (balance sheet database) and Federchimica-Responsible Care®.

Analysis was complemented with questionnaires directed to top managers of foreign capital associated companies producing in Italy. The initiative was very successful in terms of redemption: more than 40 groups participated, responsible for 70% of turnover made by foreign owned companies and for more than 25% of total turnover of the chemical sector in Italy. Main topics were further investigated through about twenty interviews with top managers.

Strong presence of foreign capital companies in Italian chemistry: symptom of attractiveness and factor of development

First goal of the analysis was to investigate features and role of foreign capital companies in Italian chemical industry. They account for 30% of total sector employment, a share more than twice compared to manufacturing average and close to the average of European chemical industry.

This means, on one hand, that in Italy there are important factor of competitiveness and, on the other hand, that such companies have an important role for the development of chemical industry and of the country as a whole.

The fact that such a share is close to European average proves how such an aspect is strictly connected to the challenges of global market. To this respect the case of chemical industry is very interesting: indeed, together with a relevant presence of foreign owned activities in Italy, an equally significant component is represented by national groups having developed in foreign markets not

only through exports but also through local productions. Such a strategy has proved to be successful in order to better maintain employment levels in Italy as well. It can be estimated that more than 60% of the whole chemical production value realized in Italy refers to foreign owned companies or to national groups producing also in foreign countries.

Foreign capital companies in Italy and in Europe

(% share on total employment)

	Italy	EU
Manufacturing	12%	25%
Chemical industry	30%	38%

➡ **Foreign capital companies account for 30% of total chemical employment**

➡ **This share is**

- **more than twice the manufacturing average**
- **close to the average of European chemical industry**

Source: Istat, Eurostat, year 2015

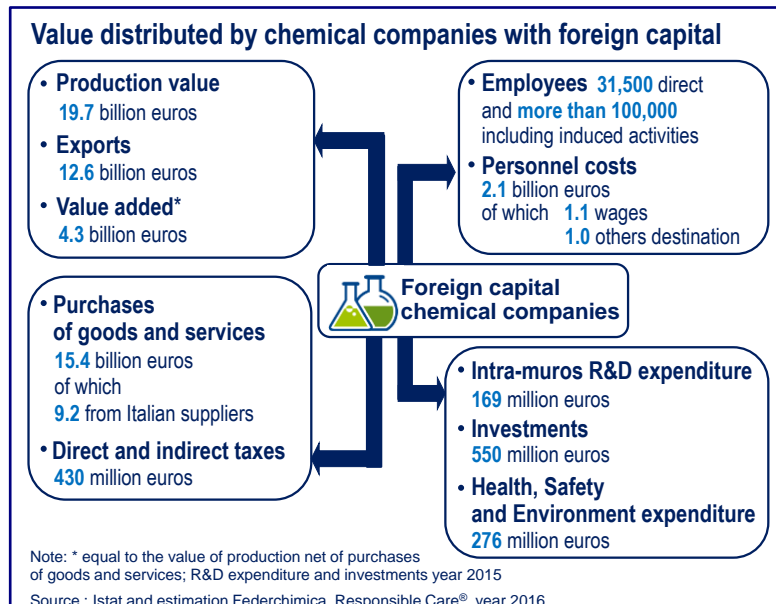
Chemical companies with foreign capital create value and contribute to Sustainable Development in Italy

In Italy presence of chemical companies with foreign capital is usually very articulated and not only for commercial purpose (in any case also such activity creates value and quality as chemical products have more and more a service content). Actually such companies generate value in Italy under several points of view:

- production value in Italy touches 20 billion euros (like the whole sector of beverages or furniture in Italy);
- out of them, almost 13 billion are devoted to export;
- added value is above 4 billion euros;
- out of them, 2 billion are personnel costs related to 31,500 employees (whose wages amounts to 1.1 billion).

These companies also nourish significant activity in the local economy:

- out of 15 billion euros of purchases of goods and services, 9 are addressed to Italian suppliers,
- as a consequence, directly and indirectly, more than 100 thousand jobs are generated in Italy.



Every year their contribution to the Italian State amounts

- to more than 400 million euros of direct and indirect taxes
- as well as social security contributions and taxes connected with employees (1 billion euros).

Their activity is very qualified and contribute to the Country Sustainable Development:

- every year R&D expenditure in Italy reaches about 170 million euros;
- investments as a whole are equal to 550 million euros;
- considering investments and current expenditure, more than 270 million euros are devoted to Health, Safety and Environment.

Presence in Italy deeply rooted and often historical

Presence of foreign capital groups in the Italian chemical industry is certainly not transient, on the contrary it is deeply rooted in territory.

In many cases it is even historical: 45% of groups has been in Italy for more than a quarter of century where are employed 68% of all workers of foreign owned companies.

Duration of the presence in Italy of chemical groups with foreign capital (% of groups)

Over 25 years	45%
From 16 to 25 years	23%
From 6 to 15 years	15%
Less than 5 years	17%

➔ **68% of employees of chemical companies with foreign capital works in groups present in Italy for over 25 years**

➔ **«We have been in Italy for more than a century, how not to consider us *Italians*?»**

Note: duration calculated with reference to the current group or to the initial group in case of corporate reconfiguration
Source: Reprint

A company statement represents effectively such a sense of belonging: “We have been in Italy for more than a century, how not to consider us Italians?”.

This idea was identified as a feature of globalization by the economist Michael Porter already more than 20 years ago, leading to the conclusion that what is relevant in the global market is not nationality of capital but nationality of productions and nowadays more and more nationality of research activity and of the management of international businesses.

17% of foreign groups have been in Italy by less than 5 years, a share not insignificant that signals the capability to attract new operators also during the crisis.

Acquisition by a foreign owned group is normally an opportunity for developing

Analysis of available data and experience lead to the conclusion that, in the chemical industry, acquisitions of national companies or sites by foreign owned groups have normally turned into opportunities for development. Reasons have clearly emerged during interviews with top managers:

- “being part of a large international group means having more market power and becoming more visible”;
- “the foreign owned group has turned Italian scientific and technological excellence into value by steering research to market needs”;
- “world is rapidly changing, critical mass and large financial resources are necessary to invest in research”.

Even when acquisition implied partial downsizing it is worthwhile to consider what if the activity would have remain national. Globalization exposes a non-competitive production to the risk of closure or downsizing whatever the nationality of capital.

In Italy research can be done profitably and is often strategic for the group as a whole

Production could be at risk in the medium-long term if it were not coupled with intangible assets that should distinguish more and more chemistry in an area, such as Europe, with high factor costs.

As a consequence, it is very important that significant research activity is being carried out by foreign owned groups in Italy:

- 69% of these companies consider R&D activity realized in Italy as strategic for the international group as a whole,
- in 43% of cases, Italy houses the group excellence center with reference to specific areas of chemistry or productions.

In this respect, it is meaningful that in 2014 the first two Italian companies for number of patents applications at EPO were both chemical (Solvay and LyondellBasell) and both of foreign capital. Moreover in both cases

Foreign companies with R&D activity in Italy relevant for the whole group (% of associated foreign companies)

Excellence center at global level	43%
Leader for specific productions	49%
Leader for specific geographical area	34%
With projects become strategic for the group in the last 5 years	57%
R&D activity relevant for the whole group	69%

➡ **«In 2014 the first two Italian companies for number of patents application at EPO were both chemical, of foreign capital and resulted from acquisitions from Montedison»**

Source: Federchimica, year 2018

research activity resulted from acquisitions from Montedison, confirming that acquisitions have certainly not damaged research in Italy.

It is worthwhile to ask why foreign capital chemical companies are so strongly committed to research in Italy: top managers give answers that might sound surprising:

- creativity and quality of researchers at relatively limited costs;
- in specific areas of chemistry possibility to have partnership with forefront public research;
- “unlimited” availability of customers (Italian SMEs) open to develop and test new applications.

It is still true today what a top manager of a large German company used to say twenty years ago: “While in Germany we have only few customers, in Italy is always possible to find someone willing to risk with us for an innovative application”.

Normally representing the most advanced part of a sector among the most advanced in Italian manufacturing

Chemical companies of foreign capital contribute to the country development also because normally represent the most advanced part of a sector that is already, as a whole, one of the most advanced in Italian manufacturing.

Results in terms of labor productivity (measured as value added per employee) are meaningful: compared to manufacturing average,

- productivity of chemical industry as a whole is more than 70% higher;
- productivity of foreign owned chemical companies is more than twice.



Why ?

Foreign owned companies are normally part of large groups and productivity is usually positively correlated to size but most of all international groups have access to Best Practices from all over the world regarding foreign market penetration, organizational models, skills and training, social responsibility. Such an aspect applies also to national groups producing also in foreign countries, that in Italian chemical industry accounts for 25% of whole production value.

Positive spill overs are generated all over the Italian productive system and are particularly relevant as chemical industry interacts with customers in all economic sectors (given that it is mainly an intermediate good) and introduces high standards in terms of quality and Social Responsibility along all the value chain, including also suppliers.

Great Recession did not significantly reduce foreign presence

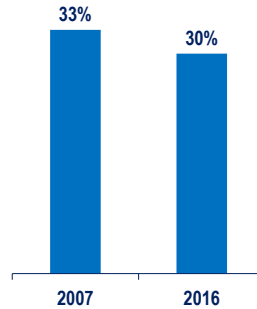
Italy was particularly hit by the so-called Great Recession that caused the collapse of domestic demand. How did foreign capital companies react?

Data show that Great Recession did not significantly reduce foreign presence in the Italian chemical industry: their share in terms of employees decreased only from 33 to 30%, but such a decline gets even smaller taking into account the reorganization inside some important foreign groups through separation of commercial societies.

In particular, top managers underlined that "also during the crisis, headquarters continued to invest and have confidence in Italy".

Evolution of foreign presence in the Italian chemical industry

(% share in terms of employees)



➔ The decline gets smaller taking into account the reorganization inside some important foreign groups through separation of commercial societies

➔ «Also during the crisis, headquarters continued to **invest** and have confidence in Italy»

Source: Istat, Federchimica

Italian chemical productions of foreign companies more and more specialized and export oriented

Resilience against the crisis derives mainly by an intragroup specialization process, which began before but was accelerated by the crisis, making Italian productions of foreign companies more and more export oriented.

In a context of very positive development of chemical exports (compared both to other Italian sectors and other European producers), export share on turnover for foreign owned companies

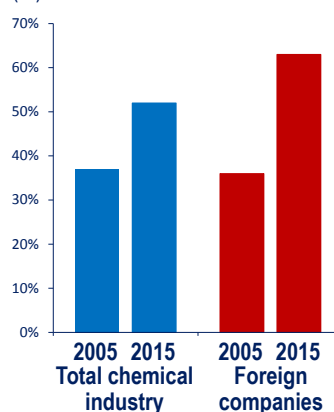
- has been increasing more than sectorial average and is above 60%;
- for almost half of companies is even higher than 75%.

As underlined in the interviews,

- this proves strong competitiveness of Italian productions, which are continuously exposed to both market and intra-group competition;
- in several cases and for specific products, Italian site is considered as the most important and advanced for the entire group all over the world (and, sometimes, it also manages worldwide activities, R&D included, regarding such a specific market).

Export share on turnover in the chemical industry in Italy

(%)



➔ Export share has been increasing more than sectorial average

➔ Almost half of foreign companies exports more than 75%

➔ «For these products, Italian site is the most important and **advanced**»

➔ «This proves strong **competitiveness** of Italian productions»

Source: Istat, Federchimica

Which are the main chemical groups with foreign capital in Italy ?

The survey was also aimed at identifying the main chemical groups with productions in Italy. In order to guarantee full compliance of Antitrust regulation, data from balance sheets were used validated by companies, referring to 2016 (therefore considered historical) and presented by value added class.

The best economic variable to represent foreign companies is value added because it is the most correct measure of value created and distributed in Italy taking into account both productive and commercial activities. Moreover it avoid problems of double counting in case of sales among different societies of the same group.

There are 36 foreign owned chemical groups that realize in Italy value added for more than 25 million euros (normally corresponding to more than 100 million euros in terms of production value) e 14 of them go beyond 100 million euros of value added.

Main chemical groups with foreign capital in Italy, 2016 results by value added class

Over 100 million €

- Air Liquide
- Basf
- Bayer
- Dow
- Henkel
- Infineum
- L'Oréal
- LyondellBasell
- Philip Morris (*)
- Procter & Gamble
- Reckitt Benckiser
- Rivoira (Praxair)
- Solvay
- Unilever

50-100 million €

- 3M (*)
- Arkema
- Colgate-Palmolive
- Ecolab
- Roquette
- Sicom
- Sasol
- Yara

25-50 million €

- Allnex
- Borealis
- Cambrex
- Clariant
- Covestro
- Elantas (Altana)
- Euticals (AMRI)
- Farmabios (Pharmazell)
- Flint
- Ineos – Inovyn (°)
- Lanxess (°°)
- Linde
- Sun chemical
- Venator (°°°)

Note: balance sheet data validated by companies that have joined Federchimica survey; only chemical and pharmaceutical-chemical activities are considered; companies belonging to the same parent company are considered as a unit (*) apply chemical NCBA; (°) does not include Ineos Sales Italia; (°°) includes acquisition of Chemtura; (°°°) in 2016 called Huntsman P&A

Source: Federchimica, Reprint, year 2018

Main strength of Italian activities : human resources

The development and importance of foreign owned companies prove that Italy enjoys significant factors of competitiveness in chemistry.

The survey clearly outlines human resources as the main strength in Italy under different points of view:

- excellent competencies of chemistry and managerial capabilities;
- good quality to cost ratio, especially for young and qualified profiles;
- creativity, that translates into problem solving capability;
- high availability in terms of time dedicated to work;
- flexibility of the single employee as well as of the organization as a whole, considered more and more important in a rapidly moving environment.

In particular, it has been pointed out the positive role of Sectorial Industrial Relationship that allows - through dialogue, innovation and Social Responsibility - to prevent and overcome possible tensions deriving from decisions on the organization.

Reasons and main objectives of production presence in Italy

(% of foreign associated companies which gives medium-high importance)

Good quality to cost ratio of high qualified human resources	80%
Human resources creativity	91%
Human resources flexibility	91%
Organizational flexibility and adaptation to changes	94%

➡ **«Chemical expertise and managerial capabilities of absolute excellence»**

➡ **«We are genetically used to think outside of the box and find solutions»**

➡ **«If important changes need to be made, we discuss but then we can introduce them without big problems»**

Source: Federchimica, year 2018

In Italy an important market and industrial value chains of worldwide importance

Italy is important for chemical companies also because of the features of its industry:

- domestic market lost some relevance in size terms but normally remains the second or third at European level;
- moreover it can be considered unique and, in several value chains, among the most advanced worldwide;
- in particular customers of traditional Made in Italy sectors, who survived the crisis, are trend setters and strongly oriented to export and to innovation (opening interesting opportunities of partnership with chemical suppliers);
- such features can be widely found also in the so-called "new Italian specializations" : i.e. food, cosmetics, packaging, specialty chemicals;
- another strength point related to value chains lies in the quality of engineering, well known excellence of Italian industry and becoming even more relevant for the development of Industry 4.0.

Reasons and main objectives of production presence in Italy

(% of foreign associated companies which gives medium-high importance)

Characteristics of Italian value chain

Market size	77%
High-quality customers	74%
Innovative partnership with customers	60%
Quality of engineering	80%

➡ «Italy remains an **important country** for the group »

➡ «A **unique industrial framework**: we have lost volumes, but it remains the excellence for quality and innovation»

➡ «Crisis has **selected** the most efficient companies»

Source: Federchimica, year 2018

Thanks to reforms, tangible step forwards in labor market and education

Chemical industry – given its nature of complex and technological sector - is particularly sensitive to countrywide competitive conditions not depending on single companies. As a consequence, part of the analysis was focused on such aspects.

According to top managers of foreign owned chemical companies, recent reforms brought about tangible gains terms of competitiveness, especially regarding labor market and education:

- in labor market it has been introduced more flexibility (i.e. less barriers to exit) and, above all, more legal certainty;
- on the other hand, universities offer very good scientific competencies (especially in some areas of chemistry) and there are initiatives to reduce the gap between education system and industry needs.

Improving countrywide competitive conditions in the last decade

(% of foreign associated companies)

	Improving	Still critical	Balance
Labor market	63%	20%	+43%
Education	40%	11%	+29%

➡ «**Flexibility and above all legal certainty** have improved in the labor market»

➡ «We have nothing to envy to the **most prestigious international universities**»

«University preparation is **too theoretical**»

➡ «**Training on the job is an important step to improve technical training and bring young people closer to industry**»

Source: Federchimica, year 2018

Other aspects remain critical for competitiveness

Other aspects regarding countrywide competitiveness remain critical:

- fiscal system is very complicated sometimes at detriment of legal certainty;
- even if regulation is more and more defined at European level, its application can change from one country to the other and, in Italy, there are too many interlocutors that are not always properly coordinated;
- in any case application should be always based on scientific evidence otherwise competitiveness can be damaged without any real advantage for safety and environment and with potentially negative effects on investments and employment.

Critical countrywide competitive conditions in the last decade (% of foreign associated companies)

	Improving	Still critical	Balance
Fiscal system	9%	60%	-51%
Authorization procedures	6%	46%	-40%
Other aspects of the PA	3%	34%	-31%
Infrastructure and logistics	6%	31%	-26%
Judicial system	0%	20%	-20%

➡ «In Italy insufficient progress compared to the rest of the world»

➡ «Complexity and legal uncertainty are the most insidious obstacles»

➡ «There are too many decision-making levels and interlocutors»

Source: Federchimica, year 2018

Some conclusions :

“A falling tree makes more noise than a growing forest”

Overall, analysis on chemical companies with foreign capital highlighted some interesting considerations that apply well beyond the sector.

1st evidence

Foreign capital activities are in every respect part of Italian chemical industry:

- their presence in Italy is deeply rooted, often historical and, in any case, qualified;
- they create value and contribute to Sustainable Development in Italy;
- they share with national companies a major part of strengths and weaknesses.

2nd evidence

The so-called Great Recession did not significantly reduce foreign presence, indeed these companies have continued to invest and contribute to country development.

Their positive role risk to be overshadowed by media focusing only on critical cases. It is true what once said the ancient Chinese sage Lao Tsu “A falling tree makes more noise than a growing forest”.

➡ Foreign capital companies

are **integral part** of Italian chemical industry

- their presence is often historical, rooted and qualified
- they create value
- they share strengths and weaknesses with Italian companies

➡ Crisis has not compromised

- the **importance** of Italy for foreign-owned companies
- the **contribution of foreign-owned companies** to Italy

➡ Some aspects of **countrywide conditions** dampen investments and development

- besides attracting new investors, ordinary functioning is crucial
- confidence in companies and industrial culture to be increased

➡ Italy maintains important **competitive advantages** in the chemical industry:

- foreign companies export more than 60% of their productions
- human resources and adaptability
- industrial structure

3rd evidence

Institutions should create conditions to make the forest grow more and better. Countrywide conditions have improved in terms of market labor and education but other aspects continue to dampen investments and development:

- besides attracting new investors, it is crucial not to obstacle ordinary activity of those already active and continuously investing in Italy;
- in general, it should be recognized the positive role of companies in creating wealth to be distributed (i.e. industrial culture).

Inefficient Public Administration weights on foreign capital companies as well as on Italian SMEs:

- typically it creates fixed costs with an higher percentage incidence on SMEs that subtract resources to strategic activities as R&D and to the entrepreneur himself;
- however it damages also foreign capital companies because, even if they have “large shoulders “ making them more able to face complexity, they are strongly exposed to intra-group competition and, as a consequence, can lose important opportunities of investments in favor of other affiliates.

4th evidence

The strong presence of foreign owned companies – with productions in Italy devoted to export for more than 60% - proves that Italy maintains important competitive advantages in the chemical industry in the fields of human resources and national industrial structure.

Great Recession has accelerated a transforming process involving both national and foreign capital companies, whose features are getting more and more similar, in particular in terms of export propensity and internationalization. Actually more than 60% of the whole chemical production value realized in Italy refers to foreign owned companies or to national groups producing also in foreign countries.

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