

Interim Evaluation: Functioning of the European chemical market after the introduction of REACH - Impact on competitiveness and the operation of the single market

Workshop on REACH - Presentation of main findings, conclusions and recommendations

6 December 2011



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Structure of presentation

- ❖ Objectives of the study
- ❖ Methodology and research tools
- ❖ Presentation of main findings
- ❖ Key Conclusions
- ❖ Initial recommendations



Objectives of the study

- ❖ Evaluate impact of the REACH Regulation to the market of chemical substances and to the competitiveness of the EU chemicals' industry
- ❖ Identify strengths and weaknesses of the REACH implementation with respect to market dynamics, consumer choice and prosperity, costs of compliance and administrative procedures
- ❖ Particular focus on SMEs, where appropriate, given the presence of relevant provisions in the REACH Regulation
- ❖ Provide recommendations

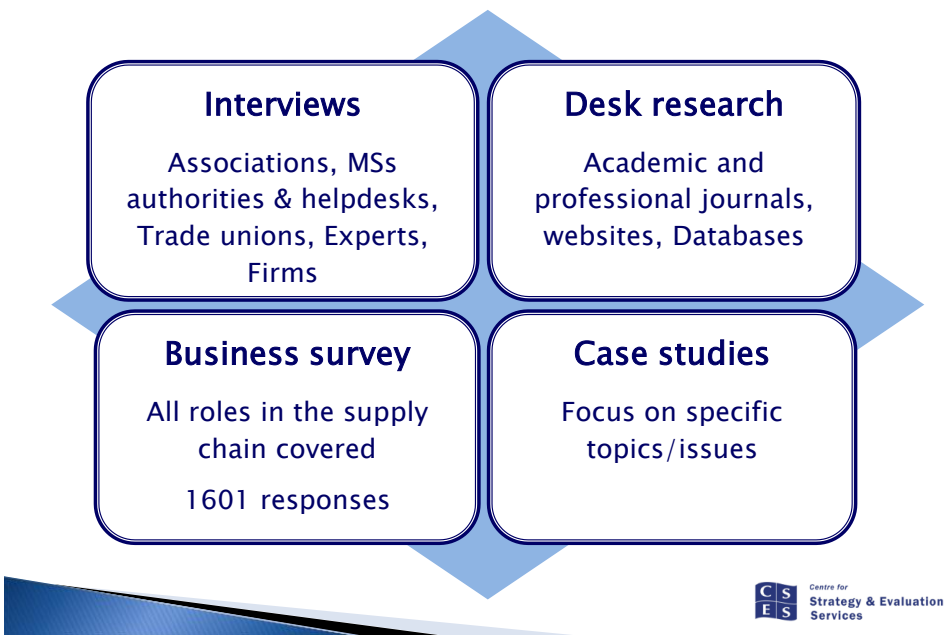
Objectives of workshop

- ❖ validate results and conclusions
- ❖ make changes where necessary

Methodology

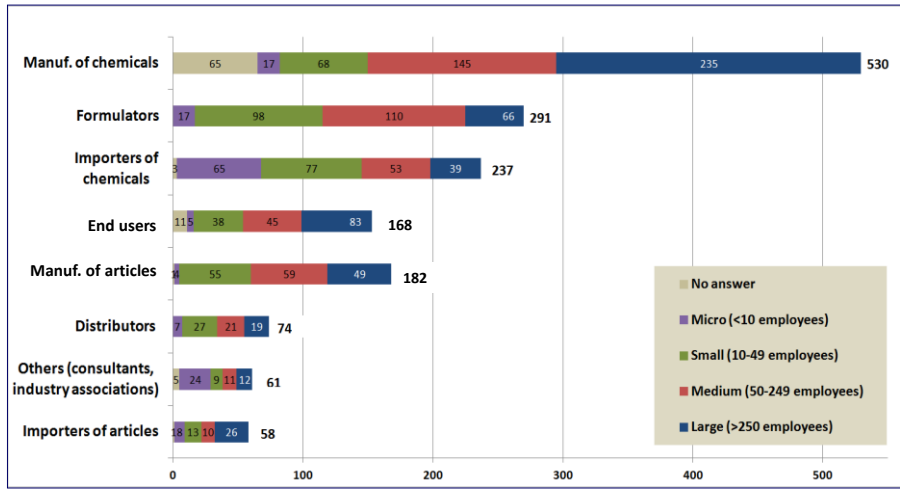
- ❖ General evaluation framework
 - Relevance, Effectiveness, Efficiency, Utility, Sustainability
 - Additional issues examined : coherence with competition legislation, acceptance of REACH
- ❖ Develop intervention logic of the Regulation
 - link general and specific objectives with provisions and mechanisms
- ❖ Sector Competitiveness framework
 - Inputs (e.g. labour, materials, capital and R&D investment)
 - Industry structure (e.g. Industry concentration, role of SMEs)
 - Processes (e.g. production process, supply chain linkages)
 - Outcomes (e.g. production levels, productivity, profit margins, sales)
 - Framework conditions (access to finance, market openness, technological progress, demand etc.)
- ❖ Identification of aspects of the Regulation expected to affect the above parameters – developed hypotheses and research tools

Research tools

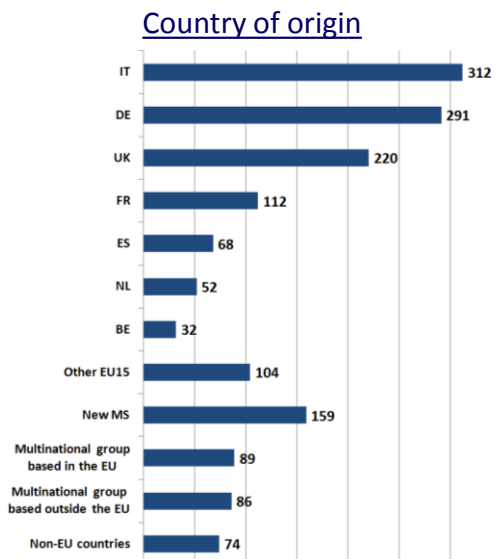


Business survey – Profile (I)

Main role stated (Total=1601)



Business survey – Profile (II)



Ownership type

- ❖ 46% single site independent firms
- ❖ 15.7% unit of multi-site firm operating in one country
- ❖ 14.7% REACH unit
- ❖ 10.5% unit of an EU group
- ❖ 5.7% unit of a non-EU group

Findings - Costs of compliance with REACH

- ❖ Main aspects identified
 - Costs of (pre) registration
 - Supply chain communication - (e)SDS
 - Human resources (horizontal)
- ❖ Limited experience/information
 - Authorisation and restriction
 - Notification for articles
 - Chemical safety reports for downstream users
 - Production changes and associated costs

Registration costs

- ❖ Total cost per registration: most common value of €50k-€100k
- ❖ But, wide distribution depending on type of substance and SIEFs size →
- ❖ Main cost drivers: ECHA fees, Access to data-studies/Letters of Access and Human resources most often stated
- ❖ Estimated total costs from registration, so far: €1.1-2.3 billion (26,000 registration dossiers for €50-100k/dossier)
 - more than initially expected in impact assessment
- ❖ Share of registration costs to annual turnover : <0.5% for 60% of respondents
- ❖ Difficult to estimate future registration costs for the total period
 - based on survey input we expect increase in registrations but initial estimates of ECHA indicate otherwise
 - while data requirements will decrease, availability of information is also expected to increase → more tests?

Average cost for single registration (all costs incurred)

Value in €s	Importers of chemicals		Manufacturers of chemicals		Total	
	No.	%	No.	%	No.	%
0-10,000	7	7.6%	11	4.3%	21	5.6%
10,001-25,000	18	19.6%	20	7.9%	41	11.0%
25,000-50,000	22	23.9%	51	20.2%	80	21.4%
50,001-100,000	24	26.1%	74	29.2%	106	28.4%
100,001-250,000	19	20.7%	57	22.5%	80	21.4%
250,001-500,000	2	2.2%	24	9.5%	28	7.5%
500,001-1,000,000	0.0%		7	2.8%	8	2.1%
>1,000,000	0.0%		9	3.6%	9	2.4%
Total	92	100%	253	100%	345	100%

- Lead registrants generally indicate higher costs
- Larger firms average costs also skewed towards higher values
- In the case of intermediates, costs are typically around €10k

Supply chain costs

❖ REACH has introduced supply chain communication costs for almost all firms

- Human resources for (e)SDS preparation and/or handling
- Investment in IT systems (specialised or part of firms' ERPs systems)
- Communication in supply chain often time consuming – low level of awareness among many firms, mainly small downstream users and non-EU firms
- Easier for sectors with more integrated supply chain structure (e.g. automotive vs. engineering)
- Total cost estimates difficult
- Typically around 1 FTE plus IT system installation and maintenance per unit

❖ Not clear whether costs will increase over time

- Clarification of procedures and communication tools, experience should help mainstream processes and reduce time required
- But, more substances and firms entering the system

Human resources

❖ One out of two respondents have created REACH units

- >60% of large firms, <40% of small and micro

❖ Typical case : <2 FTE dedicated - inside or outside REACH unit (70% of total respondents)

- Manufacturers of chemicals quite often referred to 2-5 FTE
- Large enterprises often have central REACH unit plus 1 full or part time in each unit
- For small firms REACH related staff – in FTE - often represent substantial addition to total wage costs (5%)

❖ Key question: use of R&D staff – opportunity cost?

- Innovation survey indicates that there is a shift of R&D staff and relevant resources to REACH related activities
- Around 60% of firms stated so and most expect this to be permanent

❖ Use of external consultants as a replacement but often in addition to the above internal costs

Business response to REACH costs

- ❖ Most typical (50-60% of firms) : absorb costs rather than increase prices – some impact on profit margins
- ❖ Very much depends on type of substance and market competition – interviews suggest difference between basic and specialty/consumers' chemicals sectors
- ❖ Withdrawal/consolidation of product portfolio less common but present (16% of manufacturers, 37% of importers of chemicals stated adopting this approach sometimes or frequently)
- ❖ Reduction of production volume to avoid costs – wait for 2nd registration – mainly smaller size firms
- ❖ Limited evidence of production relocation so far – multiple parameters of which REACH is not the most crucial
 - A few examples stated mainly related to use of chemicals in articles' production outside EU

Impact on prices (producer and final)

- ❖ Mixed or even contradicting inputs
- ❖ Around 50% of manufacturers and importers of chemicals stated that they never/seldom increased the prices of their products
- ❖ But, 50% of downstream/end users referred to an increase in the costs of substances they use
- ❖ And around 50% of total consider that REACH led to an increase of their products' prices in comparison to non-EU firms
- ❖ Non-EU firms also refer to important REACH related costs
- ❖ We conclude that producer prices have been affected although rather limited level – different strategy (absorb vs. pass down) and level depending on sector
- ❖ Final consumers' prices: Eurostat data do not indicate evidence of impact to this point
 - Most often, REACH are small fraction of chemicals that are a small fraction of the total production costs

Withdrawal - availability of substances

- ❖ Does take place - mainly in the form of reduction of number of suppliers
- ❖ 35% of all firms already experienced (60% among formulators) – 21% expect to happen in future
- ❖ Main drivers:
 - Registration costs – full withdrawal or waiting for second stage
 - Candidate list and retailers/producers requiring that suppliers do not use certain chemicals (role of SIN and other lists – business strategies)
- ❖ Main response: substitution of substance or change of suppliers (mainly in the EU)
- ❖ Limited evidence of problems in the market so far – often substances concerned are towards the end of life cycle
 - Sector variation: firms in automotive and aerospace sectors consider it quite problematic due to long replacement procedures and requirements, references from the textiles sector

Impact on trade

- ❖ EU data do not show impact on level of intra-EU trade
 - REACH rarely seen as providing an incentive to enter other markets (less than 10% of firms stated so)
 - Some suggestions of possible shift of importers to intra-EU suppliers to avoid registration costs – no specific evidence
- ❖ No evidence available on intra-EU trade shifts
 - Concerns raised by industry in countries dominated by small firms
- ❖ Data do not provide evidence on impact of imports
 - References by some non-EU industry representatives of difficulty of following REACH requirements and considering not trading in the EU
- ❖ All above do not mean that REACH is irrelevant – possibility of multiple national regulation clearly unwelcome
- ❖ The differences among MSs in definition of articles in relation to SVHCs seen as a possible danger to internal market

Benefits from REACH so far

- ❖ So far, benefits from new knowledge on substances and their uses appear limited
 - 1st registration focused on well known substances – limited added value for innovation according to great majority (80-90%)
- ❖ 25% of firms referred to benefits concerning risk management practices - more expected in the future
- ❖ Despite costs, supply chain communication and cooperation generally considered a positive aspect
- ❖ REACH does not seem to play an important role on consumer confidence
 - Limited level of awareness by consumers ; no mechanisms to affect it
- ❖ Jobs creation?
 - Mainly related to administrative aspects, much less related to business opportunities or attraction of firms
 - Mainly consulting and other support services
 - Fears for activity relocation but limited evidence so far – multiple factors

Role of REACH structures and mechanisms (I)

- ❖ SIEFs operation and effectiveness varies a lot
 - Generally considered effective in reducing costs of registration
 - But, problems with communication and coordination – linked to very large number of pre-registrations – dormant/inactive registrants
 - Variables: SIEFs' size and capacity of managers/lead registrants
 - Presence/operation of **consortia** has, most often, a positive role
"this is where most of the work is being done"
 - Unclear setting of price for Letters of Access – impact on SMEs often linked to potential exit from market
- ❖ Concerns but no evidence of breach of rules of competition or abuse of dominant position related to SIEFs
 - High costs of Letters of Access for small firms ; often considered as an issue but no evidence of abuse – mainly issue of transparency of charges
 - Industry largely aware of competition legislation issues – close monitoring
 - Concerns in relation to business intelligence appear inherent to the whole process : who produces what and at what level already quite important

Role of REACH structures and mechanisms (II)

- ❖ **SDSs development-handling problematic at this early stage**
 - No consistent/common format of (e)SDSs
 - Long documents, difficult to handle leading to loss of relevant information
 - Varying familiarity with processes/mechanisms among firms
 - But, work in progress ; associations' efforts and learning curve
- ❖ **Role of ECHA and national structures moderately positive**
 - ECHA tools (IT, guidance documents) broadly seen as quite helpful by the majority; improving over time
 - Feedback on national help-desks' contribution varies – expectations of firms often go beyond their remit – still some of them do aim to address them
 - Industry associations or consultants very often fill gaps
 - SMEs tend to make less use of ECHA and more of national structures
- ❖ **Market surveillance and enforcement**
 - Early stage (45% of firms stated no own experience)
 - Firms with some experience were rather positive (>50% fair or better)
 - Differences in approaches (inspection requirements, penalties, role of customs) and also lack of resources in some MSs
 - Tools for coordination in place (enforcement projects, RIPE, forum)
 - Expect more in the coming period

Role of REACH structures and mechanisms (III)

- ❖ **Only representatives**
 - Overall positive contribution in de-codifying REACH for non-EU firms and reducing costs for importers
 - Quite extensive use of ORs (responsible for 19% of registrations)
 - Market of ORs rather diverse – range from individuals to large firms
 - But, concerns on quality of services often raised
 - Practical issues on the communication and sharing of information with clients and importers
 - Unclear aspects on expected role and obligations in terms of communication in supply chain and in authorisation
- ❖ **Overall, no evidence indicating critical failure of any part of the mechanisms, structures or processes**
- ❖ **But, certain problematic areas or implementation aspects that cause confusion, duplication of efforts and additional costs for firms**

Conclusions - Impacts on competitiveness

- ❖ Significant compliance costs, probably higher than initially expected – indication that SMEs are particularly affected
- ❖ Direct impact on short term availability of intermediate inputs for some DUs sectors – replacement not always easy
- ❖ Increase of prices vs. non-EU firms present, but not widespread
- ❖ Profit margins generally affected, at least in the short term, although level appears rather limited
- ❖ No evidence indicating loss of markets due to REACH so far
- ❖ Some indications of contribution to market concentration
- ❖ Positive role in promoting cooperation with customers/suppliers, supply chain integration – potential medium-long term benefits
- ❖ Benefits from new knowledge not expected to materialise and provide competitive advantage in the short term
- ❖ Regulatory framework: current period characterised by certain level of uncertainty that may continue until 2018

Conclusions - Impact on single market

- ❖ Single Regulation objective generally served
- ❖ But, no evident impact on trade flows at this stage
- ❖ Role of market surveillance and unified approach
 - Still work in progress
- ❖ Specific issue of different interpretations on the definition for determining the concentration of SVHCs in articles often stated as a negative indication – not practical experience to this point

Recommendations (I)

- ❖ Radical changes to REACH Regulation not considered necessary nor appropriate - they may cancel out experience gained and increase confusion
- ❖ Focus on clarifying requirements and improving processes with the aim to reduce, where possible, compliance/administrative costs
 - Improvement of SIEFs operation: Provide further guidance ; support share best practices on data sharing and communication
 - Consider setting minimum information/transparency requirements for LoAs
 - Work with industry on standardising (e)SDSs content – consider possible simplifications to the level of information provided
 - Consider setting specific dates for updates, inclusion in candidate list etc. (once/twice a year) to increase predictability and reduce repetition of work
 - Clarify criteria for qualification of ORs, role in authorisation and communication obligations – examine use of certification scheme or database

Recommendations (II)

- ❖ Prepare for 2nd and 3rd period with focus on SMEs needs
 - Strengthen guidance and support tools through ECHA and national helpdesks
 - Ensure ECHA has resources/capacity - ensure quality of existing IT tools and other aspects affecting firms' experience – apply moratorium on changes
 - Maintain/strengthen existing cooperation of ECHA with industry
 - Aim for increased awareness among firms with different roles through communication campaigns at the EU and national level – use of Enterprise Europe Network and/or national associations
- ❖ Strengthen surveillance and enforcement and ensure coordination and cooperation through tools like enforcement forum, RIPE and focused projects ; bring customs' authorities more into the picture
- ❖ Seek to clarify the situation in relation to notification requirement for SVHCs in articles as soon as possible

Recommendations (III)

- ❖ Extend REACH-related studies including assessments of implementation-practical aspects and needs of SMEs
- ❖ Consider extending the scope of REACH baseline study (or new study) with indicators monitoring competitiveness and internal market aspects
- ❖ Support R&D projects directed towards substitution of chemicals in different sectors (CIP/Framework programme, Life, national schemes)

Thank you for your attention!

Questions, Comments, Suggestions?

