

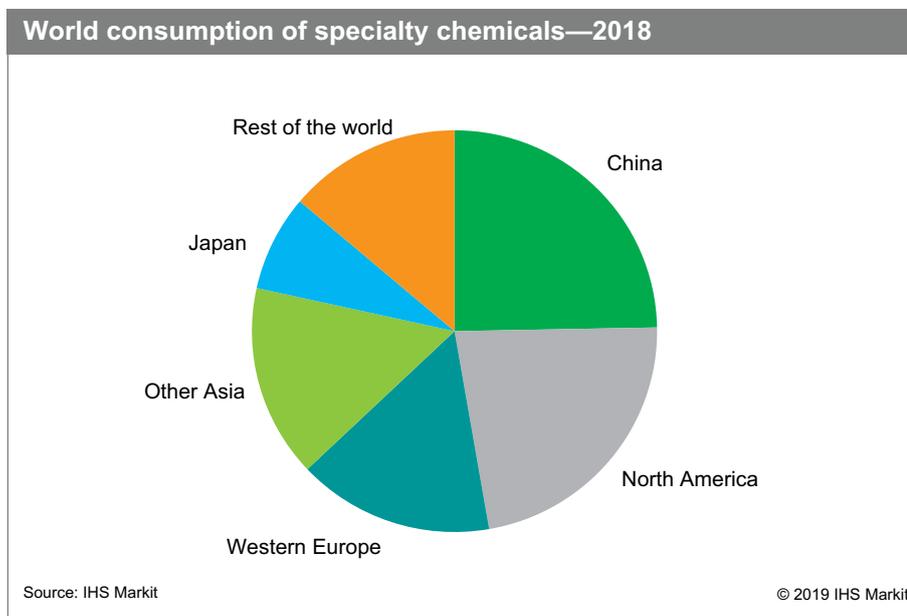
Overview of the Specialty Chemicals Industry

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Abstract

Specialty chemicals are produced by a complex, interlinked industry. In the strictest sense, specialty chemicals are products sold on the basis of their performance or function rather than their composition. They can be single-chemical entities or formulations whose composition sharply influences the performance and processing of the customer's product. This report covers 29 specialty chemical segments, which are categorized either as market-oriented products (used by a specific industry or market, such as electronic chemicals or oil field chemicals), or functional products (groups of products that serve the same function, such as adhesives, antioxidants, or biocides). There is considerable overlap in this method of characterization. Market-oriented groups often include numerous functional chemicals used by the same market, while functional chemicals typically are used by several different markets. This distinction is made for convenience in discussing strategic aspects of the business segments rather than because of a real difference in the products.

The following pie chart shows the specialty chemicals market share held by each major region in 2018, on a value basis:



In 2018, the world's 5 largest specialty chemicals segments—specialty polymers, industrial and institutional cleaners, electronic chemicals, surfactants, and flavors and fragrances—had a market share of 37%; the 10 largest segments accounted for 63% of total annual specialty chemicals sales. Each specialty chemicals business segment comprises several subsegments, each with individualized product, market, and competitive profiles.

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China was the largest consumer of the following specialty chemicals, accounting for 30–50% of global consumption in 2018: antioxidants, construction, feed additives, printed circuit board and semiconductor packaging, plastics additives, paper chemicals, rubber-processing chemicals, specialty coatings, specialty polymers, textile chemicals, and water management chemicals. The country accounted for 50% of the dollar value of the global textile chemicals market in 2018.

North America was the leading consumer of biocides, catalysts, corrosion inhibitors, cosmetic chemicals, food additives, industrial and institutional cleaners, lubricating oil additives, oil field chemicals, printing inks, surfactants, and synthetic lubricants. Western Europe was the leading consumer of nutraceuticals and flavors and fragrances. Japan was the largest consumer of imaging chemicals, while Other Asia had the highest consumption value for chemicals used in semiconductor fabrication.

In addition, emerging markets have higher growth rates than North America, Western Europe, and Japan because they are calculated from a low base, since their per capita consumption of specialty chemicals is still very low compared with that of developed regions.

In the past, specialty chemical companies sold their products on value. Their products represented only a small portion of the cost structure of their customers' products. Advances in supply-chain management, strategic sourcing, and e-commerce have increased transparency and customer awareness. As a result, the specialty chemicals industry is becoming more commodity-like in some areas as companies sell certain products on price rather than on performance. The specialty chemicals industry is now trying to improve its margins by implementing price increases to compensate for higher R&D, energy, and raw material costs.

Some specialty chemical companies are trying to raise barriers to entry into their markets by becoming more service oriented. They are focusing less on products and more on support services and specific customers. Providing services alongside products has long been the way to do business in some specialty chemical sectors, including automotive coatings, fluid catalytic cracking catalysts, pharmaceutical ingredients, and water treatment. However, as more sectors wrestle with slowing growth rates and encroaching commoditization, more specialty chemical companies have increased the service component of their portfolios.

Contents

Executive summary	6
Summary	7
Specialty chemical markets by region	9
Specialty chemicals segments by growth rate	11
Abbreviations	17
Introduction	19
Definition of specialty chemicals	19
Segments of the specialty chemicals industry	19
Purpose and scope of this report	20
Overlaps in specialty chemical market segments	21
Research methodology	22
Macroeconomic developments	24
– Crude oil	26
– Exchange rates	26
Trends in selected end-use industries	28
– Automotive	28
– Chemical production	30
– Construction	32
– Electronics	34
– Fibers and textiles	35
– Food	37
– Household and personal care products	38
– Mining	39
– Paper	40
– Thermoplastics	41
Overview of the specialty chemicals industry	44
Industry structure	44
Major players	45
Largest end-use markets	48
Trends and success factors	50
Regional status and outlook for specialty chemicals	53
North America	53
– Status and outlook	53
– General status of the economy	57
– Automotive production	58
– US manufacturing and construction	59
– Mergers and acquisitions	60
– Trends and opportunities	63
Central and South America	64
– Status and outlook	64

– Trends and opportunities	68
Western Europe	68
– Status and outlook	68
– General status of the economy	74
– Mergers and acquisitions	75
– Government regulations	80
– REACH	80
– RoHS/WEEE directives	82
– EU emissions trading system	83
– Circular economy strategy	83
– Biocidal product regulation	84
– Trends and opportunities	85
Central and Eastern Europe	86
– Status and outlook	86
– General status of the economy	90
– Trends and opportunities	91
Middle East and Africa	92
– Status and outlook	92
– General status of the economy	95
– Mergers and acquisitions	97
– Trends and opportunities	98
Japan	100
– Status and outlook	100
– Mergers and acquisitions	104
– Trends and opportunities	105
China	106
– Status and outlook	106
– General status of the economy	112
– Mergers and acquisitions	115
– Trends and opportunities	117
Other Asia	117
– Status and outlook	117
– Mergers and acquisitions	123
– Trends and opportunities	123
Overview of specialty chemicals segments	124
Market-directed specialty chemicals	124
– Construction chemicals	124
– Cosmetic chemicals	127
– Electronic chemicals	130
– Semiconductors and IC process chemicals	133
– Printed circuit board chemicals and semiconductor packaging materials	135
– Feed additives	136
– Food additives	140

– Imaging chemicals and materials	142
– Toner raw materials	145
– Thermal printing chemicals	147
– Industrial and institutional cleaners	149
– Lubricating oil additives	152
– Mining chemicals	154
– Nutraceutical ingredients	157
– Oil field chemicals	160
– Plastics additives	163
– Printing inks	165
– Rubber-processing chemicals	168
– Specialty paper chemicals	170
– Synthetic lubricants	173
– Textile chemicals	176
– Water management chemicals	178
Functional specialty chemicals	181
– Adhesives and sealants	181
– Antioxidants	184
– Biocides	186
– Catalysts	190
– Petroleum refining and chemical process catalysts	192
– Emission control catalysts	196
– Corrosion inhibitors	199
– Flame retardants	202
– Flavors and fragrances	205
– Specialty coatings	208
– High-performance anticorrosion coatings	212
– Thermosetting powder coatings	215
– Radiation-curable coatings	218
– Specialty polymers	221
– Engineering thermoplastics	224
– Specialty films	227
– High-performance thermoplastics	231
– Surfactants	234
– Water-soluble polymers	236
Revisions	240

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