

# REACH 2.0

## New Legislation will Accelerate Change and Consolidation in the Chemical Industry

On Wednesday 14th October, the European Commission adopted a new strategy for sustainability within the Chemicals industry. This follows an announcement by the European Commission earlier this month outlining a roadmap towards “a Zero Pollution Ambition for air, water and soil – building a Healthier Planet for Healthier People” – a key pillar of the European Green Deal, which commits Europe to no net emissions of greenhouse gases by 2050 and decoupling economic growth from resource use.

*“Pollution affects everybody – through the air we breathe, the water we drink or the land we grow our food on. This needs to change. We need to mainstream our Zero Pollution Ambition into all EU policies. Achieving zero pollution is good for our health, good for the environment, but also for the economy as it has the potential to create ample green business opportunities and accelerate the transition to a circular economy.”* – Virginijus Sinkevičius, EU Commissioner for the Environment, Oceans and Fisheries

A REACH revamp is now underway (dubbed “REACH 2.0” or “REACH Plus”), with a package of some 70 legal and regulatory measures proposed to provide a more hazard-based / generic assessment of risk. The legislation will enable entire groups of substances to be outlawed where it is felt a substance-by-substance approach is not moving fast enough: classes which have been under debate for many years including PFAS, endocrine disruptors, consumer chemicals and chemical mixtures (cocktail effect) all feature. It will be particularly intriguing to follow new regulations on alleged endocrine disruptors, which feature in pesticides, certain plastics, flame retardants and many other common products. These substances have been shown to cause adverse effects in animals – however it has typically been difficult to assess human studies due to our exposure to various sources of endocrine disruptors in everyday life.

Polymers are currently exempt from REACH registration, but the European Commission has stated its intent to publish a proposal by 2022 for polymers to be included. NGO’s are specifically pointing at micro/nano plastics and have called for mandatory pre-registration of polymers to start as soon as possible to obtain basic information on ‘polymer systems’, including substances used in the manufacturing process. CEFIC is advocating a tailored approach, emphasising that the criteria for regulation would need to be adapted to accommodate the complex characteristics of polymers.

The biggest chemical reform since the implementation of the EU’s REACH legislation 15 years ago comes at a challenging time for the European Chemical industry with COVID-19, the oil price crisis, Brexit, the US election and declining demand for many products all being faced simultaneously.

We think that it will take up to 10 years for the new legislation to be fully implemented but it is not too soon to start to think of the implications.

## ISSUES

- REACH was originally envisaged to set a benchmark worldwide, yet other regions have opted for their own versions. REACH 2.0 could further distance European standards from others around the world.
- REACH has already become an effective trade barrier to those operating outside the EU, particularly for SMEs. The new regulations may be seen as a further attempt to erect trade barriers.
- The inclusion of chemical mixtures (formulations) within the legislation will likely impact many companies within the sector (e.g. manufacturers of plastic compounds/masterbatches, paints and coatings, adhesives).
- New legislation means increased costs for EU chemical companies, reducing competitiveness. Manufacturing for the export market of many substances may shift to regions with lower regulatory environments, such as India.
- Critics within the EU have argued there is an apparent lack of enforcement regarding imports into the market and may see REACH 2.0 as a further negative to EU companies that comply.
- Smaller entities which are key to innovation within the industry could find the increased costs prohibitive and this may lead to industry consolidation. We have seen this within the UK Financial Services industry. In recent years increased regulation has disproportionately impacted smaller banks and investment companies and led to many takeovers and mergers. We expect similar trends to emerge in the Chemicals industry as the implications of the increased costs of regulation take hold.
- We believe the impact on chemical pricing will be inflationary – especially if smaller players leave the market.

## OPPORTUNITIES

Although REACH 2.0 will take 10 years to implement, it will transform the outlook for many chemical companies within Europe, presenting an opportunity for those who can manage increased costs and added complexity while causing others to exit. The European Commission has committed to ensuring financial support for the commercialisation and uptake of safe and sustainable chemicals via EU funding and investment instruments, as well as public-private partnerships. We expect innovative new companies which take advantage of the transformed environment to emerge. Furthermore, potential consolidators will benefit from any restructuring done in response to new regulations. Companies should start to plan now to ensure they are beneficiaries of this new landscape.

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