



EXECUTIVE SUMMARY

UNLOCKING THE POTENTIAL OF A SPECIALTY CHEMICALS INDUSTRY IN THE GCC

July 2020

Specialty chemicals are essential in various industries ranging from construction to food, and from textiles to cosmetics. Specialty chemicals are attributed to deliver better safety, ensure regulatory compliance, and improve performance. Additionally, specialty chemicals are fundamental to protecting public health, providing medical supplies and other products which are vital during global outbreaks, such as the recent coronavirus (COVID-19) pandemic. In the report “Unlocking the Potential of a Specialty Chemicals Industry in the GCC” GPCA provides an overview of the specialty chemicals sector globally and in the GCC. Additionally, report describes the prevailing trends in the specialty chemicals market and what the GCC region could do in order to speed up the development of the specialty chemicals market.

The global specialty chemicals industry

The global specialty chemicals market generated USD 1.2 trillion in sales in 2018 and is projected to further increase to USD 1.4 trillion by 2025. Given that the chemical industry in total generated USD 3.9 trillion in sales, specialty chemicals represent a 31% share. The specialty chemicals market is referred to as one of the “most important chemical segments”

because of the end user industrial demand solutions, which are only possible through materials provided by the specialty chemicals sector.

The industry is facing several key challenges, including continuous product diversification which is leading to the commoditization of many specialty products. Further, the industry is facing changing demand patterns, an evolving nature of innovation, a highly regulated industry, sustainability and digitalization drive, and price pressure. All these challenges are discussed in detail in the current report.

GCC specialty chemicals market overview

Despite the importance of the specialty chemicals sector for the future development of the GCC, there is no data on the actual market size in the region. Several companies are focusing on individual segments of specialty chemicals, but market information on the entire industry in the GCC does not exist. Based on GPCA estimation, the GCC specialty chemicals industry has an output worth USD 10-11 billion, which represents less than 1% of the global output. During 2018, the GCC region imported 2.3 million tons of specialty chemicals valued at USD 6.5 billion which represents about 12% of total

Challenges in the specialty chemicals industry



Source: GPCA analysis, 2020

chemical imports by volume and 25% by value during the same year. Due to unavailability of 2019 data at the time of writing the report, GPCA estimates that in 2019, the GCC region imported close to 3 million tons of specialty chemicals.

Unlocking the potential of a GCC specialty chemicals market

The GCC chemical industry is at a turning point. The region has experienced decades of exceptional growth and built a vibrant and competitive chemical industry. However, as governments seek to diversify economies and attract industrial investment, there are new strategic priorities for the chemical industry. The industry has been tasked to capture the value that is currently captured by overseas customers, i.e. building up the specialties chemicals industry in the region. We see the following development options that would allow a steady diversification of commodity producers to specialty chemicals: technology acquisition, R&D development, acquisitions of specialty chemicals companies, JVs with specialties producers, industrial cluster developments, mindset change to service orientation, and greater support from the government. All these opportunities are discussed in detail in the current report.

Challenges in developing a competitive GCC specialty industry

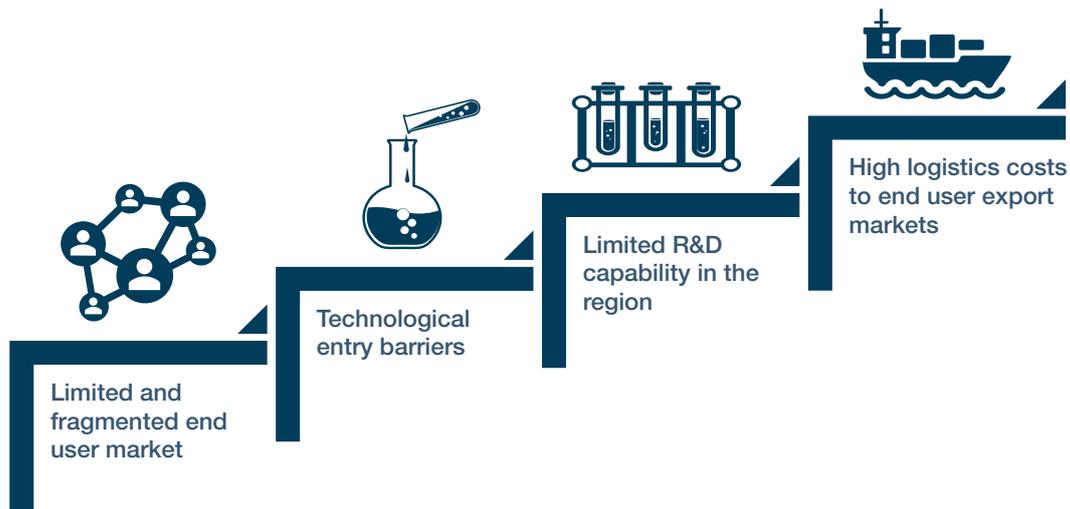
Governments have been developing countless industrial strategies and implementing new policies to help strengthen the business environment and stimulate diversification efforts. While the share of non-oil sector GDP has been slowly improving, true economic diversification is still very much limited. The difficulty of the region to diversify from oil has led to discussions around underlying challenges that slow the region's progress in actualizing its ambitious plans and reform agendas. There are several key obstacles that stand out as hindering industrial development in the region – and by extension the development of a competitive specialty chemicals industry. For the GCC region, we believe some of the biggest challenges is the limited size of a regional end-user market, technological entry barriers (as specialty technologies are often proprietary), limited R&D capability in the region, and the high logistics costs associated with exporting to end-user markets. Each of these challenges are reviewed in the report.

Opportunities for specialty chemicals market development in the GCC



Source: GPCA analysis, 2020

Figure 1: Major challenges facing the development of a GCC specialty chemicals industry



Source: GPCA analysis, 2020

CONCLUSION

The evolution of the GCC chemical industry over the past decades has been a success story with growth rates exceeding that of GDP, making it an attractive market for investors. The diversification drive, the manufacturing industry's development in the GCC region, and the high export potential, are all creating an opportunity to develop a dynamic specialty chemicals industry for the region.

GCC chemical players need to be ready to employ a number of instruments in order to become successful in the specialty chemicals business. These measures are necessary to ensure success at growth rates that are not less than what they have seen in the past with their commodities business. Companies that have the ability and willingness to make necessary moves will be better placed for success in the fast-evolving specialty chemicals market.

Regional companies cannot afford to miss out on the potential of unlocking these opportunities.

The Gulf Petrochemicals and Chemicals Association (GPCA) represents the downstream hydrocarbon industry in the Arabian Gulf. Established in 2006, the association voices the common interests of more than 250 member companies from the chemical and allied industries, accounting for over 95% of chemical output in the Gulf region. The industry makes up the second largest manufacturing sector in the region, producing over USD 108 billion worth of products a year.

The association supports the region's petrochemical and chemical industry through advocacy, networking and thought leadership initiatives that help member companies to connect, to share and advance knowledge, to contribute to international dialogue, and to become prime influencers in shaping the future of the global petrochemicals industry.

Committed to providing a regional platform for stakeholders from across the industry, the GPCA manages six working committees - Plastics, Supply Chain, Fertilizers, International Trade, Research and Innovation, and Responsible Care - and organizes six world-class events each year. The association also publishes an annual report, regular newsletters and reports.

For more information, please visit www.gpca.org.ae

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