

Cooperation and future viability

Companies – like LANXESS – that engage in transatlantic operations are now hoping for a revival of the free trade agreement and good conditions for climate-friendly business.

Europa and the USA: strong relations

The USA has always been an attractive market and location for German companies, and transatlantic trade has continued to grow over the past few years. After machinery and motor vehicles, chemical products rank third among German exports to the USA and first among products imported from the USA to Germany. For the German chemical industry, the USA is the most important market outside the EU.

Lively market for protection products and more

Since 2017, LANXESS has significantly expanded its operations in the USA. When it acquired Chemtura, the specialist for flame-retardant and lubricant additives, LANXESS took on 2,500 employees along with 20 locations in 11 countries. Today, LANXESS generates 23 percent of its sales in the North America region. Although sales fell in pandemic-dominated 2020 by 7.3 percent compared with the previous year, this was actually the smallest decline compared with other regions where LANXESS operates. Consumer protection products like disinfectants enjoyed especially strong sales, which is why LANXESS is looking to expand production capacities for its Oxone™ monoperoxysulfate compound in Memphis, Tennessee, by around 50 percent by 2022. Oxone™ monoperoxysulfate is an active ingredient used in disinfectants against, for example, COVID-19 and zoonotic disease like bird flu, and also plays a key role in the electronics and paper industry.

»Trade builds our economies and creates jobs: U.S. companies in Germany support over 700,000 jobs and German companies in the U.S. are responsible for nearly 800,000 jobs. We are pleased by progress earlier this year on a package of tariff reductions that will increase market access for hundreds of millions of dollars in U.S. and EU exports, bringing positive results to both our economies.«

Fiona Evans,
U.S. Consul General,
Düsseldorf



» more resources for an improved water infrastructure and treatment – a key area of business for LANXESS.

Despite protectionism and the coronavirus crisis, says Germany Trade and Invest, the USA has all the resources it needs to meet these challenges. And, even better, notes Markus Russ from AmCham Germany, Joe Biden's more diplomatic style is much more conducive to bringing about these urgently needed results.

* Nine-month comparison; as at: November 2020

- » 2: Healthcare reforms (54 percent); 16 percent want to see financial incentives for overcoming the COVID-19 pandemic and more money for vaccine research
- » 3: Investment in infrastructure (48 percent)
- » 4: Expansion of renewables (45 percent)

Talks concerning the Transatlantic Trade and Investment Partnership (TTIP) have been at a complete standstill since 2017. Toward the end of the Obama–Biden administration in August 2016, the negotiating partners had not reached an agreement for any of the 30 chapters in the deal. Since the global challenges have become even more acute in the meantime, the TTIP is likely to remain an ambitious project.

Good news: common targets, common standards in climate protection

Joe Biden has already announced his intention to recommit to the Paris Climate Agreement on his first day in the White House. He is striving to make the USA climate-neutral by 2050. For companies, this means:

- » investment opportunities in renewables – the transition is already under way;
- » major advances in emission-free road transportation – some states are already encouraging this;
- » better conditions for energy-efficiency projects;
- » stimuli for the currently stagnating construction industry through building modernization projects and the subsidization of sustainable construction;

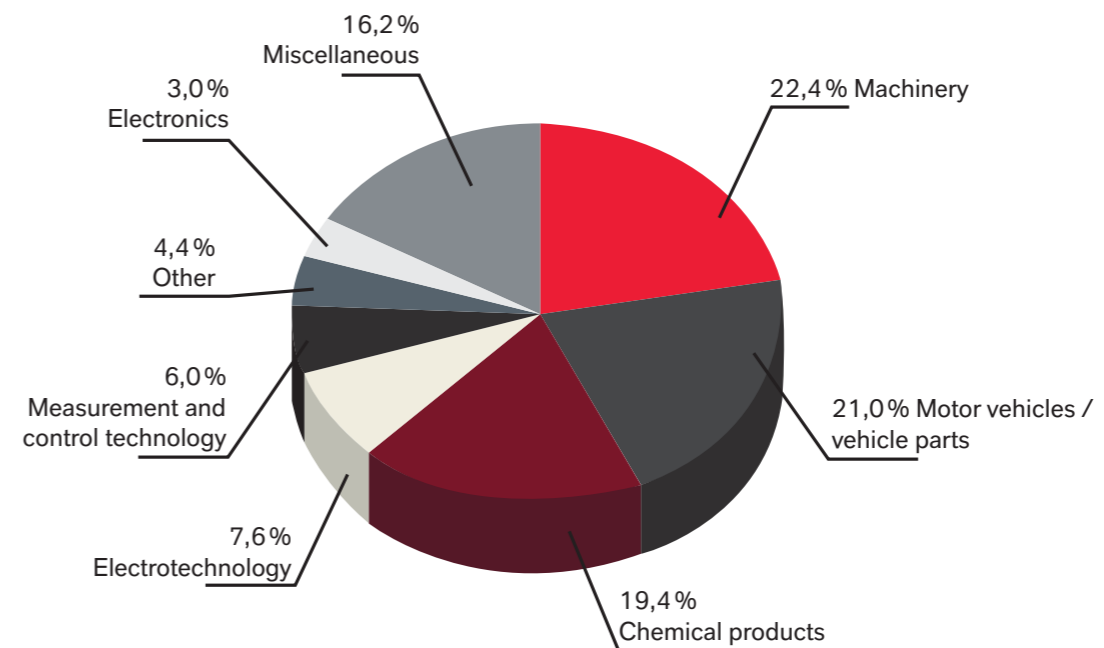


LANXESS locations

- | | |
|--------------------------------|-----------------------|
| 1 Baytown, Texas | 10 Fords, NJ |
| 2 Burgettstown, PA | 11 Gastonia, NC (HPM) |
| 3 Bushy Park, SC | 12 Gastonia, NC (URE) |
| 4 Chardon, OH | 13 Greensboro, NC |
| 5 Charleston, SC | 14 Little Rock, AR |
| 6 East Hanover, NJ | 15 Mapleton, IL |
| 7 El Dorado, AR, South Plant | 16 Memphis, TN |
| 8 El Dorado, AR, Central Plant | 17 Neville Island, PA |
| 9 El Dorado, AR, West Plant | 18 Perth Amboy, NJ |

German exports* to the USA: chemical products among the top 3

After machinery and motor vehicles / vehicle parts, chemical products rank third among German exports to the USA and first among products imported from the USA to Germany. Both countries are extremely important trading partners for each other. Trade has continued to grow over the past few years.



* 2019, in % of total exports (as per Standard International Trade Classification); source: GTAI, "Wirtschaftsdaten kompakt," 2020



»New era«

Antonis Papadourakis, President and Chief Executive Officer of the LANXESS Group in the U.S., expects greater predictability, trust and an upswing in trade for future transatlantic relations.

How important are better transatlantic trade relations for LANXESS in the U.S.?

The United States today is a net exporter of chemicals, thanks to shale-gas related chemical investments over the past decade. Furthermore, U.S. trade policy sets the tone for trade with the rest of the world and plays a decisive role in enabling the American chemical industry. At LANXESS, we, along with the U.S. chemical industry, are strong supporters of free and open, rules-based international trade. Transatlantic trade is particularly robust, and Europe remains one of the U.S. industry's largest foreign markets. The further reduction or elimination of barriers to transatlantic chemical trade will promote growth and job creation, and enhance competitiveness on both sides of the Atlantic. For the U.S. chemicals industry to succeed in the global marketplace, chemicals must be allowed to flow freely in to and out of the U.S.

What implications has the COVID-19 pandemic had on your sales and your stakeholders?

So far, LANXESS (in the Americas) has weathered the crisis fairly well. We responded to this crisis at a very early stage and took all necessary steps to protect the health of our employees and partners and to ensure our ability to supply our customers. At all of our sites and locations, we have implemented stringent safety protocols that are followed by all employees and are updated based on the local and state guidelines. Thanks to these extensive measures and the great commitment of our employees, LANXESS has also been able to ensure a largely uninterrupted supply of raw

materials and logistics services. We did see a temporary decrease in demand in some markets early on in the pandemic, but currently, most business units are reporting a more positive forecast for the coming months and into 2021.

What are your sales expectations?

We see strong demand for consumer protection products of all three BUs, especially for disinfectants. We recently announced a 50 percent higher production capacity at our Memphis, Tennessee, facility. It produces Oxone monopersulfate, which is a key active ingredient for disinfectants. We continue to see strong demand for biocides where the recent acquisition of IPEL has actually helped us to gain share in some major U.S. coatings customers. Demand for ion exchange resins continues to be strong. So is the demand for Saltigo products imported from Germany. We expect a high level of demand in all of the BUs in this segment even after the pandemic.

How does LANXESS in the U.S. contribute to the company's climate-neutral-2040 goal and how could the new U.S. administration support a climate-friendly economy?

Globally, LANXESS has made the bold plan to be climate neutral by 2040. As a region making up roughly 28 percent of Group sales, the Americas region will play a role in achieving this goal. We will focus on Scope 1 and 2 of the greenhouse gas emissions (GHG), which includes sources that are owned or controlled by the company, and emissions that result from the generation of electricity, heat or steam purchased by the company from a utility provider. With the help

of our PTSE colleagues, we have already started looking at the GHG footprint of our manufacturing sites and we just commissioned a study to help us understand in which sites we should focus our efforts first. Climate neutrality and sustainability are also key topics with our U.S. policy makers and will become more of a focus for the new Administration taking office in early 2021. I think we can expect policy makers to be out in front with legislation focusing on energy and environment, circularity and sustainability, and regulations to support these initiatives.

What is your greatest wish in regard to European-American relations?

With U.S. President Joe Biden the European-American relationship is set to enter a new era. With USD \$136 billion in exports, the U.S.' chemical sector is one of the country's largest exporting industries. Promoting a more predictable trading environment should help to rebuild trust and increase trade in both Europe and the United States. Although the transatlantic relationship may grow with the new Administration, a lot will also depend on Europe. One wish would be for a strong partner with whom the U.S. can restore multilateralism, and who can continue to withstand the challenges posed by China and Russia. We must resolve issues together, especially issues of climate change, energy security and economic growth – and, above all international trade. At the very least, it is my wish – and, I would expect that Europe and the rest of the world also would expect – a U.S. partner who seeks diplomacy and understands that more can be achieved with international collaboration rather than with unilateral actions.



LANXESS

»We must resolve issues together – above all international trade.«



A stronger presence

China will continue on its path of economic growth – despite the coronavirus pandemic. Europe is hoping to see a recovery in the coming year and seeking to strengthen its position in the partnership.

China – the world’s second-biggest economy – was the first to be hit by the pandemic and, like many states in the Asia-Pacific region, is emerging from the crisis more quickly and strongly than others, the International Monetary Fund (IMF) stated back in the middle of October. According to its forecast, real gross domestic product (GDP) in China will increase by 8.2 percent in 2021. The figure for 2020 is expected to be just 1.9 percent. For comparison, the IMF expects the eurozone and USA to have suffered a decline in GDP of 6.0 percent and 4.3 percent respectively in 2020, with relatively moderate growth of 5.2 percent and 3.1 percent respectively predicted for 2021. The upswing in China is likely to stimulate the German economy too. China has been its most important trading partner since 2016, although Germany imports more than it exports. The chemical industry alone accounts for more than 10 percent of exports. China is home to around 5,000 German companies, with 90 percent of them producing locally.

LANXESS in Asia: ready for the industries of the future

For LANXESS, the entire Asia-Pacific region is a key market and contributed 23 percent of sales to the total comprehensive income in 2019. In a nine-month comparison with the previous year, however, sales fell by 9.9 percent between January and the end of September 2020. In China, LANXESS operates production facilities at eleven locations and conducts research at seven development laboratories into new products and improved processes. LANXESS, which is seeking to achieve climate neutrality by 2040, is setting high environmental standards in China too. In September 2019, for example, the company opened a new high-performance plastics plant in Changzhou, equipped with powerful, state-of-the-art mixers with low energy consumption as well as efficient wastewater, exhaust gas and dust treatment systems. The facility was designed with future markets in mind. In the automotive industry, lightweight materials are becoming increasingly important for new modes of transportation, while the electrical and electronics industry is seeing increased demand for high-quality, flame-retardant, easy flowing and easy-to-process plastics.

Breaking down barriers

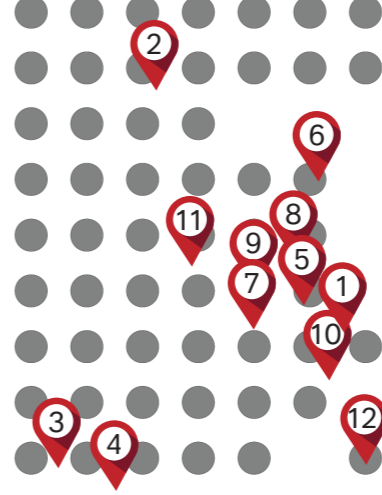
Although, with a trading volume of around one billion € every day, the EU and China are important strategic markets for each other. This relationship is not without its difficulties. The trade dispute between the USA and China is a major burden. The same applies when it comes to attitudes concerning the sharing of technical know-how and respect for human rights. The German Chamber of Commerce in China sees market access restrictions and complex regulatory frameworks as the main problems for its members, limiting the growth potential of German companies in China, and stresses the need for the investment protection agreement. This agreement is designed to increase market access and create fair competitive conditions, break down barriers to investment and reduce the role of state companies.

Through the EU–China strategy, the European Commission and High Representative outlined the three goals of its China policy back in March 2019: The EU is seeking to
> strengthen its partnership with China to promote shared interests at a global level;
> explicitly promote more balanced and reciprocal conditions in its economic relations with China;
> strengthen its internal policies and industrial base in key areas to maintain its prosperity, values and social model over the long term.

The EU is pushing for China to reach its emissions peak before 2030, in line with the Paris Climate Agreement. And China is to help reform the World Trade Organization in terms of subsidies and forced technology transfer.

Free trade pact cements commitment

The EU’s standing will depend on the strength of unity of its member states. While the EU was twice forced to postpone the planned EU–China summit due to the pandemic, the Asia-Pacific nations cemented their strength in the middle of November by signing up to the Regional Comprehensive Economic Partnership (RCEP; see box), the biggest trade bloc in history. Its 15 members – and China above all – are seeking to overtake the EU in terms of economic might.



LANXESS locations

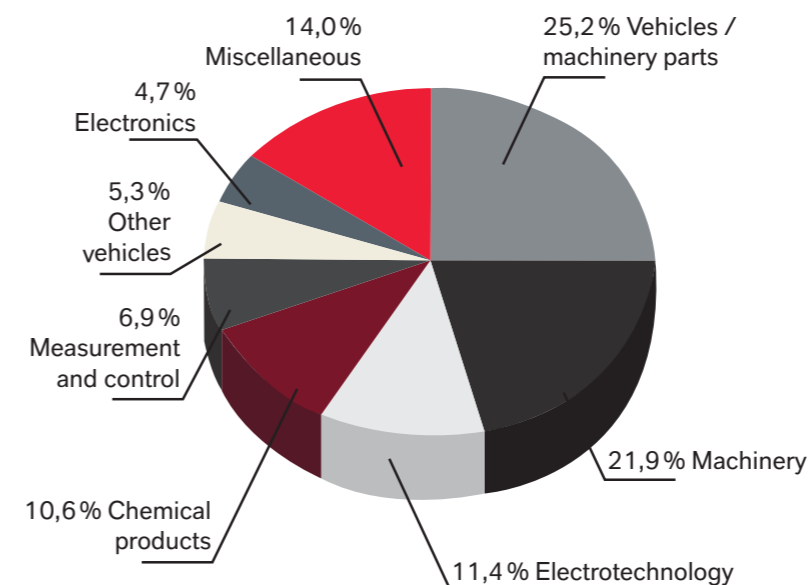
- | | |
|-------------|-------------|
| 1 Shanghai | 7 Liyang |
| 2 Beijing | 8 Nantong |
| 3 Guangzhou | 9 Changzhou |
| 4 Hong Kong | 10 Ningbo |
| 5 Wuxi | 11 Nanjing |
| 6 Qingdao | 12 Taiwan |

RCEP: a huge success for China

The Asia-Pacific Regional Comprehensive Economic Partnership, which was signed on November 15, 2020, is the biggest free trade agreement the world has ever seen.
> 15 members, including Australia, China, Japan, New Zealand and South Korea
> Economic area: 2.2 billion people
> The agreement covers (among other things) tariff reductions, recognition of standards, rules for intellectual property, investments and public contracts
> India is not a member

German exports* to China: chemical products among the top 5

After machinery, motor vehicles / vehicle parts and electrotechnical products, chemical products rank fourth among German exports to China. Both countries are extremely important trading partners for each other. Trade has continued to grow over the past few years.



* 2019, in % of total exports (as per Standard International Trade Classification); source: GTAI, "Wirtschaftsdaten kompakt," 2020

»Asia-Pacific has just entered into a new era. China and its partners are creating the world's largest free trade area.«



»We believe in free trade«

Ming Cheng Chien, President and Chief Executive Officer of the LANXESS Group in APAC, is banking on innovation and multilateralism to drive growth in the Asia-Pacific region.

What are the greatest challenges and opportunities for LANXESS both in China and in the Asia-Pacific region?

Asia-Pacific has just entered into a new era. By signing the Regional Comprehensive Economic Partnership (RCEP), China and its partners are creating the largest regional free trade area covering a third of the world's population and of global GDP. China is already the largest chemical market in the world and has been projected to account for 50 percent of chemical production by 2030. Finding the right approach to build a sustainable presence in China is both one of the greatest challenges and opportunities that every chemical company in the world faces today. It is a task that we at LANXESS tackle with great endeavour.

Which socio-economic trends and which regulations in China, for example concerning more safety and sustainability in the construction of buildings, are driving the demand for which of LANXESS' products?

China has successfully grown a vibrant middle class over the past decades. This middle class is driving internal consumption. This in turn leads to a demand-driven restructuring of the chemical industry. As a result, we see increasing demand for localized grades based on local innovation capabilities. LANXESS is responding to this trend by building a new APAC Application Development Center in Shanghai, which is planned to start operations mid of this year.

What do you think are the most important lessons learnt from the COVID-19 pandemic in China? What implications has the COVID-19 pandemic for your sales, your stakeholders, and what has happened to protect LANXESS' employees?

We were the "first responders" when the pandemic hit Wuhan back in January last year. In a very short time, we established a comprehensive emergency

response to protect our people based on clear cut policy decisions and transparent communications. We are glad that to date we have not recorded any COVID-19 infection cases throughout the region. Business implications vary from country to country. Due to China's quick policy response, life in the country right now is almost as it was before the crisis. Domestic demand has recovered and has driven our business nicely due to our well balanced product portfolio.

In which way does LANXESS in China contribute to the company's climate-neutral-2040 goal and how does the Chinese government support the transformation towards a climate-friendly economy?

Sustainability has always been a focus for us when building out our footprint in China. Already back in 2004, our Wuxi site was awarded the title "Environmentally Friendly Company" by the State Environmental Protection Administration. The same site was visited in 2007 by China's Premier at the time, Mr. Wen Jiabao. More recently, our newest site in Ningbo has received national governmental recognition for its environmental performance. In addition, our Qingdao site participates in the new LANXESS water stewardship program, which pilots on optimization of water consumption.

What do you expect from the new U.S. administration in regard to Chinese-American trade relations?

As a globally operating company with business activities on all continents, we believe in free trade and wish for a stable geopolitical environment. Both China and the US are important markets for us in terms of sales and production. This is why we monitor closely the relations between the two countries and hope to see further healthy development of a sustainable global economy.