As parliament finally votes on the Brexit deal, IBISWorld assesses the impact of exchange rates on the chemical and pharmaceutical sectors.

The challenges faced by the chemical and pharmaceutical sectors go far beyond exchange rates, with supply chain and regulatory upheaval raised as significant concerns by many industry bodies. Nevertheless, the short-term export opportunities have been valuable, particularly for chemical firms, for which exports make up a significant share of revenue, whilst basic pharmaceutical products have also benefited. However, increased input costs and prevailing uncertainty have outweighed the benefits for a number of companies. A no-deal Brexit could pose considerable regulatory problems to the pharmaceutical sector, although the government has stated it would continue to accept batch tests carried out in the European Union, and would endeavour to remain unilaterally aligned with the existing regulatory landscape. Nevertheless, the potential for additional hurdles has necessitated significant preparations, including stockpiling. This has limited the extent to which operators can focus on maximising exports in a favourable exchange-rate environment.

**Chemical manufacturers**

As with many other manufacturing industries, organic and inorganic chemical manufacturers and chemical product manufacturers have seen exports rise as a result of the depreciation of the pound. Facing considerable pressure in a globalised market, exports had been contracting for some time in all three industries prior to the EU referendum. However, this trend has reversed notably since 2016-17, with the Inorganic Basic Chemical Manufacturing industry (IBISWorld report C20.130) the strongest beneficiary; export revenue in this industry rose by 5.7% in 2016-17. Export growth is expected to continue through the current year, although the pace of expansion is anticipated to slacken as the fall in the exchange rate softens. With exports accounting for 67.1% of organic basic chemical manufacturing revenue, 83.1% of inorganic basic chemical manufacturing revenue and 93.1% of chemical product manufacturing revenue (although these figures are affected by re-export activity), the impact of the strength of the pound is profound.

### Chemical and pharmaceutical industries most affected by currency fluctuations

<table>
<thead>
<tr>
<th>Industry Code</th>
<th>Industry Title</th>
<th>Exchange Rate KED weighting</th>
<th>2018-19 Revenue (£ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>C20.130</td>
<td>Inorganic Basic Chemical Manufacturing</td>
<td>-30</td>
<td>2132.8</td>
</tr>
<tr>
<td>C20.590</td>
<td>Chemical Product Manufacturing</td>
<td>-30</td>
<td>6504.6</td>
</tr>
<tr>
<td>C28.150</td>
<td>Pharmaceutical Preparations Manufacturing</td>
<td>-25</td>
<td>17011.9</td>
</tr>
<tr>
<td>C21.100</td>
<td>Basic Pharmaceutical Product Manufacturing</td>
<td>-20</td>
<td>1536.5</td>
</tr>
<tr>
<td>C20.140</td>
<td>Organic Basic Chemical Manufacturing</td>
<td>-15</td>
<td>9903.9</td>
</tr>
</tbody>
</table>

**SOURCE:** IBISWORLD INDUSTRY WIZARD
However, although the weak pound has afforded operators short-term opportunities, it has also induced considerable cost pressures. Investment in efficiency and productivity in the chemical manufacturing sector, but key inputs of chemicals, oils and metals are dollar-denominated or acquired from abroad, rendering exchange trends significant. Indeed, the Chemical Industries Association (CIA) has estimated that, in addition to 60% of UK chemical exports being destined for Europe, 75% of raw materials come from Continental Europe.

As with many other manufacturing associations, the CIA has stated that securing a free-trade agreement is vital.

**Registration, Evaluation, Authorisation and Restriction of Chemicals**

REACH is an EU regulation, active from 2006, that aims to protect human health and the environment from the use of harmful chemicals, to make those placing chemicals on the market responsible for understanding and managing the risks, to allow the free movement of substances on the EU market and to enhance innovation in the competitiveness of the EU chemicals industry. Under REACH, manufacturers and importers of substances register them with a central European Chemical Agency.

Given the high level of regulation present across the chemical sector, however, a beneficial exchange rate and relatively frictionless trade would mean little if there is no regulatory consistency and continuity. In order to maintain their place in European supply chains, chemical companies want to remain fully within the REACH framework in order to...
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maintain access to the EU market place. According to the Chemical Industries Association, UK chemical businesses have already spent £550 million registering with Reach laws and communicating safe use of chemical products. Regardless of the future arrangements, a smooth transitional period is of paramount importance if the developed UK chemicals sector wishes to continue benefiting from the favourable exchange rate.

Pharmaceutical manufacturers
Despite being highly globalised, the Basic Pharmaceutical Product Manufacturing industry (IBISWorld report C21.100) and the Pharmaceutical Preparations Manufacturing industry (IBISWorld report C21.200) have responded somewhat differently to the weakness of the pound. International orientation is a stance shared across pharmaceutical industries, and the United Kingdom is a hub of basic pharmaceutical trade, with re-export activity pushing exports to nearly 200% of revenue for basic pharmaceutical product manufacturers. Despite this distortion, it is clear that the weak pound was beneficial to UK manufacturers, with exports rising by 8.6% in 2016-17, and by more than 25% in the following year.

However, the export performance of the Pharmaceutical Preparations Manufacturing industry, the key downstream industry for basic pharmaceutical product manufacturers, has been less assured. Prominent pharmaceutical manufacturers have expressed their concerns with the timeframe of the UK’s exit from the European regulatory and trading system, given that product development and

Under the microscope

The pound’s fall helped reverse export contraction and revenue volatility in chemicals industries

Short-term opportunities have been set against cost pressures and preparatory action

Pharmaceutical and chemical associations have called for the minimum possible regulatory disruption
manufacturing schedules often run over the 10- to 15-year period. Although the government has stated that it would accept batch testing for quality control and regulatory adherence conducted in the European Union in the event of a no-deal Brexit, the effects of the vote are already being felt. The decision to relocate the European Medicines Agency (EMA) to Amsterdam, where it will take up operations by 30 March 2019 at the latest, is illustrative of the potential regulatory upheaval that could occur.

Many industry stakeholders hope that the UK’s Medicines and Healthcare products Regulatory Agency remains aligned with EMA standards, even after the United Kingdom withdraws from the European Union, in order to avoid regulatory and access hurdles. Indeed, government technical guidance has proposed unilateral recognition of existing processes. Nevertheless, potential disruption has prompted the government to discuss stockpiling with major firms, with AstraZeneca recently announcing that it would increase its stockpile of drugs by 20% in order to prepare for supply interruption. Compounding this difficult situation, the weak currency has also pushed up the price of imported inputs. Already under pressure from competing imports, profit margins in the Pharmaceutical Preparations Manufacturing industry are expected to only be 4.4% through the current year. This pressure on operations has also limited the ability of firms to take advantage of favourable exchange rates, making pharmaceutical preparations an outlier when compared with the broader benefits to exports enjoyed by many other chemical and pharmaceutical firms.

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IBISWorld Industry reports used in this special report:
C20.130 Inorganic Basic Chemical Manufacturing in the UK
C20.140 Organic Basic Chemical Manufacturing in the UK
C20.590 Chemical Product Manufacturing in the UK
C21.100 Basic Pharmaceutical Product Manufacturing in the UK
C21.200 Pharmaceutical Preparations Manufacturing in the UK
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