

Time to look forward, not back

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As 2017 unfolds, widespread unease about the state of Europe's chemical industry suggests we should have acted differently earlier in the decade

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The European petrochemical industry is still reeling from the closure of several major production units over the past 18 months. And senior figures fear there may be many more to come. That is the grim prospect ahead as we start 2017.

Yet looking back, it is clear that these closures were by no means inevitable. We simply failed to realise that demographic changes had completely changed demand patterns. When we should have been focusing on the new opportunities these would create, we were instead allowing ourselves to be defeated by the short-term challenges they created.

Today, in 2017, we all know that spending has declined due to the ageing Western population. And there aren't enough younger people to replace their lost demand, given that global fertility rates have fallen 50% since 1950.

But if in 2014 we had looked forward, we would instead have focused on the fact that global life expectancy had increased 50% since 1950. People no longer died at the age of 50 in developing countries, or at 65 in the West. A new kind of market was opening up for the first time in history.

Of course, this paradigm shift was always going to be uncomfortable at first. Suppliers to the auto industry understandably froze like rabbits in the headlights when they realised that "design to cost" was replacing "value added" as the driver for future profitability (ICB, 23-29 June 2014).

And many companies simply panicked when they discovered most end-user markets



Europe suffers widespread plant shutdowns by 2017

were seeing similar changes. Cash-strapped consumers were adopting a laser-like focus on needs rather than wants.

MISSED OPPORTUNITY IN 2015

There was nothing to stop us turning these challenges into opportunities and so future-proofing our portfolios. We simply needed to develop new strategies to exploit the changes underway.

Consumer spending was 60-70% of GDP in most countries. So the expansion of the over-55 generation, and the decline of the wealth-creator 25-54 generation, inevitably created headwinds for future demand. The chart on page 27 showing US consumer spending highlights the scale of the change:

- Household spending is concentrated in the 25-54 age group
- In 2013, those aged 45-54 were spending an average of \$61,272
- Those aged 65-74 were spending only 75% of this level, and those 75+ just half this amount

Equally important was that 2015 would have been the ideal moment to move in a new direction. The key enabler for change was the European Commission's approval in 2014 of the proposed polyvinyl chloride (PVC) joint venture between INEOS and Solvay. This was a clear recognition that major restructuring

was inevitable for industry survival. The Commission's approval meant there would have been no automatic barrier to the necessary changes taking place.

Equally important was the successful resolution of the Grangemouth dispute in late 2013. INEOS' pioneering decision to import ethane from the US had catalysed union acceptance of major changes to terms and conditions, in exchange for the job security provided by this investment. Similarly, both INEOS and then SABIC had benefited from UK government loan guarantees and/or grants to support the creation of the appropriate new infrastructure required

These successes would have been an ideal starting point for the restructuring programme, focusing on petrochemicals and chloralkali, as well as refining. With strong leadership, Europe could have created a sustainable business for the future and secured the tens of thousands of jobs now at risk along the value chains.

Looking back, it is clear that the key to future success would have been a change of mindset. We needed to recognise that advantaged supply positions on their own were now no longer enough. We needed to also create advantaged demand positions, based

on the innovative new products required by the New Old 55+ generation. As the second chart shows, their vast numbers meant they were already more than a third of total US household spending in 2013. Today, in 2017, their total spending has become larger than total spending by the under-45s.

What could we have done to create a different and more prosperous future? Four key issues jump out at us today:

■ **Feedstock structure:** Grangemouth highlighted the need for major change in the industry's 1960s-based structure. Companies needed to focus on securing alternative hydrocarbon-based feedstocks from gas and bio sources, instead of assuming that oil would remain the prime component

■ **Market focus:** We needed to develop a market-focused approach, and move away from traditional concepts of commodities and specialties. This would have enabled us to successfully identify the new products and services required by the ageing Baby Boomers

■ **Government partnerships:** We needed to learn the lesson from the Grangemouth and PVC experiences, and develop real partnerships with government at regional, national and EU-level

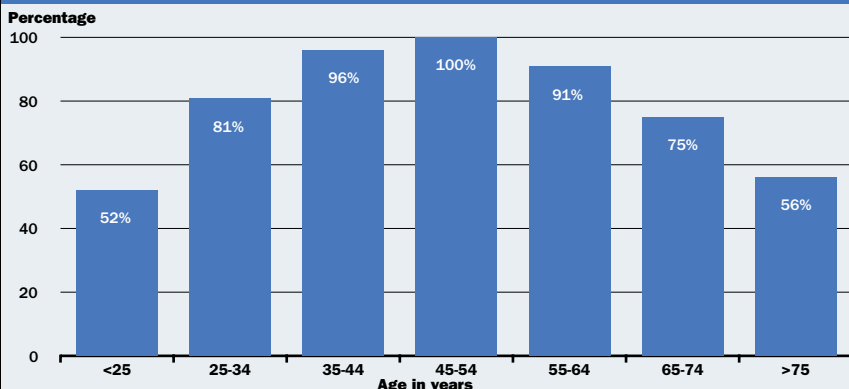
■ **European dimension:** We needed to establish national and European initiatives within the appropriate legal boundaries. This would have avoided the damaging domino-effect amongst suppliers and customers created by ad hoc individual closures. We were wrong to assume that creative collective solutions would have been regulatory no-nos

Many now argue that we have proved unworthy successors to the executives of the 1970s. They had faced oil price embargoes, major financial market crashes and the continuing threat of nuclear oblivion from the Cold War. But, unlike us, they had constantly focused on creating and exploiting opportunities for the long-term. They were the ones who created the market which we have failed to maintain.

The result of our failure to adopt a new mindset was that we were reactive on the critical issue of changing demand patterns. Yet our future prosperity depended on being proactive. Most management teams never asked themselves the critical question: What products and services should we be providing in the future, given that market needs are changing so dramatically? And those that did, then found there was no wider forum available to help in implementing their answers.

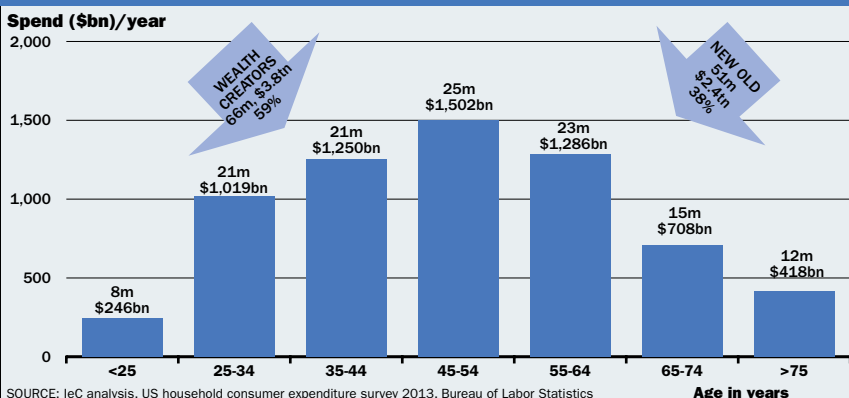
Yet there would have been nothing to stop us developing an industry-wide view of our strengths, weaknesses, opportunities and threats (SWOT) from a European perspective. And nothing to stop us developing a mechanism to create viable hubs to serve the key regional markets within Europe. We all knew what the end result should have looked like

HOUSEHOLD SPENDING DECLINES RAPIDLY AFTER THE AGE OF 55



SOURCE: IeC analysis, US household consumer expenditure survey 2013, Bureau of Labor Statistics

OLDER HOUSEHOLDS SPEND FAR LESS DESPITE INCREASING NUMBERS



SOURCE: IeC analysis, US household consumer expenditure survey 2013, Bureau of Labor Statistics

in principle. And it would certainly have been worth the effort to try, given our knowledge today of the alternatives.

What we needed to do was to create a forum capable of answering two critical questions in a timely manner:

■ **Restructuring:** Where are we today? What do we need to do in the way of restructuring the industry, in combination with the refiners who supply us, to ensure we have world-beating technologies and manufacturing capabilities?

■ **Demand:** How do we evolve our current business models in combination with current and potential customers to meet the needs of the future? What are going to be our core offerings, and how are we going to deliver them?

This process would have created positive answers to help us focus on the opportunities ahead, as well as the immediate challenges. Instead, individual companies simply decided chose to shutdown the least competitive plants within their portfolio.

And back in 2014, European closures had appeared to be the obvious choice. The plants were older, the markets for existing products were seeing slower growth, and costs were higher due to the relatively high value of oil-based feedstock compared to gas-based. But

in hindsight, the obvious was the wrong decision. Even worse was the fact that the reactive nature of our processes meant closure of plants often took place without regard for the impact up and down the various value chains.

Top quartile plants were closed as well as the real laggards. And in turn, this created major problems along the value chains, due to the highly integrated nature of the industry's operations. Tens of thousands of well-paid jobs were lost unnecessarily, creating a vicious circle for future demand.

Looking back from 2017, would we have made different choices? Of course we would.

And that is the opportunity for us today, in 2014. If we work together, we can instead create win-win solutions for companies and their major stakeholders. This will enable us to build a sustainable future for our industry, and a better result for all of us individually. ■

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