

News Release

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THE BELGIAN CHEMICAL INDUSTRY AND GLOBAL COMPETITION **THE CHEMICAL INDUSTRY NEEDS NEW STRATEGIES FOR REGAINING PROFITABLE GROWTH IN THE NEXT DECADE** *Deloitte Analysis Shows Industry Facing Different Scenarios Up Until 2020*

Brussels, 13 January 2010 — The Belgian chemical industry is worth some EUR 45 billion and ranks amongst the largest manufacturing industries in Belgium. 80% of its products are exported. *“Therefore the worldwide trends in this industry will have a sizeable impact on the future of the Belgian chemical cluster, the associated employment and the manufacturing industry in Belgium as a whole,”* said Eric Desomer, Deloitte Belgium Manufacturing Group Leader.

By 2020, the global chemical industry could face a range of competitive dynamics that differ from today in nature and intensity, according to a new report by the Deloitte Chemical Group and Deloitte Research. In the report, *The Decade Ahead: Preparing For An Unpredictable Future In The Global Chemical Industry*, Deloitte reviews the financial and operational performance of 231 public chemical companies worldwide between 1998 and 2008, including specialty, commodity, and integrated players. The analysis shows that profitability has not improved in either the commodity or the specialty chemicals sectors during that period. The commodity sector experienced the industry’s sharpest decline in falling margins — while the specialty sector also fell. The report suggests the decrease in margins can be attributed to overcapacity on the commodity side and, for specialty producers, to competition, pricing pressure, uncertainty in end-markets, and portfolio challenges. Although the integrated players enjoyed double-digit revenue growth in most of the years between 1998 and 2008, they are impacted by the pressures of their commodities businesses and by the need for a greater number of high-value specialist products.

“Maintaining and improving value could be somewhat challenging unless the chemical companies take meaningful actions to reverse the trend,” said Tom Van Cauwenberge, Deloitte Belgium Chemical Group Leader. *“The research found that a business-as-usual approach was inadequate for sustaining value in the last 10-year period. The decade ahead carries even more uncertainty and will require companies to focus more on new approaches and responses in order to tackle unprecedented challenges. By analyzing the interplay between three macro trends — economy, regulation, and technology — companies can use scenario thinking to plan strategically for the unpredictable times ahead and test new innovative approaches in order to achieve sustainable and profitable growth.”* *“In Belgium, where in the first half of 2009 the industry saw a turnover reduction of 25% as compared to 2008, understanding and if possible anticipating these macro trends will be essential for the industry’s future,”* said Tom Van Cauwenberge.

The report states that as the industry prepares for the future, the commodity sector will focus on preserving cash, managing excess capacity, and securing access to capital. The specialty chemicals sector will continue to seek competitive strategies that rely on understanding customer behaviour and offer only the most profitable products and services, but at increasingly sophisticated levels. For integrated chemical companies, in addition to the challenges of being in both commodities and specialties, new acquisitions will be a prime objective, particularly as a means of moving further downstream into differentiated businesses.



As chemical companies are broadening their geographic scope, Western commodity chemical companies are shifting to growing opportunities with a focus on the Asia-Pacific region and other areas within the developing world. With a small but growing share, the Middle East has significant potential advantages in low-cost hydrocarbon feed stocks and therefore continues to attract significant new capacity. It is forecast that China and the Middle East will contribute 78 percent of new capacity by 2013. Meanwhile, the chemical industry *continues to play a key role in the economies of the United States, the European Union and Belgium in particular*. “*In Belgium, 75% of the investments originates from foreign-based industrial parent companies*”, said Tom Van Cauwenberge. “*The industry federation Essenscia, in conjunction with the government, has taken certain initiatives in promoting Belgium in order to sustain the Belgian chemical industry’s current position.*”

A key differentiator for global chemical companies will be developing and implementing customized growth strategies that have the flexibility to be altered if unplanned obstacles or opportunities arise. The success of the business model framework will depend upon more sophisticated methods for predicting market behaviour. Given the uncertainty ahead, keeping a range of alternative possibilities in sight is crucial.

The report defines three scenarii depicting how the global business environment could unfold up until 2020, together with various strategic implications for the chemical companies:

1. **Transition.** Western economies suffer inflationary spells followed by hard landings, while the developing world focuses on domestic consumption and enjoys steadier growth. Economic and energy supply issues are higher priorities than emissions control.
2. **Resilience.** In both developed and developing nations, growth rebounds as governments play an active role in managing their economies, directing investment, and promoting national competitiveness. Renewable energy and nanotechnology are among the top areas targeted for support.
3. **Dislocation.** Difficult challenges and heavy-handed government policies keep growth subdued in the West. In Asia and the Middle East, the fall-off in foreign export demand causes an economic slowdown that leads to social and political unrest.

Being more disciplined and focused through scenario planning would enable chemical companies to perform effectively in a global industry that is increasingly commoditized, cyclical, and competitive. By paying closer attention to future trends, executives could better anticipate and establish strategic options for what may lie over the horizon — and alter course as required.

The industry will continue to develop and grow, but taking action now will be required to sustain its future. By committing to specific business models and creating strategic options through scenario planning, disciplined companies would be able to galvanize their people, attract customers, and interest investors.

For a copy of *The Decade Ahead: Preparing For An Unpredictable Future In The Global Chemical Industry*, please visit www.deloitte.com/thedecadeahead.

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