



● Introduction



The EPCA's 35th Annual Meeting was held in Monte Carlo on 29 September - 3 October 2001. In the opening proceedings, EPCA President Rein Willems of Shell Chemicals expressed deepest sympathy, on behalf of the Association, to all those impacted by the tragic loss of life following the terrorist attacks in the US on September 11.

It was important, he said, for the meeting to proceed and for life and business to continue, as much as possible, as before

in order to thwart the aims of the perpetrators of such acts. Inevitably, some people were unable to make it to Monte Carlo as a result of recent events. "Nevertheless," said Rein Willems, "EPCA is still the biggest gathering of the chemical industry in Europe. The number of delegates attending the 35th Annual Meeting is the same as the figure for the 1999 meeting in Vienna, surpassed only by the record-breaking number which attended the 2000 event."

Rein Willems introduced the theme of the meeting - "Concentration: Fashion or Necessity" - as one which stirs up strong and opposing views, both within the industry and amongst industry watchers. The chemical and other industries have embarked down the mergers and acquisition trail in recent years, with mixed results. EPCA had brought together three prominent speakers to look at the subject from their unique vantage points. Each of the speakers, said Rein Willems, has considerable experience of the company consolidation process and their views, taken in total over the two days of the meeting, will provide delegates with food for thought and an idea of the optimum route for their own companies to take.

In handing over proceedings to the moderator, Michael Buerk, the BBC TV news anchorman, Rein Willems said that delegates to previous EPCA meetings are familiar with Michael's affable yet probing style. "We are lucky to have Michael Buerk with us once again," said Rein Willems. "We can be sure that not only will proceedings run smoothly but also that our speakers will be asked the questions most relevant to the needs of EPCA members."



ExxonMobil - firsthand experience



The first speaker was Peter Peschak, President of ExxonMobil Chemical Europe, who reviewed the status of the ExxonMobil merger two years after the event. The ExxonMobil merger, said Peschak, could be seen as a partial reversal of the breakup of John D Rockefeller's Standard Oil in the early years of the 20th century. Writing about the original Standard Oil in his book 'The Prize', Daniel Yergin said, "Under Rockefeller's leadership, these former competitors built a company whose

activities and scale were unprecedented - a new type of organisation, and one that had evolved with astonishing rapidity."

Peter Peschak said that the recent ExxonMobil merger, too, had taken place rapidly. The managements of both companies had recognised the opportunities for synergies across a broad spectrum of mutual activities, including oil and gas exploration, production, refining, marketing, transport and chemicals. Merging the common values and core strengths of the two companies had created a single enterprise which is more efficient, effective and productive than the sum of its individual parts. Thus, the aim of "being better, not just bigger" is already being realised.

Although the merger has brought change, not least the benefits of synergy, the ExxonMobil business model has remained unchanged, said Peschak, and still comprises the following three elements:

- (a) primary focus on safety, health and the environment;
- (b) operating and financial discipline, focused on process of continuous improvement; and
- (c) commitment to creating shareholder value.



Driven by people and technology

To achieve these aims, Exxon Mobil focuses on three timeless principles, i.e.

- (a) focus on core strengths and values;
- (b) develop a differentiated leadership position; and
- (c) stimulate progress and change.

The central core strength of the merged company, said Peter Peschak, is its people and their talents, and ever shall this be the case. On the question of industry leadership, ExxonMobil is putting greatest emphasis on differentiating itself from the competition through technology. "Not least amongst the benefits, our merger has opened a chemistry treasure chest," Peter Peschak told EPCA delegates. "For example, the Exxon steamcracking

technology, which is the best in the industry, is now being applied at the Mobil facility in Beaumont, Texas. Also, our metallocene catalyst technology, which is being implemented through our Univation joint venture, is enabling the production of thinner, more robust polyethylene. This business has achieved a 50 per cent per annum growth rate since the technology was introduced."

As part of the drive to ensure that the most is made of opportunities which present themselves, ExxonMobil is applying these guiding principles in a number of major petrochemical expansion projects in Europe, the Middle East, Singapore and China. "We believe that the joining of Exxon and Mobil has been as close to flawless as any merger could be," concluded Peter Peschak. "We are well on our way to achieving our aim of being the best petrochemical company in the world."

Behaviour first, not strategy

The next speaker, Professor Dr Jordan D Lewis, consultant, author and guest lecturer at the Columbia, Kellogg and Dartmouth Business Schools, began by stating that 80 per cent of mergers and acquisitions fail to return the cost of capital. The reason, he said, is that too much emphasis is placed on strategy rather than on establishing the behaviour that will allow the partnership to work. An alliance based on trust and mutual commitment will stand a much better chance of success than one without an agreed shared need.



Jordan Lewis highlighted the recently built Ford-ABB automotive paint plant in Ontario as an example of a true alliance in which the two parties came together, without the need for a formal contract, to realise important cost and efficiency savings. By combining Ford experience with car paintwork and ABB expertise with paint processes, the partnership has been able to achieve a 25 per cent reduction in the cost of painting a car. Furthermore, the plant was completed in 12 months, about one-half of the industry average.

Jordan Lewis outlined eight conditions which must be met as a prerequisite for a successful alliance, i.e.

1. Priority mutual need - the benefits accruing from the partnership must be a top priority for both companies
2. Constructive relationships - a successful alliance is driven by a synergistic commitment from both sides, not by one company taking a leadership role
3. Joint leaders - joint teamwork must be underpinned by joint leadership
4. Shared objectives - clear objectives are needed for effective decisions, governance, delegation and problem-solving
5. Safeguards - necessary for a regime of shared information, joint inventions and fair termination of the arrangement
6. Mutual commitment - transparency, i.e. spelling out precisely how the alliance will benefit each participant, helps ensure best efforts from both firms
7. Adaptable organisations - adaptability is a prerequisite for internal alignment of the organisations in pursuit of the common goal
8. Continuity - superior results over the long term depend on an ongoing commitment

Limited number of books "*Trusted Partners*" by Jordan D. Lewis available at 15 Euros (postage included)
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● *Marriage of equals*



In the discussion period which followed the two presentations, Michael Buerk said that alliances rarely appear to be “a marriage of equals”, and that perhaps this is why there are relatively few successes. In reply, Peter Peschak said that the scale of the two operations is not necessarily critical. Mobil was only one-third the size of Exxon, yet the two companies enjoyed synergies across a wide range of activities and the alliance was concluded as a “merger”,

rather than a “takeover”. Jordan Lewis agreed. A successful alliance is dependent on each of his eight conditions being fulfilled. Cooperation, commitment, honesty and a mutually agreed set of objectives are the basic building blocks. Some early successes subsequently went sour, said Lewis, because the commitment faltered. In other cases alliances provided a quantum leap forward in terms of the scale and power of the organisation, but customer needs were never properly brought into focus.

When quizzed by Michael Buerk as to whether there is a *need* for mergers and acquisitions, Peter Peschak pointed out that, historically, such consolidation has always been part of the business environment. Inevitably, it would continue, not least due to the current increased pace of technological change, aggressive competition, difficult market conditions and globalisation of the industry. Jordan Lewis sounded a more cautionary note. “The need for mergers and acquisitions is less than what it appears,” he said. “However, I must admit that the forces of globalisation are unstoppable.”

● *The Invisible Continent*



The final speaker brought a thought-provoking, world's-eye view to the question of industry concentration. Kenichi Ohmae, a former Director of McKinsey & Co in Tokyo and now a corporate strategist and adviser, liked the new global marketplace to the “Invisible Continent”. Commenting on the recent dot.com collapse and IT depression, he said that the problem is really one of hardware and poor supply chain management. The industrialised world is now saturated with IT equipment, because the

suppliers, geared to huge production runs, were unable to gauge the point at which the hardware deficit recently became a surplus. At the same time, the actual usage of the internet and IT software and services continues to grow strongly.

In this new economy traditional strategies are changing rapidly; established value chains are disappearing and it is not possible to define what a “customer”, a “competitor” or a “company” is as clearly as in the past. The new economy, the origins of which can be traced back to 1985 with the startup of Microsoft and CNN, is here to stay. It is a one-way, irreversible process which is IT-driven. To achieve success in this new economy, said Kenichi Ohmae, players will have to be committed to exploring the Invisible Continent.

Limited number of books *“The Invisible Continent”* by Kenichi Ohmae available at 15 Euros (postage included)
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New type of terrain

On this Invisible Continent economies are not confined within a sovereign state but rather are borderless. These rapidly growing regions, such as the Pearl River and Yangtze River Deltas in China and the new IT hubs in India, are cyber-compatible and anti-protectionist. They support a free flow of information, investment, individuals and industry - Kenichi Ohmae's so-called 4i's. In contrast, the large centrally controlled nation states, such as Russia, Indonesia and now even Japan, are beginning to look archaic by comparison. These new borderless economies are also cyber economies in the sense that IT processes are combined with intelligence to produce wealth. Wealth is created when value is added to the basic information that has been supplied.

Success on this new continent does not come easy, Kenichi Ohmae told EPCA delegates. Success depends on how quickly the “laws of dot.com” are learned. With 140 million web sites worldwide competing for business, it is a competitive environment and participants will not make money from day one. They must develop a good, targeted concept and then, making astute use of logistics, the internet and alliance partners, be quickest to market with a competitively priced product. “Proof that success can be achieved using this formula is given by five regional zones in China that now count amongst the 10 largest economies of Asia on a GDP basis,” stated Kenichi Ohmae. “These zones within the country do not behave like China itself. Entrepreneurs in these regions have access to IT, money and vast labour pools which they have used to great effect in a very short space of time.”

● *Chemicals and the new economy*

When asked if chemical companies can recreate themselves for this emerging Invisible Continent, Kenichi Ohmae did not see why not. It is good to keep the goals of where a company wants to be in five or 10 years under constant review. As part of this process, functions should be deconstructed to see if they can be reformulated with these goals in mind. Industry consolidation per se is not the ultimate solution, said the speaker, but for the time being it is probably a good idea. However, the truism that big is not necessarily better remains a sound one. At the same time, management should not be afraid to be bold. The leverage offered by the new “multiples economy” allows companies to take over much larger organisations, and such a transaction could introduce new ways of thinking and new processes to traditional technology.

Michael Buerk then asked about the impact of the harsh realities of life today - the events of September 11 and the seemingly growing tide of anti-globalisation sentiment. Kenichi Ohmae said that one problem is that, to date, globalisation has been perceived as purely a US phenomenon and the US has been seen as the sole benefactor. There is now a growing realisation, however, that globalisation is truly global and that it can be a blessing for everyone. Globalisation is part of a process that has been underway around the world for 200 years and that, despite the inevitable setbacks and casualties, has brought great progress.



At the EPCA Extraordinary General Meeting, which was held immediately prior to the Ordinary General Meeting in Monte Carlo on 1 October 2001, it was agreed to increase the number of members of the EPCA Board (previously the General Committee) from 10 to 15. Countries that count for more than 10 per cent of the EPCA membership - the Netherlands, Germany, the UK and Belgium - now have two Board members instead of one. In addition, the Chairman and Vice Chairman of the Logistics Committee are now Board members.

The EGM agreed that Board members will be elected for three-year terms, rather than the previous one-year terms, to align more with association practice in Belgium. Also in line with current Belgian practice, it was agreed to change the title of Cathy Demeestere from EPCA Director to EPCA Secretary General.

In addition, it was agreed to adopt new Articles of Association, as the original AoA, which had remained unchanged since originally drawn up in 1969, needed to be modified for legal reasons. The new AoA have been merged with the organisation's byelaws to openly reflect current EPCA practice.



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