



Jürgen Hambrecht, born 1946 in Germany, is married and has four children. He obtained his doctorate in chemistry in 1975 from the University of Tübingen, Germany. Hambrecht has been Chairman of BASF – The Chemical Company since 2003. Prior to that, he served the company in various responsibilities around the world for almost than 30 years.

Dr. Jürgen Hambrecht

Chairman of the Board of Executive Directors of BASF SE

Hambrecht is also a member of the supervisory boards of Daimler AG and Lufthansa AG, as well as Vice President of the German Chemical Industry Association (VCI) and Chairman of the Asia Pacific Committee of German Business (APA).



“In a connected world we must work together”

Interview with Jürgen Hambrecht, CEO of BASF

On April 3rd, Arthur D. Little interviewed Jürgen Hambrecht, CEO of the world's most respected chemical company. Through its myriad business relations, BASF has unparalleled insights into the well-being and direction of the global economy. We used this unique opportunity to talk about the economic crisis, the impact it will have on the world and what business can do.

Growth, but from a lower base

You took actions to cope with the crisis in November last year. How do you look at the crisis six months later?

In November, we reduced our output by 25 per cent in response to the signals that we got at that time. Although we were labeled as overly pessimistic by some, the evidence so far has proven us right. Six months later, the world faces a unique economic situation. Despite the crisis, the situation for the consumer is still comparatively good. We have low interest rates and low energy prices, and salary increases last year were relatively high in many countries. Unfortunately that won't last. We have only seen the first phase of the crisis. I fear we have not reached the bottom of the trough yet. The second-round effects are yet to come, especially in Europe.

In our global crisis survey, about 80 per cent of CEOs across sectors indicate that they see a return to pre-crisis levels of activity by the end of 2011. What do you expect?

I am not that optimistic at all. In my view we will not reach pre-crisis levels until after 2013. That does not mean we will not grow; for sure, growth will return at some point.

So what will drive demand?

There are two important things to keep in mind. First, I believe consumer behaviour will not change fundamentally. Consumers will still buy cars, buy cosmetics, need to eat

» *Despite the crisis, the situation for the consumer is still comparatively good. We have low interest rates and low energy prices, and salary increases last year were relatively high in many countries. Unfortunately that won't last.*



a bit. Basically, everyone wants to make their daily lives as pleasant as possible.

Second, let's not forget the world population will continue to grow. Over the next three years, crisis or not, we will add another 250 million people to this world. They, too, will have needs and desires to be met.

In short, there will be growth. Once we get out of the trough, we will get back onto a growth path, but it will be from a lower base than before the crisis.

So what's different this time?

Many people want to compare this crisis to the depression of the 1930s. But today's crisis is very different. For one thing there is much more communication. The entire world is so connected. A price made in China this morning is available in Wyoming in the afternoon. That level of transparency is unparalleled in history and has a profound effect on the way we are doing business.

That also means there is much more of a coordinated financial approach than in the past. The essence is partnership: this crisis cannot be solved by one single unit, one single company, one single country. We shall have to work together.

And finally, more than before, people are responsible for their debts now. That, of course, puts pressure on what people can spend.

Can the long-term growth trend in the East play a role in accelerating the recovery?

The emergence of the East is an undeniable, key, long-term development to which every business needs to respond. If I look only at the chemical industry, more than 50 per cent of our growth comes from the East. This crisis will give even more weight to growth from the East.

Of course, today much of the market in countries like China is still a low-value one. Most of the high-end demand is in the developed economies of Europe and the Americas. But

we develop and often make products in the East, and we will keep doing it.

But also in Europe there is still huge potential. We have not yet fully exploited our home market. Don't forget that the world's 10 biggest chemical companies represent just 17 per cent of the market.

How will these trends affect industry?

What will change is the manufacturing landscape. It has always been changing, but at this junction in time it will happen a bit more dramatically. Particularly, some industries will have to change the way they do business, even if they have so far avoided or, worse, denied that need. Of these, the automotive industry comes to mind most strongly: whether now or later, it shall have to change. As a business, as an industry, you need to benchmark yourself realistically with the market, out in the wind. You need to do that every day.

Do you fear for the future of those industries?

I don't believe in losers or winners in terms of whole industries. An industry like automotive won't disappear. Some companies may lose, but not the sector as a whole. Not long ago, 70 million cars were sold. This year that will go to 50 million. And not too long from now they will certainly be back at 70 million. But the industry will have to change. I foresee the emergence of a few large automotive companies, in parallel with several small ones that are better adjusted and more specialised. The industry will probably use more shared platforms, but different approaches in assembly.

Why not a premium to buy trousers?

Can government help to lessen the pain?

The government should take a more proactive role. I'm certainly in favour of that. Things have gotten out of control, especially in the financial industry. For example, I must say that the German government has done a reasonably good job. So this is an area where more government involvement is helpful.

» *I don't believe in losers or winners in terms of whole industries. An industry like automotive won't disappear. Some companies may lose, but not the sector as a whole.*



» *Once we get out of the trough, we will get back onto a growth path, but it will be from a lower base than before the crisis.*



But when it comes to real industry, I would strongly recommend that government does not get involved in the basic mechanics of the economy. For example, what good is there in temporarily reducing VAT on goods, or in the German car-scrapping premium? We know from experience it is not durable. It results in a short-term boost of demand, and then to a drop two years later. Furthermore, how does the government determine it should be done for cars? Why not for tables, why not for my trousers?

What would you suggest?

We should do things that deliver lasting results. Most of all, investment in infrastructure. It boosts supply relatively quickly, and brings lasting benefits to a country. Particularly in countries like China, infrastructure investments can be initiated rapidly, and thus bring quick economic relief.

» *The chemical industry has come a long way. It has seen huge changes.*

« Secondly, the government should support trade. We see more and more protectionist arguments coming up. We know from previous crises that trade supports wealth and creates employment. We see good progress in companies globalising and taking global responsibilities. But countries are not as good, and there is a clear understanding we need a more standardised approach. The Doha trade rounds stand for that, and now there is a chance to revitalise these negotiations.

No more shareholder activism

And if we look at your industry, chemicals?

The chemical industry has come a long way. It has seen huge changes. In the early 1990s we saw household names like ICI and Hoechst transform beyond recognition. They have been split, atomised in new companies. A lot of this was driven by the emergence of the financial industry and the financial rules of the day, with the intention of generating much higher transparency. Look at Syngenta, a pure play in agricultural chemicals.

Today we see a mixed bag. You have everything from healthy pure plays all the way to private equity conglomerates. In between you have companies like BASF who

have done their homework, and others who haven't. Going forward, we will most likely experience another phase of consolidation.

» *Clearly the advantage of a crisis like this is that it has led to a reappraisal of risk and how to manage a company. The basic values of BASF are solid financing, a solid balance sheet, and that it is better to stand on two or three legs than on one.*



You mention private equity, which has played an important role in the chemical industry. Will that change?

In the last couple of years private equity has played a prominent role in our industry, with a highly leveraged model, yet sometimes without a basic concept. The attraction of course has been that chemical companies are generally such great cash generators. And as long as cash is coming out, all is well. That has changed now, and the players who were there only to make a quick buck are gone. Private equity will keep a role of importance, but it has calmed down quite a bit. Going forward, like others, they will need to be more careful about risk and sustainability.

Clearly the advantage of a crisis like this is that it has led to a reappraisal of risk and how to manage a company. The basic values of BASF are solid financing, a solid balance sheet, and that it is better to stand on two or three legs than on one. This has now been proven and validated, in spades. No more shareholder activism. And let's not forget one major thing: instead of taking the time to talk to customers like we do, private equity companies must spend time talking to their banks. That ultimately is not supportive of success.

Innovation, innovation, innovation

So what drives the success of BASF?

There are two aspects that determine the success of BASF: people and standardised systems.

People need to be enabled to do their work. At our company, more even than at others, that means allowing them to manage complexity. To make that happen, you need systems, and our systems are among the best in the world.

And, of course, the key success factor is innovation, innovation and innovation. There is tremendous room for the chemical industry to provide innovation to the world.

Most innovations in other industries actually build on new and improved products that have been developed in the chemical industry.

In times like these, how does one balance the long and short term?

It's all about managing complexity, as I indicated before. First, you need to face up to the facts. Everyone has to adjust his business to actual demand, not last year's. That means you have to look at your products, determine which are really needed, and how much.

Then you must look at your assets, your investments. Do they match with what you will be supplying to your customers?

And third, you need to look into the long term. Where do you want to be positioned? Will I follow a me-too approach, or do I want to be an innovator? And if so, what are the fundamentals of those choices? That's where we have additional strength, through our balance sheet and solid financials. Some of the long-term R&D investments we make are really for the long term, are really about leapfrogging. Not many companies can afford to do the R&D that makes a return only 10 years from now.

Like white biotechnology?

White biotechnology - when we use molecular biology to make chemicals or provide services - will have a major, major impact. Just last week, we announced a new biotechnology product that prevents tooth decay. Long term, we will see a lot more of that.

The biggest oil reserves yet to be found are in Washington, DC

Looking long term, how does sustainability come into play?

That is actually one of the things in this day and age that have come on top. The greening of the industry will have an impact. The chemical industry can really lead the way. Not only do we have more than 25 years of experience in

» *The greening of the industry will have an impact. The chemical industry can really lead the way. Not only do we have more than 25 years of experience in saving energy, we also can provide the world with the products and solutions to make that happen elsewhere.* «

» *In the future, we must be working together, we really need to do that in this world. To deliver the products and services that are required, companies and industries need to work together.* «

saving energy, we also can provide the world with the products and solutions to make that happen elsewhere. That gives another, huge role to government, and we're talking to governments everywhere to make this happen. Sadly enough, sustainability and politics don't go together very well at all. Still, energy use can be reduced enormously, by up to 30 per cent. You might say that the US government is the biggest oil reserve you can find: it's south of New York, in Washington, DC.

What key message would you like to send to the world?

It is what I have said before and all along. In the future, we must be working together, we really need to do that in this world. To deliver the products and services that are required, companies and industries need to work together. You cannot be everywhere, you cannot be everything. Individual companies need to pool their abilities. We also must work together in sustainability and regulatory matters. Take REACH (the European chemicals legislation) or unified patent law: we should have these not just in Europe, or the US, or China, but globally. And finally, we need trade, we need Doha. In short, it's a global world and we're all connected.

Mr. Hambrecht, thank you very much.

It's been a pleasure.

Interview conducted by Michael Träm, Arthur D. Little CEO, and Peter Nieuwenhuizen, Principal for the Chemicals & Healthcare practice