

## PRESS RELEASE

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Statement to the press by Dr. Utz Tillmann  
Director General of Verband der Chemischen Industrie (VCI)  
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(The spoken word takes precedence)

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### The chemical industry in the global economic crisis

Ladies and Gentlemen:

The chemical industry is going through a trying period. After a phase of strong global growth, we must now face the challenges of global recession. The economic situation at the time of this ACHEMA is difficult indeed. Uncertainties are equally strong among our companies and their customers, where developments in the coming months are concerned. This is the present situation after a quite promising start of the year 2008:

In the first half of 2008, the chemical industry in Germany achieved respectable output growth, even though the economy was showing initial signs of fatigue. In the 3rd quarter, first shockwaves of the global financial crisis reached our major industrial customers. As suppliers of inputs, our industry is closely linked to their fate. The downtrend began. German economy has no historical comparison for what happened during the following months:

In November 2008 the output fell suddenly and dramatically in the manufacturing industry. Entire value chains slowed down abruptly: In Germany, the manufacturers of consumer durables were the first to be affected by much lower demand. These manufacturers cancelled their orders, which brought a simultaneous demand slump for input-producing industries – such as e.g. steel and chemistry. The demand was relatively stable only for fast-moving consumer goods like, for example, foodstuffs.

Many chemical companies responded to that situation by reducing their output. In the 4th quarter 2008 the production of chemicals dropped by more than 9 percent. Capacity utilization fell from over 86 percent to 75 percent. The downtrend was intensified by several effects:

Many companies cut production activities drastically, in order to reduce their existing stocks. This had significant impacts in practice: In basic chemistry it is difficult for technical reasons to stepwise adapt production capacities, and there are also limits to economic viability. Therefore, whole production plants were shut down temporarily, as it would not have been possible to operate them cost-effectively at a lower scale. This shutdown of production plants resulted in a lack of by-products, which had been used as raw materials in other production facilities. Due to this shortage of raw materials, activities of those other production facilities had to be reduced, too.

However, the figures for 2008 as a whole do not clearly reflect the dramatic turn of events in the economy over the last two months of that year:

- Production was 1.5 percent below the level of 2007.
- Because of the price component, total sales of the German chemical industry rose by 1.6 percent to well over 176 billion euros. Domestic sales increased by 0.9 percent; foreign sales climbed more strongly by 2.2 percent.
- Investments in fixed assets went up by 5 percent to 6.8 billion euros. Research spending reached a new record high of 9.1 billion euros.
- Irrespective of the global economic downturn, exports improved by over 8 percent. Mainstays of the export business were the continually high export rate of pharmaceutical products and the relatively stable demand from newly industrializing countries. This enabled the German chemical industry to once more defend its title as "export champion" of chemistry. Structural adaptation measures taken by companies over the last years, innovative products and our highly qualified workforce will ensure our international competitiveness also in the future.

Ladies and Gentlemen:

Data from the first months of 2009 confirm that our industry is still fully caught up in the global economic crisis. It is worth noting that individual companies are impacted to different degrees, depending on their customer structures. Production is stagnating at the low level of December 2008, which is hardly any higher than the level back at the ACHEMA before last in 2003.

But when taking a closer look, these negative figures include a fact which gives reason for hope: The landslide downward trend of the disastrous last two months of 2008 did not continue. It is still too early to speak of a turnaround, but in other fields, too, there are signals which we see positively:

The demand for goods in the overall economy in Germany did not slump as strongly as industrial production. Especially private consumption has not shown any weakness so far. If both remain this way, we assume that normalization will set in during the next months, as soon as our customer industries have depleted their stocks. Furthermore, low oil prices and the weak euro are expected to have a supporting effect for the business situation of industry. The two economic stimulus packages of the federal government strengthen upward developments.

Ladies and Gentlemen: As you see, the situation is difficult but not hopeless. It is true that we have to expect a marked production decrease for 2009. But I am confident that our industry will successfully cope with the present economic crisis. In the mid- and long-term, chemistry in Germany has excellent growth prospects. This is also an important general aspect for Germany as an industrial nation, because here chemistry forms the industrial basis.

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